

**NEW ISSUE - Book-Entry Only**

*In the opinion of Sherman & Howard L.L.C., Bond Counsel, interest on the initially delivered 2009AA Bonds is included in gross income for federal income tax purposes; however, on the Release Date for any 2009AA Bonds (the occurrence of which is conditioned upon the delivery of an approving opinion from Bond Counsel, which may or may not occur, as described in "Part I – TAX MATTERS – Conditions to Occurrence of Release Date" herein) and other conditions precedent, as described in "Part I – PLAN OF FINANCE – Conditions Precedent to Release Date(s)" herein, such initially delivered 2009AA Bonds will be exchanged for Post-Release 2009AA Bonds which will bear interest that, in the opinion of Bond Counsel, is excluded from gross income under federal tax laws pursuant to Section 103 of the Internal Revenue Code of 1986, as amended to the date of such Release Date. For a discussion of the tax treatment of Post-Release 2009AA Bonds after the Release Date for such Post-Release 2009AA Bonds, should one occur, see "Part I – TAX MATTERS – Federal Income Tax Treatment of Interest On Post-Release 2009AA Bonds On and After the Release Date Therefor." Also, in the opinion of Bond Counsel, the 2009AA Bonds, their transfer and the income therefrom is free from taxation by the State of Colorado under Colorado law in effect on the date of delivery of the 2009AA Bonds. See "Part I – TAX MATTERS – Colorado Law Treatment of Interest on 2009AA Bonds."*

**\$275,210,000**

**COLORADO HOUSING AND FINANCE AUTHORITY**  
**Taxable Single Family Program Class I Bonds**  
**Convertible Series 2009AA**  
**(Program Bonds – Taxable)**  
**CUSIP: 196479 ST7†**

**Dated: As of December 30, 2009**

**Due: November 1, 2041**

**Interest Accrues from Settlement Date**

The Single Family Program Class I Bonds captioned above (the "**2009AA Bonds**") are being issued by the Colorado Housing and Finance Authority (the "**Authority**") as fully registered Bonds pursuant to a Master Indenture of Trust as supplemented by the Series 2009AA Indenture (collectively, the "**Indenture**"), each between the Authority and Zions First National Bank, Denver, Colorado, as Trustee (the "**Trustee**"). The net proceeds of the 2009AA Bonds together with certain funds of the Authority will initially be deposited in a special trust account established and held under the Indenture (the "**Escrow Fund**"), and invested in the investments set forth in the Global Escrow Agreement by and among the GSEs (as defined herein), the Trustee and U.S. Bank National Association, as escrow agent. Such amounts on deposit in the Escrow Fund (the "**Escrowed Amounts**") will be pledged under the Indenture exclusively to the repayment of the 2009AA Bonds prior to the applicable Release Dates (as described below).

On up to three dates on or prior to December 31, 2010 as further described herein (each a "**Release Date**" or the "**Release Dates**"), amounts may be released from the Escrow Fund in accordance with the Indenture. A Release Date may occur only upon compliance with various conditions further described herein and set forth in the Indenture, including a requirement that the Authority shall have sold additional bonds issued under the Indenture to investors ("**Market Bonds**") in a principal amount equal to no less than two-thirds of the principal amount of the 2009AA Bonds with respect to which amounts are subject to release from the Escrow Fund on such Release Date (the "**Applicable 2009AA Bonds**"). Such amounts released from the Escrow Fund and the proceeds of such Market Bonds are expected to be used by the Authority to finance or refinance single family mortgage loans directly or through the purchase of mortgage-backed, pass-through securities (the "**MBS**"), for the possible refunding of certain outstanding adjustable rate single-family mortgage bonds of the Authority and to pay certain costs of issuance and fund reserves relating to the issuance of the Market Bonds. The MBS will be guaranteed as to timely payment of principal and interest by either the Government National Mortgage Association, Fannie Mae or the Federal Home Loan Mortgage Corporation.

Interest on the 2009AA Bonds offered by this Official Statement will be payable at the rates described herein on each Interest Payment Date (defined herein) from the Settlement Date (defined herein) of the 2009AA Bonds. Each 2009AA Bond will initially bear interest from the Settlement Date until the applicable Release Date at a rate which produces an interest payment on such Release Date relative to the Applicable 2009AA Bonds equal to total investment earnings on the related Escrowed Amounts while on deposit in the Escrow Fund. On any Release Date, the interest rate on the portion of the Applicable 2009AA Bonds will convert to a different calculation method and will convert from taxable bonds to Tax-Exempt Bonds as described herein. At the end of the two-month period following a Release Date, the interest rate on the Applicable 2009AA Bonds will convert to a permanent interest rate, calculated based on a calculation method and on the date described herein. Any 2009AA Bonds with respect to which a Release Date has not occurred prior to January 1, 2011 are subject to mandatory redemption at par on February 1, 2011 (or an earlier date selected by the Authority) at a redemption price of par plus accrued interest to the date of redemption. Principal of the 2009AA Bonds is payable in the amount and on the date shown above, subject to prior redemption.

The 2009AA Bonds, when issued, will be registered in the name of Cede & Co., as holder of the 2009AA Bonds and nominee of The Depository Trust Company, New York, New York. One fully registered bond equal to the principal amount of the 2009AA Bonds will be registered in the name of Cede & Co. Individual purchases of 2009AA Bonds will be made in book-entry form only, and beneficial owners of the 2009AA Bonds will not receive physical delivery of bond certificates representing their interest in the 2009AA 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 2009AA Bonds. Payments of principal of and interest on the 2009AA 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 2009AA Bonds is the responsibility of the DTC participants and the indirect participants, as more fully described herein.

***The 2009AA Bonds are subject to special mandatory redemption, special redemption, optional redemption and mandatory sinking fund redemption prior to maturity, all as described herein.***

The 2009AA 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 Obligations hereafter outstanding under the Master Indenture. The 2009AA Bonds will be the only outstanding Obligations under the Master Indenture at the time of their delivery. Additional Bonds may be issued or incurred by the Authority under the Master Indenture (and, in the case of the Market Bonds, are expected to be so issued) in each of the three Classes and/or 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. While the 2009AA Bonds are outstanding under the Master Indenture, no additional Bonds may be issued which are senior to the 2009AA Bonds or are Adjustable Rate Bonds. **In no event shall the 2009AA 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 2009AA Bonds).**

The 2009AA Bonds are being privately placed as described herein, when, as and if issued and delivered, subject to the approval of legality by Sherman & Howard L.L.C., Denver, Colorado, Bond Counsel to the Authority, and certain other conditions. Certain legal matters will be passed on for the Authority by Charles L. Borgman, Esq., its General Counsel; and by Hogan & Hartson LLP, Denver, Colorado, Disclosure Counsel to the Authority. Barclays Capital Inc. has acted as a special advisor to the Authority in connection with the placement of the 2009AA Bonds (the "**Special Advisor**"). Bookhardt & O'Toole, Denver, Colorado, is acting as counsel to the Special Advisor in connection with the 2009AA Bonds. It is expected that the 2009AA Bonds will be delivered (through DTC) in New York, New York on or about December 30, 2009.

**This Official Statement is dated December 18, 2009.**

† The Authority assumes no responsibility for the accuracy of the CUSIP number, which is being provided solely for the convenience of the owners of the 2009AA Bonds.

The 2009AA Bonds are being privately placed by the Authority as described herein. No dealer, broker, salesman or other person has been authorized by the Colorado Housing and Finance Authority or by the Special Advisor 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. 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 2009AA 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 2009AA Bonds, the Mortgage Loans, the MBS or any other bonds or obligations of the Authority.

The 2009AA 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.

CAUTIONARY STATEMENTS REGARDING  
PROJECTIONS, ESTIMATES AND OTHER  
FORWARD-LOOKING STATEMENTS IN  
THIS OFFICIAL STATEMENT

**This Official Statement contains statements relating to future results that are "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995. When used in this Official Statement, the words "estimate," "forecast," "intend," "expect," "project," "budget," "plan" and similar expressions identify forward-looking statements.**

THE ACHIEVEMENT OF CERTAIN RESULTS OR OTHER EXPECTATIONS CONTAINED IN SUCH FORWARD-LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS DESCRIBED TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. THE AUTHORITY DOES NOT PLAN TO ISSUE ANY UPDATES OR REVISIONS TO THOSE FORWARD-LOOKING STATEMENTS IF OR WHEN ITS EXPECTATIONS, OR EVENTS, CONDITIONS OR CIRCUMSTANCES ON WHICH SUCH STATEMENTS ARE BASED OCCUR.

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

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**This Official Statement is comprised of the front cover page,  
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## OFFICIAL STATEMENT

**\$275,210,000**

**COLORADO HOUSING AND FINANCE AUTHORITY**  
**Taxable Single Family Program Class I Bonds**  
**Convertible Series 2009AA**  
**(Program Bonds – Taxable)**

### PART I

#### INTRODUCTION

This Official Statement, which includes the front cover page, 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 private placement of the above-captioned Bonds (being collectively referred to in this Official Statement as the "**2009AA Bonds**"). The 2009AA Bonds are being issued pursuant to the Master Indenture of Trust dated as of December 1, 2009 (the "**Master Indenture**"), as supplemented by the Series 2009AA Indenture dated as of December 1, 2009 (the "**Series 2009AA 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, 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 placement of 2009AA Bonds by the Authority to Fannie Mae and the Federal Home Loan Mortgage Corporation ("**Freddie Mac**" and, collectively with Fannie Mae, the "**GSEs**") under the Single Family New Issue Bond Program (the "**NIB Program**") announced by the United States Department of the Treasury (the "**Treasury**") is made only by means of this entire Official Statement. This Official Statement does not constitute a contract between the Authority, and any one or more owners of the 2009AA 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 purposes, among others, of increasing the supply of decent, safe and sanitary housing for low and moderate income families and promoting economic growth and development in the State. In order to achieve its authorized purposes, the Authority currently operates numerous housing, rental and business finance programs. See "Part II – COLORADO HOUSING AND FINANCE AUTHORITY – Programs to Date." 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. The 2009AA Bonds are being issued, among other things, to provide funds (i) to acquire or refinance Mortgage Loans under the Authority's Single Family Mortgage Program and/or mortgage-backed, pass-through securities guaranteed as to timely payment by either the Government National Mortgage Association ("**Ginnie Mae**"), Fannie Mae or Freddie Mac, as further described herein (the "**MBS**"), (ii) for the possible refunding of certain of the Authority's outstanding adjustable rate single-family mortgage bonds and (iii) to pay costs of issuance and fund reserves relating to the Market Bonds (as defined herein), as further described in "Part I – PLAN OF FINANCE." Proceeds of the

2009AA 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." *For financial information concerning the Authority, see "Part II – COLORADO HOUSING AND FINANCE AUTHORITY – Selected Financial Information" and certain financial statements of the Authority attached hereto as Appendix C.*

### **Authority for Issuance**

The 2009AA 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 2009AA Bonds are being issued and secured under the Indenture.

### **Purposes of the 2009AA Bonds**

Proceeds of the 2009AA Bonds will initially be used to pay certain costs of issuance associated with the 2009AA Bonds, and the net proceeds will be deposited to a special trust account established and held by the Trustee under the Indenture (the "**Escrow Fund**"). The Authority will deposit funds to the Escrow Fund in an amount equal to such costs of issuance (the "**Shortfall Amount**") so that the amounts on deposit in the Escrow Fund (the "**Escrowed Amounts**") on the Settlement Date (as defined below) equal the principal amount of the 2009AA Bonds. On up to three dates on or prior to December 31, 2010 (each a "**Release Date**" or collectively, the "**Release Dates**"), amounts may be released from the Escrow Fund in accordance with the Indenture. A Release Date may occur only upon compliance with various conditions set forth in the Indenture as described in "Part I – PLAN OF FINANCE – Conditions Precedent to Release(s)," including a requirement that the Authority shall have sold additional bonds issued under the Indenture to investors ("**Market Bonds**") in a principal amount equal to no less than two-thirds of the principal amount of the 2009AA Bonds with respect to which amounts are subject to release from the Escrow Fund on such Release Date (the "**Applicable 2009AA Bonds**"), as described in "Part I – PLAN OF FINANCE" and "Part I – CERTAIN PROGRAM ASSUMPTIONS – Additional Market Bonds." Such amounts released from the Escrow Fund will be used by the Authority to finance or refinance Mortgage Loans and/or MBS, as described in "Part I – CERTAIN PROGRAM ASSUMPTIONS – Mortgage Loan Rates; Mortgage-Backed Securities," to refund certain outstanding adjustable rate single family bonds of the Authority to the extent permitted by the Series 2009AA Indenture and to pay a portion of the costs of issuance relating to the Market Bonds.

### **Description of the 2009AA Bonds**

#### *Interest Rates and Payments*

Interest on the 2009AA Bonds from January 12, 2010 (the "**Settlement Date**") until the applicable Release Date(s) is payable at an interest rate which produces an interest payment on such Release Date(s) relative to such Applicable 2009AA Bonds equal to the total investment earnings on the related Escrowed Amounts while on deposit in the Escrow Fund (the "**Initial Short-Term Rate**"). See "Part I – CERTAIN PROGRAM ASSUMPTIONS – Investments." The 2009AA Bonds with respect to which Escrowed Amounts have not been released on a Release Date are sometimes referred to herein as "**Pre-Release Bonds**." On each Release Date, the Applicable 2009AA Bonds will convert from taxable bonds to Tax-Exempt Bonds as described in "Part I – TAX MATTERS" and will bear interest at a rate equal to (i) from the Release Date to (but excluding) the date which is two months after such Release Date (a "**Conversion Date**"), an interest rate equal to the sum of the Spread plus the lesser of (A) the Four Week T-Bill Rate or (B) a Permanent Rate less the Spread, and (ii) from the Conversion Date to maturity, at a Permanent Rate. The 2009AA Bonds for which the interest rate has not been converted to a

Permanent Rate are sometimes referred to herein as "**Pre-Conversion Bonds.**" See "Part I – TERMS OF THE 2009AA BONDS – Interest Rate Determination." Following a Release Date, interest on the Applicable 2009AA Bonds will be computed on the basis of a 360-day year consisting of twelve 30-day months. The 2009AA Bonds are to be issued in denominations of \$5,000 and integral multiples thereof and, for purposes of initial issuance and redemption, \$10,000 or any integral multiple thereof. Interest is payable on the Interest Payment Dates (as defined herein). See "Part I – TERMS OF THE 2009AA BONDS – General Terms." Interest on the 2009AA Bonds is payable on each Interest Payment Date (as defined herein), and principal of the 2009AA Bonds is payable in the amount and on the date as shown on the front cover hereof, subject to prior redemption.

### *Redemption*

The 2009AA Bonds are subject to special mandatory redemption, special redemption, optional and mandatory sinking fund redemption prior to maturity at the times and as otherwise as described under "Part I – TERMS OF THE 2009AA BONDS – Prior Redemption." See also "Part II – CERTAIN BONDOWNERS' RISKS – Considerations Regarding Redemption."

**For a more complete description of the 2009AA Bonds and the Indenture pursuant to which such 2009AA Bonds are being issued, see "Part I – TERMS OF THE 2009AA BONDS" and Appendix A – "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE."**

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

All 2009AA Bonds and other Obligations outstanding under the Master Indenture (other than 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, the Mortgage Loans and the MBS and, in the case of Pre-Release Bonds, the Escrowed Amounts in the Escrow Fund (collectively, the "**Trust Estate**"). See "Part II – SECURITY FOR THE OBLIGATIONS." In accordance with the Master Indenture, any 2009AA Bonds or other Obligations may be outstanding as Class I, Class II or Class III Obligations, and may also be designated as General Obligations of the Authority. There are currently no Bonds or Derivative Products issued and Outstanding under the Master Indenture. See "Part I – PLAN OF FINANCE – Anticipated Issuance of Market Bonds" and "Part I – CERTAIN PROGRAM ASSUMPTIONS – Additional Market Bonds." While the 2009AA Bonds are outstanding under the Master Indenture, no additional Bonds may be issued which are senior to the 2009AA Bonds or are Adjustable Rate Bonds.

The 2009AA Bonds are being issued as Class I Obligations pursuant to the Indenture and will be payable and secured by the Trust Estate as described herein. No 2009AA Bonds are being issued as Class II or Class III Obligations. **In no event shall the 2009AA 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 2009AA Bonds). Ginnie Mae, Fannie Mae and Freddie Mac guarantee only the payment of the principal of and interest on the respective MBS when due and do not guarantee the payment of the 2009AA Bonds or any other obligations issued by the Authority.**

### **Professionals Involved in the Placement**

In connection with the private placement of the 2009AA Bonds, Sherman & Howard L.L.C., as Bond Counsel to the Authority, will deliver an opinion in the form included as **Appendix B** hereto. See

"Part I – TAX MATTERS." Certain legal matters will be passed upon for the Authority by its General Counsel, Charles L. Borgman, Esq., and by its Disclosure Counsel, Hogan & Hartson LLP. See "Part I – LEGAL MATTERS."

### **Availability of Continuing Information**

In connection with the private placement of the 2009AA Bonds, the Authority will deliver a Continuing Disclosure Undertaking, in the form attached as **Appendix F** hereto, by which the Authority will agree to make available certain annual financial information and audited financial statements commencing with the fiscal year ending December 31, 2010 and notice of certain material events which would have been required under Rule 15c2-12 of the Securities Exchange Act of 1934 if it were applicable to the 2009AA Bonds.

### **Investment Considerations**

*The purchase and ownership of the 2009AA Bonds involve investment risks. Prospective purchasers of the 2009AA Bonds being placed in connection with this Official Statement are urged to read this Official Statement in its entirety. For a discussion of certain such risks relating to the 2009AA Bonds, see "Part II – CERTAIN BONDOWNERS' RISKS."*

## **TERMS OF THE 2009AA BONDS**

### **General Terms**

#### *Maturity; Payment; Denominations*

The 2009AA Bonds will be issued as fully registered bonds without coupons and will mature, subject to prior redemption, in the amount and on the date shown on the front cover. The principal or redemption price of the 2009AA Bonds is payable to Cede & Co. Interest on the 2009AA Bonds will be payable on the Interest Payment Dates to Cede & Co. "**Interest Payment Date**" means, with respect to 2009AA Bonds for which the interest rate has not converted from a short-term rate to a Permanent Rate on a Conversion Date (the "**Pre-Conversion Bonds**"), each Release Date (but only for the Applicable 2009AA Bonds), each Conversion Date (but only for the Pre-Conversion Bonds which are being converted to a Permanent Rate on such date), each redemption date and, for Applicable 2009AA Bonds following a Conversion Date, each May 1 and November 1. The 2009AA Bonds are to be issued only in denominations of \$5,000 and integral multiples therefor and, for purposes of initial issuance and redemption, \$10,000 or any integral multiple thereof ("**Authorized Denominations**"), and each Release Date and Conversion Date shall apply to the 2009AA Bonds in such Authorization Denominations. The 2009AA Bonds are subject to redemption as described in "Prior Redemption" under this caption.

#### *Book-Entry System*

DTC will act as securities depository for the 2009AA Bonds. The ownership of one fully registered Bond in the aggregate principal amount as set forth on the front cover, 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 D – "BOOK-ENTRY SYSTEM."** **So long as the 2009AA Bonds are registered in the DTC book-entry form described in Appendix D, each Beneficial Owner of a Bond**



should make arrangements with a Participant in DTC to receive notices or communications with respect to matters concerning the 2009AA Bonds.

### Interest Rate Determination

#### *Initial Short-Term Rate*

The 2009AA Bonds will bear interest from the Settlement Date until the Release Date(s) at the Initial Short-Term Rate applicable to such 2009AA Bonds. On each Release Date, the interest rate on the Applicable 2009AA Bonds represented by the amounts released from the Escrow Fund on such Release Date will convert to a different calculation method as described in "Interest Rate Between Release Date and Conversion Date; Spread" under this caption. On each Conversion Date, the interest rate on the Applicable 2009AA Bonds will convert to a Permanent Rate as described in "Permanent Rate" under this caption.

#### *Interest Rate Between Release Date and Conversion Date; Spread*

The Applicable 2009AA Bonds relating to Escrowed Amounts released from the Escrow Fund will bear interest from and including the Release Date to (but excluding) the Conversion Date at an interest rate equal to the sum of the "**Spread**" plus the lesser of (A) the "**Four Week T-Bill Rate**" or (B) the "**Permanent Rate**" less the Spread (referred to herein as the "**Interim Short-Term Rate**"). The definition of Permanent Rate is provided in "Permanent Rate" under this caption. The Four Week T-Bill Rate shall mean the interest rate for Four Week Treasury Bills (secondary market) as reported by the Federal Reserve on its website at the following internet address: <http://www.federalreserve.gov/releases/h15/update/h15upd.htm>. For purposes of setting the interest rate on the Applicable 2009AA Bonds between the Release Date and the Conversion Date, and on the Conversion Date(s) as described below in "Permanent Rate" under this caption, the "**Spread**" means additional per annum interest on the Applicable Series 2009AA Bonds based upon the lowest long-term credit rating assigned to the Applicable 2009AA Bonds by each rating agency then providing its long-term rating therefor effective as of the Permanent Rate Calculation Date, as set forth below:

<u>Rating</u>	<u>Spread</u>
"Aaa"/"AAA"	60 bps
"Aa"/"AA"	75 bps
"A"	110 bps
"Baa"/"BBB"	225 bps

#### *Permanent Rate*

On any Conversion Date for Applicable 2009AA Bonds, which is a date two months after the Release Date for such Applicable 2009AA Bonds, the interest rate for such Applicable 2009AA Bonds will convert to a Permanent Rate (referred to herein as a "**Conversion**"). The "**Permanent Rate**" will be an interest rate per annum certified to the Trustee by State Street Bank and Trust Company, or any successor or assign designated by Treasury, on or prior to the Release Date for such Applicable 2009AA Bonds, which shall be equal to the sum of (i) 3.61% plus (ii) the Spread (defined in "Interest Rate Between Release Date and Conversion Date; Spread" under this caption). The "**Permanent Rate Calculation Date**" shall be the date on which the Permanent Rate is calculated with respect to all or a portion of the 2009AA Bonds, which shall be, with respect to each applicable portion of the 2009AA Bonds, a date acceptable to the GSEs selected by the Authority on or prior to December 31, 2010 on which Market Bonds are priced, provided that a bond purchase agreement must be executed with respect to the Market Bonds on such date

for such Permanent Rate to be effective. Any 2009AA Bond can be converted to a Permanent Rate only once. The Authority may convert the interest on 2009AA Bonds on no more than three occasions, and must cause each related Release Date to occur on or prior to December 31, 2010. See "Part I – PLAN OF FINANCE" and "Part I – CERTAIN PROGRAM ASSUMPTIONS." **Any Pre-Conversion Bonds with respect to which a Release Date has not occurred prior to January 1, 2011 will be subject to mandatory redemption as described in "Prior Redemption" under this caption.**

*Change from Taxable to Tax-Exempt Status*

On each Release Date, the Applicable 2009AA Bonds will convert from taxable bonds to Tax-Exempt Bonds. See "Part I – TAX MATTERS."

**Prior Redemption**

*Mandatory Redemption – Pre-Conversion Bonds*

Failure to Release Escrowed Funds. Any Pre-Conversion Bonds with respect to which a Release Date has not occurred prior to January 1, 2011 are subject to mandatory redemption on February 1, 2011 (or an earlier date selected by the Authority) at a redemption price of par plus accrued interest to the date of redemption. See "Part I – CERTAIN PROGRAM ASSUMPTIONS."

Withdrawal of Closing Certificates. The Pre-Conversion Bonds are subject to mandatory redemption in whole, at a redemption price equal to 100% of the principal amount thereof, plus accrued interest, on the first Business Day at least thirty (30) days after the Settlement Date, if there is delivered by mail or by electronic means to the Trustee on or prior to the Settlement Date a Certificate of Adverse Change and the GSEs have not, prior to the date 20 days following the Settlement Date, provided the Trustee a written waiver.

Pre-Conversion Bonds Not Meeting Minimum Rating Thresholds. Within ten (10) Business Days of receipt by the Trustee of notice that the Bond Rating on the 2009AA Bonds has been withdrawn or fallen below "Baa3" or "BBB-," all Escrowed Amounts that are held in the Escrow Fund shall be used to mandatorily redeem a corresponding amount of Pre-Conversion Bonds, at a redemption price equal to 100% of the principal amount thereof, plus accrued interest, to the redemption date. The Authority has covenanted to provide such notice to the Trustee promptly upon receipt by the Authority of notice of any such withdrawal or downgrade.

Available Moneys for Redemptions. With respect to the redemptions described under this caption "Mandatory Redemption – Pre-Conversion Bonds," Escrowed Amounts still on deposit in the Escrow Fund shall be used for any such redemption; if Escrowed Amounts on deposit in the Escrow Fund are not sufficient, then any available moneys under the Indenture are also to be used for any such redemption.

*Special Redemption; Redemption Restrictions and Recycling Prohibition*

Except as limited by tax law requirements, the Authority shall apply the following exclusively to the redemption of 2009AA Bonds: (i) all proceeds of the 2009AA Bonds, to the extent not used to acquire Mortgage Loans or MBS, refund outstanding bond issues as permitted by the Indenture, pay issuance expenses or fund reserve accounts related to the 2009AA Bonds, and (ii) so long as any Market Bonds remain Outstanding, at least 60%, and after no Market Bonds remain Outstanding, 100%, of all principal prepayments and recoveries of principal received with respect to the Mortgage Loans or MBS acquired or financed with the proceeds of the 2009AA Bonds and the Market Bonds, to the extent not used to pay

scheduled principal, interest or sinking fund redemptions on 2009AA Bonds, Market Bonds or other Bonds issued in conjunction with and secured by the Trust Estate on a parity with the 2009AA Bonds. Amounts described in clause (ii) above are required to be applied to the redemption of 2009AA Bonds promptly and as described in this paragraph are not permitted to be recycled into new Mortgage Loans or MBS.

#### *Mandatory Sinking Fund Redemption*

The 2009AA Bonds are subject to mandatory sinking fund redemption in the amounts and on the dates to be established by the Authority not later than the final Release Date. The Authority has covenanted in the Series 2009AA Indenture to establish such sinking fund schedules as provided therein. Each such redemption shall be at a price of par, plus accrued interest to the redemption date. Pursuant to the Series 2009AA Indenture, the sinking fund schedules are to take into account anticipated underlying mortgage loan amortization, and standard and customary practices of the Authority in connection with combined serial bond and term bond issuances.

#### *Optional Redemption*

The 2009AA Bonds are subject to redemption at the option of the Authority, in whole or in part, from any source of funds, on the first Business Day of any month, at a redemption price equal to 100% of the principal amount thereof, without premium, plus accrued interest, if any, to the redemption date.

#### *Changes Permitted Upon Conversion*

In conjunction with the Conversion of Pre-Conversion Bonds, on or prior to the Release Date, the Authority may add mandatory sinking fund redemption requirements to such 2009AA Bonds, may agree to pay the principal of such 2009AA Bonds prior to their stated maturity and may issue additional Market Bonds (whether or not as part of the same federal tax financing plan), which Market Bonds may mature before or after the 2009AA Bonds or be redeemed before or after the 2009AA Bonds.

#### *Redemption Notice Requirements*

In addition to any other required notices under the Indenture, written notice of each redemption of 2009AA Bonds shall be provided by the Trustee to the Notice Parties, such notice to be provided by e-mail or facsimile transmission to the Notice Parties' Addresses. Redemption of 2009AA Bonds shall not be conditioned on or delayed for the giving of such notice, which shall be provided to the Notice Parties at the Notice Parties' Addresses at least ten (10) days in advance of the date of such redemption (or such lesser period as is required under the Indenture). All redemptions of 2009AA Bonds shall be only in Authorized Denominations.

#### *Purchase 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 2009AA Bonds of any particular tenor and maturity, the Authority may direct the Trustee or the Paying Agent to purchase such 2009AA Bonds with available moneys under the Indenture 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 2009AA Bonds.

## PLAN OF FINANCE

### Sources and Uses of Funds

The following are the estimated sources and uses of funds relating to the 2009AA Bonds.

	<u>Estimated Amounts</u>
<b>SOURCES OF FUNDS:</b>	
Proceeds of the 2009AA Bonds (1) .....	\$275,210,000
Authority Contribution (2).....	<u>327,710</u>
<b>TOTAL SOURCES OF FUNDS .....</b>	<b><u>\$275,537,710</u></b>
<b>USES OF FUNDS:</b>	
For deposit to Escrow Fund (1) (2) (3) .....	\$275,210,000
For purchase price and costs of issuance (4).....	<u>327,710</u>
<b>TOTAL USES OF FUNDS (5) .....</b>	<b><u>\$275,537,710</u></b>

- 
- (1) On the Settlement Date, proceeds of the 2009AA Bonds less fees paid to the GSEs in connection with the NIB Program will be delivered to the Trustee and deposited to the Escrow Fund.
  - (2) The Authority has previously contributed by way of deposit \$25,000 and will be required on the Settlement Date to contribute an additional \$302,710 as the Shortfall Amount. The Shortfall Amount and the previously contributed funds will be deposited to the Escrow Fund so that the Escrowed Amounts in the Escrow Fund on the Settlement Date will equal the aggregate principal amount of the 2009AA Bonds.
  - (3) See "Deposits to Escrow Fund" under this caption.
  - (4) Proceeds will be used to pay costs of issuance of the GSEs including, among other things, legal fees and the purchase price relating to the 2009AA Bonds. See "Part I –ACQUISITION OF 2009AA BONDS." The Authority will use legally available funds to pay its other costs of issuance, including legal fees and fees of the Special Advisor.
  - (5) This table shows the initial sources and uses of funds relating to the 2009AA Bonds. For a description of the use of the Escrowed Amounts following the Release Date(s), see "Release and Use of Escrowed Amounts" under this caption.

### Placement of the 2009AA Bonds

The 2009AA Bonds are being acquired by the GSEs pursuant to the NIB Program announced by Treasury. Under the NIB Program, the GSEs will exchange the 2009AA Bonds for securities issued by the GSEs ("**GSE Securities**") backed by the 2009AA Bonds which will be purchased by Treasury. Such GSE Securities are not part of the security for the 2009AA Bonds. See "Part I – ACQUISITION OF 2009AA BONDS."

### Deposits to Escrow Fund

Net proceeds of the 2009AA Bonds and the Shortfall Amount contributed by the Authority, in the aggregate equal to the principal amount of the 2009AA Bonds, will be deposited on the Settlement Date in the Escrow Fund established by the Series 2009AA Indenture. Such amounts while on deposit in the Escrow Fund are permitted to be invested only in Permitted Escrow Investments as described in "Part I – CERTAIN PROGRAM ASSUMPTIONS – Investments." Such amounts, when released from the Escrow Fund, are expected to be used as described in "Release and Use of Escrowed Amounts" under this caption.

### Conditions Precedent to Release Date(s)

On or prior to any Release Date, the Authority is required to deliver or cause to be delivered to the Trustee the following (the "**Release Requirements**"):

(a) the certification of the Special Permanent Rate Advisor specifying the Permanent Rate Calculation Date and the Four Week T-Bill Rate, Spread and Permanent Rate applicable to the relevant Conversion;

(b) the Official Statement for the Market Bonds and the Official Statement or the Official Statement Supplement relative to the 2009AA Bonds;

(c) (i) an opinion or opinions of counsel and a certificate of an authorized officer of the Authority to the effect that nothing has come to their attention that the Official Statement Supplement or Official Statement relating to the 2009AA Bonds contains any untrue statement of a material fact or omits to state a material fact necessary to make the statements therein, in light of the circumstances in which there were made, not misleading and (ii) a letter or letters from the counsel referenced in the foregoing clause (i) addressed to the GSEs stating that the GSEs may rely on such opinion as though it was addressed to them;

(d) confirmation by the Rating Agencies of the Bond Rating on the Applicable 2009AA Bonds after giving effect to the Release Date and related Conversion;

(e) an opinion of Bond Counsel (the "**Required Release Bond Opinion**") dated as of the Release Date to the effect that the Applicable 2009AA Bonds have been duly and validly issued and are enforceable obligations of the Authority and that interest payable on such 2009AA Bonds will be excluded from gross income of the recipients thereof for Federal income tax purposes (see "Part I – TAX MATTERS");

(f) net proceeds of the Market Bonds, which proceeds (together with any amounts deducted from proceeds for underwriting fees and expenses) shall be in an amount not less than two-thirds of the principal amount of the Applicable 2009AA Bonds;

(g) a certificate of the Authority specifying (i) the principal amount of the Applicable 2009AA Bonds to be Converted, (ii) the related Market Bonds and their maturity dates, interest rates and principal amounts, (iii) the amount of the proceeds of the Market Bonds, and the amounts to be released from the Escrow Fund in connection with such Conversion, (iv) the applicable Conversion Date, (v) the Release Date and (vi) the principal amount of the Pre-Conversion Bonds which will not be Converted as part of the related Conversion; and

(h) a certificate of the GSEs, evidencing (i) their consent to the Release Date and (ii) that the Authority has paid or made arrangements to pay the fees of the GSEs' counsel in connection with the Release Date.

