

**NEW ISSUE—Book-Entry Only**

*IN THE OPINION OF SHERMAN & HOWARD L.L.C., BOND COUNSEL, INTEREST ON THE TAXABLE 1998 SERIES D-1 SENIOR BONDS IS NOT EXCLUDABLE FROM GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES. In the opinion of Sherman & Howard L.L.C., Bond Counsel, assuming continuous compliance with certain covenants and representations described herein, (i) interest on the 1998 Series D-2 Senior Bonds, the 1998 Series D-3 Senior Bonds and the Subordinate Bonds is not included in gross income for federal income tax purposes under federal income tax laws pursuant to Section 103 of the Internal Revenue Code of 1986, as amended to the date of delivery of the Bonds (the "Tax Code"); however, interest on the 1998 Series D-2 Senior Bonds is an item of tax preference for purposes of calculating alternative minimum taxable income as defined in Section 55(b)(2) of the Tax Code under federal income tax laws, and interest on the 1998 Series D-3 Senior Bonds and the Subordinate Bonds is not included in alternative minimum taxable income as defined in Section 55(b)(2) of the Tax Code under federal income tax laws, except that such interest is required to be included in calculating the "adjusted current earnings" adjustment applicable to corporations for purposes of computing the alternative minimum taxable income of corporations; and (ii) interest on the Bonds is not included in Colorado taxable income or Colorado alternative minimum taxable income under Colorado income tax laws in effect as of the date of delivery of the Bonds. See "TAX MATTERS" herein.*

**\$60,000,000**



**COLORADO HOUSING AND FINANCE AUTHORITY**  
**Single Family Program Senior and Subordinate Bonds**

**\$4,500,000**  
**Taxable 1998 Series D-1**  
**Senior Bonds**

**\$28,315,000**  
**1998 Series D-2**  
**Senior Bonds**  
**(AMT)**