### Anticipated Issuance of Market Bonds

The Authority is required by the Indenture to issue Market Bonds in connection with the 2009AA Bonds in order to cause the release of funds from the Escrow Fund. All Market Bonds must be issued by December 31, 2010 and may be issued on no more than three occasions. The Authority has represented and warranted in the Series 2009AA Indenture that it reasonably expects to issue Market Bonds on or before December 31, 2010 in a principal amount which will satisfy the Market Bond Ratio Requirement.

The "**Market Bond Ratio Requirement**" is the requirement that the Authority issue and deliver Market Bonds in conjunction with and as a condition to each Release Date, the principal amount of such Market Bonds being not less than two-thirds of the principal amount of the Applicable 2009AA Bonds relating to the Escrowed Amounts proposed to be released on such Release Date.

Under the Series 2009AA Indenture, the Authority is not permitted to issue Market Bonds with "super sinkers," planned amortization classes or other priority allocation class rights unless such provisions retain for application to the redemption of the 2009AA Bonds at least the portion of any prepayments or other recoveries of principal relative to Mortgage Loans or MBS funded with proceeds of the 2009AA Bonds as specified in the provision described in "Part I – TERMS OF THE 2009AA BONDS – Prior Redemption – Redemption Restrictions and Recycling Prohibition." See "Part I – CERTAIN PROGRAM ASSUMPTIONS – Additional Market Bonds."

### **Release and Use of Escrowed Amounts**

Upon satisfaction of the Release Requirements, the amounts released from the Escrow Fund are to be transferred to the 2009AA subaccount of the Acquisition Account. Such amounts shall be made available for the purchase of Mortgage Loans or MBS as described in this Official Statement, for the possible refunding of certain outstanding adjustable rate single-family mortgage bonds of the Authority to the extent permitted by the Series 2009AA Indenture and to pay costs of issuance and fund reserves relating to the Market Bonds. See "Part I – CERTAIN PROGRAM ASSUMPTIONS."

## **CERTAIN PROGRAM ASSUMPTIONS**

### **Generally**

As described in "Part I – PLAN OF FINANCE – Sources and Uses of Funds," the net proceeds of the 2009AA Bonds and the Shortfall Amount contributed by the Authority will be held in the Escrow Fund as provided under the Indenture until released on one or more Release Date(s). While held on deposit in the Escrow Fund, such Escrowed Amounts will be invested in Permitted Escrow Investments as described in "Investments" under this caption. Amounts will be released from the Escrow Fund on the Release Date(s), subject to compliance with certain conditions of the Series 2009AA Indenture, including the issuance of certain additional Bonds under the Indenture as described in "Part I – PLAN OF FINANCE – Anticipated Issuance of Market Bonds." Such amounts released from the Escrow Fund and the proceeds of such additional Bonds will be used by the Authority (i) to finance or refinance Mortgage Loans and/or MBS, and (ii) to refund certain outstanding single-family mortgage bonds of the Authority (limited to no more than 30% of the amounts released from the Escrow Fund). The 2009AA Bonds will be secured on parity with other Class I Obligations issued in the future under the Indenture, by, among other moneys, rights and interests, the Revenues derived from the Mortgage Loans and MBS. See "Part II – SECURITY FOR THE 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 2009AA Bonds. The Escrowed Amounts which remain on deposit in the Escrow Fund will be pledged exclusively to the payment of the Pre-Release Bonds which continue to bear interest at the Initial Short-Term Rate.

### **Interest Rate(s) on 2009AA Bonds**

The 2009AA Bonds will bear interest at the Initial Short-Term Rate from the Settlement Date until the applicable Release Date(s). Applicable 2009AA Bonds will bear interest from and including the

Release Date to (but excluding) the Conversion Date at the Interim Short-Term Rate. On each Conversion Date, the interest rate for the Applicable 2009AA Bonds shall convert to the Permanent Rate, calculated as described in "Part I – TERMS OF THE 2009AA BONDS – Interest Rate Determination."

### **Mortgage Loan Rates; Mortgage-Backed Securities**

It is assumed that all amounts released from the Escrow Fund and deposited to the Series 2009AA subaccount of the Acquisition Account will be used to acquire (i) MBS, which include GNMA Certificates, Fannie Mae Certificates and Freddie Mac Certificates (see "Part II – SECURITY FOR THE OBLIGATIONS – The Mortgage Loans and the Mortgage-Backed Securities"), and/or (ii) Mortgage Loans which are First Mortgage Loans that generally 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"). Payments on Mortgage Loans and MBS, whether from scheduled monthly installments or from Prepayments, together with Revenues generated as investment income on the funds held under the Indenture, and invested in Permitted Investments, are assumed to be the primary source of Revenues. The interest rates on the Mortgage Loans and the pass-through rates established in the MBS will be consistent with the Cash Flow Statement.

### **Additional Market Bonds**

The Authority expects to issue under the Master Indenture Market Bonds in an aggregate principal amount equal to no less than two-thirds of the aggregate principal amount of the 2009AA Bonds, on no more than three occasions on or before December 31, 2010. Such issuance of Market Bonds would be sufficient to satisfy the Market Bond Ratio Requirement and to support a full release of the Escrowed Funds. However, there is no assurance that market conditions will be such that the Authority can issue Market Bonds in this amount. See "Part II – CERTAIN BONDOWNERS' RISKS – Special Considerations Relative to Issuance of Market Bonds" and "Part II – COLORADO HOUSING AND FINANCE AUTHORITY – Colorado Ballot Initiative Process." As required by the Master Indenture, the Authority will prepare or cause to be prepared certain cash flow projections giving effect to the issuance of the 2009AA Bonds and any such Market Bonds (the "**Cash Flow Statement**") which indicate 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 2009AA Bonds and any such Market Bonds when due. The Cash Flow Statement will use 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.

### **Investments**

While on deposit in the Escrow Fund, Escrowed Amounts are to be invested in the investments set forth in the Global Escrow Agreement, by and among the GSEs, the Trustee and U.S. Bank National Association, as escrow agent. In accordance with the terms of the Master Indenture, the Authority may from time to time instruct the Trustee to invest certain moneys held by the Trustee in Funds and Accounts, including amounts released from the Escrow Fund and on deposit in the Series 2009AA subaccount of the Acquisition Account, in permitted Investment Securities including investment agreements and certain outstanding bonds of the Authority. The assumptions made by the Authority as to projected cashflows under the Indenture will include the assumption that certain investment rates provided by any Investment Agreements will be available. However, in the event that any Investment Agreement 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.

### **Set Asides**

It is assumed for purposes of the Cash Flow Statement (and the Indenture requires) that 20% of the sum of the amount in the 2009AA subaccount of the Acquisition Account and the net proceeds of the related Market Bonds will be reserved and set aside, for at least the first year after the date on which the proceeds of the 2009AA Bonds are first made available for the financing by the Authority of Mortgage Loans on Targeted Area Residences, for use in financing the acquisition of Mortgage Loans on Targeted Area Residences (or MBS backed by such Mortgage Loans). The Series 2009AA Indenture also permits the Authority to reserve amounts in the 2009AA 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 (or MBS backed by such Mortgage Loans), (2) Eligible Borrowers meeting designated requirements and (3) Residential Housing meeting designated requirements, all as may be set forth from time to time in the Authority's Guide to Mortgage Lenders described as the "Seller's Guide" in "Part II – THE SINGLE FAMILY MORTGAGE PROGRAM."

### **Insurance Limitations and Requirements**

Upon issuance of the Market Bonds and release of certain amounts from the Escrow Fund, it is expected that insurance limitations and requirements will be established for the Mortgage Loans, if any, acquired with Market Bond proceeds and released amounts. See **Appendix E** – "INSURANCE AND GUARANTEE PROGRAMS; FORECLOSURE."

### **Origination Period**

The Authority expects that amounts released from the Escrow Fund and deposited to the Series 2009AA subaccount of the Acquisition Account will be used to acquire Mortgage Loans and/or MBS (assuming satisfaction of the set aside requirements discussed in "Set Asides" under this caption) by no later than three years after the applicable Release Date. See "Mortgage Loan Rates; Mortgage-Backed Securities" under this caption. See also "Insurance Limitations and Requirements" under this caption for a discussion about the anticipated insurance types and percentage mix for the Mortgage Loans.

### **Special Covenants of the Authority**

The Authority has covenanted in the Series 2009AA Indenture that, so long as the 2009AA Bonds are Outstanding, it shall:

- (a) if any 2009AA Bonds are not issued on a tax-exempt basis, use its reasonable best efforts to obtain Volume Cap allocations as needed for such 2009AA Bonds in 2010;
- (b) not permit the aggregate principal amount of the 2009AA Bonds issued hereunder to exceed the \$275,219,374 allocated to the Authority;
- (c) not allow the aggregate principal amount of Market Bonds and 2009AA Bonds to exceed the reasonable expectations requirement applicable to tax-exempt mortgage revenue bonds;



(d) not issue new Bonds under the Indenture in a variable rate demand, adjustable rate or auction rate moded other than 2009AA Bonds during the period such 2009AA Bonds bear interest at the Short-Term Rate;

(e) take all steps necessary to assure that all assets and revenues of any description pledged to the payment of the 2009AA Bonds and all other Bonds issued under the Indenture shall be applied strictly in accordance with, and solely for the purposes and in the amounts specified and permitted by, the terms of the Indenture;

(f) not exercise any rights it may have to make voluntary withdrawals of cash or other assets from the lien of the Indenture except under the following circumstances and within the following limits:

(i) the Authority may withdraw cash from the Indenture to pay ordinary and customary administrative and operating expenses of the Authority, ordinary and customary operating expenses of any of the indentures of the Authority (such as, for example, fees and payments due on an interest rate swap entered into by the Authority) and to fund or reimburse the cost of programs sponsored by the Authority, subject to each of the following requirements:

(A) either:

(1) the cumulative amount of such withdrawals does not exceed the cumulative withdrawals as projected to the date of such withdrawal in the cash flows most recently submitted to the rating agencies in connection with the then current long term rating of the 2009AA Bonds; or

(2) prior to and as a condition to such withdrawal, the Authority obtains and furnishes to the Administrator and to Treasury's Financial Agent a confirmation from each of the rating agencies maintaining ratings on the 2009AA Bonds that the proposed withdrawal will not adversely affect such ratings; and

(B) prior to and as a condition to such withdrawal, the Authority provides a written certification to the Administrator and to Treasury's Financial Agent specifying the amount and purpose of the withdrawal and that all requirements of the provision described in this paragraph (f)(i) have been met with respect to such withdrawal.

In spite of anything to the contrary described in this paragraph (f)(i), no withdrawals whatsoever may be made under the provision described in this paragraph (f)(i) during any period when any of the ratings on the 2009AA Bonds are below the level of "Baa3" or "BBB-" or has been suspended or withdrawn;

(ii) the Authority may withdraw cash or other assets from the Indenture for any purpose of the Authority other than as set out in the provision described in paragraph (f)(i) above, subject to each of the following requirements:

(A) prior to and as a condition to such withdrawal, the Authority obtains and furnishes to the Administrator and to Treasury's Financial Agent a

confirmation from each of the rating agencies maintaining ratings on the 2009AA Bonds that the rating on the 2009AA Bonds will be not less than "Aaa" with a rating outlook that is either "stable" or "positive" or the equivalent;

(B) the cash or other assets withdrawn from the lien of the Indenture pursuant to the provision described in this paragraph (f)(ii) are retained by the Authority within its funds and accounts or are expended to further the mission or otherwise for the benefit of the Authority; and

(C) prior to and as a condition of such withdrawal, the Authority provides a written certification to the Administrator and to Treasury's Financial Agent specifying the amount and purpose of the withdrawal and that all requirements of the provision described in this paragraph (f)(ii) have been met with respect to such withdrawal;

(g) with respect to the purchase, origination, enforcement and servicing of mortgage loans and MBS, the Authority shall:

(i) originate or cause to be originated, and, if applicable, purchased, mortgage loans and purchase, or cause to be purchased, MBS in a manner consistent with applicable state law, the Indenture and any supplements thereto, and such other related documents by which the Authority is bound,

(ii) cause all Mortgage Loans to be serviced pursuant to the servicing requirements of the Authority, Ginnie Mae, FHA, Fannie Mae and Freddie Mac, as applicable,

(iii) except as otherwise permitted by Treasury or the GSEs, diligently take all steps necessary or desirable to enforce all terms of the Mortgage Loans, MBS, loan program documents and all such other documents evidencing obligations to the Authority, and

(iv) diligently take all actions consistent with sound mortgage loan origination, purchase and servicing practices and principles as may be necessary to receive and collect sufficient revenues to pay debt service when due on the 2009AA Bonds; and

(h) not issue any Bonds senior in priority to the 2009AA Bonds and the Authority represents and warrants that the 2009AA Bonds are at least equal in priority with respect to payment and security to the most senior Outstanding Bonds under the Indenture.

## **TAX MATTERS**

### **Federal Tax Treatment of Interest Prior to Release Date**

In the opinion of Sherman & Howard L.L.C., Bond Counsel, pursuant to the Internal Revenue Code of 1986 (the "**Tax Code**"), as amended to the Settlement Date, interest on the 2009AA Bonds prior to the Release Date for such 2009AA Bonds is included in gross income for federal income tax purposes.

Bond Counsel will express no other opinion as to any federal tax consequences regarding the 2009AA Bonds prior to the Release Date for such 2009AA Bonds. Owners of such 2009AA Bonds should consult with their own tax advisors as to the tax consequences pertaining to such 2009AA Bonds, such as the consequences of a sale, transfer, redemption or other disposition of such 2009AA Bonds prior to stated maturity, and as to other applications of federal, state, local or foreign tax laws.

Any tax advice concerning the 2009AA Bonds prior to the Release Date for such 2009AA Bonds, interest on such 2009AA Bonds or any other federal income tax issues associated with such 2009AA 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.

### **Federal Tax Treatment of Interest On Post-Release 2009AA Bonds On and After the Release Date Therefor**

**The discussion in this section relates to the tax treatment of interest on 2009AA Bonds after the Release Date for such 2009AA Bonds, should one occur (referred to as "Post-Release 2009AA Bonds"), and assumes that no changes in federal income tax laws will occur after the date of this Official Statement. This section is not intended to reflect the conditions required for a Release Date to occur. These conditions are more specifically discussed in "- Conditions to Occurrence of Release Date" under this caption.**

Effective as of the Release Date for any 2009AA Bonds, such initially delivered 2009AA Bonds will be exchanged for Post-Release 2009AA Bonds. In the opinion of Bond Counsel to be delivered on the Release Date for such 2009AA Bonds, if one occurs, assuming continuous compliance with certain covenants described below, interest on the Post-Release 2009AA Bonds will be excluded from gross income under federal income tax laws pursuant to Section 103 of the Tax Code, as amended to such Release Date.

The Tax Code imposes several requirements which must be met with respect to the Post-Release 2009AA Bonds in order for the interest thereon to be excluded from gross income. Certain of these requirements must be met on a continuous basis throughout the term of the Post-Release 2009AA Bonds after the Release Date. These requirements included (a) limitations as to the use of the proceeds of the Post-Release 2009AA Bonds; (b) limitations on the extent to which proceeds of the Post-Release 2009AA 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 Post-Release 2009AA Bonds above the yield on the Post-Release 2009AA Bonds to be paid to the United States Treasury. The Authority will covenant and represent in the Indenture that if a Release Date occurs, it will take all steps to comply with the requirements of the Tax Code, as amended to the Release Date, to the extent necessary to maintain the exclusion of interest on the Post-Release 2009AA Bonds on and after the Release Date from gross income. Bond Counsel's Required Release Bond Opinion as to the exclusion of interest on the Post-Release 2009AA Bonds from gross income will be rendered on the Release Date 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 Post-Release 2009AA Bonds on and after the Release Date to be included in gross income from the Release Date. Any Required Release Bond Opinion also will be rendered in reliance upon representations and certifications of the Authority and other certifications and representations furnished to Bond Counsel. Bond Counsel will not undertake to verify such certifications and representations by independent investigation.

## **Colorado Law Treatment of Interest on 2009AA Bonds**

In the opinion of Bond Counsel, the 2009AA Bonds, their transfer and the income therefrom is free from taxation by the State of Colorado under Colorado law in effect as of the Settlement Date.

## **Other Tax Consideration for Owners of Post-Release 2009AA Bonds**

The Tax Code contains numerous provisions which may affect an investor's decision to purchase the 2009AA Bonds. Owners of Post-Release 2009AA Bonds on and after the Release Date for such Post-Release 2009AA 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 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. Under Section 3406 of the Tax Code, backup withholding may be imposed on payments on the Post-Release 2009AA Bonds made to any Owner who fails to provide certain required information, including an accurate taxpayer identification number, to certain persons required to collect such information pursuant to the Tax Code. Backup withholding may also be applied if the Owner underreports "reportable payments" (including interest and dividends) as defined in Section 3406, or fails to provide a certificate that the Owner is not subject to backup withholding in circumstances where such a certificate is required by the Tax Code.

If any 2009AA Bonds convert to Post-Release 2009AA Bonds bearing tax-exempt interest rates on a Release Date, the Authority will treat the Post-Release 2009AA Bonds as a newly issued tax-exempt obligation for federal income tax purposes, and owners of the Post-Release 2009AA Bonds on the Release Date will be deemed to have acquired newly issued tax-exempt obligations on the Release Date. All owners of the Post-Release 2009AA Bonds are advised to consult their tax advisors as to the tax consequences of the conversion and of purchasing or holding the such 2009AA Bonds and Post-Release 2009AA Bonds.

Bond Counsel's Required Release Bond Opinion will only relate to the exclusion of interest on the Post-Release 2009AA Bonds on and after the Release Date from gross income and from certain State of Colorado taxation as described above and will state that no opinion is expressed regarding other federal or Colorado tax consequences arising from the receipt or accrual of interest on or ownership or disposition of the Post-Release 2009AA Bonds on and after the Release Date. Owners of the Post-Release 2009AA Bonds should consult their own tax advisors as to the applicability of these consequences. Occurrence of a Release Date is subject to the conditions stated below in " - Conditions to Occurrence of Release Date" under this caption.

## **Conditions to Occurrence of Release Date**

A Release Date will occur on the date stated in the notice to the owners of the Post-Release 2009AA Bonds if on that date the conditions precedent described in "Part I – PLAN OF FINANCE – Conditions Precedent to Release Date(s)" herein, including the delivery of the aforementioned Required Release Bond Opinion, are met. Up to three Release Dates may occur, provided that a Release Date cannot occur after December 31, 2010. Bond Counsel may decline to deliver the Required Release Bond Opinion because of various possible reasons including, without limitation, adverse changes in existing laws, regulations, ruling or judicial interpretations. Such changes could result from many sources, including but not limited to the adoption by the United States Congress of a new tax system which eliminates the exclusion of interest on municipal obligations such as the Post-Release 2009AA Bonds from the definition of gross income.

Bond Counsel's ability to deliver the Required Release Bond Opinion will depend upon the laws, regulations, rulings and judicial opinions in effect or proposed to be in effect as of the applicable Release

Date. Such laws, regulations, rulings and judicial opinions include but are not limited to (i) the federal income tax and securities laws, (ii) Colorado law and (iii) Bond Counsel's analysis of such matters and their applicability to the Post-Release 2009AA Bonds and any related transactions.

### **Possible Future Changes in Law Applicable to 2009AA Bonds and Post-Release 2009AA Bonds**

The opinions expressed by Bond Counsel are based on existing law as of the Settlement Date and will be based on existing law as of the applicable Release Date for any Post-Release 2009AA Bonds, respectively. No opinion is expressed or will be 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 2009AA Bonds or any Post-Release 2009AA Bonds, the exclusion of interest on the Post-Release 2009AA Bonds from gross income from the Release Date for such Post-Release 2009AA Bonds or any other date, or which could result in other adverse tax consequences. In addition, future court actions or regulatory decisions could affect the market value of the 2009AA Bonds or Post-Release 2009AA Bonds. Bond owners are advised to consult with their own tax advisors with respect to such matters.

### **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 any Post-Release 2009AA Bonds. If an audit is commenced, the market value of the Post-Release 2009AA Bonds may be adversely affected. Under current audit procedures, the Service will treat the Authority as the taxpayer and the Bondowners may have no right to participate in such procedures. The Authority has covenanted in the Indenture not to take any action or omit to take any action that would cause the interest on any Post-Release 2009AA Bonds to lose its exclusion from gross income under the Tax Code. Neither the Authority nor Bond Counsel is responsible for paying or reimbursing any Registered Owner or Beneficial Owner for any audit or litigation costs relating to any Post-Release 2009AA Bonds.

## **LITIGATION**

On the Settlement Date, 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 2009AA 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 2009AA Bonds, the Indenture or the placement agreement for the 2009AA Bonds.

## **ACQUISITION OF 2009AA BONDS**

Fannie Mae and Freddie Mac (the "**GSEs**") have agreed, subject to certain conditions to acquire the 2009AA Bonds from the Authority at a purchase price of \$274,907,290 (which is the aggregate principal amount of \$275,210,000, less the GSE initial securitization fees of \$275,210 and GSE expenses of \$52,500 plus the \$25,000 deposit previously made to the GSEs by the Authority). See "Part I – PLAN OF FINANCE – Sources and Uses of Funds."

## **RATING**

Moody's Investors Service ("**Moody's**") is giving the 2009AA Bonds a rating of "Aaa." Such a rating reflects only the view of Moody's and is not a recommendation to buy, sell or hold the 2009AA Bonds. An explanation of the significance of the rating given by Moody's may be obtained from Moody's. 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 such rating will continue for any given period of time or that such rating will not be revised downward or withdrawn entirely by Moody's, if, in the judgment of Moody's, 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 2009AA Bonds. The Authority has no obligation to oppose, or to provide Owners of the 2009AA Bonds with notice of, any such revision or withdrawal of a rating.

## **LEGAL MATTERS**

In connection with the private placement of the 2009AA Bonds, Sherman & Howard L.L.C., as Bond Counsel to the Authority, will deliver the opinion included as **Appendix B** hereto. Hogan & Hartson LLP will pass upon certain legal matters relating to the 2009AA Bonds as Disclosure Counsel to the Authority. Certain legal matters will be passed upon for the Authority by Charles L. Borgman, Esq., its General Counsel. The Special Advisor is being represented by Bookhardt & O'Toole.

Neither Sherman & Howard L.L.C., Hogan & Hartson LLP nor Bookhardt & O'Toole has participated in any independent verification of the information concerning the financial condition or capabilities of the Authority contained in this Official Statement.

## **SPECIAL ADVISOR**

Barclays Capital Inc. has acted as the Special Advisor to the Authority in connection with the Authority's issuance of the 2009AA Bonds and its participation in the NIB Program.

## **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 2009AA Bonds and the Indenture, 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 2009AA 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 2009AA Bonds, except as described in "Part II – SECURITY FOR THE 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**

<u>Name</u>	<u>Affiliation</u>	<u>End of Term</u>
Joel S. Rosenstein, Esq., Chair (1)	Attorney, Senn, Lewis & Visciano; Denver, Colorado	July 1, 2013
Roxanne M. Huber, Chair, <u>pro tem</u> (2)	Executive Director, Colorado Department of Revenue; Denver, Colorado	At the pleasure of the Governor
John A. Blumberg, Secretary/Treasurer (3)	Co-Founder and Principal, Black Creek Capital LLC; Denver, Colorado	July 1, 2013
Sam Betters	Executive Director; Housing Authority of the City of Loveland; Loveland, Colorado	July 1, 2011
Betty Boyd	State Senator; Denver, Colorado	End of legislative biennium 2009-2010
James M. Hahn	Principal, JMH Consulting, LLC; Denver, Colorado	July 1, 2013
Kevin Marchman	Executive Director, National Organization of African Americans in Housing; Denver, Colorado	July 1, 2011
David J. Myler, Esq.	Partner, The Myler Law Firm, P.C.; Basalt, Colorado	July 1, 2013
Mark O'Connor	Senior Vice President, First Bank Holding Company; Lakewood, Colorado	July 1, 2011
Anita Padilla-Fitzgerald	President and CEO, MegaStar Financial Corp.; Denver, Colorado	July 1, 2013
Sally W. Symanski	Colorado State Auditor; Denver, Colorado	Standing

(1) This Board member was re-elected as Chair of the Board effective March 26, 2009.

(2) This Board member has previously served as Secretary/Treasurer of the Board, and pursuant to the Authority's bylaws, will succeed to the position of Chair, pro tem, effective July 1, 2009 upon the expiration of the term on that date of the prior Chair, pro tem.

(3) This Board member was elected to Secretary/Treasurer of the Board effective August 27, 2009.

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. Mr. Alexander has announced his retirement from the Authority, expected to occur prior to the end of the calendar year. A search committee of the Board has been formed to consider his replacement.



*Cris A. White*, **Interim Executive Director and Chief Operating Officer**. Mr. White has served as Chief Operating Officer since February 2002 and has been appointed to serve as Interim Executive Director upon the retirement of Milroy A. Alexander (effective January 1, 2010). Mr. White 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 E. 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*, **Director of Corporate Debt and Investment Management**, joined the staff in August 1990. Prior to assuming his current 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.

*Mark A. MacNicholas*, **Controller**, joined the staff in October 2008. Prior to joining the Authority, Mr. MacNicholas served as Controller for SunCorp Corporate Credit Union. During his career, Mr. MacNicholas has served in various accounting roles within the financial services industry. Mr. MacNicholas has a Bachelor's Degree in Business Administration from the University of Iowa, a Masters in Accountancy from DePaul University and is a Certified Public Accountant.

*Karen Harkin*, CMB, CML, was appointed as **Director of Home Finance** in February 2001. 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 more than twenty years experience in various capacities in public, private and non-profit real estate lending and development.

*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 2006 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 2006. 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.

*Rachel Basye*, **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 2006, 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.

*Laurie O'Brien*, **Director of Loan Servicing**, joined the staff as Director in February 2006. Prior to joining the Authority, Ms. O'Brien previously worked for several large mortgage companies in the northeastern United States and was most recently employed by Fidelity Financial Services for the past 13 years. She graduated from Medialle College in Buffalo, NY, with a Bachelor of Science Degree in Human Resource Development. Ms. O'Brien has been in loan servicing for over 22 years.

*Deborah Herrera*, **Director of Human Services**, originally joined the Authority in October 2001 as a senior level Human Resources Generalist and rejoined the Authority in September 2006 as the Director of Human Services. She has ten years of human resources experience, during four of which she served in a management capacity in the financial/mortgage industry. Prior to rejoining the Authority, Mrs. Herrera was a Human Resources Director for an information and analytics company serving the mortgage and finance industry. Mrs. Herrera received a Bachelor of Arts in Psychology and a Masters in Human Resources Management from the University of North Florida.

## **Employees and Pension Information**

As of December 31, 2008, the Authority had approximately 175 full-time employees, all of whom were members of the Public Employees' Retirement Association of Colorado ("**PERA**"). State statutes required the Authority to contribute 11.90% of each participating employee's gross salary to PERA in 2008. In 2008, the Authority's PERA contribution totaled approximately \$1,288,000, compared to an Authority contribution in 2007 of \$1,113,000. See footnote (11) of the audited 2008 financial statements for further information.

## **Insurance Coverage**

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

## **Selected Financial Information**

The following is a brief summary of historical selected financial information for the Authority. The audited 2008 financial statements of the Authority included in **Appendix C** to this Official Statement

also provide certain financial information about the Authority on a fund accounting basis, including a description of its General Fund. This information has been included solely for purposes of providing a general overview for potential purchasers of the financial status of the Authority given that the Authority operates the programs which result in the Mortgage Loans securing Bonds and Auxiliary Obligations under the Master Indenture and also services such Mortgage Loans. See "Part II – THE SINGLE FAMILY MORTGAGE PROGRAM." The Bonds and Auxiliary Obligations are limited obligations of the Authority secured by and payable from the Trust Estate, except in the limited case of those Bonds and Auxiliary Obligations designated as general obligations of the Authority. See "Obligations of the Authority" and "The General Fund" under this caption. *The overall financial status of the Authority does not indicate and will not necessarily affect whether amounts will be available in the Trust Estate to pay principal and interest on Bonds when due.*

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# Colorado Housing and Finance Authority

## Statement of Net Assets

December 31, 2008

(with summarized financial information for December 31, 2007)

(in thousands of dollars)

	General Fund	Single Family	Multi-Family/ Business	Eliminations	2008	2007
<b>Assets</b>						
Current assets:						
Cash	\$ 28,872	\$ -	\$ 483	\$ -	\$ 29,355	\$ 30,955
Investments	103,808	240,731	134,784	-	479,323	501,063
Loans receivable	10,923	67,256	29,391	(635)	106,935	96,167
Accrued interest receivable	3,829	15,629	6,753	(196)	26,015	24,052
Deferred debt financing costs, net	17	654	193	-	864	931
Other assets	4,000	535	130	-	4,665	4,454
Due (to) from other funds	(51,468)	31,051	20,417	-	-	-
<b>Total current assets</b>	<b>99,981</b>	<b>355,856</b>	<b>192,151</b>	<b>(831)</b>	<b>647,157</b>	<b>657,622</b>
Noncurrent assets:						
Investments	4,484	175,764	63,827	-	244,075	81,313
Loans receivable, net	316,769	1,950,412	852,351	(18,415)	3,101,117	2,788,844
Capital assets - non-depreciable	6,635	-	-	-	6,635	7,016
Capital assets - depreciable, net	22,971	-	-	-	22,971	25,707
Other real estate owned, net	36	1,620	723	-	2,379	2,097
Deferred debt financing costs, net	314	11,773	3,471	-	15,558	16,767
Other assets	19,867	-	-	-	19,867	17,619
<b>Total noncurrent assets</b>	<b>371,076</b>	<b>2,139,569</b>	<b>920,372</b>	<b>(18,415)</b>	<b>3,412,602</b>	<b>2,939,363</b>
<b>Total assets</b>	<b>\$ 471,057</b>	<b>\$ 2,495,425</b>	<b>\$ 1,112,523</b>	<b>\$ (19,246)</b>	<b>\$ 4,059,759</b>	<b>\$ 3,596,985</b>
<b>Liabilities</b>						
Current liabilities:						
Short-term debt	\$ 164,985	\$ -	\$ -	\$ -	\$ 164,985	\$ 64,545
Bonds payable, current portion	182	6,908	11,304	-	18,394	13,515
Notes payable, current portion	73	-	-	-	73	3,956
Accrued interest payable	944	30,481	15,035	(196)	46,264	32,086
Federally assisted program advances	110	-	-	-	110	708
Accounts payable and other liabilities	21,929	747	436	-	23,112	22,241
<b>Total current liabilities</b>	<b>188,223</b>	<b>38,136</b>	<b>26,775</b>	<b>(196)</b>	<b>252,938</b>	<b>137,051</b>
Noncurrent liabilities:						
Bonds payable, net	102,402	2,378,020	1,017,413	-	3,497,835	3,164,023
Notes payable	20,062	-	-	(19,050)	1,012	1,086
Other liabilities	8,919	2,181	1,207	-	12,307	12,461
<b>Total noncurrent liabilities</b>	<b>131,383</b>	<b>2,380,201</b>	<b>1,018,620</b>	<b>(19,050)</b>	<b>3,511,154</b>	<b>3,177,570</b>
<b>Total liabilities</b>	<b>319,606</b>	<b>2,418,337</b>	<b>1,045,395</b>	<b>(19,246)</b>	<b>3,764,092</b>	<b>3,314,621</b>
<b>Net assets</b>						
Invested in capital assets, net of related debt	10,556	-	-	19,050	29,606	32,723
Restricted by bond indentures	-	77,088	67,128	-	144,216	124,948
Unrestricted	140,895	-	-	(19,050)	121,845	124,693
<b>Total net assets</b>	<b>151,451</b>	<b>77,088</b>	<b>67,128</b>	<b>-</b>	<b>295,667</b>	<b>282,364</b>
<b>Total liabilities and net assets</b>	<b>\$ 471,057</b>	<b>\$ 2,495,425</b>	<b>\$ 1,112,523</b>	<b>\$ (19,246)</b>	<b>\$ 4,059,759</b>	<b>\$ 3,596,985</b>

The accompanying notes are an integral part of these statements

**Colorado Housing and Finance Authority**  
**Statement of Revenues, Expenses and Changes in Net Assets**

For the year ended December 31, 2008

(with summarized financial information for the year ended December 31, 2007)

(in thousands of dollars)

	General Fund	Single Family	Multi-Family/ Business	Eliminations	2008	2007
<b>Operating revenues:</b>						
Interest on loans receivable	\$ 15,635	\$ 106,005	\$ 51,813	\$ (1,500)	\$ 171,953	\$ 147,573
Investment income	1,807	15,937	8,737	-	26,481	27,727
Net increase (decrease) in the fair value of investments	41	5,317	3,352	-	8,710	2,245
Rental income	8,424	-	-	-	8,424	10,882
Loan servicing income	11,306	-	-	-	11,306	9,547
Section 8 administration fees	4,255	-	-	-	4,255	4,561
Other revenues	2,080	3,870	-	-	5,950	3,517
<b>Total operating revenues</b>	<b>43,548</b>	<b>131,129</b>	<b>63,902</b>	<b>(1,500)</b>	<b>237,079</b>	<b>206,052</b>
<b>Operating expenses:</b>						
Interest on debt	8,990	118,313	65,784	(1,500)	191,587	155,406
Salaries and related benefits	14,936	-	-	-	14,936	14,341
General operating	14,160	519	278	-	14,957	16,835
Other interest expense	1,187	-	-	-	1,187	1,588
Depreciation	2,684	-	-	-	2,684	2,722
Provision for losses	2,985	5,372	(3,840)	-	4,517	500
<b>Total operating expenses</b>	<b>44,942</b>	<b>124,204</b>	<b>62,222</b>	<b>(1,500)</b>	<b>229,868</b>	<b>191,392</b>
<b>Total operating income (loss)</b>	<b>(1,394)</b>	<b>6,925</b>	<b>1,680</b>	<b>-</b>	<b>7,211</b>	<b>14,660</b>
<b>Nonoperating revenues and expenses:</b>						
Federal grant receipts	101,882	-	-	-	101,882	97,100
Federal grant payments	(101,882)	-	-	-	(101,882)	(97,100)
Gains on sales of capital assets	6,092	-	-	-	6,092	6,659
<b>Total nonoperating revenues, net</b>	<b>6,092</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>6,092</b>	<b>6,659</b>
<b>Income before transfers</b>	<b>4,698</b>	<b>6,925</b>	<b>1,680</b>	<b>-</b>	<b>13,303</b>	<b>21,319</b>
<b>Transfers from (to) other funds</b>	<b>(10,663)</b>	<b>(4,508)</b>	<b>15,171</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Change in net assets</b>	<b>(5,965)</b>	<b>2,417</b>	<b>16,851</b>	<b>-</b>	<b>13,303</b>	<b>21,319</b>
<b>Net assets:</b>						
Beginning of year	157,416	74,671	50,277	-	282,364	261,045
End of year	\$ 151,451	\$ 77,088	\$ 67,128	\$ -	\$ 295,667	\$ 282,364

The accompanying notes are an integral part of these statements

## The General Fund

### *Generally*

CERTAIN OBLIGATIONS UNDER THE MASTER INDENTURE MAY IN THE FUTURE BE DESIGNATED AS GENERAL OBLIGATIONS OF THE AUTHORITY. SEE "PART II – SECURITY FOR THE OBLIGATIONS." THE FOLLOWING INFORMATION REGARDING THE AUTHORITY'S GENERAL FUND IS PROVIDED ONLY IN CONNECTION WITH OBLIGATIONS WHICH ARE IN THE FUTURE SO DESIGNATED.

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 Master Indenture.

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, which may affect the availability of the General Fund for payments in connection with any Bonds or Auxiliary Obligations which have been designated as general obligations. The designations have been or may be 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.

### *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, 2008 as provided by the Authority.

**Colorado Housing and Finance Authority**  
**General Fund**  
**Selected Financial Information**  
**Years Ended December 31**  
**(in thousands of dollars)**

	<u>FY</u> <u>2008</u>	<u>FY</u> <u>2007</u>	<u>FY</u> <u>2006</u>	<u>FY</u> <u>2005</u>	<u>FY</u> <u>2004</u>
Interest and investment revenue:					
Loans receivable	\$15,635	\$12,900	\$12,449	\$11,241	\$10,454
Investments	1,807	3,420	3,061	2,016	1,744
Net increase (decrease) fair value of long-term investments	<u>41</u>	<u>(66)</u>	<u>(137)</u>	<u>441</u>	<u>(392)</u>
Total interest and investment revenue	17,483	16,254	15,373	13,698	11,806
Interest expense - bonds and notes payable	<u>8,990</u>	<u>9,719</u>	<u>9,663</u>	<u>7,681</u>	<u>5,799</u>
Net interest and investment revenue	8,493	6,535	5,710	6,017	6,007
Other revenue (expense):					
Rental operations	8,424	10,882	11,638	10,902	10,279
Fees and miscellaneous income	17,641	17,556	15,449	14,097	12,771
Gain on sales of capital assets	<u>6,092</u>	<u>6,659</u>	<u>--</u>	<u>--</u>	<u>--</u>
Total other revenue	<u>32,157</u>	<u>35,097</u>	<u>27,087</u>	<u>24,999</u>	<u>23,050</u>
Net revenue	40,650	41,632	32,797	34,952	29,057
Other expenses:					
Salaries and related benefits	14,936	14,341	12,721	11,322	10,668
General operating	14,160	15,635	14,732	14,724	13,462
Provision for losses	2,985	(300)	(1,050)	870	(816)
Other interest expense	1,187	1,588	1,845	1,848	1,326
Transfers	10,663	(3,645)	(6,179)	(13,192)	(3,432)
Depreciation	<u>2,684</u>	<u>2,722</u>	<u>2,651</u>	<u>2,679</u>	<u>2,574</u>
Total other expense	<u>46,615</u>	<u>30,341</u>	<u>24,720</u>	<u>18,251</u>	<u>23,782</u>
Change in net assets	\$ <u>(5,965)</u>	\$ <u>11,291</u>	\$ <u>8,077</u>	\$ <u>12,765</u>	\$ <u>5,275</u>
Net Assets, end of year	\$ <u>151,451</u>	\$ <u>157,416</u>	\$ <u>146,125</u> <sup>(1)</sup>	\$ <u>149,244</u>	\$ <u>136,479</u>
Bonds and Notes Payable	\$ <u>287,704</u>	\$ <u>203,030</u>	\$ <u>152,455</u>	\$ <u>253,738</u>	\$ <u>212,798</u>
Total Assets	\$ <u>471,057</u>	\$ <u>392,944</u>	\$ <u>327,534</u>	\$ <u>428,627</u>	\$ <u>359,139</u>

(1) The net assets shown as of December 31, 2006 reflect the restatement of net assets as of December 31, 2005. During 2006, it was determined that interfund receivables and payables arising in prior years represented amounts transferred between the various funds but not reflected as such. As a result, net assets as of December 31, 2005 were reduced by \$11,196,000.

Sources: Derived based on the audited financial statements of the Authority for years ended December 31, 2004-2008.

**Authority Policy Regarding Derivatives**

The Master Indenture permits the Authority to enter into "Derivate Products," which include interest rate exchange or swap contracts, cash flow exchange contracts, forward swaps, interest rate floors, caps or collars and other derivative products. See the definitions in **Appendix A** and "Part II – SECURITY FOR THE OBLIGATIONS – Derivative Rate Products." Under the master indentures relating to its Multi-Family/Project Bonds and its Single Family Mortgage Bonds, the Authority is also permitted to, and has entered into, certain derivative obligations which are described in footnote (7) of the

audited 2008 financial statements of the Authority attached in **Appendix C**. The Board of the Authority has adopted a Bond Issuance Policy which it amends from time to time and, among other things, establishes parameters for swap agreements 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. The Authority routinely engages a consultant to evaluate the terms of any proposed swap agreement and determine whether the base price for such a swap agreement with those terms is fair in the current market environment.

## **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 OBLIGATIONS."** See also "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 acquires 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, although the Authority does not exceed the Fannie Mae conforming loan limits. Proceeds of a mortgage loan under the Non-Qualified Single Family Mortgage Program may also be used under the Authority's refinancing program to refinance existing Mortgage Loans. 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." The Authority is in the process of revising all of its procedures in order to accommodate a broader range of programs involving the purchase and sale of single family mortgage loans. For certain information regarding the outstanding mortgage loans acquired under the Single Family Mortgage Programs, see footnote (3) to the audited 2008 financial statements of the Authority included in this Official Statement as **Appendix C**.

The Authority has recently expanded its financing activities in connection with the Single Family Mortgage Programs to include the sale of certain single family mortgage loans to Fannie Mae and also issued and sold mortgage-backed securities guaranteed by Ginnie Mae (the "**Ginnie Mae Securities**") to finance first mortgage loans as part of the Non-Qualified Single Family Mortgage Programs. Proceeds of Bonds under the Master Indenture are expected, upon release from the Escrow Fund, to be used in part to



finance such first mortgage loans through the purchase of Ginnie Mae Securities as well as other MBS as described in "Part I – PLAN OF FINANCE" and "Part II – SECURITY FOR THE OBLIGATIONS."

### *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 "Obligations of the Authority – Commercial Loan 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 "Obligations of the Authority – General Obligations – Loans Backed by Authority General Obligation" under this caption. For certain information regarding the Authority's outstanding insured rental loans, see footnote (3) to the audited 2008 financial statements of the Authority included in this Official Statement as **Appendix C**.

The Authority also makes uninsured rental loans to §501(c)(3) nonprofit corporations and public housing authorities as well as to for-profit borrowers. 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). In addition to long-term rental loans under the SMART Program, the Authority also makes uninsured rental loans that provide interim financing for acquisition and/or rehabilitation of the acquired property. These loans, referred to as bridge loans, are generally less than two years in term, are secured by a first deed of trust on the real estate, and have full recourse to the borrower during the term of the bridge loan. In the case of for-profit developers, the loans are both full recourse to the borrower and personally guaranteed by the individual principals during the term of the bridge loan. The Authority has also made an uninsured rental loan to a for-profit borrower in support of certain single family rental housing facilities at Fort Carson Army Base in Colorado Springs, Colorado.

Uninsured rental loans have also been made by the Authority using funds from amounts in its General Fund designated as the Housing Opportunity Fund ("**HOF**") under a program referred to as the "**HOF Program**." Under the HOF Program, the Authority makes fixed interest rate loans to nonprofit and for profit developers in support of rental housing facilities targeted to low income residents. Eligible "low income" residents are defined as persons or families that earn 60% of Area Median Income or less. HOF loan interest rates are set on a sliding scale based on the income levels of the residents served by prospective rental housing facilities. All HOF loans must conform to standard Authority due diligence processes and underwriting criteria and will be secured by either first or second mortgages on real estate (maximum Loan to Value of 90% for loans to for profit developers and 95% for loans to nonprofit developers). Loan terms on HOF loans may range from 20 to 40 years. HOF loans are generally fully amortizing over their term and do not provide for prepayment restrictions or fees. Balloon payments on HOF loans are permitted under certain circumstances.

Under its *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 footnotes (1) and (4) to the audited 2008 financial statements of the Authority included in this Official Statement as **Appendix C**. During 2006, the Authority made the decision to sell a majority of the facilities it currently owns under the RAP Program. The facilities were offered for sale to local housing authorities where the facilities are located, and, if those parties were not interested in the purchase, the Authority offered such facilities to for-profit and nonprofit corporations interested in the purchase. The Authority has completed eleven sales to date. The Authority retains four properties within its portfolio and does not intend to sell those four properties in the foreseeable future. By its sale of these facilities, the Authority has offered valuable assets at a reasonable price to organizations whose mission is the development and preservation of affordable rental housing in Colorado. In all of such sales, the purchasing parties either maintained the existing number of units with affordability requirements or increased the number of units with affordability requirements. The sale of the eleven properties does not imply that the Authority is discontinuing or closing the RAP program. The Authority intends to seek opportunities to acquire other rental properties in underserved areas within the State of Colorado at such time as such transactions support the goals of the Authority with respect to affordable rental housing in Colorado.

**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 504 Program (the "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 Loan 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 Authority has also made an uninsured business loan to a for-profit borrower to finance a project at the United States Air Force Academy in Colorado Springs, Colorado.

The business loan programs of the Authority also include the QIC, QAL and B&I II 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. 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.

### **Obligations of the Authority**

The following is a summary of certain 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 (6) to the audited 2008 financial statements of the Authority included in this Official Statement as **Appendix C**.

### *Single Family Mortgage Programs*

In connection with its Single Family Mortgage Programs, the Authority has previously issued numerous series of its Single-Family Program Bonds as senior and subordinate bonds, payable from the revenues of pledged mortgage loans and outstanding as of November 1, 2009 in the aggregate principal amount of \$61,850,223. The Authority has also issued its Single Family Mortgage Bonds under a Master Indenture dated as of October 1, 2001, as supplemented, payable from the revenues of mortgage loans held thereunder, outstanding as of November 1, 2009 in the aggregate principal amount of \$2,271,755,000. Subordinate bonds issued as part of the Single-Family Program Bonds and Class III Single Family Mortgage Bonds outstanding under the Single Family Mortgage Master Indenture are also general obligations of the Authority, as described in "General Obligations – Single-Family Bonds – Subordinate Bonds and Class III Bonds" under this caption. For more detailed information concerning the outstanding bonds of the Authority issued in connection with its Single Family Mortgage Programs, see [www.chfainfo.com](http://www.chfainfo.com) and footnote (6) of the audited 2008 financial statements of the Authority attached in **Appendix C**. The Authority has also issued general obligation bonds through private placement in order to finance single family mortgage loans. See "General Obligations – Privately Placed Bonds" under this caption. The Bonds are the first series of bonds being issued under the Master Indenture, which is a new Single Family Program Master Indenture.

### *Commercial Loan Programs*

The Authority has financed rental loans with proceeds of its Multifamily Housing Insured Mortgage Revenue Bonds (outstanding as of November 1, 2009 in an aggregate principal amount of \$112,300,000) and, since 2000, has financed rental and business loans and certain guaranteed participation interests with proceeds of its Multi-Family/Project Bonds, which were outstanding as of November 1, 2009 in an aggregate principal amount of \$867,885,000. Certain of the Multi-Family/Project Bonds are secured by the full faith and credit of the Authority, as described in "General Obligations – Multi-Family/Project Bonds" under this caption.

Bonds secured by a pledge of loan revenues as well as bonds secured by loan revenues and the general obligation of the Authority have also been privately placed to institutional purchasers by the Authority in order to finance rental loans. See "General Obligations – Privately Placed Bonds" under this caption. The Authority has also issued general obligation housing bonds to finance a rental loan secured by a pledge of loan revenues as well as the full faith and credit of the Authority. See "General Obligations – General Obligation Bonds" under this caption. 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. See footnote (6) of the audited 2008 financial statements of the Authority attached in **Appendix C** for more information regarding these outstanding bonds and notes. The Authority has also acted as a conduit issuer of bonds supported by letters of credit or other credit facilities. These conduit bonds are payable only with amounts received from the conduit borrower, and are therefore not reported as obligations of the Authority on its financial statements.

Business loans and participation interests have also been financed by the Authority with the proceeds of the general obligation bonds described in "General Obligations – General Obligation Bonds" and privately placed bonds, secured by loan and participation revenues as well as the full faith and credit of the Authority. See "General Obligations – Privately Placed Bonds" under this caption. In connection with its Special Projects financing program, the Authority has acted as a conduit issuer its industrial development revenue bonds to finance certain manufacturing facilities and solid waste disposal facility projects for corporations. These bonds are payable only with amounts received from the conduit borrower and are therefore not reported as obligations of the Authority on its financial statements.

**Except for the Bonds which are being issued 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.**

#### *General Obligations*

Many of the bonds and notes issued by the Authority to finance its programs are secured by a pledge of specific revenues, with an additional pledge of its full faith and credit, as described under this caption. Other obligations of the Authority entered in connection with its programs or its operations are not secured by specific revenues or assets other than the Authority's full faith and credit. The bonds, notes and other obligations which are general obligations of the Authority are described below.

Multi-Family/Project Bonds. The Authority has issued Class I Multi-Family/Project Bonds (outstanding as of November 1, 2009 in an aggregate principal amount of \$280,760,000) in order to finance 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 II Multi-Family/Project Bonds (outstanding as of November 1, 2009 in the aggregate principal amount of \$22,860,000) and Class III Multi-Family/Project Bonds (outstanding as of November 1, 2009 in an aggregate principal amount of \$2,085,000) in order to finance certain rental and business loans. These Class II and Class III Multi-Family/Project Bonds are payable from loan revenues on a subordinate lien basis to the Class I Multi-Family Project Bonds and also as general obligations of the Authority.

Single Family Bonds – Subordinate Bonds and Class III 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 November 1, 2009 was \$770,000. The Authority has also issued Class III Single Family Mortgage Bonds, 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 \$77,240,000 as of November 1, 2009, are payable from mortgage loan revenues under the Single Family Mortgage Master Indenture and are also general obligations of the Authority.

General Obligation Bonds. The Authority has financed an uninsured rental loan in connection with a housing project in the City and County of Denver using proceeds of its publicly-offered general obligation housing bonds. As of November 1, 2009, such bonds, secured by a general obligation pledge of the Authority and loan revenues, were outstanding in an aggregate principal amount of \$3,050,000. In connection with its Special Projects financing program, the Authority has financed a business loan to the Colorado Municipal League through the public offering of general obligation bonds. As of November 1, 2009, such bonds were outstanding in the aggregate principal amount of \$980,000.

Privately Placed Bonds. The Authority has issued general obligation bonds through private placement in order to finance rental loans. As of November 1, 2009, such privately placed bonds were outstanding in an aggregate principal amount of \$26,111,000. The Authority has also funded participation interests and business loans using proceeds of its privately placed bonds, outstanding as of November 1, 2009 in the aggregate principal amount of \$27,728,000. In addition, the Authority has issued general obligation bonds through private placement in order to finance single family mortgage loans. As of November 1, 2009, such privately placed bonds were outstanding in an aggregate principal amount of \$36,780,958.

Loans Backed by Authority General Obligation. 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, outstanding as of November 1, 2009 in the aggregate principal amount of \$340,184,216. The Authority has pledged its full faith and credit to the payment of a substantial portion of such loans. The Authority has also assumed, as a general obligation, 50% risk of loss in the mortgage loans acquired by the Authority and insured by the FHA under Section 542(c) of the Housing and Community Development Act of 1992, as amended. As of November 1, 2009, such 542(c) mortgage loans were outstanding in the amount of approximately \$267 million (\$41 million held under the General Resolution and securing the Multifamily Housing Insured Mortgage Revenue Bonds and \$226 million held under the Multi-Family/Project Master Indenture and securing the Multi-Family/Project Bonds). 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 losses of approximately \$8.4 million following the defaults on insured mortgage loans for certain projects, the foreclosure and sale of those projects and the settlement of the respective final insurance claims with FHA. In addition, the mortgage loans for the Platte Valley Village II project in the approximate aggregate principal amount of \$1.78 million, for the Fox Run Apartments project in the approximate aggregate principal amount of \$3.45 million and for the Maples at Crestwood Apartments project in the approximate aggregate principal amount of \$14.84 million have also defaulted. The Authority has filed insurance claims and received insurance proceeds from HUD with respect to these loans. It is likely that the Authority will incur a risk-sharing liability with respect to these loans, for which the Authority believes it is adequately reserved.

Interest Rate Contracts; Derivative Products. The Authority has pledged its full faith and credit to secure its obligation to make termination payments under the Interest Rate Contracts relating to the Bonds under the Master Indenture and under the derivative products relating to the Multi-Family/Project Bonds under the related master indenture. See also "Authority Policy Regarding Derivatives" under this caption and footnote (7) to the audited 2008 financial statements of the Authority included in this Official Statement as **Appendix C**.

Other Borrowings. The Authority has entered into agreements with the Federal Home Loan Bank of Topeka and a commercial bank for borrowings from time to time. 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 November 1, 2009, \$108,300,000 in borrowings were outstanding under those agreements. See footnote (5) to the audited 2008 financial statements of the Authority included in this Official Statement as **Appendix C**. The Authority has also borrowed amounts evidenced by Rural Business Cooperative Service Notes (outstanding as of November 1, 2009 in the aggregate principal amount of \$1,012,720), which have been used to finance project or working capital loans or participations therein for small businesses in rural areas. The Authority has pledged its full faith and credit to the payment of such notes.

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 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 or withdrawn entirely by Moody's or S&P, respectively, if, in the judgment of the issuing rating agency, circumstances so warrant.

*Summary of Certain Authority Obligations*

The following is a table which lists certain obligations of the Authority and sets forth the respective outstanding amount for such obligations as of November 1, 2009. Further detail regarding these items is provided under the other subcaptions of "Obligations of the Authority."

**Summary of Certain Authority Obligations as of November 1, 2009**

<u>Certain Authority Obligations*</u>	<u>Outstanding Amount (November 1, 2009)</u>
Multifamily Housing Insured Mortgage Revenue Bonds	\$112,300,000
Multi-Family/Project Bonds	867,885,000
Single Family Program Senior/Subordinate Bonds	61,850,223
Single Family Mortgage Bonds	2,271,755,000
General Obligation Bonds:	
Rental Finance (Denver Dry Project)	3,050,000
Business Finance (Colorado Municipal League Project)	980,000
Privately Placed Bonds:	
Rental Finance	26,111,000
Business Finance	27,728,000
Single Family	36,780,958

\* The 2009AA Bonds are the initial series of bonds being issued under the Master Indenture which is a new Single Family Program Master Indenture, and are not reflected on this table.

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The following table identifies the specific components of the Authority Obligations listed on the preceding table which are general obligations of the Authority as well as other general obligations of the Authority as of November 1, 2009. Further detail regarding these items is provided under the other subcaptions of "Obligations of the Authority."

**General Obligations of the Authority as of November 1, 2009**

<u>General Obligations</u>	<u>Outstanding Amount (November 1, 2009)</u>
Multi-Family/Project Bonds:	
Class I	\$280,760,000
Class II	22,860,000
Class III	2,085,000
Single-Family Program Subordinate Bonds	770,000
Single Family Mortgage Bonds, Class III	77,240,000
General Obligation Bonds:	
Rental Finance (Denver Dry Project)	3,050,000
Business Finance (Colorado Municipal League Project)	980,000
Privately Placed Bonds:	
Rental Finance	26,111,000
Business Finance	27,728,000
Single Family	36,780,958
Other Borrowings:	
Line of Credit	108,300,000
Rural Business Cooperative Service Notes	1,012,720

**Colorado Ballot Initiative Process**

The State Constitution provides that the people of the State reserve to themselves the power to propose laws and amendments to the State Constitution ("**initiatives**") and to enact or reject such initiatives by a vote of the people by Statewide ballot. The process for placing a Statewide initiative on the ballot is governed by the State Constitution and State law, and involves the development of language and a title for each ballot and obtaining a certain number of signatures of registered voters. The Elections Division of the Colorado Secretary of State maintains information about the status of current initiatives on its website at [www.elections.colorado.gov](http://www.elections.colorado.gov) under "Elections Information – Initiative Information." **The reference to the website of the Colorado Secretary of State is included herein for informational purposes only, and information available at such website is not incorporated herein by reference. The Authority makes no representations regarding the accuracy of the information available at such website.**

Generally, it cannot be predicted at this time whether particular initiatives will qualify to be included on the ballot in any given year, and for initiatives that have been or are included, whether any of such initiatives will be approved by the voters of the State. However, one initiative has recently been certified for the November 2010 ballot and if approved by the voters would, among other things, prohibit any borrowing



by the Authority following any such approval. If this initiative is approved by the voters in November 2010, the Authority would be unable to use borrowed amounts to fund its ongoing programs. The Authority is unable to determine at this time what, if any, other implications may result from the certification and/or the approval of this initiative, including any market disruption affecting the Authority's ability to issue the Market Bonds or the extent of any adverse effect on the Authority's future revenues or operations. See "Part I – CERTAIN PROGRAM ASSUMPTIONS – Additional Market Bonds."

## **SECURITY FOR THE OBLIGATIONS**

### **Pledge of Trust Estate**

All Bonds and Derivative Products (the "**Obligations**") outstanding under the Master Indenture (other than Bonds which are General Obligations of the Authority) are secured solely 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; and third, to secure the payment of the principal and interest on the Class III Obligations. Bonds may also be designated as General Obligations of the Authority. No Bonds or Derivative Products are presently outstanding under the Master Indenture. In addition to the 2009AA Bonds being offered as described in this Official Statement, the Authority expects to issue additional Bonds under the Master Indenture, as described in "Issuance of Additional Bonds" under this caption and "Part I – PLAN OF FINANCE – Anticipated Issuance of Market Bonds." **However, so long as the 2009AA Bonds remain Outstanding, the Authority may not issue Adjustable Rate Bonds under the Master Indenture.** *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 – Obligations of the Authority."*

Under the Master Indenture, the Trust Estate pledged to secure the Bonds and Derivative Products 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 and to the Mortgage Loans and the MBS described in "The Mortgage Loans and the Mortgage-Backed Securities" 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. The 2009AA Bonds are not designated as General Obligations.**

## Revenues

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

(a) all Mortgage Repayments, which include, with respect to any Mortgage Loan or the related MBS, the amounts received by or for the account of the Authority as scheduled payments of the principal of or interest (if any) on such Mortgage Loan or related MBS 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;

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

(c) Prepayments, which include any moneys received or recovered by or for the account of the Authority from any payment of or with respect to principal on any Mortgage Loan or MBS prior to the scheduled payments of principal called for by such Mortgage Loan or MBS, 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 or MBS 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 or MBS by the Authority or by any other proceedings taken by the Authority;

(d) all amounts earned on investments (other than Mortgage Loans and MBS) 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) revenues received with respect to a Derivative Product; and

(f) all other payments and receipts received by the Authority with respect to Mortgage Loans and MBS (other than 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.

### **The Mortgage Loans and the Mortgage-Backed Securities**

#### *Generally*

The Trust Estate pledged under the Master Indenture to secure Obligations issued thereunder includes the right, title and interest of the Authority in the MBS and/or Mortgage Loans. Under the Master Indenture, "**MBS**" means collectively, the Ginnie Mae Certificates, the Fannie Mae Certificates and the Freddie Mac Certificates. See "Mortgage-Backed Securities" under this caption. "**Mortgage Loan**" means a permanent loan secured by a Mortgage for the purchase and/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-Backed Securities*

The Authority expects to use a portion of the amounts on deposit in the Series 2009AA subaccount of the Acquisition Account to acquire Ginnie Mae Certificates. A "**Ginnie Mae Certificate**" is a mortgage backed security (which may be issued under either the GNMA I Program or the GNMA II Program) bearing interest at a Pass-Through Rate, issued by the Authority registered in the name of the Trustee and guaranteed as to timely payment of principal and interest by GNMA pursuant to Section 306(g) of Title III of the National Housing Act of 1934 and the regulations promulgated thereunder backed by FHA Insured Mortgage Loans or VA Guaranteed Mortgage Loans. Such amounts may also be used to acquire Fannie Mae Certificates and Freddie Mac Certificates. A "**Fannie Mae Certificate**" is a single pool, guaranteed mortgage, pass-through certificate, issued by Fannie Mae, guaranteed as to timely payment of interest and principal by Fannie Mae and backed by Conventional Mortgage Loans. A "**Freddie Mac Certificate**" is a mortgage participation certificate issued by Freddie Mac and representing an undivided interest in a pool of Conventional Mortgage Loans identified by a particular alpha numeric number and CUSIP number, guaranteed as to timely payment of principal and interest by Freddie Mac.

The MBS will bear interest at Pass-Through Rates, and mature no later than dates, established at the time of the Release Date(s), which rates and dates shall be consistent with the then current Cash Flow Statement. For a description of the GNMA Mortgage-Backed Certificates Program, the Fannie Mae Mortgage-Backed Securities Program and the Freddie Mac Mortgage-Backed Securities Program, see **Appendix G** to this Official Statement.

### *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 by the Authority or 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 or refinance of a single-family, owner-occupied dwelling located within the State that qualifies for financing or refinancing 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 or for closing cost assistance in connection with the financing or refinancing of a mortgage loan. See "Part II – THE SINGLE-FAMILY MORTGAGE PROGRAM – Reservation, Delivery and Acquisition 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 and/or Freddie-Mac-approved sellers, RHS-approved mortgagees, national banking associations, credit unions, 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 must be serviced by a participating lender until it is purchased by the Authority, at which time the servicing is transferred to the Authority. If the Authority purchases a Mortgage Loan before the first payment on such loan is due, then the Authority will be the initial servicer rather than the participating lender. 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 Derivative Products 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," and **Appendix A** – "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – Program Fund; 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" under this caption. Any Additional Mortgage Loans so acquired must meet the requirements required by the Series Indenture relating to such additional Bonds.

### **Issuance of Additional Bonds**

No Bonds are outstanding under the Master Indenture. The 2009AA Bonds will be the initial Series of Bonds issued thereunder. However, the Master Indenture permits the Authority to issue additional Bonds thereunder from time to time, without limitation as to amount, secured on an equal lien with the outstanding Bonds 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 expects to issue additional Bonds, including the Market Bonds, in the future under the Master Indenture. See "Part I – PLAN OF FINANCE – Anticipated Issuance of Market Bonds."

### **Debt Service Reserve Fund**

The Debt Service Reserve Fund Requirement for each Series of Bonds is established by the Related Series Indenture. **There is no Debt Service Reserve Fund Requirement for the 2009AA Bonds.** Upon the issuance of any Series of Bonds in the future, the Debt Service Reserve Fund Requirement for such Bonds (if any) 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 – 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 and Credit Enhancement Facilities**

No Liquidity Facilities or Credit Enhancement Facilities have been entered by the Authority in connection with Bonds under the Master Indenture. However, the Authority may in the future enter into any Liquidity Facility it deems necessary or desirable with respect to any Adjustable Rate Bonds issued under the Master Indenture subject to the requirements of the Master Indenture which include a requirement that the Authority shall not issue Adjustable Rate Bonds under the Master Indenture so long as the 2009AA Bonds are Outstanding.

## **Derivative Products**

No Derivative Products have been entered by the Authority in connection with the issuance of Bonds under the Master Indenture. However, the Authority may enter into any Derivative Product it deems necessary or desirable with respect to any Adjustable Rate Bonds under the Master Indenture subject to the requirements of the Master Indenture which include a requirement that the Authority shall not issue Adjustable Rate Bonds under the Master Indenture so long as the 2009AA Bonds are Outstanding.

## **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 OBLIGATIONS – Pledge of Trust Estate." There is no assurance that the Mortgage Loans and/or MBS 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 Obligations under the Master Indenture when due. See **Appendix A** – "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – Revenue Fund." Additional Bonds, Derivative Products and Liquidity Facilities 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 Issuance of Market Bonds**

Under the Series 2009AA Indenture, the Authority agrees to issue Market Bonds at certain levels and within the structuring limitations set forth in the Series 2009AA Indenture. While the Authority expects to be able to issue Market Bonds in an amount necessary to satisfy the Market Bond Ratio Requirement, there is no certainty that market conditions will permit such issuance. See, *e.g.*, "Part II – COLORADO HOUSING AND FINANCE AUTHORITY – Colorado Ballot Initiative Process." In the event that all or any portion of such Market Bonds cannot be issued prior to December 31, 2010, amounts which remain in the Escrow Fund will be used to redeem the related 2009AA Bonds. See "Part I – TERMS OF THE 2009AA BONDS – Prior Redemption."

### **Special Considerations Relative to Mortgage Loans and MBS**

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 acquiring, Mortgage Loans or MBS 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; Mortgage-Backed Securities." The Authority has taken reservations for mortgage loans which may, if closed, be acquired using proceeds of Bonds deposited to 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 the 2009AA 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 2009AA Bonds 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 2009AA BONDS – PRIOR REDEMPTION" FOR A DESCRIPTION OF THE PROVISIONS SPECIFICALLY APPLICABLE TO THE 2009AA BONDS. THE TIME OR RATE OF SUCH PREPAYMENTS OR DEPOSITS CANNOT BE PREDICTED.

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

The opinion to be delivered by Bond Counsel concurrently with the Conversion of any Applicable 2009AA Bonds will assume compliance by the Authority with certain requirements of the Tax Code that must be met subsequent to such Conversion. The Authority will certify, represent and covenant to comply with such requirements. The opinion of Bond Counsel to be delivered in connection with the Bonds is described in "Part I – TAX MATTERS – Federal Tax Treatment of Interest on Post-Release 2009AA Bonds On and After the Release Date Therefor." 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.

## **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 E** – "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 with Second 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. 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.chfainfo.com](http://www.chfainfo.com)**) and through subscription Internet services regarding the changes to policies and procedures for First Mortgage Loans



under the Program. Interest rates announced to participating Mortgage Lenders 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 procedures as more fully described in "Seller's Guide" under this caption (the "**Seller's Guide**"). Participating Mortgage Lenders are expected to obtain this information from the website. The Seller's Guide describes each 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 is incorporated by reference into the Mortgage Purchase Agreement entered into between the Authority and each respective participating Mortgage Lender for eligible Mortgage Loans. See "Mortgage Purchase Agreements" under this caption.

### **Reservation, Delivery and Acquisition 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 or to have taken an application from an Applicant who intends to refinance their existing mortgage loan. The Mortgage Lender must use the Internet Reservation System to reserve funds. Prior to closing the Mortgage Loan, the Mortgage Lender may deliver to the Authority further documentation 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 the complete Mortgage Loan closing documents within specified timeframes.

In connection with any First Mortgage Loan (with the exception of Zero Interest Loans) originated by a Mortgage Lender in the Single Family Mortgage Programs, 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 acquire 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 and reimburse Mortgage Lenders for any upfront mortgage insurance premiums paid on behalf of the Authority. 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 acquisition 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 acquire 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 acquisition of such First Mortgage Loans.

## 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 had a present ownership 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 in the Non-Qualified Single Family Mortgage Program or Eligible Veterans 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, with no differentiation between new and existing residences, based on the county in which such Eligible Property is located. These limits range from \$236,800 to \$324,300. 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 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 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 average area purchase price under the safe harbor limitations calculated as provided in Revenue Procedure 2009-18. 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 November 7, 2008, 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 0.94. When new FHA loan limits pursuant to the American Recovery and Reinvestment Act of 2009, P.L. 111-5 ("**ARRA**"), are published, those numbers are to be divided by 1.03 to compute a revised average area purchase price safe harbor for a statistical area. FHA issued new loan limits under ARRA on February 24, 2009, in Mortgagee Letter 2009-07. 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.

On November 25, 2009, FHA issued Mortgagee Letter 2009-50 which provides notice of the 2010 comprehensive update to the FHA single-family loan limits, under the authority of Continuing Resolution 2010 ("**CR**") as part of the Department of Interior Environmental and Related Agencies Appropriations Act, Public Law 111-88. The loan limits described in ML-2009-50 are effective for loans with credit approval issued by the mortgagee on or after January 1, 2010 through December 31, 2010. The CR mandates that the revised FHA loan limits for 2010 are set at the higher of the loan limits established under the Economic Stimulus Act of 2008 ("**ESA**") or those loan limits otherwise established for 2010 under section 203(b), as amended by the Housing and Economic Recovery Act of 2008 ("**HERA**") which are in turn based on the national conforming loan limits (used by Fannie Mae and Freddie Mac for one-unit homes in the continental United States). HERA stipulated that the national conforming loans limits be established using a house price index chosen by the Federal Housing Finance Agent ("**FHFA**"). On November 12, 2009, the FHFA announced that the national conforming loan limit will remain at \$417,000 for calendar year 2010.

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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 Safe Harbor</u>
Eagle County	\$663,309
Lake County	663,309
Pitkin County	663,309
Routt County	663,309
San Miguel County	663,309
Summit County	663,309
Hinsdale County	448,780
Ouray County	445,122
Garfield County	439,024
Boulder County	426,829
La Plata County	402,439
Adams County	390,244
Arapahoe County	390,244
Broomfield County	390,244
Clear Creek County	390,244
Denver County	390,244
Douglas County	390,244
Elbert County	390,244
Gilpin County	390,244
Jefferson County	390,244
Park County	390,244
Gunnison County	379,268
Grand County	328,049
Archuleta County	302,439
Chaffee County	291,463
All Other Areas	287,434

Source: Internal Revenue Service Revised Revenue Procedure 2009-18, IRB 2009-9, dated March 16, 2009.

### *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 Seller's Guide. Income limits determined by the Authority may be amended by the Authority from time to time without notice to Bondowners.

### *Homebuyer Education Requirement*

Applicants for 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. Homebuyer education classes are intended to give Applicants a clearer understanding, among other

things, of their debt obligations. Applicants obtaining financing under the Authority's HomeAccess Program must attend the class prior to executing a contract with respect to the applicable property. 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. Homebuyer education is also available online on the Authority's website. The Authority requires an online financial management class in connection with all refinancing programs. See "Special Program Features – Refinancing Programs" under this caption.

### **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 as a servicing release fee and, in the case of First Mortgage Loans originated in non-metropolitan areas, an additional 50/100 of one percent (.50%) fee will be paid to Mortgage Lenders. In the case of Mortgage Loans originated in the HomeAccess Program, an additional one percent (1%) fee will be paid to Mortgage Lenders. Mortgage Lenders will also be paid one-hundred fifty dollars (\$150.00) for Second Mortgage Loans.

*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 acquisition, 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 equal to the lesser of (a) 100% of the replacement value of improvements (as established by the property insurer) or (b) the unpaid principal balance of the First Mortgage Loan plus any Second Mortgage Loan held by the Authority; provided, however, that under no circumstances may the amount of insurance be less than 80% of the replacement value of the improvements; (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**

Through its in-house servicing operations put into effect in 1997, the Authority is currently servicing its portfolios of single-family mortgage loans and intends to service all of the Mortgage Loans. The Authority has covenanted 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. The Authority believes that it is servicing Mortgage Loans in compliance with this covenant. For more information concerning the Authority, see "Part II – COLORADO HOUSING AND FINANCE AUTHORITY."

The Mortgage Purchase Agreement requires all originating Mortgage Lenders to sell to the Authority all of the loan servicing rights to the Mortgage Loans. In that connection, the Authority will in most cases retain an annual servicing fee of 30/100 of one percent (0.30%) of the outstanding balance of the First and Second Mortgage Loans (except that no servicing fee will be charged for Zero Interest Second Mortgage Loans and only a nominal administrative fee will be charged for Zero Interest First 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.

The Authority begins servicing the Mortgage Loans after they have been purchased by the Authority. The Seller's Guide also gives the Authority the right to not purchase or transfer the servicing of certain Mortgage Loans back to the Mortgage Lender if the Mortgage Loan is not purchased within the time frames established by the Authority.

### **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 E** – "INSURANCE AND GUARANTEE PROGRAMS; FORECLOSURE – FHA Insurance") for all HUD loans, and follows the loss mitigation procedures for all other loan types as applicable. These loss mitigation alternatives include an informal or formal forbearance plan (depending on the length of the repayment period), a forbearance with a partial claim (FHA-insured loans only), loan modification, a pre-foreclosure sale, or a deed in lieu of foreclosure. The Authority also refers all Mortgagors in default to loan counselors for assistance. HUD evaluates loss mitigation efforts by loan servicers on a quarterly basis, six months in arrears. HUD assigns a tier ranking of one to four, with one being the highest ranking. The Authority's most recent ranking as a loan servicer is Tier 1.

### **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 Borrowers are expected to contribute over 400 hours of "sweat equity" into the construction of the dwelling in lieu of a down payment. The annual repayment obligation of Zero Interest First Mortgage Loans will be based on 25% of the respective Borrower's gross annual household 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. However, in the event of default, the Borrower is required to substitute the defaulted Zero Interest First Mortgage Loan with a comparable performing Zero Interest First Mortgage Loan. Zero Interest First Mortgage Loans are purchased by the Authority, and they may have cash assistance or a second mortgage loan from other entities. 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. The Authority charges a small one-time, up-front administrative fee for each Zero Interest First Mortgage Loan.

#### *HomeAccess Program*

The Authority may use amounts in the Acquisition Account to acquire Mortgage Loans originated under the Authority's HomeAccess Program, which is intended to assist persons with disabilities or the parents of a disabled child to achieve homeownership. Under the HomeAccess Program, very low-income persons with disabilities or the parents of a disabled child may receive First Mortgage Loans (referred to herein as "**HomeAccess Loans**") at current market rates. A Mortgage Loan in the HomeAccess Program will be made only to a Borrower who makes a cash contribution of at least

\$750 or \$500 with automatic checking account payments and who meets certain income limits lower than those established for Borrowers of other First Mortgage Loans. The Authority may provide certain Borrowers under the HomeAccess Program with a Second Mortgage Loan for downpayment and closing cost assistance of up to \$25,000. The HomeAccess Second Mortgage Loans bear interest at an annual interest rate of 0% with repayment deferred for three-hundred sixty (360) months, then repaid at two hundred dollars (\$200) per month thereafter. Terms of the Mortgage Loans made under the HomeAccess Program may be amended from time to time and the level of such 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.

#### *SectionEight and SectionEight Plus Programs*

The Authority may use amounts in the Acquisition Account to acquire Mortgage Loans originated under the Authority's SectionEight and SectionEight Plus Programs. Under its SectionEight Program, the Authority may make 30-year Mortgage Loans to first time homebuyers that meet certain income limit requirements, for eligible property not exceeding certain purchase price limits, and subject to certain other restrictions. Persons who receive Housing Assistance Payments ("**HAP**") from Public Housing Authorities ("**PHA**") and who are approved to participate in a PHA's homeownership programs may be eligible to participate in the Authority's SectionEight and SectionEight Plus Programs. Under the SectionEight Plus Program, the Authority may make Second Mortgage Loans to eligible borrowers to finance a down payment and/or closing costs.

#### *JumpStart Tax Credit Program*

The Authority may use amounts in the Acquisition Account to acquire Mortgage Loans originated under the Authority's JumpStart Tax Credit Program. In order to give borrowers access to the First Time Homebuyer Tax Credit made available under the American Recovery and Reinvestment Act of 2009, the Authority created the JumpStart Tax Credit Program, a statewide First and Second Mortgage Loan program available to first time homebuyers. Under the JumpStart Tax Credit Program, the Authority may make First and Second Mortgage Loans to eligible borrowers that meet certain income limit requirements to purchase eligible property not exceeding certain purchase price limits, and subject to certain other restrictions. A JumpStart Tax Credit First Mortgage Loan is payable on a monthly basis over a thirty year term. Second Mortgage Loans available under the JumpStart Tax Credit Program may be used for down payments and/or closing costs. Eligible Borrowers may receive a Second Mortgage Loan in an amount of up to three and one-half percent (3.5%) of the First Mortgage Loan amount or \$6,000, whichever is less. The First Time Homebuyer Tax Credit was extended in the Worker, Homeownership and Business Assistance Act of 2009 ("**WHBAA**"). Certain borrowers who close on the purchase of a residence on or before April 30, 2010, or enter into a binding contract on or before April 30, 2010 and close on or before June 30, 2010, may be eligible for the tax credit. The Authority extended its JumpStart Tax Credit Program in accordance with the WHBAA Extension under the JumpStart2 Program. A JumpStart2 Mortgage Loan is only available in conjunction with a JumpStart2 Tax Credit First Mortgage Loan. Interest on a Second Mortgage Loan under the JumpStart2 Tax Credit Program is payable at a zero percent (0%) interest rate only until December 31, 2010, after which interest must be paid on a monthly basis over a ten year term at an annual interest rate of eight percent (8%).

#### *Second Mortgage Loans*

Proceeds of certain Bonds have in the past been used by the Authority to acquire Second Mortgage Loans made to Borrowers of First Mortgage Loans. The Authority expects in the future to offer



Second Mortgage Loans under the Single Family Mortgage Programs and to fund such Second Mortgage Loans with Bond proceeds, including such Second Mortgage Loans made to Borrowers of First Mortgage Loans as well as Second Mortgage Loans originated under the Master Indenture in connection with first mortgage loans purchased and pledged to repay certain GNMA Securities expected to be issued by the Authority. Under most programs, Second Mortgage Loans have been and will be originated for three percent (3%) of the first mortgage loan amount at a zero percent (0%) interest rate or on an interest-bearing basis, with a term of thirty (30) or forty (40) years. Generally, Second Mortgage Loans are 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, default 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 is due in month three-hundred sixty (360) or four-hundred eighty (480) (after repayment of the thirty (30) or forty (40) 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 from Bond proceeds for acquisition 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 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 levels for Second Mortgage Loans.

#### *Refinancing Programs*

Proceeds of the Bonds (or amounts exchanged therefor) provide funding for the Authority's mortgage purchase activities under the Single Family Mortgage Programs. The Authority is using, and in the future plans to use, such proceeds and exchanged amounts to fund mortgage refinancing activities. At this time, the Authority offers its Hardship Refinance Program for Eligible Borrowers who have experienced a significant life event and expects to offer a new 30-year, FHA insured, cash out refinancing program to be used for borrowers who wish to combine existing first and second mortgage loans, the proceeds of which were used to acquire an Eligible Property. Any such refinancing programs as part of the Program may 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 related Series Indenture. See "Part II – CERTAIN BONDOWNERS' RISKS – Considerations Regarding Redemption."

#### *Community Land Trust Program*

The Authority uses proceeds of Bonds to acquire First Mortgage Loans with a first lien on residences built on leased ground in connection with a Community Land Trust. The remaining term of the ground leases will not be less than the term for repayment of the Bonds secured by the First Mortgage Loans. 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 appropriate recorded documentation such as a Land Lease Rider (the "**Rider**") among the Borrower, the Authority and the Community Land Trust 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 documentation 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 documentation 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.

#### *Payment of Recapture Tax*

The Authority has established a reimbursement program for certain current and new Borrowers that may be subject to paying a recapture tax under the Internal Revenue Code (the "**Recapture Tax**"). The Internal Revenue Code mandates, under certain circumstances, a "recapture" of some of the subsidy received by a Borrower through borrowing under the Authority's tax-exempt mortgage revenue bond funded loan programs. A payment of Recapture Tax may be required if (i) the Authority financed property ceases to be the Borrower's principal residence in the first full nine years of ownership; (ii) there is a profit on the sale of the home; and (iii) the Borrower's household income increases significantly (generally more than five percent (5%) per year). Upon receipt of proof that a Borrower who was subject to a Recapture Tax actually paid to the IRS the Recapture Tax, the Authority will reimburse the Borrower the amount paid upon satisfaction of certain conditions. The reimbursement will be paid from general funds of the Authority. The Authority has evaluated the risks associated with this reimbursement program and determined that the likelihood is relatively low that a Borrower will be required to pay a Recapture Tax and that the Authority will subsequently have to reimburse such Borrower.

### **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, 2008 and 2007, included in this Official Statement as **Appendix C**, have been audited by Clifton Gunderson LLP, independent auditors, as stated in their report appearing therein, and are the most recent audited statements of the Authority available.

**COLORADO HOUSING AND FINANCE  
AUTHORITY**

  
By: /s/ Thomas E. Hemmings  
Chief Financial Officer

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## APPENDIX A

### Summary of Certain Provisions of the Indenture

The Master Indenture and the Series 2009AA Indenture, copies of which are available from the Authority and the Trustee, contain 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 Principal Amount" means as of any date of calculation, the principal amount or Accreted Value of the Bonds referred to.

"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.

"Authority Derivative Payment" means a payment (including a termination payment, if so provided in the Derivative Product) required to be made by or on behalf of the Authority due to a Reciprocal Payor pursuant to a Derivative Product.

"Authority Payment Account" means the Account so designated, which is created and established in the Debt Service Fund with respect to General Obligation Bonds by the Master Indenture.

"Authority Request" means a written request or direction of the Authority signed by an Authorized Officer.

"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.

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

"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.

"Bond Payment Date" means for each Bond, each date on which interest or a Principal Installment or both are payable on such Bond, and unless limited, means all such dates.

"Bond Purchase Fund" means the Fund so designated, which is created and established by a Series Indenture.

"Bond Registrar" means the bank, trust company or national banking association, appointed as Bond Registrar under the Master Indenture, and having the duties, responsibilities and rights provided for in the Indenture and its successor or successors, and any other person at any time substituted in its place as Bond Registrar pursuant to the 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 (or in connection with the refinance of a qualified subprime loan to the extent permitted by Section 143(k)(12) of the Code), who is a person or family of "low or moderate income" qualifying as such under the Act and the Rules and Regulations and, as applicable, 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 any Related Credit Facility Provider, Liquidity Facility Provider and Reciprocal Payor 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, a certificate prepared by or on behalf of the Authority with respect to Cash Flows setting forth, for the period extending from the date of such certificate to the latest maturity of the Bonds then outstanding, (i) all Revenues expected to be received during such period; (ii) the application of all such Revenues in accordance with the Indenture; (iii) the resulting balances on each Bond Payment Date and Derivative Product Payment Date, if any; and establishing under all scenarios included in the Cash Flows, that anticipated Revenues will be at least sufficient to pay the principal of and interest on the Obligations when due and all Program Expenses payable under the Indenture when due. Each Cash Flow Statement shall be accompanied by all supporting Cash Flows. 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 other Series to which it has been linked for Cash Flow Statement purposes.

"Cash Flows" means cash flow schedules prepared by or on behalf of the Authority, presented in sufficient detail acceptable to the Rating Agencies and including a listing of all assumptions and scenarios used in the preparation of such cash flow schedules. The assumptions used and scenarios included shall be acceptable to the Rating Agencies.

"Class I Asset Requirement," with respect to a Series of Bonds, shall have the meaning (if any) set forth in the Related Series Indenture.

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

"Class I Debt Service Fund" means the Fund so designated, which is created and established by the Master Indenture.

"Class I Obligations" means the Class I Bonds and any Derivative Product the priority of payment of which is equal with that of Class I Bonds.

"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 I Special Redemption Account" means the Account so designated, which is created and established in the Redemption Fund by the Master Indenture.

"Class II Asset Requirement," with respect to a Series of Bonds, shall have the meaning set forth in the Related Series Indenture.

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

"Class II Debt Service Fund" means the Fund so designated, which is created and established by the Master Indenture."

"Class II Obligations" means the Class II Bonds and any Derivative Product the priority of payment of which is equal with that of Class II Bonds.

"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 II Special Redemption Account" means the Account so designated, which is created and established in the Redemption Fund by the Master Indenture."

"Class III Asset Requirement," with respect to a Series of Bonds, shall have the meaning set forth in the Related Series Indenture.

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

"Class III Debt Service Fund" means the Fund so designated, which is created and established by the Master Indenture.

"Class III Obligations" means the Class III Bonds and any Derivative Product the priority of payment of which is equal with that of Class III Bonds.

"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 III Special Redemption Account" means the Account so designated, which is created and established in the Redemption Fund by the Master Indenture.

"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.

"Confirmation" means a letter from each Rating Agency then rating a Series confirming that, without regard to any Credit Enhancement Facility, the action proposed to be taken by the Authority will not, in and of itself, result in a lowering, suspension or withdrawal of the ratings then applicable to the Bonds.

"Conventional Mortgage Loan" means a Mortgage Loan, other than an FHA Insured Mortgage Loan, a VA Mortgage Loan or other Mortgage Loan insured or guaranteed by a Governmental Insurer, which meets the requirements of Fannie Mae or Freddie Mac, as applicable.

"Cost of Issuance Account" means the Account so designated, which is created and established within the Program Fund by the Master Indenture.

"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, and Derivative Products or otherwise pursuant to the Indenture, which costs and items of expense shall include, but not be limited to, underwriters' compensation, initial fees and expenses due to any Credit Facility Provider or Liquidity Facility Provider, 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.

"Credit Enhancement Facility" means an insurance policy insuring, or a letter of credit, surety bond or other financial instrument providing a direct or indirect source of funds for, the timely payment of principal of and interest on the Bonds of a Series or portion thereof (but not necessarily principal due



upon acceleration thereof under the Master Indenture) and any related insurance or other agreement, as shall be designated pursuant to a Series Indenture with respect to such Series.

"Credit Facility Provider" means a commercial bank or other Person providing a Credit Enhancement Facility pursuant to any Series Indenture with respect to a Series.

"Debt Service Payment" means, when used with respect to any Bond Payment Date, the sum of the (a) interest, if any, and (b) Principal Installments, if any, due and payable on such date with respect to the Bonds 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, MBS or Investment Securities held under the provisions of the Indenture, and its successor or successors.

"Derivative Payment Date" means, with respect to a Derivative Product, any date specified in the Derivative Product on which both or either of the Authority Derivative Payment and/or a Reciprocal Payment is due and payable under the Derivative Product.

"Derivative Product" means a written contract or agreement between the Authority and a Reciprocal Payor, which provides that the Authority's obligations thereunder will be conditioned on the absence of (i) a failure by the Reciprocal Payor to make any payment required thereunder when due and payable, or (ii) a default thereunder with respect to the financial status of the Reciprocal Payor; and:

(i) under which the Authority is obligated to pay (whether on a net payment basis or otherwise) on one or more scheduled and specified Derivative Product Payment Dates, the Authority Derivative Payments in exchange for the Reciprocal Payor's obligations to pay (whether on a net payment basis or otherwise), or to cause to be paid, to the Authority, Reciprocal Payments on one or more scheduled and specified Derivative Product Payment Dates in the amounts set forth in the Derivative Product;

(ii) for which the Authority's obligations to make Authority Derivative Payments may be secured by a pledge of an lien on the Trust Estate on an equal and ratable basis with the Outstanding Class I Bonds, Class II Bonds or Class III Bonds, as the case may be; and

(iii) under which the Reciprocal Payments are to be made directly to the Trustee for deposit into the Revenue Fund.

"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.

"Event of Default" means any of those events defined as Events of Default in the Master Indenture.

"Excess Earnings" means, with respect to Mortgage Loans and MBS 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.

"Excess Earnings Fund" means the Fund so designated, which is created and established under the Master Indenture.

"Fannie Mae" means Fannie Mae, a corporation organized and existing under the Federal National Mortgage Association Charter Act, 12 U.S.C. Section 1716 *et seq.*, and its successors and assigns.

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

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

"FHA" means the Federal Housing Administration and any agency or instrumentality of the United States of America succeeding to the mortgage industry functions thereof.

"FHA Insured Mortgage Loan" means a Mortgage Loan insured by FHA.

"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.

"Freddie Mac" means the Federal Home Loan Mortgage Corporation or any successor thereto.

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

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

"Fund" or "Funds" means one or more of the special trust funds created and established pursuant to the Master Indenture or Series Indenture.

"General Obligation Bond" means a Bond for the payment of which the Authority pledges its full faith and credit, subject only to the provisions of any agreements with the owners of particular notes or bonds pledging any particular revenues or assets to the payment thereof.

"Ginnie Mae" means the Government National Mortgage Association, a wholly-owned corporate instrumentality of the United States within the Department of Housing and Urban Development or any successor to its functions.

"Ginnie Mae Certificate" means a fully modified, mortgage backed security (which may be issued under either the GNMA I Program or the GNMA II Program) bearing interest at the Pass-Through Rate, issued by the Authority, registered in the name of the Trustee and guaranteed as to timely payment of principal and interest by Ginnie Mae pursuant to Section 306(g) of Title III of the National Housing Act of 1934 and the regulations promulgated thereunder backed by FHA Insured Mortgage Loans, VA Guaranteed Mortgage Loans or other Mortgage Loans insured or guaranteed by an eligible Governmental Insurer, which will mature not later than the date set forth in the applicable Series Indenture.

"Ginnie Mae Certificate Purchase Price" means the percentage of the principal balance of the applicable pool of Mortgage Loans on record at Ginnie Mae on the first day of the month of purchase, as set forth in the applicable Series Indenture.

"Ginnie Mae Guaranty Agreement" means one or more guaranty agreements in the form set forth in the Ginnie Mae Guide between the Authority and Ginnie Mae now or hereafter in effect pursuant to which Ginnie Mae has agreed or will agree to guarantee Ginnie Mae Certificates backed by Mortgage Loans.

"Ginnie Mae Guide" means the Ginnie Mae Mortgage Backed Securities Guide Section 5500.3, as amended from time to time.

"Governmental Insurer" means FHA, VA, the U.S. Department of Housing and Urban Development, the Rural Housing Service (formerly, the Rural Housing and Community Development Service, the successor to the Farmers Home Administration), and any other governmental agency which insures or guarantees mortgage loans that can be backed by a Ginnie Mae Certificate.

"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.

"Indexing Agent" means Municipal Market Data, Boston Massachusetts, a Thompson Financial Services Company, or its successor.

"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 Reserve Account" means the Account so designated, which is created and established within the Debt Service Reserve Fund by the Master Indenture.

"Investment Agreement" means any investment agreement provided by an Investment Provider, which agreement, as of the date of execution thereof, shall have no adverse impact on the rating assigned to any Bonds by any Rating Agency.

"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), which Investment Provider shall be approved by the Agency for the purpose of providing investment agreements.

"Investment Revenues" means amounts earned on investments (other than Mortgage Loans and MBS) 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; Freddie Mac (including participation MBS only if they guarantee timely payment of principal and interest); Ginnie Mae (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 MBS) 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) Any Investment Agreement;

(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 commercial bank or other Person providing a Liquidity Facility pursuant to any Series Indenture with respect to a Series.

"Loan Recycling Account" means the Account so designated, which is created and established in the Program Fund by the Master Indenture.

"Mortgage" means a mortgage, deed of trust or other instrument creating a valid lien on real property within the State and improvements constructed or to be constructed thereon or on a leasehold under a lease of such real property 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 (or for the refinance of a qualified subprime loan to the extent permitted by Section 143(k)(12) of the Code) 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 or the related MBS, the amounts received by or for the account of the Authority as scheduled payments of principal and interest (if any) on such Mortgage Loan or related MBS 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 Revenues received with respect to a Derivative Product.

"MSRB" means the Municipal Securities Rulemaking Board. As of the date hereof, the MSRB's required method of filing is electronically via its Electronic Municipal Market Access (EMMA) system available on the Internet at <http://www.emma.msrb.org>.

"Obligations" means, collectively, the Class I Obligations, the Class II Obligations and the Class III Obligations.

"Outstanding" means, when used with respect to a Derivative Product, means a Derivative Product which has not expired, been terminated or been deemed paid in accordance with the provisions of the Master Indenture, and when used with reference to any 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.

"Owner" means (i) with respect to a Bond, the registered owner of such Bond, and (ii) with respect to a Derivative Product, any Reciprocal Payor, unless the context otherwise requires.

"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.

"Pass-Through Rate" means the rate of interest on an MBS equal to the rate set forth in the applicable Series Indenture.

"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 or MBS, but excluding any Servicing Fees with respect to the collection of such moneys) on any Mortgage Loan or MBS prior to the scheduled payments of principal called for by such Mortgage Loan or MBS, 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 or MBS 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 or MBS by the Authority or by any other proceedings taken by the Authority.

"Principal Installment" means, as of any date of calculation, and for any Bond 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 and Class III Sinking Fund Installments due and payable on such date.

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

"Program Expenses" means all the Authority's expenses of administering its activities under the Indenture and the Act. Such expenses may include, without limiting the generality of the foregoing, (i) Fiduciary Expenses, (ii) the fees and expenses of any auction agent, market agent and any broker-dealer then acting under a Series Indenture with respect to auction rate Bonds, (iii) the fees and expenses of any calculation agent then acting under a Series Indenture with respect to index-based bonds, (iv) the costs of any remarketing of any Bonds, including the fees and expenses of any remarketing agent then acting under a Series Indenture with respect to such Bonds, (v) the fees and expenses due to any Credit Facility Provider or any Liquidity Facility Provider with respect to any Bonds for which any Credit Enhancement Facility or a Liquidity Facility is in place, (vi) the fees and expenses of the Authority incurred in connection with the preparation of legal opinions and other authorized reports or statements attributable to the Bonds (vii) fees and expenses associated with the delivery of a substitute Credit Enhancement Facility or Liquidity Facility under a Series Indenture (viii) fees and expenses associated with the monitoring of the Bonds, the Mortgage Loans and the MBS by the Rating Agencies, (ix) fees and expenses associated with (but not payments under) Derivative Products, (x) Costs of Issuance not paid from proceeds of Bonds, and (xi) salaries, supplies, utilities, labor, materials, office rent, maintenance, furnishings, equipment, machinery and apparatus, including information processing equipment, telephone, software, insurance premiums, legal, accounting, management, consulting and banking services and expenses, travel and other operating costs of the Authority, payments to pension, retirement, dental, health and hospitalization and life and disability insurance benefits, and any other employee benefits; and any other expenses required or permitted to be paid by the Authority, all to the extent properly allocable to a financing under the Indenture.

"Program Fund" means the Fund so designated, which is created and established under the Master Indenture.

"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, to the extent any such rating agency has been requested in writing by the Authority (which request has not been withdrawn in writing by the Authority) to issue a rating on any of the Bonds and such rating service has issued and continues to apply a rating on such Bonds at the time in question. The Authority shall at all times have designated at least one such service as a Rating Agency under the Indenture.

"Rebate Fund" means the Fund so designated, which is created and established by the Master 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.

"Reciprocal Payments" means any payment to be made to, or for the benefit of, the Authority under a Derivative Product.

"Reciprocal Payor" means a third party which, at the time of entering into a Derivative Product, shall have no adverse impact on the rating assigned to any Bonds by any Rating Agency, and which is obligated to make Reciprocal Payments under a Derivative Product.

"Record Date" means, except as otherwise provided in a Series Indenture (i) with respect to each Bond 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 Bond 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 Bond 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 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), MBS (or portion thereof), 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 and, as applicable, 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) revenues received with respect to a Derivative Product, and (d) all other payments and receipts received by the Authority with respect to Mortgage Loans and MBS, 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 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" means a Mortgage constituting a second lien on real property.

"Second Mortgage Loan" means a Mortgage Loan secured by a Second Mortgage.

"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.

"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, in each case not in excess of the amount assumed in the most recently filed Cash Flow Statement.

"Short Term Bond Account" means the Account so designated, which is created and established in the Program Fund by the Master Indenture.

"Short-Term Bonds" means bonds or notes of the Authority either scheduled to mature in their entirety or be subject to mandatory tender within three years of the date of issuance thereof, the proceeds of which are not immediately available for the purchase of Mortgage Loans or MBS.

"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.

"VA" means the Veterans Administration, an agency of the United States, or any successors to its functions.

"VA Mortgage Loan" means a Mortgage Loan guaranteed by VA.

#### **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 Redemption Fund, consisting of:
  - (i) the Class I Special Redemption Account;
  - (ii) the Class II Special Redemption Account; and
  - (iii) the Class III Special Redemption Account
- (h) the Rebate Fund; and
- (i) 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, Mortgage Loans and MBS (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, Mortgage Loans and MBS 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, Mortgage Loans and MBS 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, Mortgage Loans and/or MBS (or portions thereof or interests therein) among subaccounts Related to each Series as requested. Mortgage Loans and MBS (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 and MBS (or portions thereof or interests therein) are being reallocated, if such Mortgage Loans (or Mortgage Loans Related to such MBS) 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 and MBS 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 or to acquire MBS in accordance with the provisions of the Indenture; provided, however, that such Mortgage Loans (or Mortgage Loans Related to such MBS) must satisfy the terms and conditions set forth in the Master Indenture and applicable provisions of the Related Series Indenture. In accordance with Section 143 of the Code, and unless otherwise approved by an opinion of

Bond Counsel, certain amounts, if any, designated by each Series Indenture shall be made available solely for the purchase of Mortgage Loans on Targeted Area Residences for a period of at least one year after the date on which the proceeds of the related Series of Tax-exempt Bonds are first made available for the purchase by the Authority of Mortgage Loans on Targeted Residences. In furtherance of such purpose, the Authority shall reserve from the amounts deposited in the Related subaccount of the Acquisition Account an aggregate amount equal to the foregoing requirement. The Authority, acting upon the advice of Bond Counsel, will take all reasonable steps necessary, including the preparation, distribution and publication of advertisements and the organization of informational meetings with appropriate community groups, to cause the amount reserved pursuant to the preceding sentence to be utilized for such purpose.

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. The Trustee shall withdraw moneys from the Acquisition Account for the acquisition of MBS pursuant to the Master Indenture upon receipt of an Authority Request. The purchase price of each Ginnie Mae Certificate shall be the Ginnie Mae Certificate Purchase Price, the purchase price of each Fannie Mae Certificate shall be the Fannie Mae Certificate Purchase Price and the purchase price of each Freddie Mac Certificate shall be the Freddie Mac Certificate Purchase Price. If the Trustee receives an interest payment on an MBS representing interest accrued prior to the date such MBS was purchased by the Trustee with amounts on deposit in the Acquisition Account, the Trustee shall remit such amount to the Authority when received. The Trustee shall not disburse moneys from the Acquisition Account for the acquisition of an MBS unless (i) such MBS shall be acquired in accordance with the Master Indenture, (ii) such MBS will bear interest at the applicable Pass-Through Rate and (iii) the MBS will be held by the Trustee as described in the Master Indenture. Any moneys deposited in the Acquisition Account that the Authority certifies from time to time will not be used to purchase Mortgage Loans or MBS 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 remain Outstanding, upon receipt of an Authority Request to withdraw all or any portion of the Related moneys, investments, Mortgage Loans and/or MBS from the Related Funds, Accounts and subaccounts, the Trustee shall make such withdrawal and shall transfer such moneys, investments, Mortgage Loans and/or MBS, 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 or an MBS 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, MBS, Mortgage Repayments and Prepayments, and moneys in any Fund or Account, shall be interpreted and applied to relate such Mortgage Loan, MBS, Mortgage Repayments, Prepayments and moneys to each Series furnishing proceeds for such Mortgage Loan or MBS 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 or MBS.

The Ginnie Mae Certificate acquired by the Trustee shall be held at all times by the Trustee in trust for the benefit of the Owners and shall be registered in the name of the Trustee or its nominee or held in book entry form as described in this subsection. Ginnie Mae Certificates may be acquired in the form of Participants Trust Co. ("PTC") book entry interests, provided that:

(A) if Ginnie Mae Certificates are acquired in book entry form, the Trustee shall receive confirmation from a PTC participant acting as agent or custodian for the Trustee that PTC has made appropriate entries in its records of the issuance of such book entry Ginnie Mae Certificates to the account of a PTC participant acting as agent or custodian for the Trustee;

(B) before accepting Ginnie Mae Certificates in physical form or in book entry form, the Trustee shall, upon payment for the Ginnie Mae Certificates, acquire an ownership interest, as Trustee, of the Ginnie Mae Certificates free and clear of any PTC clearing liens;

(C) the Trustee shall deliver to PTC an irrevocable instruction to the effect that all fees arising in connection with the transfer are to be charged to another account maintained by PTC; and

(D) PTC delivers to the Trustee a certificate to the effect that, based on the instruction regarding payment of its fees, PTC will not charge the Trustee for so long as the instruction remains in effect. The certificate may make exceptions (as provided in the amended PTC rules) to charge the Trustee for the recovery of securities or cash credited to the Trustee by mistake and to secure and repay any advance of principal and interest made by PTC.

In lieu of compliance with the requirements of paragraphs (C) and (D) above, the Authority may provide other evidence acceptable to a Rating Agency that PTC will not exercise rights of setoff against the Revenues for its fees and charges.

The Fannie Mae Certificates acquired by the Trustee shall be held at all times by the Trustee or its nominee in trust for the benefit of the Owners and shall be held in book entry form as described in this subsection. A Fannie Mae Certificate will be issued in book entry form through a book entry system of the Federal Reserve System and transferred to the Trustee. If the Trustee does not receive payment or advice from the depository of payment with respect to a Fannie Mae Certificate when due by the close of business on the twenty-fifth day of any month (or the next business day if the twenty-fifth day is not a business day), the Trustee shall demand by telephone payment from Fannie Mae in immediately available funds in connection with the guaranty of timely payments of principal and interest by Fannie Mae in accordance with the terms of the Fannie Mae Certificates.

The Freddie Mac Certificates acquired by the Trustee shall be held at all times by the Trustee or its nominee in trust for the benefit of the Owners and shall be held in book entry form as described in this subsection. A Freddie Mac Certificate will be issued in book entry form through a book entry system of the Federal Reserve System and transferred to the Trustee. If the Trustee does not receive payment or advice from the depository of payment with respect to a Freddie Mac Certificate when due by the close of business on the twenty-fifth day of any month (or the next business day if the twenty-fifth day is not a business day), the Trustee shall demand by telephone payment from Freddie Mac in immediately available funds in connection with the guaranty of timely payments of principal and interest by Freddie Mac in accordance with the terms of the Freddie Mac Certificates.

## **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 Related Costs of Issuance shall be transferred by the Trustee to the Authority or to the Related subaccount in the Acquisition Account upon receipt by the Trustee of an Authority Certificate stating that such moneys are no longer needed for the payment of Costs of Issuance, whereupon such subaccount of the Cost of Issuance Account shall be closed.

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 and MBS (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 and Class III Asset Requirement, as applicable, will be met, and (c) Confirmation, except to the extent a previous Cash Flow Statement, Authority Certificate and Confirmation shall apply to such transfer and the Mortgage Loans to be made and/or MBS to be acquired 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 (directly, or through the acquisition of MBS) 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 or acquisition of MBS 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 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 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 Bond Payment Date or Derivative Product 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 Bond Payment Date or Derivative Product Payment Date upon all Class I Bonds of the Related Series then Outstanding and any Authority Derivative Payment secured on a parity with the Class I Bonds and unpaid as of such date; 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 Bond 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 Bond Payment Date to and including the next Bond 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 following Bond 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 (if any) of the Related Series of Bonds will be met on such Bond 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 Bond Payment Date or Derivative Product Payment Date upon all Class II Bonds of the Related Series then Outstanding and any Authority Derivative Payment secured on a parity with the Class II Bonds and unpaid as of such date; 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 Bond Payment Date; provided however, that if such Bond 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 Bond Payment Date to and including the next Bond 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 Bond 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 Bond 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 Bond Payment Date or Derivative Product Payment Date upon all Class III Bonds of the Related Series then Outstanding and any Authority Derivative Payment secured on a parity with the Class III Bonds and unpaid as of such date; 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 Bond Payment Date; provided however, that if such Bond 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 Bond Payment Date to and including the next Bond 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 Bond 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 Bond Payment Date and giving effect to such transfer;

(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 Bond 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); and

(U) Upon Authority Request, to the Related subaccount of the Loan Recycling Account, in order to finance or refinance Mortgage Loans (directly or through the acquisition of MBS), 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 Bond Payment Dates or Derivative Product 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 Bond 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 Indenture or shall be retained in the Revenue Fund or transferred and allocated as set forth in an Authority Request, subject in each case to any limitations or requirements specified 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 Bond 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 and the Class III 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 Bond 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 or Class III 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 and Class III Bonds on such Bond Payment Date.

In the event Bonds are to be redeemed on a date other than a Bond 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 or the Class III Debt Service Fund to pay accrued interest on such redemption date for such Class I Bonds, Class II Bonds and Class III 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 Bond Payment Date and Derivative Product Payment Date for the purpose of paying the interest and Principal Installments on the Related Class I Bonds and any Authority Derivative Payment secured on a parity with 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), or (ii) 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 Bond 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 Bond Payment Date and shall determine the amount, if any, which will 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.

On the last Business Day prior to each Bond 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, due on Related Class I Bonds on the next succeeding Bond 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, due on Related Class I Bonds on the next succeeding Bond 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, due on Related Class II Bonds on the next succeeding Bond 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, due on Related Class II Bonds on the next succeeding Bond 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, due on Related Class III Bonds on the next succeeding Bond 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, due on Related Class III Bonds on the next succeeding Bond 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.

### **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 Bond Payment Date and Derivative Product Payment Date for the purpose of paying first the interest and then Principal Installments on the Related Class II Bonds and any Authority Derivative Payment secured on a parity with 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), or (ii) 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 Bonds 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 Bond Payment Date and Derivative Product Payment Date for the purpose of paying first the interest and then Principal Installments on the Related Class III Bonds and any Authority Derivative Payment secured on a parity with 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), or (ii) 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 Bonds 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 Certificate delivered in connection therewith, and (ii) to the extent required by such Authority Certificate, 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 or MBS 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 or MBS plus accrued interest, if any, thereon, and any unamortized premium, and any such Mortgage Loans or MBS so purchased shall be credited to such subaccount of the Excess Earnings Fund. Mortgage Loans or MBS in a subaccount of the Excess Earnings Fund may be exchanged for Mortgage Loans or MBS 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 or MBS in such subaccount of the Excess Earnings Fund, upon receipt by the Trustee of an Authority Request specifying the Mortgage Loans or MBS 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 to pay all interest 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 Obligation Bonds 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 Obligation Bonds for which such amounts are provided. Amounts in such subaccounts shall only be used to pay interest or Principal Installments due and payable on the Related General Obligation Bonds and may not be transferred to any Debt Service Fund for Bonds which are not General Obligation Bonds 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.

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 and MBS.

(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 and MBS consistent with sound lending practices and principles and applicable requirements under the Code, including the prompt collection 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 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 Owners under or with respect to all Mortgage Loans and MBS, the obligations evidencing such Mortgage Loans and the agreements securing such Mortgage Loans and MBS 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 Owners; (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 Owners 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 Loans and MBS**

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 or MBS 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, as determined in good faith by the Authority.

### **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 such stipulations as shall be necessary or advisable in connection with the stated purpose of the applicable section of the Master Indenture, and the Authority and the Trustee do 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, 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 when and as the same shall become due and payable or shall fail to make any payment due under any other Class I Obligation when and as the same shall become due and payable;
- (c) The Authority shall fail to pay any Principal Installment or interest on any Class II Bond or to make any payment due under any other Class II Obligations 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 to make any payment due under any other Class III Obligations 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 perform or observe any other covenant, agreement or condition on its part contained in the Indenture (except the requirement that the Authority pay amounts to the Trustee from its other revenues, moneys or assets in connection with General Obligation Bonds), 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
- (f) 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 a majority in Aggregate Principal Amount of Outstanding Bonds following an Event of Default described in paragraphs (a), (b), (c) or (d) of "Events of Default" above and 100% in Aggregate Principal Amount of Outstanding Bonds following an Event of Default described in paragraphs (e) or (f) of "Events of Default" above shall, give 30 days notice in writing to the Authority of its intention to declare all Outstanding Obligations 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 with respect to an Event of Default described in paragraph (e) or (f) of "Events of Default" above to the extent provided in the following paragraph) in Aggregate Principal Amount of Outstanding Bonds shall, by notice in writing to the Authority, declare all Obligations Outstanding immediately due and payable; and such Obligations shall become and be immediately due and payable, anything in the Bonds, any Derivative Product or 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 (e) or (f) 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 all Obligations 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 Outstanding Obligations 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 Obligations 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 Obligations; (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, 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 a majority 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 Owners of the Obligations under the Act, the Bonds, any Derivative Product 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 a majority 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 Owners, 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.

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 that are not General Obligation Bonds, 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 of Bonds 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 and Principal Installments then due and payable on the Class I Bonds and all Authority Derivative Payments secured on a parity with the Class I Bonds, 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 Bonds and all Authority Derivative Payments secured on a parity with the Class I Bonds 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 Bonds 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 Bonds 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 Bonds shall have become or have been declared due and payable, to the payment of the principal and interest then due and unpaid upon the Class I Bonds and all Authority Derivative Payments secured on a parity with the Class I Bonds and, if the amount available shall not be sufficient to pay in full such principal and interest and Authority Derivative Payments, then to the payment of principal and interest and Authority Derivative Payments, without any preference or priority, ratably according to the amounts due, to the Persons entitled thereto.

(iii) To the payment of the Principal Installments of and interest and other amounts then due on the Class II Bonds and all Authority Derivative Payments secured on a parity with the Class II Bonds in accordance with the provisions of subparagraph (ii) above as if such subparagraph referred to the Class II Bonds rather than the Class I Bonds.

(iv) To the payment of Principal Installments of and interest then due on the Class III Bonds and all Authority Derivative Payments secured on a parity with the Class III Bonds in accordance with the provisions of subparagraph (ii) above as if such subparagraph referred to the Class III Bonds rather than the Class I Bonds.

(v) 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 Owners of the Bonds 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 Owners of the Bonds 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 and III Obligations and Class II Obligations over Class III 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 Owners of the Bonds 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 Owners of the Bonds.

## **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 under the Indenture.

Upon the occurrence of a General Obligation Bond Default, the Trustee may and, upon the written request of the Owners of a majority 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 a majority 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 Owners of the General Obligation Bonds 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 Owners of the General Obligation Bonds 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 a majority 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 Owners 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 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 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 Owners 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 Owens 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 and MBS; (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) provided the Authority has first obtained a Confirmation, to make the terms and provisions of the Indenture, including the lien and security interest granted herein, applicable to a Derivative Product, and to modify the applicable section of the Master Indenture with respect to any particular Derivative Product; (j) provided the Authority has first obtained a Confirmation, to amend the Indenture to allow for any Bonds to be supported by a Credit Enhancement Facility or Liquidity Facility, including amendments with respect to repayment to such a provider on a parity with any Bonds or Derivative Product and providing rights to such provider under the Indenture, including with respect to defaults and remedies; (k) 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 (l) 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 Owners of Bonds, 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 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 Owners of the Bonds.

### **Discharge of Indenture in Entirety; Defeasance**

If the Authority shall pay or cause to be paid, or there shall otherwise be paid, (i) to the Owners 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, (ii) to each Reciprocal Payor, all Authority Derivative Payments then due, and (iii) to each Credit Facility Provider, any and all amounts due and owing pursuant to any Credit Enhancement Facility, 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 Owners, 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, and to each Reciprocal Payor all Reciprocal Payments then due, at the times and in the manner stipulated therein and in this Master Indenture and in the Derivative Product, such Bonds and each Reciprocal Payor 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 and to each Reciprocal Payor 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 Owners 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.

Any Authority Derivative Payments are deemed to have been paid and the applicable Derivative Product terminated when payment of all Authority Derivative Payments due and payable to each Reciprocal Payor under its respective Derivative Product have been made or duly provided for to the satisfaction of each Reciprocal Payor and the respective Derivative Product has been terminated.

## APPENDIX B

### Form of 2009AA Bond Counsel Opinion

January 12, 2010

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

Colorado Housing and Finance Authority  
Taxable Single Family Program Class I Bonds  
Convertible Series 2009AA

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 Program Class I Bonds, Convertible Series 2009AA (the "Taxable 2009AA Bonds") in the aggregate principal amount of \$275,210,000. 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 Taxable 2009AA Bonds are authorized and issued pursuant to the Master Indenture of Trust dated as of December 1, 2009 (the "Master Indenture"), as supplemented by the Series 2009AA Indenture dated as of December 1, 2009 (the "2009AA 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 Authority's 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 Taxable 2009AA 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 Taxable 2009AA Bonds is included from gross income for federal income tax purposes.

4. The Taxable 2009AA Bonds, their transfer 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 Taxable 2009AA 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.

The provisions of this opinion letter concerning federal tax issues were 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.

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 offer or sale of the Taxable 2009AA Bonds or upon any federal or state tax consequences arising from the receipt or accrual of interest on or the ownership or disposition of the Taxable 2009AA 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,

**APPENDIX C**

**Financial Statements for the Years  
ended December 31, 2008 and 2007  
and Independent Auditor's Report**

## Independent Auditor's Report

Board of Directors  
Colorado Housing and Finance Authority  
Denver, Colorado

We have audited the accompanying financial statements of the business-type activities and each major fund of Colorado Housing and Finance Authority as of and for the year ended December 31, 2008, which collectively comprise Colorado Housing and Finance Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Colorado Housing and Finance Authority's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year summarized comparative information has been derived from Colorado Housing and Finance Authority's December 31, 2007 basic financial statements and, in our report dated March 27, 2008, we expressed unqualified opinions on the basic financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of Colorado Housing and Finance Authority as of December 31, 2008, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 23, 2009 on our consideration of Colorado Housing and Finance Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 4 through 8 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The introductory section listed in the table of contents has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

*Clifton Henderson LLP*

Greenwood Village, Colorado  
April 23, 2009

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, 2008. This analysis should be read in conjunction with the Authority’s financial statements and accompanying notes.

## Financial Highlights

- Net assets as of December 31, 2008, were \$295.7 million, an increase of \$13.3 million, or 4.7%, compared to net assets of \$282.4 million as of December 31, 2007, increasing the Authority’s capital position. Net assets as a percent of total assets decreased slightly from 7.85% as of December 31, 2007, to 7.28% as of December 31, 2008.
- As reflected in the Statement of Revenues, Expenses and Changes in Net Assets, the increase in net assets of \$13.3 million for 2008 represents an \$8.0 million, or 37.6%, decrease compared to the increase in net assets for 2007 of \$21.3 million. This \$8.0 million decrease was primarily due to a \$13.0 million decrease in net interest income due to increased interest on debt, and a \$4.0 million increase in provision for loan and other real estate losses in 2008 compared to 2007. Partially offsetting these items was a \$6.5 million increase during 2008 in the fair value of investments and a \$3.8 million gain on retirement of debt in other revenue. Profitability, as measured by return on average net assets, was 4.60% in 2008 compared to 7.85% in 2007.
- Total net loans receivable as of December 31, 2008, were \$3.2 billion, an increase of \$323.0 million, or 11.2%, compared to the amount outstanding as of December 31, 2007.
- The increase in loans receivable was funded primarily by an increase in debt. As of December 31, 2008, total debt outstanding was \$3.7 billion, an increase of \$435.2 million, or 13.4%, compared to the balance at December 31, 2007.

## Overview of the Financial Statements

The basic financial statements consist of a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Net Assets, a Statement of Cash Flows and the notes thereto. 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 invested in capital assets, net of related debt, restricted or unrestricted. Net assets are restricted when their use is subject to external limits such as bond indentures, legal agreements or statutes. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

All the Authority’s current year revenues and expenses 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 resulting change in net assets - 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, noncapital financing, capital financing and



investing activities. The statement provides information regarding the sources and uses of cash and the change in the cash balance during the reporting period.

The notes to the financial statements provide additional information that is essential to a full understanding of the information provided in the financial statements. The notes follow the Statement of Cash Flows.

**Authority Funds** – The Authority’s financial statements present the activities of its three funds – the General Fund, the Single Family Fund and the Multi-Family/Business Fund. A description of each of these funds is provided in the notes to the financial statements. Interfund activity is eliminated.

## Analysis of Financial Activities

### Statement of Net Assets

The following table presents condensed information about the financial position of the Authority as of December 31, 2008, and 2007, and changes in the balances of selected items during the fiscal year ended December 31, 2008.

As of December 31, (in thousands)	2008	2007	\$ Change	% Change
<b>Assets</b>				
<b>Current assets</b>	\$ 647,157	\$ 657,622	\$ (10,465)	-1.6%
<b>Noncurrent assets:</b>				
Investments	244,075	81,313	162,762	200.2%
Loans receivable, net	3,101,117	2,788,844	312,273	11.2%
Capital assets, net	29,606	32,723	(3,117)	-9.5%
Other assets	37,804	36,483	1,321	3.6%
Total noncurrent assets	3,412,602	2,939,363	473,239	16.1%
<b>Total assets</b>	\$ 4,059,759	\$ 3,596,985	\$ 462,774	12.9%
<b>Liabilities</b>				
<b>Current liabilities</b>	\$ 252,938	\$ 137,051	\$ 115,887	84.6%
<b>Noncurrent liabilities:</b>				
Bonds and notes payable, net	3,498,847	3,165,109	333,738	10.5%
Other liabilities	12,307	12,461	(154)	-1.2%
Total noncurrent liabilities	3,511,154	3,177,570	333,584	10.5%
<b>Total liabilities</b>	3,764,092	3,314,621	449,471	13.6%
<b>Net assets:</b>				
Invested in capital assets, net of related debt	29,606	32,723	(3,117)	-9.5%
Restricted by bond indentures	144,216	124,948	19,268	15.4%
Unrestricted	121,845	124,693	(2,848)	-2.3%
Total net assets	295,667	282,364	13,303	4.7%
<b>Total liabilities and net assets</b>	\$ 4,059,759	\$ 3,596,985	\$ 462,774	12.9%

Total loans receivable increased \$323.0 million, or 11.2%, during the current year, of which the noncurrent portion of the increase was \$312.3 million. This increase is largely due to new loan purchases and originations of approximately \$545.8

million, offset by loan repayments and prepayments that resulted in total principal reductions of \$218.0 million. This growth in loans receivable was primarily funded by use of bond proceeds, discussed below, in addition to the use of proceeds from sales and maturities of short-term investments

Current liabilities increased \$115.9 million, or 84.6%, compared to 2007. This increase was primarily due to an increase of \$84.4 million in the amount borrowed under the Authority’s line of credit with the Federal Home Loan Bank. Noncurrent bonds and notes payable increased \$333.7 million, or 10.5%, compared to December 31, 2007, as a result of various new bond issues. Additional information on the Authority’s debt activities is provided under “Debt Administration”.

### Statement of Revenues, Expenses and Changes in Net Assets

The following table presents condensed statements of revenues, expenses and changes in net assets for the years ended December 31, 2008, and 2007, and the change from the prior year.

For the years ended December 31, (in thousands)	2008	2007	\$ Change	% Change
<b>Operating revenues:</b>				
Interest on loans receivable	\$ 171,953	\$ 147,573	\$ 24,380	16.5%
Investment income	26,481	27,727	(1,246)	-4.5%
Net increase in the fair value of investments	8,710	2,245	6,465	288.0%
Rental income	8,424	10,882	(2,458)	-22.6%
Other revenues	21,511	17,625	3,886	22.0%
Total operating revenues	237,079	206,052	31,027	15.1%
<b>Operating expenses:</b>				
Interest on debt	191,587	155,406	36,181	23.3%
Salaries and related benefits	14,936	14,341	595	4.1%
General operating	14,957	16,835	(1,878)	-11.2%
Other interest expense	1,187	1,588	(401)	-25.3%
Depreciation	2,684	2,722	(38)	-1.4%
Provision for losses	4,517	500	4,017	803.4%
Total operating expenses	229,868	191,392	38,476	20.1%
<b>Total operating income</b>	<b>7,211</b>	<b>14,660</b>	<b>(7,449)</b>	<b>-50.8%</b>
<b>Nonoperating revenues and expenses, net</b>	<b>6,092</b>	<b>6,659</b>	<b>(567)</b>	<b>-8.5%</b>
<b>Change in net assets</b>	<b>13,303</b>	<b>21,319</b>	<b>(8,016)</b>	<b>-37.6%</b>
<b>Net assets:</b>				
Beginning of year	282,364	261,045	21,319	8.2%
End of year	\$ 295,667	\$ 282,364	\$ 13,303	4.7%

Interest earned on loans of \$172.0 million, interest income on investments of \$26.5 million and interest expense on debt of \$191.6 million are the primary components of total revenues and expenses of the Authority.

Total operating revenues were \$237.1 million in 2008, an increase of \$31.0 million, or 15.1%, compared to 2007. Interest on loans receivable climbed \$24.4 million, or 16.5%, over the 2007 amount. This increase is primarily the result of a 13.3% increase in average loans outstanding.

Also contributing to the increase in operating revenues was a net increase in the fair value of investments of \$6.5 million in 2008 compared to an increase in fair value of \$4.7 million in 2007. This increase was due to a decline in market rates in 2008 and in 2007. In addition, loan servicing income, reflected in other revenues, increased \$1.8 million, or 18.4%, compared to 2007. The Authority services in excess of 99% of its loans receivable, for which it receives a monthly fee.

Total operating expenses of \$229.9 million for 2008 increased \$38.5 million, or 20.1%, compared to 2007. The rise was largely attributable to a \$36.2 million, or 23.3%, increase in interest expense on debt. This increase was due primarily to an increase in interest rates from 2007 to 2008.

Operating expenses also increased as a result of a provision for loan and other real estate losses of \$4.5 million in 2008 compared to a provision of \$0.5 million in 2007.

Reflected in nonoperating revenues and expenses are \$6.1 million in gains on the sales of various apartment complexes owned by the Authority, discussed in more detail below in “Capital Assets”.

### **Capital Assets**

Capital assets, net of accumulated depreciation, as of December 31, 2008, totaled \$29.6 million, a decrease of \$3.1 million, or 9.5%, compared to the amount as of December 31, 2007. The majority of this investment in capital assets is related to the Authority’s ownership of four apartment complexes that provide housing to lower and moderate income families. During 2007 the Authority sold six complexes for a total gain of \$6.7 million. In 2008, the Authority sold an additional six properties for a total gain of \$6.1 million.

The only significant additions during 2008 were the implementation of a new debt management and property management application and enhancements to a software application related to single family and multi-family origination.

Additional information regarding the Authority’s capital assets can be found in the notes to the financial statements.

### **Debt Administration**

As of December 31, 2008, the Authority had \$3.5 billion in bonds and notes payable outstanding and \$149.0 million outstanding under borrowing agreements with the Federal Home Loan Bank. This debt is secured by various assets and, in certain cases, the general obligation pledge of the Authority. The long-term ratings on the debt of the Single Family Fund and the Multi-Family/Business Fund range from A1 to Aaa by Moody’s Investors Service (Moody’s) and A+ to AAA by Standard & Poor’s (S&P), depending on the underlying collateral. The Authority issuer’s credit rating on the general obligation debt is A1/A+ by Moody’s and S&P, respectively.

In 2008 the Authority issued \$589.2 million in debt related to its lending programs. Of this amount, \$349.0 million was issued pursuant to the Authority’s single family lending program and is reflected in the Single Family Fund, \$239.8 million was for the multi-family/business lending program and is reflected in the Multi-Family/Business Fund. Partially offsetting these new debt issues were maturities of short-term debt related to the Authority’s private activity bond volume cap preservation program, scheduled debt payments, early redemptions and refundings of various debt issues.

Additional information of the Authority’s long-term and short-term debt can be found in the notes to the financial statements.

**Colorado Housing and Finance Authority**  
**Statement of Net Assets**

December 31, 2008

(with summarized financial information for December 31, 2007)

(in thousands of dollars)

	General Fund	Single Family	Multi-Family/ Business	Eliminations	2008	2007
<b>Assets</b>						
Current assets:						
Cash	\$ 28,872	\$ -	\$ 483	\$ -	\$ 29,355	\$ 30,955
Investments	103,808	240,731	134,784	-	479,323	501,063
Loans receivable	10,923	67,256	29,391	(635)	106,935	96,167
Accrued interest receivable	3,829	15,629	6,753	(196)	26,015	24,052
Deferred debt financing costs, net	17	654	193	-	864	931
Other assets	4,000	535	130	-	4,665	4,454
Due (to) from other funds	(51,468)	31,051	20,417	-	-	-
<b>Total current assets</b>	<b>99,981</b>	<b>355,856</b>	<b>192,151</b>	<b>(831)</b>	<b>647,157</b>	<b>657,622</b>
Noncurrent assets:						
Investments	4,484	175,764	63,827	-	244,075	81,313
Loans receivable, net	316,769	1,950,412	852,351	(18,415)	3,101,117	2,788,844
Capital assets - non-depreciable	6,635	-	-	-	6,635	7,016
Capital assets - depreciable, net	22,971	-	-	-	22,971	25,707
Other real estate owned, net	36	1,620	723	-	2,379	2,097
Deferred debt financing costs, net	314	11,773	3,471	-	15,558	16,767
Other assets	19,867	-	-	-	19,867	17,619
<b>Total noncurrent assets</b>	<b>371,076</b>	<b>2,139,569</b>	<b>920,372</b>	<b>(18,415)</b>	<b>3,412,602</b>	<b>2,939,363</b>
<b>Total assets</b>	<b>\$ 471,057</b>	<b>\$ 2,495,425</b>	<b>\$ 1,112,523</b>	<b>\$ (19,246)</b>	<b>\$ 4,059,759</b>	<b>\$ 3,596,985</b>
<b>Liabilities</b>						
Current liabilities:						
Short-term debt	\$ 164,985	\$ -	\$ -	\$ -	\$ 164,985	\$ 64,545
Bonds payable, current portion	182	6,908	11,304	-	18,394	13,515
Notes payable, current portion	73	-	-	-	73	3,956
Accrued interest payable	944	30,481	15,035	(196)	46,264	32,086
Federally assisted program advances	110	-	-	-	110	708
Accounts payable and other liabilities	21,929	747	436	-	23,112	22,241
<b>Total current liabilities</b>	<b>188,223</b>	<b>38,136</b>	<b>26,775</b>	<b>(196)</b>	<b>252,938</b>	<b>137,051</b>
Noncurrent liabilities:						
Bonds payable, net	102,402	2,378,020	1,017,413	-	3,497,835	3,164,023
Notes payable	20,062	-	-	(19,050)	1,012	1,086
Other liabilities	8,919	2,181	1,207	-	12,307	12,461
<b>Total noncurrent liabilities</b>	<b>131,383</b>	<b>2,380,201</b>	<b>1,018,620</b>	<b>(19,050)</b>	<b>3,511,154</b>	<b>3,177,570</b>
<b>Total liabilities</b>	<b>319,606</b>	<b>2,418,337</b>	<b>1,045,395</b>	<b>(19,246)</b>	<b>3,764,092</b>	<b>3,314,621</b>
<b>Net assets</b>						
Invested in capital assets, net of related debt	10,556	-	-	19,050	29,606	32,723
Restricted by bond indentures	-	77,088	67,128	-	144,216	124,948
Unrestricted	140,895	-	-	(19,050)	121,845	124,693
<b>Total net assets</b>	<b>151,451</b>	<b>77,088</b>	<b>67,128</b>	<b>-</b>	<b>295,667</b>	<b>282,364</b>
<b>Total liabilities and net assets</b>	<b>\$ 471,057</b>	<b>\$ 2,495,425</b>	<b>\$ 1,112,523</b>	<b>\$ (19,246)</b>	<b>\$ 4,059,759</b>	<b>\$ 3,596,985</b>

The accompanying notes are an integral part of these statements

**Colorado Housing and Finance Authority**  
**Statement of Revenues, Expenses and Changes in Net Assets**

For the year ended December 31, 2008

(with summarized financial information for the year ended December 31, 2007)

(in thousands of dollars)

	General Fund	Single Family	Multi-Family/ Business	Eliminations	2008	2007
<b>Operating revenues:</b>						
Interest on loans receivable	\$ 15,635	\$ 106,005	\$ 51,813	\$ (1,500)	\$ 171,953	\$ 147,573
Investment income	1,807	15,937	8,737	-	26,481	27,727
Net increase (decrease) in the fair value of investments	41	5,317	3,352	-	8,710	2,245
Rental income	8,424	-	-	-	8,424	10,882
Loan servicing income	11,306	-	-	-	11,306	9,547
Section 8 administration fees	4,255	-	-	-	4,255	4,561
Other revenues	2,080	3,870	-	-	5,950	3,517
<b>Total operating revenues</b>	<b>43,548</b>	<b>131,129</b>	<b>63,902</b>	<b>(1,500)</b>	<b>237,079</b>	<b>206,052</b>
<b>Operating expenses:</b>						
Interest on debt	8,990	118,313	65,784	(1,500)	191,587	155,406
Salaries and related benefits	14,936	-	-	-	14,936	14,341
General operating	14,160	519	278	-	14,957	16,835
Other interest expense	1,187	-	-	-	1,187	1,588
Depreciation	2,684	-	-	-	2,684	2,722
Provision for losses	2,985	5,372	(3,840)	-	4,517	500
<b>Total operating expenses</b>	<b>44,942</b>	<b>124,204</b>	<b>62,222</b>	<b>(1,500)</b>	<b>229,868</b>	<b>191,392</b>
<b>Total operating income (loss)</b>	<b>(1,394)</b>	<b>6,925</b>	<b>1,680</b>	<b>-</b>	<b>7,211</b>	<b>14,660</b>
<b>Nonoperating revenues and expenses:</b>						
Federal grant receipts	101,882	-	-	-	101,882	97,100
Federal grant payments	(101,882)	-	-	-	(101,882)	(97,100)
Gains on sales of capital assets	6,092	-	-	-	6,092	6,659
<b>Total nonoperating revenues, net</b>	<b>6,092</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>6,092</b>	<b>6,659</b>
<b>Income before transfers</b>	<b>4,698</b>	<b>6,925</b>	<b>1,680</b>	<b>-</b>	<b>13,303</b>	<b>21,319</b>
<b>Transfers from (to) other funds</b>	<b>(10,663)</b>	<b>(4,508)</b>	<b>15,171</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Change in net assets</b>	<b>(5,965)</b>	<b>2,417</b>	<b>16,851</b>	<b>-</b>	<b>13,303</b>	<b>21,319</b>
<b>Net assets:</b>						
Beginning of year	157,416	74,671	50,277	-	282,364	261,045
End of year	\$ 151,451	\$ 77,088	\$ 67,128	\$ -	\$ 295,667	\$ 282,364

The accompanying notes are an integral part of these statements

**Colorado Housing and Finance Authority**  
**Statement of Cash Flows**

For the year ended December 31, 2008

(with summarized financial information for the year ended December 31, 2007)

(in thousands of dollars)

	General Fund	Single Family	Multi-Family/ Business	Eliminations	2008	2007
<b>Cash flows from operating activities:</b>						
Principal payments received on loans receivable & receipts from dispositions of other real estate owned	\$ 14,257	\$ 163,900	\$ 42,328	\$ (2,458)	\$ 218,027	\$ 212,637
Interest payments received on loans receivable	15,471	104,142	51,816	(1,515)	169,914	145,874
Payments for fundings of loans receivable	(504,872)	(3,449)	(37,450)	-	(545,771)	(607,000)
Receipt (payment) for loan transfers between funds	421,469	(371,567)	(49,902)	-	-	-
Receipts from rental operations	8,431	-	-	-	8,431	10,953
Receipts from other revenues	18,324	3,820	-	-	22,144	15,632
Payments for salaries and related benefits	(15,444)	-	-	-	(15,444)	(14,048)
Payments for goods and services	(17,240)	(1,008)	(408)	-	(18,656)	(20,038)
All other, net	701	-	-	-	701	4,255
Net cash used by operating activities	(58,903)	(104,162)	6,384	(3,973)	(160,654)	(251,735)
<b>Cash flows from noncapital financing activities:</b>						
Proceeds from issuance of short-term debt	5,911,850	-	-	-	5,911,850	3,362,860
Proceeds from issuance of bonds	-	348,327	238,947	-	587,274	554,843
Proceeds from replacement of interest rate swaps	2,691	44,022	76,290	-	123,003	-
Receipts from federal grant programs	101,851	-	-	-	101,851	98,135
Payments for federal grant programs	(101,882)	-	-	-	(101,882)	(98,327)
Principal paid on short-term debt	(5,811,410)	-	-	-	(5,811,410)	(3,306,515)
Principal paid on bonds	(9,919)	(64,021)	(225,180)	-	(299,120)	(342,032)
Payments on termination of interest rate swaps	(2,234)	(16,014)	(61,202)	-	(79,450)	-
Principal paid on notes payable	(3,957)	-	-	-	(3,957)	(72)
Interest paid on short-term debt	(2,702)	-	-	-	(2,702)	(3,318)
Interest paid on bonds	(5,848)	(104,656)	(56,816)	1,187	(166,133)	(144,199)
Interest paid on notes payable	(257)	-	-	-	(257)	(12)
Transfers (to) from other funds	17,005	(17,835)	830	-	-	-
Net cash provided by noncapital financing activities	95,188	189,823	(27,131)	1,187	259,067	121,363
<b>Cash flows from capital and related financing activities:</b>						
Purchase of capital assets	(5,411)	-	-	-	(5,411)	(3,640)
Proceeds from the disposal of capital assets	11,934	-	-	-	11,934	16,002
Principal paid on capital-related debt	(2,458)	-	-	2,458	-	(849)
Interest paid on capital-related debt	(1,515)	-	-	328	(1,187)	(1,590)
Net cash provided by capital and related financing activities	2,550	-	-	2,786	5,336	9,923
<b>Cash flows from investing activities:</b>						
Proceeds from maturities and sales of investments	1,695,886	1,237,947	789,436	-	3,723,269	4,043,101
Purchase of investments	(1,738,583)	(1,338,078)	(777,688)	-	(3,854,349)	(3,945,309)
Income received from investments	1,779	14,470	9,482	-	25,731	27,247
Net cash provided (used) by investing activities	(40,918)	(85,661)	21,230	-	(105,349)	125,039
<b>Net increase (decrease) in cash</b>	(2,083)	-	483	-	(1,600)	4,590
Cash at beginning of year	30,955	-	-	-	30,955	26,365
Cash at end of year	\$ 28,872	\$ -	\$ 483	\$ -	\$ 29,355	\$ 30,955

The accompanying notes are an integral part of these statements

Continued on the next page.

## Colorado Housing and Finance Authority

### Statement of Cash Flows *(continued)*

For the year ended December 31, 2008

*(with summarized financial information for the year ended December 31, 2007)*

*(in thousands of dollars)*

	General Fund	Single Family	Multi-Family/ Business	Eliminations	2008	2007
<b>Reconciliation of operating income to net cash used by operating activities:</b>						
Operating income	\$ (1,394)	\$ 6,925	\$ 1,680	\$ -	\$ 7,211	\$ 14,660
Adjustments to reconcile operating income to net cash used by operating activities:						
Depreciation expense	2,684	-	-	-	2,684	2,722
Amortization of service release premiums	1,988	-	-	-	1,988	1,931
Amortization of deferred loan fees/costs, net	(399)	1,051	(367)	-	285	783
Provision for losses	2,985	5,372	(3,840)	-	4,517	500
Equity in income of joint venture	-	-	-	-	-	(159)
Amortization/accretion of premiums and discounts on investments, net	-	-	-	-	-	-
(Gain) loss on sale of investment	-	-	-	-	-	-
Amortization of premiums on bonds	-	-	-	-	-	-
Amortization of bond issuance costs	-	-	-	-	-	-
(Increase) decrease in fair value of investments	(41)	(5,317)	(3,352)	-	(8,710)	(2,245)
Investment income	(1,807)	(15,937)	(8,737)	-	(26,481)	(27,727)
Interest on debt	10,175	118,312	65,786	(1,500)	192,773	156,994
Changes in assets and liabilities:					-	-
Loans receivable and other real estate owned	(70,734)	(212,170)	(44,657)	(2,458)	(330,019)	(393,456)
Accrued interest receivable on loans	(164)	(1,863)	3	(15)	(2,039)	(3,629)
Other assets	(1,907)	(535)	(132)	-	(2,574)	(5,634)
Due to/from other funds	-	-	-	-	-	-
Accounts payable and other liabilities	(289)	-	-	-	(289)	3,525
<b>Net cash used by operating activities</b>	<b>\$ (58,903)</b>	<b>\$ (104,162)</b>	<b>\$ 6,384</b>	<b>\$ (3,973)</b>	<b>\$ (160,654)</b>	<b>\$ (251,735)</b>

The Authority defines cash and cash equivalents as cash deposits.

The accompanying notes are an integral part of these statements



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

### **(a) Authorizing Legislation and Reporting Entity**

**Authorizing Legislation** - The Colorado Housing and Finance Authority (the "Authority") is a body corporate and a political subdivision of the State of Colorado (the "State") 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 is not a component unit of the State or any other entity.

The Authority was created for the purpose of making funds available to assist private enterprise and governmental entities in providing housing facilities for lower and moderate income families. Under the Act, the Authority is also authorized to finance project and working capital loans to industrial and commercial enterprises (both for-profit and non-profit) 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 on future debt issues of the Authority. The bonds, notes and other obligations of the Authority do not constitute debt of the State.

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.

**Blended Component Units** - Hyland Park Centre Corporation ("Hyland Park"), Tanglewood Oaks Apartments Corporation ("Tanglewood"), and Village of Yorkshire Corporation ("Yorkshire") have been designated as blended component units and included in the Authority's financial statements. Hyland Park, Tanglewood and Yorkshire are public, non-profit instrumentalities of the Authority, each of which owns and operates a single, separate multi-family rental housing project. The Authority is financially accountable for these units because they have the same board of directors and management personnel, and their surplus assets are relinquished to the Authority. Separate financial statements for the individual component units may be obtained through the Authority.

### **(b) Measurement Focus, Basis of Accounting and Financial Statement Presentation**

**Measurement Focus and Basis of Accounting** - The Authority's funds are accounted for as enterprise funds for financial reporting purposes. All funds utilize the economic resource measurement focus and accrual basis of accounting wherein revenues are recognized when earned and expenses when incurred. The Authority applies all Governmental Accounting Standards Board (GASB) pronouncements for its funds, as well as those of the Financial Accounting Standards Board issued before November 30, 1989, unless such pronouncements conflict with or contradict GASB pronouncements. After November 30, 1989, the Authority only applies applicable GASB pronouncements.

**Financial Statement Presentation** – The Authority's financial statements include a classified Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Net Assets formatted to report operating and nonoperating revenues and expenses, a Statement of Cash Flows presented using the direct method and notes to the financial statements. The Authority's financial statements present its funds in separate columns. Summarized financial information for 2007 has been presented in the accompanying financial statements in order to provide an understanding of changes in the Authority's financial position, results of operations and cash flows on an entity-wide basis. However, the summarized financial information is not intended to present the financial position, results of operations or cash flows in accordance with accounting principles generally accepted in the United States of America.

The financial activities of the Authority are recorded in three funds which are consolidated for reporting purposes and are described below.

**General Fund** – The General Fund is the Authority’s primary operating fund. It accounts for all financial activity not specifically pledged for the repayment of bonds in the other funds.

**Single Family Fund** – The Single Family Fund accounts for bonds issued and assets pledged for payment of the bonds under the related indentures. Loans acquired by this fund with the proceeds of single family bond issues include FHA, conventional, USDA Rural Development and VA loans made under various loan programs.

**Multi-Family/Business Fund** – The Multi-Family/Business Fund accounts for bonds issued and assets pledged for payment of the bonds under the related indentures. Loans acquired by this fund with the proceeds of multi-family and business (sometimes referred to as project) bond issues include loans made for the purchase, construction or rehabilitation of multi-family rental housing. In addition, business loans are made to both for-profit and non-profit organizations primarily for the purpose of acquisition or expansion of their facilities or for the purchase of equipment.

Interfund activity is eliminated, reflected in the “Eliminations” column of the statements.

### **(c) Summary of Significant Accounting Policies**

**Investments** – Investments of the Authority, with the exception of nonparticipating investment agreements which are reported at cost, are carried at fair value based on quoted market prices. Investments with a maturity of one year or less are valued at amortized cost, which approximates fair value.

**Loans Receivable** – Mortgage loans receivable are carried at their unpaid principal balance net of deferred down payment assistance expense, deferred fee income and an allowance for estimated loan losses. Deferred down payment assistance expense and deferred fee income are capitalized and amortized over the life of the loan using the effective interest method. Virtually all mortgage loans receivable are serviced by the Authority.

**Allowance for Loan Losses** - The allowance for loan losses is provided through charges against current operations based on management's periodic review of the loan portfolio. 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, guarantees, mortgage insurance, historical loss experience for each loan type, 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.

**Capital Assets** – The Authority’s capital assets consist of two components. Corporate capital assets include those capital assets other than those used in its Rental Acquisition Program (RAP) activities. The Authority commenced its RAP operations in 1988 when the Board authorized the acquisition, rehabilitation and operation of multi-family properties to provide affordable housing to lower 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. As of December 31, 2008, the Authority owned a total of four RAP projects, including its three component units, containing 917 units.

Capital assets are defined by the Authority as assets with an initial, individual cost of \$2,500 in the case of corporate capital assets and \$1,500 in the case of RAP capital assets. Capital assets are depreciated or amortized using the straight-line method over their estimated useful lives, ranging from 3-30 years.

**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.

**Bond and Note Issuance Costs** - Costs of debt issuance are deferred and amortized over the lives of the bond issues using the effective interest method.

**Other Assets** - Included in other assets are unamortized costs of mortgage servicing rights. Mortgage servicing rights are amortized over the life of the related loans using the effective interest method.

**Bond Discounts and Premiums** - Discounts and premiums on bonds payable are amortized over the lives of the respective bond issues using the effective interest method.

**Debt Refundings** - 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.

**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 provided in Note 7.

**Compensated Absences** - Employees accrue paid time off at a rate based on length of service. Employees may accrue and carry over 150% of their annual paid time off benefit. The liability for compensated absences is based on current salary rates and is reflected in the financial statements.

**Operating and Nonoperating Revenues and Expenses** - The Authority distinguishes operating revenues and expenses from nonoperating 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 loan losses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The Authority's nonoperating revenues and expenses consist primarily of pass-through amounts related to the Authority's role as a contract administrator of the U.S. Department of Housing and Urban Development's Section 8 subsidy program. Under the Section 8 subsidy program, tenants pay 30% of their income toward rent and the balance is paid by federal subsidy.

**Budget Policies** - The Authority's budget year is the calendar year. The budget is developed on a full accrual basis with estimations of revenue by source and expenses by object. The Authority is not subject to the Local Budget Government Law of Colorado pursuant to Title 29, Article 1, Part 1 of the Colorado Revised Statutes.

**New Accounting Principles** - The Authority has adopted all current Statements of the Governmental Accounting Standards Board (GASB) that are applicable. No new statements needed to be adopted for the fiscal year ending December 31, 2008.

The GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which provides guidance on internally generated computer software, and Statement No. 53, *Accounting and Reporting for Derivative Instruments* which provides guidance on swap agreements. The Authority is currently studying the statements and plans on adoption when required, which will be in the fiscal year ending December 31, 2010.

**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.

**Reclassifications** - Certain prior year amounts have been reclassified to conform to current year presentation.

**(2) Cash and Investments**

For General Fund investments, 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. The Authority is also subject to permissible investments as authorized by Title 24, Article 75, Part 6 of the Colorado Revised Statutes (CRS). Permissible investments pursuant to the CRS are either identical to or less restrictive than the Authority's investment policy. In addition, each of the trust indentures established under the Authority's bond programs contain 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. Pursuant to temporary IRS regulations, the Authority has acquired and is holding \$147,280,000 of its own bonds as investments. These investments are included in the disclosures below under State & political subdivision obligations.

As of December 31, 2008, the Authority had the following investments:

Investment Type	Investment Maturities (In Years)				Total	2007
	Less Than 1	1-5	6-10	More Than 10		
Money market mutual fund	\$ 153,140	\$ -	\$ -	\$ -	\$ 153,140	\$ 2,011
External investment pool	87,109	-	-	-	87,109	42,999
Repurchase agreement	4,469	-	-	-	4,469	327
U.S. Treasury	-	-	-	632	632	3,177
U.S. Government agencies	12,177	9,441	19,373	57,366	98,357	159,806
State & political subdivision obligations	-	-	-	157,263	157,263	10,541
Investment agreements - uncollateralized	202,217	-	-	-	202,217	356,903
Investment agreements - collateralized	20,211	-	-	-	20,211	6,612
<b>Total</b>	<b>\$ 479,323</b>	<b>\$ 9,441</b>	<b>\$ 19,373</b>	<b>\$ 215,261</b>	<b>\$ 723,398</b>	<b>\$ 582,376</b>

**Interest Rate Risk** – The Authority manages interest rate risk in the General Fund by generally limiting the maximum maturity date of an investment to seven years. Of the General Fund's \$108,292,000 in investments, 96% have maturities of less than one year.

In the Single Family and Multi-Family/Business Funds, the Authority matches maturities to anticipated cash flows. Of the \$214,629,000 in investments with a maturity of more than ten years held by these funds, 57% are debt service reserves.

**Credit Risk** – The following table provides credit ratings of the Authority's investments as determined by Moody's Investors Service and/or Standard and Poor's.

Investment Type	Rating
Money market mutual fund	Aaa/AAAm
External investment pool	Aaa/AAAm
Repurchase agreement	Unrated & Aaa/AAAm
U.S. Government agencies	Aaa/AAA
State & political subdivision obligations	Baa1/AA- to Aaa/AAA
Investment agreements - uncollateralized	Unrated
Investment agreements - collateralized	Unrated

The rating for the repurchase agreements in the above table is the rating of the underlying securities. 89% of the investments in securities issued by state and political subdivisions are rated AAA. Investment agreements meet the requirements of the rating agency providing the rating on the related debt issue, and of the Board's investment policy.

As of December 31, 2008, the Authority had invested in the Colorado Local Government Liquid Asset Trust (COLOTRUST), an investment vehicle established for local governmental entities in Colorado to pool funds available for investment. COLOTRUST is reflected in the above tables as an external investment pool. The State Securities Commissioner administers and enforces all State statutes governing COLOTRUST. COLOTRUST operates similar to a money market fund and each share's fair value is \$1.00.

**Concentration of Credit Risk** – The Authority has various maximum investment limits both by type of investment and by issuer to prevent inappropriate concentration of credit risk. The following table provides information on issuers in which the Authority has investments representing more than 5% of its total investments or of the respective funds.

Issuer	Total	General Fund	Single Family	Multi-Family/ Business
Federal National Mortgage Association	7.21%		5.16%	14.85%
Colorado Housing and Finance Authority	20.36%		31.36%	8.39%
Colotruster	12.04%	80.34%		
Dreyfus Cash Management Fund	12.19%	6.50%	19.49%	
Federal Home Loan Bank		11.07%		
Financial Guaranty Insurance Company				6.57%
Wells Fargo Heritage Money Market Fund	8.97%			31.83%
Natixis Funding Corporation	8.96%		8.44%	14.94%
Transamerica Occidental Life Insurance Company	5.81%		10.09%	
Trinity Funding Company	8.93%		15.51%	
West LB AG				7.45%

**Custodial Credit Risk – Investments** – For an investment, custodial credit risk is the risk that, in the event of the failure of the issuer, the Authority will not be able to recover the value of its investment or collateral securities that are in the

possession of an outside party. All securities owned by the Authority are either in the custody of the related bond indenture trustees or held in the name of the Authority by a party other than the issuer of the security.

**Custodial Credit Risk - Cash Deposits** – In the case of cash deposits, custodial credit risk is the risk that in the event of a bank failure, the Authority’s deposits may not be returned to it. At December 31, 2008, the Authority’s cash deposits had a carrying amount of \$29,355,000. All deposit accounts were either covered by the Federal Deposit Insurance Corporation or collateralized in accordance with the Public Deposit Protection Act.

Included in cash deposits are escrow deposits in the amount of \$20,139,000 held in a fiduciary capacity. These escrow deposits are primarily held for the payment of property taxes and insurance on behalf of the Authority’s mortgagors.

**(3) Loans Receivable, Other Real Estate Owned and Related Allowances**

Loans receivable at December 31, 2008, and 2007, consist of the following:

	2008	2007
General Fund	\$ 341,252	\$ 275,003
Single Family Fund:		
Program Senior and Subordinate Mortgage	89,623	103,310
	1,926,597	1,703,903
Total Single Family Fund loans	2,016,220	1,807,213
Multi-Family/Business Fund:		
Insured Mortgage Revenue	86,298	99,527
Multi-Family/Project	801,728	743,750
Total Multi-Family/Business Fund loans	888,026	843,277
Less intercompany loans, included in Multi-Family/Project above	(19,050)	(21,508)
Total loans receivable	3,226,448	2,903,985
Payments in process	(3,554)	(5,639)
Deferred cash assistance expense	7,797	7,833
Deferred fee income	(10,639)	(10,767)
Allowance for loan losses	(12,000)	(10,401)
Total loans receivable, net	\$ 3,208,052	\$ 2,885,011

Loans in the Single Family Fund and the Multi-Family/Business Fund in the table above are grouped based on the related bond type (see Note 6 for additional information).

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 Single Family and Multi-Family/Business 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. Certain of these loans are also guaranteed by agencies of the United States government.

Single family bond program loans are collateralized by mortgages on applicable real property, and in the case of loans with a loan-to-value ratio of 80% or more, are generally 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/business bond program loans are collateralized by mortgages on applicable real estate, and, in some cases, are further insured by an agency of the United States government.

Activity in the allowance for loan losses for the year ended December 31, 2008, was as follows:

<b>Beginning Balance</b>	<b>Provision</b>	<b>Net Charge-offs</b>	<b>Ending Balance</b>
\$ (10,401)	\$ (4,733)	\$ 3,134	\$ (12,000)

**(4) Capital Assets and Rental Acquisition Program (RAP)**

Capital assets activity for the year ended December 31, 2008, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
<b>Non-depreciable capital assets:</b>				
Land	\$ 5,653	\$ -	\$ (868)	\$ 4,785
Construction in progress	1,363	4,601	(4,114)	1,850
<b>Total non-depreciable capital assets</b>	<b>7,016</b>	<b>4,601</b>	<b>(4,982)</b>	<b>6,635</b>
<b>Depreciable capital assets:</b>				
Cost:				
Computer equipment/software	5,924	2,823	-	8,747
Furniture and equipment	613	441	-	1,054
Rental property - non-building related	1,861	399	(802)	1,458
Buildings and related improvements	35,041	1,261	(8,914)	27,388
<b>Total depreciable capital assets</b>	<b>43,439</b>	<b>4,924</b>	<b>(9,716)</b>	<b>38,647</b>
Less accumulated depreciation:				
Computer equipment/software	(2,504)	(1,182)	-	(3,686)
Furniture and equipment	(185)	(102)	-	(287)
Rental property - non-building related	(855)	(228)	541	(542)
Buildings and related improvements	(14,188)	(1,172)	4,199	(11,161)
<b>Total accumulated depreciation</b>	<b>(17,732)</b>	<b>(2,684)</b>	<b>4,740</b>	<b>(15,676)</b>
<b>Total depreciable capital assets, net</b>	<b>25,707</b>	<b>2,240</b>	<b>(4,976)</b>	<b>22,971</b>
<b>Total capital assets, net</b>	<b>\$ 32,723</b>	<b>\$ 6,841</b>	<b>\$ (9,958)</b>	<b>\$ 29,606</b>



As discussed in Note 1(c), the Authority's capital assets consist of two components, corporate capital assets and RAP capital assets. Summary capital assets activity for these two components for the year ended December 31, 2008, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
<b>Corporate activities:</b>				
Cost	\$ 16,296	\$ 4,704	\$ -	\$ 21,000
Accumulated depreciation	(4,831)	(1,656)	-	(6,487)
Net	11,465	3,048	-	14,513
<b>RAP activities:</b>				
Cost	34,159	707	(10,584)	24,282
Accumulated depreciation	(12,901)	(1,028)	4,740	(9,189)
Net	21,258	(321)	(5,844)	15,093
Total capital assets, net	\$ 32,723	\$ 2,727	\$ (5,844)	\$ 29,606

Summary financial information for the Authority's RAP activities as of December 31, 2008, and for the year then ended is provided below:

<b>As of December 31, 2008</b>	
Property, net of accumulated depreciation	\$ 15,093
Total assets	\$ 18,672
Total liabilities	\$ 15,370
Net assets	\$ 3,302
<b>For the year ended December 31, 2008</b>	
Rental income	\$ 8,407
Gains on sales of properties	6,092
Other revenues	49
General operating expenses	(4,764)
Depreciation expense	(1,029)
Interest expense	(1,187)
Operating income	\$ 7,568

**(5) Short-term Debt**

The Authority has agreements with the Federal Home Loan Bank of Topeka (FHLB) for collateralized borrowings in an amount not to exceed the lending limit internally established by the FHLB. Borrowings under these agreements are used to support the Authority’s various lending programs, including warehousing of loans in the General Fund, and activities related to the Authority’s private activity bond volume cap preservation program. Amounts drawn under the agreements bear interest at the same rates charged by the FHLB to its member banks and are collateralized by certain mortgage loans and/or investments. There are no commitment fees associated with these agreements.

The Authority also has a revolving, unsecured, commercial bank line of credit agreement for borrowings of up to \$30,000,000. Amounts drawn under the agreement bear interest fixed at 0.65% per annum above the London Interbank Offered Rate. This line of credit agreement terminates on July 24, 2009. The Authority pays an unused line fee at the rate of 0.25% per annum, payable in arrears on the last day of each calendar. 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.

Through August 2008, the Authority additionally had an agreement with a commercial bank for a secured line of credit authorizing borrowings of up to \$10,000,000. The Authority borrowed an amount based on the prior month’s average daily balance of custodial funds held in a non-interest bearing account at the bank. Amounts drawn under this agreement bear interest fixed at .75% per annum, and are invested with the bank in money market instruments. There are no commitment fees associated with this agreement.

Short-term debt activity for the year ended December 31, 2008, was as follows:

Description	Beginning Balance	Additions	Reductions	Ending Balance
Lines of credit	\$ 64,545	\$ 5,911,850	\$ (5,811,410)	\$ 164,985

**(6) Long-term Liabilities**

The Authority issues bonds and notes payable to finance its lending programs. Proceeds from long-term debt of the Single Family and Multi-Family/Business Funds are used for funding of single family, multi-family and business loans. Long-term debt of the General Fund (including notes payable) is used to finance single family and business loans related to various private placements, the Authority’s RAP activities and for general corporate purposes. The aggregate principal amounts of bonds and notes payable outstanding as of December 31, 2008, and 2007, are shown in the table on the following pages. Interest is payable semi-annually unless otherwise noted. Interest rates on variable debt are reset on a weekly basis by the remarketing agents.

Colorado Housing and Finance Authority – Notes to Financial Statements (tabular amounts are in thousands)

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Description and due date	Interest rate (%)	2008	2007
<b>Bonds payable:</b>			
<b>General Fund</b> (all General Fund bonds carry the Authority's general obligation pledge):			
General Obligation Bonds:			
1992 Series A	2009-2030	9.125	\$ 3,090
1998 Series A	2009-2017	4.70 to 5.25	\$ 980
<b>Total General Obligation Bonds</b>		<b>4,070</b>	<b>4,190</b>
Single Family:			
Taxable Mortgage Revenue Bonds: (* principal and interest payable monthly)			
2000 Series A*	2009-2020	6.914	1,144
2000 Series B*	2009-2020	6.675	165
2001 Series AP*	2009-2021	6.135	1,665
2001 Series AV*	2009-2021	6.625	67
2002 Series AP*	2009-2022	5.662	207
2004 Series A*	2009-2034	4.95	1,318
2004 Series B*	2009-2035	4.98	2,962
2004 Series CV*	2009-2035	5.14	1,966
2005 Series A*	2009-2035	5.17	8,003
2005 Series B*	2009-2036	5.32	7,258
2006 Series A*	2009-2036	5.92	8,979
2007 Series A*	2009-2037	5.50	7,622
<b>Total Single Family</b>		<b>41,356</b>	<b>45,936</b>
Multi-Family/Business Finance:			
ACCESS Program Bonds:			
1995 Series A	2009-2015	7.67	76
Guaranteed Loan Participation Purchase Bonds: (* principal and interest payable monthly)			
1999 Series A	2009-2024	5.71	619
2000 Series A	2009-2025	6.755	184
2003 Series A*	2009-2023	5.004	2,277
2004 Series A*	2009-2024	4.62	2,813
2004 Series B*	2009-2024	4.88	6,860
2005 Series A*	2009-2025	4.81	2,840
2006 Series A*	2009-2026	5.98	4,314
2007 Series A*	2009-2027	5.89	3,954
<b>Total Guaranteed Loan Participation Purchase Bonds</b>		<b>23,861</b>	<b>27,939</b>
Project Loan Participation Purchase Bonds: (* principal and interest payable monthly)			
2004 Series AP*	2009-2024	4.90	5,784
Taxable Rental Project Revenue Bonds: (* principal and interest payable monthly)			
2000 Series A	2009-2020	6.152	4,379
2002 Series AV*	2009-2022	5.55	6,086
2003 Series AV*	2009-2024	5.19	3,739
2004 Series A*	2009-2024	4.90	12,664
<b>Total Taxable Rental Project Revenue Bonds</b>		<b>26,868</b>	<b>27,355</b>
<b>Total Multi-Family/Business Finance</b>		<b>56,589</b>	<b>61,809</b>
<b>Total General Fund</b>		<b>102,015</b>	<b>111,935</b>

Description and due date			Interest rate (%)	2008	2007
<b>Single Family Fund:</b>					
Single Family Program Senior and Subordinate Bonds:					
1995 Series D	2009-2026	5.625 to 7.375		105	415
1996 Series A	2009-2027	5.60 to 7.40		-	335
1996 Series B	2009-2027	7.45 to 7.65		-	300
1996 Series C	2009-2027	7.10 to 7.55		30	350
1997 Series A	2009-2027	7.00 to 7.25		500	985
1997 Series B	2009-2028	6.75 to 7.00		310	680
1997 Series C	2009-2028	6.75 to 6.875		760	985
1998 Series A	2009-2029	6.50 to 6.60		3,690	4,460
1998 Series B	2009-2029	5.50 to 6.55		3,826	4,443
1998 Series C	2009-2029	5.15 to 5.625		4,794	5,396
1998 Series D	2009-2029	6.125 to 6.35		4,880	5,540
1999 Series A	2009-2030	6.05 to 6.45		5,575	6,570
1999 Series B	2009-2030	6.50 to 6.80		3,090	4,220
1999 Series C	2009-2031	6.75 to 7.20		5,755	6,795
2000 Series A	2009-2031	7.25 to 7.50		2,470	3,020
2000 Series B	2009-2031	6.70 to 7.25		2,805	3,705
2000 Series C	2009-2031	5.70 to 8.40		2,400	3,185
2000 Series D	2009-2032	5.40 to 6.90		3,955	4,800
2000 Series E	2009-2032	5.375 to 7.00		3,030	3,735
2001 Series A	2009-2032	5.00 to 6.50		6,385	6,985
2001 Series B	2009-2033	5.00 to 6.80		8,080	9,100
2001 Series C	2009-2033	4.875 to 6.60		10,760	12,250
Total Single Family Program Senior and Subordinate Bonds				73,200	88,254
Single Family Mortgage Bonds:					
2001 Series AA	2009-2041	Variable & 5.25		131,840	131,840
2002 Series A	2009-2032	Variable & 4.55 to 5.65		60,820	61,650
2002 Series B	2009-2032	Variable & 4.80 to 5.40		87,355	89,805
2002 Series C	2009-2036	Variable & 4.40 to 4.95		111,255	117,155
2003 Series A	2009-2032	Variable & 4.75 to 5.15		49,305	49,970
2003 Series B	2009-2033	Variable & 5.00		148,085	150,930
2003 Series C	2009-2032	Variable & 5.00		85,170	87,070
2004 Series A	2009-2034	Variable & 5.25		96,720	98,470
2004 Series B	2009-2034	Variable & 5.25		80,415	82,245
2005 Series A	2009-2035	Variable & 5.25		85,690	87,355
2005 Series B	2009-2036	Variable & 4.60 to 5.22		158,220	168,810
2006 Series A	2009-2036	Variable & 5.00		106,985	106,985
2006 Series B	2009-2036	Variable & 5.10		183,800	190,950
2006 Series C	2009-2036	Variable & 4.625		158,680	158,680
2007 Series A	2009-2037	Variable & 4.80		164,000	175,000
2007 Series B	2009-2038	Variable		220,000	220,000
2008 Series A	2010-2038	Variable & 5.00 to 5.75		348,955	-
Total Single Family Mortgage Bonds				2,277,295	1,976,915
<b>Total Single Family Fund</b>				<b>2,350,495</b>	<b>2,065,169</b>

Colorado Housing and Finance Authority – Notes to Financial Statements (tabular amounts are in thousands)

Description and due date	Interest rate (%)	2008	2007	
<b>Multi-Family/Business Fund:</b>				
Multi-Family Housing Insured - Mortgage Revenue Bonds:				
1996 Series A	2009-2037	6.00 to 6.40	-	1,785
1997 Series A	2009-2038	5.75 to 7.125	4,880	4,970
1997 Series B	2009-2038	5.70 to 7.25	10,570	10,720
1997 Series C	2009-2039	5.00 to 5.75	21,025	22,765
1998 Series A	2009-2039	5.35 to 6.70	15,420	15,585
1998 Series B	2009-2040	5.45 to 7.00	7,080	7,110
1999 Series A	2009-2041	4.45 to 6.65	29,530	29,830
1999 Series B	2009-2041	5.25 to 5.85	5,245	5,295
1999 Series C	2009-2041	5.35 to 6.20	5,690	5,730
2002 Series AA	2009-2030	Variable	29,380	40,545
Total Multi-Family Housing Insured - Mortgage Revenue Bonds			128,820	144,335
Multi-Family/Project Bonds: (* principal and interest payable quarterly on some of the bonds)				
2000 Series A	2009-2032	Variable & 6.15	30,500	46,915
2000 Series B*	2009-2042	Variable & 5.90 to 6.10	29,875	30,180
2001 Series A	2009-2043	4.25 to 5.65	25,440	25,855
2002 Series A	2009-2042	Variable & 4.45 to 5.70	23,435	23,845
2002 Series C	2009-2042	Variable & 3.60 to 5.30	131,470	134,190
2003 Series A	2009-2033	Variable	39,390	41,355
2004 Series A	2009-2045	Variable & 2.60 to 4.80	78,920	82,255
2005 Series A	2009-2040	Variable	68,025	70,640
2005 Series B	2009-2040	Variable	26,310	26,785
2006 Series A	2009-2041	Variable	103,140	105,670
2006 Series B	2009-2044	Variable	-	118,600
2007 Series A	2009-2052	Variable	-	47,015
2007 Series B	2009-2038	Variable	91,055	103,745
2008 Series A	2009-2043	Variable	32,610	-
2008 Series B	2052	Variable	165,515	-
2008 Series C	2009-2038	Variable	41,560	-
Total Multi-Family/Project Bonds			887,245	857,050
<b>Total Multi-Family/Business Fund</b>			<b>1,016,065</b>	<b>1,001,385</b>
<b>Total bonds payable</b>			<b>3,468,575</b>	<b>3,178,489</b>
Deferred premiums			5,642	6,679
Deferred losses on refunding amounts			(5,515)	(7,630)
Net premium on swaps			47,527	-
<b>Bonds payable, net</b>			<b>\$ 3,516,229</b>	<b>\$ 3,177,538</b>
<b>Notes payable</b>			<b>\$ 1,085</b>	<b>\$ 5,042</b>

A breakdown of bonds payable as of December 31, 2008, and 2007 by fixed and variable interest rates follows in the table below. Certain of the Authority's variable rate debt has been converted to fixed rate debt by entering into pay fixed/receive variable rate interest rate swap agreements as further described in Note 7. Such debt is referred to in the table as synthetic fixed rate debt.

Description	2008	2007
Fixed rate debt	\$ 654,060	\$ 696,509
Synthetic fixed rate debt	2,257,690	2,194,640
Unhedged variable rate debt	556,825	287,340
<b>Total</b>	<b>\$ 3,468,575</b>	<b>\$ 3,178,489</b>

Included in certain of the bond issues shown 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 Statement of Net Assets at December 31, 2008, and 2007, are as follows:

Description and due date	Interest Rate (%)	Appreciated Balances		
		Maturity	2008	2007
Single Family Program Senior and Subordinate Bonds:				
1998 Series B - 2025-2029	5.50	\$ 6,053	\$ 2,241	\$ 2,123
1998 Series C - 2020-2029	5.625	11,448	4,794	4,851
			<u>\$ 7,035</u>	<u>\$ 6,974</u>

Also included in the table of bonds and notes payable outstanding are certain Single Family and Multi-Family/Project bonds which carry the Authority's general obligation pledge. These bonds are presented in the following table as of December 31, 2008, and 2007:

Description	2008	2007
Single Family Program Subordinate Bonds	\$ 1,095	\$ 1,435
Single Family Mortgage Bonds, Class III	89,170	95,220
Multi-Family/Project Bonds, Class I	285,305	252,595
Multi-Family/Project Bonds, Class II	23,000	-
Multi-Family/Project Bonds, Class III	16,915	57,820
<b>Total</b>	<b>\$ 415,485</b>	<b>\$ 407,070</b>

Long-term liability activity for the year ended December 31, 2008, was as follows:

Description	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable	\$ 3,178,489	\$ 589,207	\$ (299,121)	\$ 3,468,575	\$ 13,640
Unamortized premium/discount	6,679	365	(1,402)	5,642	22
Deferred losses on refunding	(7,630)	(1,914)	4,029	(5,515)	(21)
Net premium on swaps	-	47,527	-	47,527	4,753
Net bonds payable	3,177,538	635,185	(296,494)	3,516,229	18,394
Notes payable	5,042	-	(3,957)	1,085	73
Arbitrage rebate payable	2,630	385	(1)	3,014	-
Compensated absences	670	866	(765)	771	771
Deferred income	3,254	344	(335)	3,263	218
Other long-term liabilities	6,235	50	(37)	6,248	-
Total long-term liabilities	\$ 3,195,369	\$ 636,830	\$ (301,589)	\$ 3,530,610	\$ 19,456

Bonds and notes payable sinking fund installments and maturities subsequent to December 31, 2008, using rates in effect as of that date are as follows:

Year Ending December 31,	General Fund		Single Family		Multi-Family		Notes Payable	
	Principal	Interest	Principal *	Interest	Principal	Interest	Principal	Interest
2009	\$ 125	\$ 5,569	\$ 4,005	\$ 97,485	\$ 9,510	\$ 39,032	\$ 73	\$ 11
2010	130	5,561	5,570	90,133	10,130	36,410	74	10
2011	145	5,553	10,175	89,882	10,635	36,089	75	9
2012	295	5,542	23,675	89,560	11,195	35,742	76	9
2013	410	5,521	57,585	88,880	11,780	35,389	76	8
2014-2018	1,811	27,234	345,360	418,770	71,700	172,248	394	28
2019-2023	15,978	25,043	243,679	378,234	110,330	162,585	248	10
2024-2028	44,137	13,303	235,386	343,376	100,595	150,248	69	1
2029-2033	875	10,447	462,916	287,684	177,160	130,934	-	-
2034-2038	38,109	4,922	922,610	156,017	286,810	89,225	-	-
2039-2043	-	-	50,000	7,488	49,450	41,623	-	-
2044-2048	-	-	-	-	1,255	37,257	-	-
2049-2052	-	-	-	-	165,515	26,069	-	-
Total	\$ 102,015	\$ 108,695	\$ 2,360,961	\$ 2,047,509	\$ 1,016,065	\$ 992,851	\$ 1,085	\$ 86

\* Includes \$10.5 million of future accretion of principal value on capital appreciation bonds.

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, 2008, the amount outstanding on these bonds was \$445,705,000. 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.

The Authority enters into Standby Bond Purchase agreements with various banks in connection with its variable rate bonds. Pursuant to these agreements, the banks are required to purchase any variable rate bonds which are not remarketed when

the rates are reset each week. The bonds held by the banks bear an interest rate specified in the agreements and must be removed from the banks at specified dates. At December 31, 2008, the banks held \$513,605,000 of the Authority's outstanding bonds. The bonds held by the bank bear interest at rates from 3.25% to 4.45% and must be removed by the Authority over the period from March 2009 to September 2018.

### (7) Interest Rate Swap Agreements

**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 rate structures with refunding bonds in order to generate cash flow savings.

**Summary of Swap Transactions** - The key terms, including the fair values and counterparty credit ratings of the outstanding swaps as of December 31, 2008, are shown in the table on the following pages. The notional amounts of the swaps match the principal amounts of the associated debt. Except as discussed under amortization risk below, 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.

#### Risk Disclosure

**Credit Risk:** All of the Authority's swaps rely upon the performance of the third parties who serve as swap counterparties, and as a result 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 column labeled "Fair Value" in the table on the following page. The Authority is exposed to credit risk in the amount of any positive net fair value exposure to each counterparty. As of December 31, 2008, the Authority was exposed to no credit risk to any of its counterparties. To mitigate credit risk, the Authority maintains strict credit standards for swap counterparties. All swap counterparties must be rated in the Aa/AA or higher category by either Moody's Investors Service (Moody's) or Standard & Poor's (S&P) respectively at the time the contract is entered into.

The Authority has executed 78 swap transactions with 9 counterparties with concentrations and ratings (Standard and Poor's/ Moody's Investors Service) as shown:

Swap Count	Concentration	Counterparty Rating
14	17.8%	A-/A3
14	17.1%	AA-/Aa3
35	32.0%	AA-/Aa1
2	2.0%	AAA/Aaa
1	5.5%	A+/Aa3
6	14.8%	AA-/Aa1
1	0.3%	AAAt/Aaa
3	8.7%	AA-/Aaa
2	1.8%	A+/Aa2
<u>78</u>	<u>100.00%</u>	

Additionally, the Authority has entered into 2 forward starting swap agreements with 2 counterparties for a notional amount of \$40,000,000. The fair value of these swaps as of December 31, 2008, was a negative \$3,667,000. As of December 31, 2008, the bonds relating to these swap agreements had not been issued.

In the fourth quarter of 2008, due to a credit event affecting 2 of the Authority's counterparties, the Authority terminated 63 swaps with a notional amount of \$1,095,810,000. The Authority entered into 39 replacement swap agreements with other counterparties for a notional amount of \$926,935,000. Terminated swap agreements with a notional amount of



\$168,875,000 were not replaced. In connection with the swap terminations and replacements, a termination payment of \$4.7 million was expensed in 2008 and a net premium of \$47.5 million was received. This premium is included in bonds payable, current and non-current, and is being amortized over the life of the new swap agreements.

*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 Securities Industry and Financial Markets Association Municipal Swap Index (SIFMA) rate (plus a trading spread). Certain tax-exempt swaps, as indicated in the table below, contain a trigger feature in which the Authority receives a rate indexed on SIFMA 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 would 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 SIFMA 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. 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, 2008, the Authority is not exposed to rollover risk.

*(text continues on page 31)*

Colorado Housing and Finance Authority – Notes to Financial Statements (tabular amounts are in thousands)

Associated Bond Issue	Current Notional Amount	Effective Date	Termination Date	Fixed Rate Paid	Variable Rate Received *	Embedded Options	Optional Termination Date, at Par	Optional Termination Amount	Counterparty Rating Moody's/S&P	Fair Value **
<b>Single Family:</b>										
Single-Family 2001-AA	\$ 15,340	12/02/08	05/01/18	5.5260%	Trigger, SIFMA + .05% or 68% LIBOR				AA-/Aa1	\$ (3,549)
Single-Family 2001-AA2	46,840	12/04/08	05/01/31	4.6000%	Trigger, SIFMA + .05% or 68% LIBOR				AA-/Aa1	(10,460)
Single-Family 2002-A3	19,090	12/04/08	11/01/21	4.7490%	Trigger, SIFMA + .05% or 68% LIBOR				AA-/Aa1	(3,247)
Single-Family 2002-B3	40,000	12/04/08	11/01/21	4.5060%	Trigger, SIFMA + .05% or 68% LIBOR				AA-/Aa1	(6,431)
Single-Family 2002-C3	40,000	12/04/08	05/01/22	4.4220%	Trigger, SIFMA + .15% or 68% LIBOR				AA-/Aa1	(6,336)
Single-Family 2003-A2	20,000	12/02/08	11/01/21	4.1600%	Trigger, SIFMA + .05% or 68% LIBOR				AA-/Aa1	(2,805)
Single-Family 2003-B1	36,670	12/02/08	11/01/26	4.8510%	LIBOR + .05%	Par optional termination right	05/01/15	27,305	AA-/Aa1	(4,492)
Single-Family 2003-B-2	30,000	10/29/08	05/01/28	4.9380%	LIBOR + .05%	Par optional termination right	11/1/2018	all remaining	AA-/Aa1	(3,908)
Single-Family 2003-B3	60,000	12/02/08	11/01/26	4.3840%	Trigger, SIFMA + .15% or 68% LIBOR	Par optional termination right	05/01/15	43,170	AA-/Aa1	(6,188)
Single-Family 2003-C1	25,275	12/03/03	05/01/12	4.0330%	LIBOR + .05%				AAA/Aaa	(1,168)
Single-Family 2003-C2	40,000	12/02/08	11/01/26	4.5950%	Trigger, SIFMA + .15% or 68% LIBOR	Par optional termination right	05/01/15	28,780	AA-/Aa1	(4,669)
Single-Family 2004-A1	20,365	09/01/04	05/01/12	4.4596%	LIBOR + .05%				AAA/Aaa	(1,077)
Single-Family 2004-A2	50,000	07/28/04	11/01/26	4.3685%	Trigger, SIFMA + .15% or 68% LIBOR	Par optional termination right	05/01/15	35,970	A-/A3	(5,108)
Single-Family 2004-B1	17,200	12/01/04	05/01/12	4.0520%	LIBOR + .05%				A-/Aa2	(775)
Single-Family 2004-B2	40,000	11/01/04	11/01/26	4.1220%	Trigger, SIFMA + .15% or 68% LIBOR	Par optional termination right	05/01/15	28,780	A-/A3	(3,438)
Single-Family 2005-A1	23,670	05/01/05	05/01/13	4.3555%	LIBOR + .05%				A-/Aa2	(1,371)
Single-Family 2005-A2	40,000	03/16/05	11/01/27	4.0710%	Trigger, SIFMA + .15% or 68% LIBOR	Par optional termination right	05/01/15	32,290	A-/A3	(3,221)
Single-Family 2005-B2	80,000	07/20/05	05/01/34	4.1693%	Trigger, SIFMA + .15% or 68% LIBOR	Par optional termination right	05/01/15	48,650	A-/A3	(6,826)
Single-Family 2006-A1	13,610	03/01/06	11/01/13	5.1610%	LIBOR + .05%				AA-/Aa1	(1,084)
Single-Family 2006-A3	40,000	01/18/06	11/01/36	4.3129%	Trigger, SIFMA + .15% or 68% LIBOR	Par optional termination right	05/01/19	37,810	AA-/Aa3	(4,377)
Single-Family 2006-B1	50,950	11/01/06	11/01/14	5.6685%	LIBOR + .05%				AA-/Aa1	(5,325)
Single-Family 2006-B2	49,325	07/26/06	11/01/34	4.1951%	Trigger, SIFMA + .05% or 68% of LIBOR	Par optional termination right	05/01/19	16,700	AA-/Aa3	(5,827)
Single-Family 2006-B3	62,945	07/26/06	11/01/36	4.5445%	Trigger, SIFMA + .15% or 68% LIBOR	Par optional termination right	05/01/19	59,190	AA-/Aa3	(8,582)
Single-Family 2006-C1	50,945	01/02/07	11/01/14	5.3143%	LIBOR + .05%				AA-/Aa1	(4,836)
Single-Family 2006-C2	14,140	12/20/06	05/01/16	4.2884%	Trigger, SIFMA + .05% or 68% of LIBOR	Par optional termination right	05/01/12	7,050	AA-/Aa3	(1,494)
Single-Family 2006-C2	10,605	12/20/06	11/01/16	4.2884%	Trigger, SIFMA + .05% or 68% of LIBOR	Par optional termination right	11/01/12	5,300	AA-/Aa3	(1,185)
Single-Family 2006-C2	10,605	12/20/06	11/01/17	4.2884%	Trigger, SIFMA + .05% or 68% of LIBOR	Par optional termination right	11/01/13	5,300	AA-/Aa3	(1,297)
Single-Family 2006-C2	35,350	12/20/06	11/01/34	4.2884%	Trigger, SIFMA + .05% or 68% of LIBOR	Par optional termination right	11/01/19	21,210	AA-/Aa3	(4,145)
Single-Family 2007A-1	64,505	6/1/2007	05/01/15	5.1911%	LIBOR + .05%				AA-/Aa1	(6,331)
Single-Family 2007A-2	70,000	5/9/2007	11/01/37	4.1530%	Trigger, SIFMA + .15% or 68% LIBOR	Par optional termination right	5/1/2019	62,910	AA-/Aa3	(6,289)
Single-Family 2007B-1	93,690	11/1/2007	11/01/26	5.5800%	Libor plus 0.05%	Par optional termination right	11/1/2017	24,610	AA-/Aa1	(13,720)
Single-Family 2007B-2	50,000	10/18/2007	05/01/38	4.5075%	Trigger, SIFMA + .15% or 68% LIBOR	Par optional termination right	5/1/2019	46,545	AA-/Aa3	(6,183)
								Up to:		
							1) 11/1/2013	1) 12,500		
							2) 11/1/2015	2) 25,000		
Single-Family 2007B-3	50,000	12/02/08	05/01/38	4.4050%	Trigger, SIFMA + .15% or 68% LIBOR	Par optional termination right	3) 11/1/2017	3) 50,000	AA-/Aa1	(3,019)
								Up to:		
							1) 5/1/2014	1) 20,000		
							2) 5/1/2016	2) 40,000		
Single-Family 2008A-3	80,000	6/4/2008	5/1/2038	4.4140%	Trigger, SIFMA + .05% or 68% of LIBOR	Par optional termination right	3) 5/1/2018	3) 80,000	A-/A3	(6,179)
								Up to:		
							1) 11/1/2011	2) 27,440		
							2) 11/1/2013	3) 38,340		
							3) 11/1/2016	4) all		
Single-Family 2008A-1	60,000	6/4/2008	05/01/38	5.4450%	LIBOR + .05%	Par optional termination right	4) 11/1/2018	remaining	AA-/Aa1	(8,780)
Single-Family 2008A-2	124,865	6/4/2008	11/1/2027	4.5960%	LIBOR + .05%	Par optional termination right	5/1/2018	all remaining	A-/Aa3	(12,887)
T total Single Family	1,575,985									(176,609)
<b>Multi-Family/Business:</b>										
Multi-Family/Project 2000-A1	12,750	11/21/08	10/01/20	5.2350%	SIFMA + .05				AA-/Aa1	(2,794)
Multi-Family/Project 2000-A2	11,050	11/21/08	04/01/15	5.8000%	SIFMA + .05				AA-/Aa1	(1,496)
Multi-Family/Project 2000-B1	6,150	10/19/00	07/01/20	7.3900%	LIBOR + .25%				AAA/Aaa	(1,797)
Multi-Family/Project 2002-A1	9,410	11/21/08	10/01/22	5.1000%	SIFMA + .15				AA-/Aa1	(1,894)
Multi-Family/Hsg Ins 2002AA	29,380	11/21/08	10/01/23	6.0680%	SIFMA + .05				AA-/Aa1	(7,811)
Multi-Family/Project 2002-C2	70,715	11/21/08	10/01/32	5.1240%	Trigger, SIFMA + .15% or 68% LIBOR	Par optional termination right	04/01/18	59,340	AA-/Aa1	(13,055)
Multi-Family/Project 2002-C4	31,960	11/21/08	10/01/32	5.0440%	Trigger, SIFMA + .05% or 68% LIBOR	Par optional termination right	04/01/18	26,785	AA-/Aa1	(5,664)
Multi-Family/Project 2003-A1	21,800	12/03/08	04/01/26	4.5550%	LIBOR + .05%	Par optional termination right	10/01/09	16,576	AA-/Aa1	(864)
Multi-Family/Project 2004-A1	45,825	11/01/04	10/01/25	5.5281%	LIBOR + .05%	Par optional termination right	10/01/14	all remaining	A-/A3	(6,998)
Multi-Family/Project 2004-A2	10,785	09/22/04	04/01/45	4.8840%	SIFMA + .15%	Par optional termination right	10/01/19	all remaining	A-/A3	(1,516)
Multi-Family/Project 2005-A1 (A)	5,005	08/01/05	10/01/35	5.8200%	LIBOR + .05%	Par optional termination right	04/01/15	all remaining	A-/A3	(880)
Multi-Family/Project 2005-A1 (B)	3,190	08/01/05	10/01/20	5.2050%	LIBOR + .05%				A-/A3	(727)

Table continued on following page.

Associated Bond Issue	Current Notional Amount	Effective Date	Termination Date	Fixed Rate Paid	Variable Rate Received *	Embedded Options	Optional Termination Date, at Par	Optional Termination Amount	Counterparty Rating Moody's/S&P	Fair Value **
Multi-Family/Project 2005-A1 (C)	10,480	08/01/05	10/01/25	5.7120% LIBOR +.05%		Par optional termination right	04/01/15	all remaining	A-/A3	(1,812)
Multi-Family/Project 2005-A1 (D)	4,215	08/01/05	10/01/25	5.5730% LIBOR +.05%		Par optional termination right	10/01/11	all remaining	A-/A3	(380)
Multi-Family/Project 2005-A2	20,170	07/01/05	04/01/36	4.2850% SIFMA +.05%		Par optional termination right	04/01/15	all remaining	A-/A3	(1,585)
Multi-Family/Project 2005-A3 (A)	6,610	04/13/05	04/01/40	4.6560% SIFMA +.15%		Par optional termination right	10/01/20	all remaining	A-/A3	(940)
Multi-Family/Project 2005-A3 (B)	6,565	10/01/05	04/01/32	4.4800% SIFMA +.15%		Par optional termination right	04/01/15	all remaining	A-/A3	(525)
Multi-Family/Project 2005-B1	14,410	03/01/06	04/01/36	5.2350% LIBOR +.05%		Par optional termination right	10/01/15	11,125	AA-/Aa3	(2,169)
Multi-Family/Project 2005-B2 (A)	3,615	01/02/06	10/01/40	4.7350% SIFMA +.15%		Par optional termination right	10/01/15	3,305	AA-/Aa3	(292)
Multi-Family/Project 2005-B2 (B)	6,110	09/01/06	10/01/38	4.5270% SIFMA +.15%		Par optional termination right	10/01/21	4,520	AA-/Aa3	(821)
Multi-Family/Project 2006A-1	11,835	12/01/06	10/01/36	5.3420% LIBOR +.05%		Par optional termination right	04/01/21	8,040	AA-/Aa3	(2,767)
								Up to:		
							1) 10/1/2011	1) 2,840		
Multi-Family/Project 2006A-1	36,745	12/03/08	04/01/27	5.7100% LIBOR +.05%		Par optional termination right	2) 10/1/2016	2) 12,305	AA-/Aa1	(9,489)
Multi-Family/Project 2006A-2	4,950	12/03/08	04/01/28	4.3410% SIFMA +.15%		Par optional termination right	10/01/16	3,540	AA-/Aa1	(459)
Multi-Family/Project 2006A-2	9,575	12/03/08	10/01/41	4.9990% SIFMA +.15%		Par optional termination right	04/01/24	7,670	AA-/Aa1	(1,830)
Multi-Family/Project 2006A-2	12,470	12/03/08	04/01/39	4.6260% SIFMA +.15%		Par optional termination right	10/01/16	10,880	AA-/Aa1	(1,141)
Multi-Family/Project 2006A-2	3,100	12/03/08	04/01/26	4.7400% SIFMA +.15%		Par optional termination right	04/01/24	2,670	AA-/Aa1	(629)
Multi-Family/Project 2006A-3	2,490	12/03/08	10/01/36	4.5040% SIFMA +.05%		Par optional termination right	10/01/16	2,150	AA-/Aa1	(233)
Multi-Family/Project 2006A-3	875	12/03/08	04/01/27	3.9950% SIFMA +.05%				6,190	AA-/Aa1	(103)
Multi-Family/Project 2007B-1	7,745	10/1/2007	04/01/28	5.2200% LIBOR +.05%		Par optional termination right	4/1/2028	6,190	AA-/Aa3	(1,934)
								Up to:		
							1) 10/1/2012	1) 6,920		
							2) 10/1/2017	2) 19,460		
Multi-Family/Project 2007B-1	38,845	12/03/08	04/01/28	5.6400% LIBOR +.05%		Par optional termination right	3) 4/01/2022	3) 16,925	AA-/Aa1	(11,725)
Multi-Family/Project 2007B-2	2,885	12/03/08	10/01/36	4.2870% SIFMA +.15%		Par optional termination right	10/1/2017	2,040	AA-/Aa1	(270)
Multi-Family/Project 2007B-2	2,140	12/03/08	04/01/38	4.5350% SIFMA +.15%		Par optional termination right	10/2/2017	1,780	AA-/Aa1	(206)
Multi-Family/Project 2007B-2	4,910	12/03/08	04/01/38	4.4695% SIFMA +.15%		Par optional termination right	10/2/2017	4,395	AA-/Aa1	(506)
Multi-Family/Project 2007B-2	4,900	12/03/08	04/01/28	4.6510% SIFMA +.15%		Par optional termination right	4/1/2023	3,835	AA-/Aa1	(842)
Multi-Family/Project 2007B-3	2,635	12/03/08	10/01/37	4.2970% SIFMA +.15%		Par optional termination right	10/1/2017	2,065	AA-/Aa1	(221)
Multi-Family/Project 2007B-3	4,920	12/03/08	10/01/19	4.0967% SIFMA +.05%		Par optional termination right	10/1/2014	4,430	AA-/Aa1	(385)
Multi-Family/Project 2007B-3	2,315	12/03/08	04/01/38	4.8805% SIFMA +.05%		Par optional termination right	10/1/2017	2,205	AA-/Aa1	(300)
Multi-Family/Project 2008A	8,030	12/03/08	04/01/43	4.5400% SIFMA +.15%		Par optional termination right	4/1/2019	6,340	AA-/Aa1	(797)
								Up to:		
								1) 3,070		
							1) 4/1/2018	2) all		
Multi-Family/Project 2008A	16,585	12/03/08	04/01/29	5.1300% LIBOR +.05%		Par optional termination right	2) 4/1/2019	remaining	AA-/Aa1	(3,814)
Multi-Family/Project 2008B	118,600	12/03/08	10/01/44	5.17215% LIBOR					AA-/Aaa	(48,151)
Multi-Family/Project 2008B	46,915	12/03/08	03/01/47	5.2071% LIBOR					AA-/Aaa	(21,759)
Multi-Family/Project 2008C	8,045	12/03/08	10/01/38	4.3400% SIFMA +.05%		Par optional termination right	4/1/2019	6,500	AA-/Aa1	(832)
Total Multi-Family/Business	681,705									(162,313)
Total	\$ 2,257,690									\$ (338,922)

(\*) SIFMA is the Securities Industry Financial Markets 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.

**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 unhedged bonds. 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.

**Swap Payments and Associated Debt** - Using interest rates as of December 31, 2008, debt service requirements of the Authority's outstanding variable-rate debt and net swap payments are as follows. As rates vary, variable rate interest rate payments on the bonds and net swap payments will change.

Year Ending December 31,	Principal	Interest	Swaps, Net	Total
2009	\$ 100,955	\$ 77,484	\$ 92,740	\$ 271,179
2010	107,695	67,384	84,013	259,092
2011	106,795	62,426	79,426	248,647
2012	104,695	57,744	75,002	237,441
2013	104,065	53,750	70,663	228,478
2014-2018	526,110	219,728	288,965	1,034,803
2019-2023	370,950	158,229	200,781	729,960
2024-2028	307,920	104,801	132,426	545,147
2029-2033	260,520	64,910	80,165	405,595
2034-2038	194,170	29,110	34,041	257,321
2039-2043	50,590	10,720	11,838	73,148
2044-2047	23,225	2,051	2,191	27,467
Total	\$2,257,690	\$ 908,337	\$ 1,152,251	\$ 4,318,278

### (8) Debt Refundings

On June 25, 2008, the Authority issued its Multi-Family/Project Bonds 2008 Series B, in the aggregate principal amount of \$165,565,000. Proceeds of the bonds were used to refund its outstanding Multi-Family/Project Bonds 2006 Series B, and 2007 Series A, in the amount of \$165,565,000. The refunding resulted in a decrease in the aggregate debt service requirement of approximately \$12,400,000, based on the change in variable interest rates at the time of refunding, and an approximate economic gain to the Authority of \$6,100,000. In accordance with GASB Statement No. 23, Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities, \$1,914,000 was deferred and is being amortized over the estimated 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.

In prior years, the Authority defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Authority's financial statements. On December 31, 2008, \$58.9 million of bonds outstanding are considered defeased.

**(9) Restricted Net Assets**

The amounts restricted for the Single Family Fund and the Multi-Family/Business Fund are for the payment of principal, redemption premium, if any, or interest on all outstanding single family and multi-family/business 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) updated cash flow projections indicate that adequate resources will exist after any withdrawal to service the outstanding debt, subject to approval by the bond trustee; (2) the Authority determines that such monies are needed for the implementation or maintenance of any duly adopted program of the Authority; and (3) no default exists in the payment of the principal, redemption premium, if any, or interest on such bonds.

Assets of the Single Family and Multi-Family/Business 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 Single Family and Multi-Family/Business Funds and are held in cash or investments. At December 31, 2008, these assets were at least equal to the amounts required to be restricted.

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, 2008, for various purposes, as indicated in the following table. These designations of net assets are not binding, and can be changed by the Board.

Appropriations for loan programs:	
Housing Opportunity loans	\$ 41,833
Housing loans	389
Business finance loans	14,577
<b>Total appropriations</b>	<b>56,799</b>
Designations:	
General obligation bonds	18,832
General operating and working capital	540
Unrealized appreciation of investments	45,342
Single and multi-family bonds	19,382
<b>Total designations</b>	<b>84,096</b>
<b>Total General Fund unrestricted net assets</b>	<b>\$ 140,895</b>

**(10) Interfund Receivables, Payables and Transfers**

The composition of interfund balances as of December 31, 2008, is as follows:

Due From Fund	Due to Fund			Total
	General	Single Family	Multi-Family/ Business	
General	\$ -	\$ 31,051	\$ 20,778	\$ 51,829
Single Family	-	-	-	-
Multi-Family/Business	361	-	-	361
<b>Total</b>	<b>\$ 361</b>	<b>\$ 31,051</b>	<b>\$ 20,778</b>	<b>\$ 52,190</b>

The outstanding balances between funds result mainly from the processing of loan payments which are initially received by the General Fund and then transferred to the Single Family Fund and Multi-Family/Business Fund on a month lag basis. All interfund payables are expected to be paid within one year.

The following table summarizes the Authority's transfers for the year ended December 31, 2008:

Transfers Out	Transfers In			Total
	General	Single Family	Multi-Family/ Business	
General	\$ -	\$ 42,450	\$ 100,605	\$ 143,055
Single Family	46,958	-	-	46,958
Multi-Family/Business	85,434	-	-	85,434
<b>Total</b>	<b>\$ 132,392</b>	<b>\$ 42,450</b>	<b>\$ 100,605</b>	<b>\$ 275,447</b>

The Authority makes transfers between funds primarily for the purpose of (1) making initial contributions from the General Fund to new bond series to cover bond issuance costs and (2) transferring amounts to the General Fund that are no longer restricted by bond resolutions or indentures.

**(11) Retirement Plans**

The Authority contributes to the Local Government Division Trust fund (Trust), previously known as the Municipal Division Trust Fund, a cost-sharing multiple-employer public defined benefit plan administered by the Public Employees’ Retirement Association of Colorado (PERA). The Trust provides retirement and disability, annual increases, and death benefits for members or their beneficiaries. Generally, all employees of the Authority are members of the Trust.

The Authority also contributes to the Health Care Trust Fund (Health Fund), a cost-sharing multiple-employer postemployment healthcare plan administered by PERA. The Health Fund provides a health care premium subsidy to PERA participating benefit recipients and their eligible beneficiaries.

Colorado Revised Statutes assign the authority to establish Trust and Health Fund benefit provisions to the State Legislature. PERA issues a publicly available annual financial report that includes financial statements and required supplementary information for the Trust and the Health Fund. That report may be obtained by writing to PERA at P.O. Box 5800, Denver, Colorado 80217-5800, by calling PERA at 303-832-9550 or 1-800-759-PERA (7372) or from PERA’s web site at [www.copera.org](http://www.copera.org).

Plan members and the Authority are required to contribute to the Trust at rates set by Colorado Statutes. A portion of the Authority’s contribution is allocated for the Health Fund. Member contributions to the Health Fund are not required.

The contribution rate for members and the Authority’s contributions to the Trust and Health Fund, which equaled the Authority’s required contributions for each year, were as follows:

	<b>2008</b>	<b>2007</b>	<b>2006</b>
<b>Contribution rate of covered salary:</b>			
Members	8.00%	8.00%	8.00%
Authority:			
Trust	10.88%	9.98%	9.48%
Health Fund	1.02%	1.02%	1.02%
<b>Total contribution rate</b>	<b>11.90%</b>	<b>11.00%</b>	<b>10.50%</b>
<b>Contributions by the Authority:</b>			
Trust	\$ 1,178	\$ 1,010	\$ 890
Health Fund	110	103	96
<b>Total contributions</b>	<b>\$ 1,288</b>	<b>\$ 1,113</b>	<b>\$ 986</b>

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 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 maximum match of gross salary is 3.5%, which includes the 1% contribution. All Participating employees vest immediately in the plan. Contributions by the Authority for the years ended December 31, 2008, and 2007 were \$325,000 and \$302,000, respectively. Contributions by participating employees for the year ended December 31, 2008 and 2007 were \$829,000 and \$797,000, respectively.

Included in bonds and notes payable are bonds payable to PERA of \$33,747,000 at December 31, 2008, that carry the Authority's general obligation pledge.

### **(12) 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. There were no significant reductions or changes in insurance coverage from the prior year. Settled claims did not exceed insurance coverage in any of the past three fiscal years.

### **(13) Commitments and Contingencies updated**

The Authority had outstanding commitments to make or acquire single family and multi-family/business loans of \$15,040,000 and \$37,002,000, respectively, as of December 31, 2008.

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.

### **(14) Subsequent Events**

On April 7, 2009, the Authority issued its Single Family Mortgage Class I Bonds in the amount of \$90,000,000. The bonds carry interest rates of 2.4% to 5.5% and mature in varying amounts through 2029.



## APPENDIX D

### 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 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. The Beneficial Owners of the 2009AA Bonds should confirm the following information with DTC or the DTC Participants.*

The Depository Trust Company ("**DTC**"), New York, NY, 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 2009AA Bond certificate will be issued for each maturity of the Bonds, in the aggregate principal amount of each such maturity of the Bonds, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants (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 Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("**DTCC**"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("**Indirect Participants**"). DTC has 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) and [www.dtc.org](http://www.dtc.org). *The Authority, the Trustee, and the Underwriters undertake no responsibility for and make no representation as to the accuracy or the completeness of the content of such material contained on DTC's website as described in the preceding sentence including, but not limited to, updates of such information or links to other Internet sites accessed through the aforementioned website.*

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 2009AA 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 & Co., 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 & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 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. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the 2009 Series B Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Bond Registrar and request that copies of notices be provided directly to them.

While the Bonds are in the book-entry system, redemption notices will 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 in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds, unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the 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 & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the Authority or the Trustee, on a payment date in accordance with their respective holdings shown on DTC's records. Payments by Direct and Indirect Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Direct and Indirect Participant and not of DTC, the Trustee, the Paying Agent, the Remarketing Agent, the 2009B 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 & Co. (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.

**THE AUTHORITY, THE TRUSTEE AND THE PAYING 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 PAYING 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 2009AA BONDS, (3) REGISTERING TRANSFERS WITH RESPECT TO THE 2009AA BONDS AND (4) THE SELECTION OF 2009AA BONDS FOR REDEMPTION.

A Beneficial Owner shall give notice to elect to have its Bonds purchased or tendered, through its Participant, to the Remarketing 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 Remarketing Agent. The requirement for physical delivery of Bonds in connection with an optional tender 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 tendered Bonds to the Remarketing Agent's DTC account.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the Authority and the Trustee. Under such circumstances, in the event that a successor depository is not obtained, 2009AA Bond certificates are required to be printed and delivered. The Authority may decide to discontinue use of the system of book-entry transfer through DTC (or a successor securities depository). In that event, 2009AA Bond certificates will be printed and delivered to DTC.

According to DTC, the foregoing information with respect to DTC and DTC's book-entry system 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.

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

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## APPENDIX E

### 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 home affordable modification, 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. Recent changes in Federal law require that bona fide tenants in a property under foreclosure who

have a lease resulting from an arms length transaction and who meet other conditions are entitled to a minimum 90 day advance notice to vacate the property.

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 must send to the Administrator of Veteran Affairs a notice of default and intention to foreclose 120 days from the date of delinquency. 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 Mortgage Loan. 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 through the foreclosure process, the Mortgagee must submit a disposition plan to RHS for RHS concurrence. The Mortgagee has six months from the date of acquisition 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 acquisition 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 Freddie Mac or Fannie Mae and which is rated, at the time each PMI Mortgage Loan is made or originated, by the agency then rating the Bonds at certain ratings designated in the Series Indenture. See "Part I – CERTAIN PROGRAM ASSUMPTIONS – Insurance Limitations and Requirements" for a description of the ratings required under the Series Indenture applicable to the Series of Bonds relating to this Official Statement.

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. The private mortgage insurance may either be Borrower Paid Mortgage Insurance (BPMI) where mortgage insurance is paid by the mortgagor; or Lender Paid Mortgage Insurance (LPMI) where mortgage insurance is paid by a person other than the mortgagor. LPMI cannot be cancelled by the mortgagor and is not automatically terminated under federal law. LPMI may result in a mortgage with a higher interest rate and terminates only when the mortgage is refinanced, paid off, or otherwise terminated. Federal law requires BPMI to be cancelled at the mortgagor's request on or after either of the following dates: (1) the date the principal balance of the loan is first scheduled to reach eighty percent (80%) of the original value of the property; or (2) the date the principal balance actually reaches eighty percent (80%) of the original value of the property. BPMI will only be canceled on these dates if the mortgagor submits a written request for cancellation; has a good payment history; is current on the mortgage loan; and the Authority receives evidence that the value of the property has not declined below its original value and certification that there are not subordinate liens on the property. Federal law also requires BPMI to automatically terminate on the date that the principal balance of the loan is first scheduled to reach seventy eight percent (78%) of the original value of the property if the mortgagor is current on loan payments. In any event, BPMI will terminate on the first day of the month immediately following the date that is the midpoint of the amortization period for the loan, if the mortgagor is current on that date.

Generally, delinquencies must be reported to the Private Insurer at day 45 of the delinquency and then on a monthly basis thereafter, and proceedings to recover title are required to commence within four 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 official known as a public trustee 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 deeds of trust, issuance of certificates of purchase and deeds following foreclosure, releases 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 (i) the original or, for certain qualified holders, a copy of the promissory note or evidence of debt (or, except as provided in the following sentence, a lost instruments bond if the note or evidence of debt has been lost), (ii) the original or copy of the recorded deed of trust (which copy in some cases must be certified by the Clerk and Recorder or in other cases accompanied by the certificate of the holder that such holder is a "qualified holder") and (iii) an originally executed 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 the so-called Combined Notice and 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 business days after receipt. The public trustee must

mail a Combined Notice no more than 20 calendar days after recording the Notice of Election and Demand to those persons on the initial mailing list provided by the mortgagee's attorney.

The public trustee also causes the Combined Notice to be published and posted. The Combined Notice must be published once per week for five successive weeks in a newspaper of general circulation in the county where the mortgaged property is located. Copies of the Combined Notice must be sent to the borrower, Grantor of the Deed of Trust, Guarantors, and "occupants" as designated by statute and who are listed on a mailing list provided by the mortgagee's attorney within 20 days after the recording of the Notice of Election and Demand. No more than sixty (60) nor fewer than forty-five (45) days prior to the first scheduled date of sale, the public trustee is required to again send the Combined Notice to the persons identified in the preceding sentence as well as to the owner of the property as of the date of recording of the Notice of Election and Demand and each person who appears to have an interest in the property prior to the date of the recording of the Notice of Election and Demand (if such person's interest in the property may be extinguished by the foreclosure).

The mortgagee may elect to preserve certain junior interests (like easements or leases) that would otherwise be extinguished by the foreclosure by filing a Notice to Affirm prior to the transfer of the title.

A right to redeem inures to certain holders of recorded junior interests that were recorded prior to the recording of the Notice of Election and Demand for Sale. A right to cure inures to the owner of the mortgaged property as of the recording of the Notice of Election and Demand and certain transferees, parties liable on the debt, sureties and guarantors of the debt and holders of an interest junior to the lien being foreclosed that was recorded prior to the recording of the Notice of Election and Demand for Sale.

A public trustee foreclosure sale is scheduled by the public trustee to occur no fewer than 110 days and no more than 125 days after the date of recording the Notice of Election and Demand for Sale for non-agricultural property. For agricultural property the sale is to be scheduled 215 to 230 days after the recording of the Notice of Election and Demand. If it is not evident from the legal description in the deed of trust the public trustee will determine if the property is agricultural based on certain evidence such as a subdivision plat, a written statement of an official that the property was within incorporated city limits, or a written statement from the assessor. The sale date may be extended by the mortgagee from time to time and by the public trustee for other reasons provided by statute.

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 held no later than 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 entitling the mortgagee to foreclose 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, determining 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 and for one year after the end of the period of military service. Such relief includes: (i) reduction of the Mortgage Loan interest rate to six percent (6%); and (ii) a stay of foreclosure proceedings. 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. For requests to cure filed 30 days or more before the sale date, the mortgagee must provide the amount required to cure by noon on the seventh calendar day prior to the sale. For requests for cure statement filed more than 30 days before the sale date, the mortgagee must provide the amount required for cure statement within 10 business days after the receipt of the request. If the request for cure statement is filed 30 or fewer days prior to the sale date, the amount required to cure must be provided to the public trustee by 12:00 Noon on the seventh (7<sup>th</sup>) calendar day prior to the date of sale. If these deadlines are not met, the foreclosure will be postponed 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 at least the mortgagee's 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. Title to the property vests in the holder of the Certificate of Purchase upon the close of business, eight days after the sale date if no notice of intent to redeem was filed. If a notice of intent to redeem was filed, the title vests upon the expiration of all redemption periods.

Certain holders of recorded junior interests have redemption rights if they timely filed a Notice of Intent to Redeem. The most senior junior lienholder may redeem between 15 and 19 days after the sale date and each subsequent junior lienholder has (in order of priority of the liens) five business days 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 within eight business days after the foreclosure sale. Title to the property will vest in the holder of the Certificate of Purchase upon the close of business eight days after the sale date if no notice of intent to redeem was filed. If a notice of intent to redeem was filed, and no redemption has occurred, the title vests in the holder of the Certificate of Purchase upon the expiration of all redemption periods. The public trustee will issue a deed to, the holder of the Certificate of Purchase. The public trustee 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. The public trustee's deed will be junior to the lien for real property taxes and assessments and to all liens and interests, if any, which were senior to the deed of trust foreclosed.

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 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, Rural Housing Service or a Private Insurer. VA and FHA encourage Mortgage Lenders to avoid foreclosure wherever possible. VA, FHA and Rural Housing Service 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 30 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 the Combined Notice 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 of the Combined Notices 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.

Effective for foreclosures filed on or after August 2, 2009, on certain owner occupied properties in which the original debt was \$500,000 or less, the mortgagor may be eligible for a foreclosure deferment for a period of 90 days to allow the holder of the debt and mortgagor to negotiate. On such properties, the mortgagee must provide a Notice to the Public Trustee that the property and mortgagor may be eligible for a foreclosure deferment; and must post a notice in a conspicuous place on the property that the mortgagor may be eligible for a deferment including the information concerning contacting a housing counselor within 20 days. If within 30 days, the housing counselor determines that the mortgagor is eligible for a 90 day deferment, the housing counselor must file a certification with the Public Trustee, who must cancel all publications and postpone the sale date from week to week. During the foreclosure deferment period, the holder and the mortgagor must negotiate the terms of the debt and the mortgagor must make reduced payments to the holder. The 90 day deferment may be terminated early upon the certification of the housing counselor. A certification may be made upon request of the holder, if the holder can demonstrate that the mortgagor has abandoned the property; failed to comply with the conditions of the foreclosure deferment; transferred or further encumbered the property; or has filed bankruptcy during the foreclosure deferment period. In addition, if foreclosure is initiated by a different party on another lien encumbering the property, the foreclosure deferment may terminate early. Once the foreclosure deferment has ended or been terminated, the Public Trustee will begin publication and must mail the Notice of Sale within 20 days.

The Colorado General Assembly recently enacted HB-09-1207 which makes some changes in the foreclosure process. Certain provisions will take effect for foreclosures filed on or after September 1, 2009 and others will take effect for foreclosures filed on or after January 1, 2010. Those changes are not reflected in the description of the foreclosure process in this **Appendix E**.

## APPENDIX F

### Form of Continuing Disclosure Agreement

#### 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 Taxable Single Family Program Class I Bonds, Convertible Series 2009AA (the "2009AA Bonds"). The 2009AA Bonds are being issued pursuant to a Master Indenture of Trust dated as of December 1, 2009 (the "Master Indenture"), as supplemented by the Series 2009AA Indenture dated as of December 1, 2009 (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. 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 2009AA Bonds are being issued to provide funds to finance the purchase of mortgage loans and/or mortgage-backed, pass-through securities (the "MBS") under the Authority's Single Family Mortgage Program (as defined in the Official Statement), to refund certain outstanding single family bonds of the Authority, to establish necessary reserves, and to otherwise attain the goals of the Authority pursuant to the Colorado Housing and Finance Authority Act.
2. The Authority has agreed to make certain continuing disclosure undertakings for the benefit of owners (including beneficial owners) of the 2009AA Bonds.
3. This Disclosure Certificate is intended to provide for disclosures which would be required by Rule 15c2-12 promulgated by the Securities and Exchange Commission under the Securities and Exchange Act of 1934 (the "Rule") as in effect on the date hereof if the Rule were applicable to the 2009AA Bonds.

#### 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," 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) "EMMA" means the MSRB's Electronic Municipal Market Access System, with a portal at <http://emma.msrb.org>.

(d) "Events" means any of the events listed in Section 2(d) hereof.

(e) "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.

(f) "Official Statement" means the Official Statement delivered in connection with the original issue and sale of the 2009AA Bonds.

(g) "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.

(h) "SEC" means the Securities and Exchange Commission.

(i) "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, 2010 and annually while the 2009AA Bonds remain outstanding, the Authority agrees to provide or cause to be provided annually to EMMA 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 or repositories as required by Rule 15c2-12; 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 2009AA Bonds are outstanding, the Authority shall provide, in a timely manner, to EMMA notice of the occurrence of any of the following Events with respect to the 2009AA 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 2009AA Bonds;
- ii. Non-payment related defaults with respect to the 2009AA 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 2009AA Bonds;
- vii.     Modifications to the rights of the owners of the 2009AA Bonds;
- viii.    Bond calls (other than mandatory sinking fund redemption);
- ix.      Defeasance;
- x.       Release, substitution or sale of property securing repayment of the 2009AA Bonds; and
- xi.      Rating changes.

(e)      At any time the 2009AA Bonds are outstanding, the Authority shall provide, in a timely manner, to EMMA 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 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 2009AA Bonds. The owner or beneficial owner of any 2009AA 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 2009AA Bonds; provided, that any owner or beneficial owner of 2009AA 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 2009AA 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 2009AA Bonds and shall extend to the earliest of (i) the date all principal and interest on the 2009AA 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 2009AA 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 2009AA 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 2009AA 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 EMMA as required by Rule 15c2-12.

Section 8. Beneficiaries. The Disclosure Certificate shall inure solely to the benefit of the Authority and the owners (including beneficial owners) from time to time of the 2009AA Bonds, and shall create no rights in any other person or entity.



Dated as of December 30, 2009.

COLORADO HOUSING AND FINANCE  
AUTHORITY

By: \_\_\_\_\_  
Thomas E. Hemmings

## **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.

## APPENDIX G

### THE CERTIFICATES

#### APPENDIX G-1

##### GNMA Mortgage-Backed Certificates Program

*The summary of the GNMA Program, Ginnie Mae Certificates and other documents referred to herein does not purport to be comprehensive and is qualified in its entirety by reference to the GNMA Mortgage-Backed Securities Guide (the "**GNMA Guide**") (copies of which may be obtained from GNMA at the Office of Mortgage-Backed Securities, 451 Seventh Street, S.W., Washington, D.C. 20410, or at <http://www.ginniemae.gov>) and to the Ginnie Mae Certificates and other documents for full and complete statements of their provisions.*

**General.** Ginnie Mae is a wholly owned corporate instrumentality of the United States within the Department of Housing and Urban Development ("**HUD**") with its principal office located in Washington, D.C.

Ginnie Mae is authorized by Section 306(g) of Title III of the National Housing Act of 1934, as amended (the "**National Housing Act**"), to guarantee the timely payment of the principal of, and interest on, securities that are based on and backed by trusts or pools composed of Mortgage Loans insured or guaranteed under the National Housing Act, Title V of the Housing Act of 1949, the Servicemen's Readjustment Act of 1944, as amended, Chapter 37 of Title 38 of the United States Code or Section 184 of the Housing and Community Development Act of 1992 or guaranteed by the United States Department of Agriculture under the Rural Development Program. Section 306(g) further provides that "[t]he full faith and credit of the United States is pledged to the payment of all amounts which may be required to be paid under any guaranty under this subsection." An opinion, dated December 9, 1969, of an Assistant Attorney General of the United States states that such guarantees under Section 306(g) of mortgage-backed certificates are authorized to be made by Ginnie Mae and "would constitute general obligations of the United States backed by its full faith and credit."

There are two GNMA Mortgage-Backed Securities programs, GNMA I MBS and GNMA II MBS.

Any Ginnie Mae Certificates acquired by the Authority will be a "fully modified pass-through" security (guaranteed by Ginnie Mae pursuant to its GNMA I or GNMA II mortgage-backed securities program) which will require the servicer to pass through to the holder the regular monthly payments on the underlying mortgage loans (less the service fees), whether or not the servicer receives such payments from the Mortgagors on the underlying Mortgage Loans, plus any prepayments or other unscheduled recoveries of principal of the mortgage loans received by the servicer during the previous month. Upon issuance of each Ginnie Certificate, Ginnie Mae will guarantee to the holder of the GNMA Security the timely payment of principal of and interest on the Ginnie Mae Certificate. In order to meet its obligations under such guaranty, Ginnie Mae, in its corporate capacity under Section 306(d) of Title III of the National Housing Act, may issue its general obligations to the United States Treasury Department (the "**Treasury**") in an amount outstanding at any one time sufficient to enable Ginnie Mae, with no limitations as to amount, to perform its obligations under its guaranty of the timely payment of the principal of and interest on the Ginnie Mae Certificate. The Treasury is authorized to purchase any obligations so issued by Ginnie Mae and has indicated in a letter dated February 13, 1970, from the

Secretary of the Treasury to the Secretary of HUD, that the Treasury will make loans to Ginnie Mae, if needed, to implement the aforementioned guaranty.

Under the terms of its guaranty, Ginnie Mae also warrants to the holder of the Ginnie Mae Certificate that, in the event Ginnie Mae is called upon at any time to make payment on its guaranty of the principal of and interest on the Ginnie Mae Certificate, it will, if necessary, in accordance with Section 306(d) of Title III of the National Housing Act, apply to the Treasury for a loan or loans in amounts sufficient to make such payments of principal and interest.

Ginnie Mae will have no responsibility to determine whether or not the Program complies with the requirements of the Code or whether or not interest on the Bonds is exempt from federal income taxation. The payments due to the Trustee, as holder, pursuant to the terms of the Ginnie Mae Certificates will not change in the event the interest on the 2009AA Bonds for any reason is determined to be subject to federal income taxation.

***Servicing of the Mortgages.*** Under contractual agreements entered into by and between the Servicer and Ginnie Mae, the Servicer is responsible for servicing and otherwise administering the mortgages underlying the Ginnie Mae Certificates in accordance with generally-accepted practices of the mortgage lending industry and the GNMA Guide.

The monthly remuneration of the servicer, for its servicing and administrative functions, and the guaranty fee charged by Ginnie Mae based on the unpaid principal amount of the Ginnie Mae Certificates outstanding. The Ginnie Mae Certificates carry an interest rate that is fixed at .50% below the interest rate on the underlying mortgage loans; the service fees (equal on a monthly basis to 1/12 of .50% of the outstanding principal balance of the mortgage loans) are deducted from interest payments on the mortgage loans before payments are passed through to the owner of the Ginnie Mae Certificate.

It is expected that interest and principal payments on the mortgage loans underlying the Ginnie Mae Certificates received by the servicer will be the source of payments on the Ginnie Mae Certificates. If such payments are less than what is due, the servicer is obligated to advance its own funds to ensure timely payment of all amounts coming due on the Ginnie Mae Certificates. Ginnie Mae guarantees such timely payment in the event of the failure of the servicer to pay an amount equal to the scheduled payments (whether or not made by the Mortgagors on the underlying Mortgages).

The servicer is required to advise Ginnie Mae in advance of any impending default on scheduled payments so that Ginnie Mae, as guarantor, will be able to continue such payments as scheduled on the applicable payment date. If, however, such payments are not received as scheduled, the holder has recourse directly to Ginnie Mae.

***Default by Servicer.*** In the event of a default by the servicer, Ginnie Mae will have the right, by letter to the servicer, to effect and complete the extinguishment of the servicer's interest in the mortgage loans underlying the Ginnie Mae Certificates, and such mortgage loans will thereupon become the absolute property of Ginnie Mae, subject only to the unsatisfied rights of the owner of the Ginnie Mae Certificate. In such event, Ginnie Mae will be the successor in all respects to the servicer with respect to the transaction and the agreements set forth or arranged for in the GNMA Guide.

***Payment of Principal and Interest on the Ginnie Mae Certificates.*** Under the GNMA I MBS Program, the servicer makes separate payments, by the fifteenth day of each month (or, if the fifteenth day is not a business day, then the next business day), directly to each owner of Ginnie Mae Certificates for each of the Ginnie Mae Certificates held.

Payment of principal of each Ginnie Mae Certificate is expected to commence on the fifteenth day of the month following issuance of the Ginnie Mae Certificate.

Each installment on a Ginnie Mae Certificate is required to be applied first to interest and then in reduction of the principal balance then outstanding on the Ginnie Mae Certificate. Interest is to be paid at the specified rate on the unpaid portion of the principal of the Ginnie Mae Certificate. The amount of principal due on the Ginnie Mae Certificate will be in an amount at least equal to the scheduled principal amortization currently due on the mortgage loans based on reporting from the issuer. However, payment of principal and interest is to be adjustable as set forth below.

Each of the monthly installments on a Ginnie Mae Certificate is subject to adjustment by reason of any prepayments or other unscheduled recoveries of principal on the underlying mortgage loans. In any event, the servicer will pay to the holder of the Ginnie Mae Certificate monthly installments of not less than the interest due on the Ginnie Mae Certificate at the rate specified in the Ginnie Mae Certificate, together with any scheduled installments of principal, whether or not such interest or principal is collected from the Mortgagors, and any prepayments or early recovery of principal. Final payment will be made only upon surrender of the outstanding Ginnie Mae Certificate.

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## APPENDIX G-2

### Fannie Mae Mortgage Backed Certificates Program

*The summary of Fannie Mae Certificates Program, the Fannie Mae Certificates Securities and other documents referred to herein does not purport to be comprehensive and is qualified in its entirety by reference to the Fannie Mae Selling Guide and the Fannie Mae Servicing Guide (collectively, the "Fannie Mae Guides") and the Fannie Mae Certificates and other documents for full and complete statements of their provisions. Copies of the Fannie Mae Guides, the Fannie Mae Prospectus and Fannie Mae's most recent annual and quarterly reports and proxy statement are available from Fannie Mae, 3900 Wisconsin Avenue, N.W., Washington, DC 20016, (800-237-8627), or at <http://www.fanniemae.com>.*

**General.** Federal National Mortgage Association ("**Fannie Mae**") is a federally chartered and stockholder-owned corporation organized and existing under the Federal National Mortgage Association Charter Act, as amended (12 U.S.C. Section 1716 *et seq.*). Fannie Mae was originally established in 1938 as a United States government agency to provide supplemental liquidity to the mortgage market and was transformed into a stockholder-owned and privately managed corporation by legislation enacted in 1968. Fannie Mae provides funds to the mortgage market by purchasing mortgage loans from lenders, thereby replenishing their funds for additional lending. Fannie Mae acquires funds to purchase mortgage loans from many capital market investors that may not ordinarily invest in mortgage loans, thereby expanding the total amount of funds available for housing. In addition, Fannie Mae issues mortgage-backed securities primarily in exchange for pools of mortgage loans from lenders.

Although the Secretary of the Treasury has certain discretionary authority to purchase obligations of Fannie Mae, neither the United States nor any agency thereof is obligated to finance Fannie Mae's obligations or to assist Fannie Mae in any manner.

The Federal Housing Finance Regulatory Reform Act of 2008 (the "**Reform Act**") established the Federal Housing Finance Agency ("**FHFA**"), which assumed the regulatory and oversight duties of Fannie Mae of the Office of Federal Housing Enterprise Oversight and the Department of Housing and Urban Development. In addition, on September 6, 2008, the Director of FHFA placed Fannie Mae into conservatorship, appointing FHFA as conservator. This conservatorship does not have a specified termination date.

**Fannie Mae Mortgage-Backed Securities Program.** Fannie Mae has implemented a mortgage-backed securities program pursuant to which Fannie Mae issues securities backed by pools of mortgage loans (the "**Fannie Mae Certificates Program**"). The obligations of Fannie Mae, including its obligations under the Fannie Mae Certificates, are obligations solely of Fannie Mae and are not backed by, or entitled to, the full faith and credit of the United States.

The terms of the Fannie Mae Certificates Program are governed by the Fannie Mae Guides, as modified by a pool purchase contract, and, in the case of mortgage loans such as the Mortgage Loans, a 2009 Single-Family Master Trust Agreement dated as of January 1, 2009, as amended from time to time and a supplement thereto to be issued by Fannie Mae in connection with each pool. The Fannie Mae Certificates Program is further described in a prospectus issued by Fannie Mae (the "**Fannie Mae Prospectus**"). The Fannie Mae Prospectus is updated from time to time. No Fannie Mae Prospectus Supplement will be available as to any Fannie Mae Certificates acquired pursuant to the Program.

**Fannie Mae Certificates.** Any Fannie Mae Certificate acquired by the Authority will represent a fractional undivided interest in a specified pool of conventional mortgage loans purchased by Fannie Mae

from the servicer and identified in records maintained by Fannie Mae. The conventional mortgage loans backing each Fannie Mae Certificate will bear interest at a specified rate per annum, and each Fannie Mae Certificate will bear interest at a lower rate per annum (the "**pass-through rate**"). The difference between the interest rate on the conventional mortgage loans and the pass-through rate on the Fannie Mae Certificate will be collected by the servicer and used to pay the servicer's servicing fee and Fannie Mae's guaranty fee. Fannie Mae will guarantee to the registered holder of the Fannie Mae Certificates that it will distribute amounts representing scheduled principal and interest at the applicable pass-through rate on the conventional mortgage loans in the pools represented by such Fannie Mae Certificates, whether or not received, and the full principal balance of any foreclosed or other finally liquidated mortgage loan, whether or not such principal balance is actually received.

THE OBLIGATIONS OF FANNIE MAE UNDER SUCH GUARANTEES ARE OBLIGATIONS SOLELY OF FANNIE MAE AND ARE NOT BACKED BY, NOR ENTITLED TO, THE FAITH AND CREDIT OF THE UNITED STATES. IF FANNIE MAE WERE UNABLE TO SATISFY SUCH OBLIGATIONS, DISTRIBUTIONS TO THE REGISTERED HOLDER OF FANNIE MAE CERTIFICATES WOULD CONSIST SOLELY OF PAYMENTS AND OTHER RECOVERIES ON THE UNDERLYING MORTGAGE LOANS AND, ACCORDINGLY, MONTHLY DISTRIBUTIONS TO THE HOLDER OF FANNIE MAE CERTIFICATES WOULD BE AFFECTED BY DELINQUENT PAYMENTS AND DEFAULTS ON SUCH MORTGAGE LOANS.

*Payments on Mortgage Loans; Distributions on Fannie Mae Certificates.* Payments on a Fannie Mae Certificate are made to the owner thereof on the twenty-fifth day of each month (beginning with the month following the month such Fannie Mae Certificate is issued) or, if such twenty-fifth day is not a business day, on the first business day next succeeding such twenty-fifth day. With respect to each Fannie Mae Certificate, Fannie Mae will distribute to the beneficial owner an amount equal to the total of (a) the principal due on the mortgage loans in the related pool underlying such Fannie Mae Certificate during the period beginning on the second day of the month prior to the month of such distribution and ending on the first day of such month of distribution, (b) the stated principal balance of any mortgage loan that was prepaid in full during the calendar month immediately preceding the month of such distribution (including as prepaid for this purpose any mortgage loan repurchased by Fannie Mae because of Fannie Mae's election to repurchase the mortgage loan after it is delinquent, in whole or in part with respect to four consecutive installments of principal and interest; or because of Fannie Mae's election to repurchase such mortgage loan under certain other circumstances as permitted by the Fannie Mae Trust Indenture), (c) the amount of any partial prepayment of a mortgage loan received during the calendar month immediately preceding the month of distribution (during the second preceding calendar month, for pools of loans formed from the Fannie Mae portfolio that are serviced on a basis that requires remittance of actual payments to Fannie Mae instead of scheduled payments) and (d) one month's interest at the pass-through rate on the principal balance of the Fannie Mae Certificate as reported to the holder thereof in connection with the previous distribution (or, respecting the first distribution, the principal balance of the Fannie Mae Certificate on its issue date).

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

*Reduced Guaranty Fees.* If Fannie Mae reduces its guaranty fee to an amount that is less than that used in structuring the cash flows for the Bonds, the difference will become part of the Issuer's Fee and will not secure the 2009AA Bonds.



## APPENDIX G-3

### Freddie Mae Mortgage Backed Certificates Program

*The summary of the Freddie Mac Guarantor Program (as defined below), the Freddie Mac Certificates and other documents referred to herein do not purport to be complete and is qualified in its entirety by reference to Freddie Mac's Single-Family Seller/Service Guide (the "**Freddie Mac Guide**"), Freddie Mac's Mortgage Participation Certificates Offering Circular, any applicable Offering Circular Supplements, Freddie Mac's most recent annual and quarterly reports and proxy statements and any other documents made available by Freddie Mac. Copies of these documents can be obtained by writing or calling Freddie Mac's Investor Inquiry Department at 8200 Jones Branch Drive, McLean, Virginia 22102 (800 336 FMPC), or at <http://www.freddiemac.com>.*

**General.** Freddie Mac is a shareholder owned government sponsored enterprise created on July 24, 1970 pursuant to the Federal Home Loan Mortgage Program Operator Act, Title III of the Emergency Home Finance Act of 1970, as amended (the "**Freddie Mac Act**"). Freddie Mac's statutory mission is (a) to provide stability in the secondary market for residential mortgages, (b) to respond appropriately to the private capital market, (c) to provide ongoing assistance to the secondary market for residential mortgages (including activities relating to mortgages on housing for low- and moderate- income families involving a reasonable economic return that may be less than the return earned on other activities) by increasing the liquidity of mortgage investments and improving the distribution of investment capital available for residential mortgage financing and (d) to promote access to mortgage credit throughout the United States (including central cities, rural areas and underserved areas) by increasing the liquidity of mortgage investments and improving the distribution of investment capital available for residential mortgage financing. Neither the United States nor any agency or instrumentality of the United States is obligated, either directly or indirectly, to fund the mortgage purchase or financing activities of Freddie Mac.

The Federal Housing Finance Regulatory Reform Act of 2008 (the "**Reform Act**") established the Federal Housing Finance Agency ("**FHFA**"), which assumed the regulatory and oversight duties of Freddie Mac of the Office of Federal Housing Enterprise Oversight and the United States Department of Housing and Urban Development ("**HUD**"), with respect to safety, soundness and mission. HUD remains the regulator of Freddie Mac with respect to fair lending matters. In addition, on September 6, 2008, the Director of FHFA placed Freddie Mac into conservatorship, appointing FHFA as conservator. This conservatorship does not have a specified termination date.

**Freddie Mac Guarantor Program.** Freddie Mac has established a mortgage purchase program pursuant to which Freddie Mac purchases a group of mortgages from a single seller in exchange for a Freddie Mac Certificate representing an undivided interest in a pool consisting of the same mortgages (the "**Guarantor Program**"). Each Freddie Mac Certificate is guaranteed by Freddie Mac as to the timely payment of interest and the full and final payment of principal. The obligations of Freddie Mac under its guarantees of the Freddie Mac Certificates are obligations of Freddie Mac only. The Freddie Mac Certificates, including the interest thereon, are not guaranteed by the United States and do not constitute debts or obligations of the United States or any agency or instrumentality of the United States other than Freddie Mac.

The Authority does not and will not participate in the preparation of Freddie Mac's Mortgage Participation Certificate Offering Circular, annual reports, quarterly reports or proxy statements.

Freddie Mac supervises the servicing of Mortgages according to the policies in the Freddie Mac Guide, and in accordance with the PC Master Trust Agreement, dated September 25, 2009, as amended from time to time.

**Freddie Mac Certificates.** Freddie Mac Certificates will be mortgage participation certificates issued under Freddie Mac's Guarantor Program. Under the Guarantor Program, the annual pass through rate on a Freddie Mac Certificate is established based upon the lowest interest rate on the underlying mortgage loans, minus a minimum servicing fee and the amount of Freddie Mac's management and guarantee fee as agreed upon between the Servicer and Freddie Mac. The lowest interest rate on a mortgage loan in a Certificate Pool will be greater than or equal to the annual pass through rate on the related Freddie Mac Certificate plus a minimum servicing fee and Freddie Mac's management and guarantee fee, and the highest interest rate will not exceed two and one half percentage points above the pass through rate.

Freddie Mac will guarantee to the registered holder of each Freddie Mac Certificate the timely payment of interest by each mortgagor to the extent of the applicable certificate rate on the registered holder's pro rata share of the unpaid principal balance outstanding on the mortgage loans underlying such Freddie Mac Certificate. Freddie Mac also will guarantee to the Trustee or its nominee as the registered holder of such Freddie Mac Certificate full and final payment of principal. Pursuant to its guarantee, Freddie Mac will indemnify the holder of such Freddie Mac Certificate against any diminution in principal by reason of charges for property repairs, maintenance and foreclosure. Freddie Mac may remit the amount due on account of its guarantee of collection of principal at any time after default on an underlying mortgage loan, but not later than (a) 30 days following foreclosure sale, (b) 30 days following payment of the claim by any mortgage issuer, or (c) 30 days following the expiration of any right of redemption, whichever occurs last, but in any event no later than one year after demand has been made upon the mortgagor for accelerated payment of principal.

THE OBLIGATIONS OF FREDDIE MAC UNDER ITS GUARANTEES OF THE FREDDIE MAC CERTIFICATES ARE OBLIGATIONS OF FREDDIE MAC ONLY. THE FREDDIE MAC CERTIFICATES, INCLUDING THE INTEREST THEREON, ARE NOT GUARANTEED BY THE UNITED STATES AND DO NOT CONSTITUTE DEBTS OR OBLIGATIONS OF THE UNITED STATES OR ANY AGENCY OR INSTRUMENTALITY OF THE UNITED STATES OTHER THAN FREDDIE MAC. IF FREDDIE MAC WERE UNABLE TO SATISFY SUCH OBLIGATIONS, DISTRIBUTIONS ON THE FREDDIE MAC CERTIFICATES WOULD CONSIST SOLELY OF PAYMENTS AND OTHER RECOVERIES ON THE UNDERLYING MORTGAGE LOANS AND, ACCORDINGLY, DELINQUENCIES AND DEFAULTS WOULD AFFECT MONTHLY DISTRIBUTIONS ON SUCH FREDDIE MAC CERTIFICATES AND COULD ADVERSELY AFFECT THE PAYMENTS ON THE BONDS.

Holders of Freddie Mac Certificates are entitled to receive their pro rata share of all principal payments on the underlying mortgage loans received by Freddie Mac, including any scheduled principal payments, full and partial repayments of principal and principal received by Freddie Mac by virtue of condemnation, insurance, liquidation or foreclosure, including repayments of principal resulting from acquisition by Freddie Mac of the real property securing the mortgage. Freddie Mac is required to remit each registered Freddie Mac Certificate holder's pro rata share of principal payments on the underlying mortgage loans, interest at the certificate rate and any other sums within 60 days of the date on which such payments are received by Freddie Mac.

**Reduced Guaranty Fees.** If Freddie Mac reduces its guaranty fee to an amount that is less than that used in structuring the cash flows for the 2009AA Bonds, the difference will become part of the Authority's Fee and will not secure the 2009AA Bonds.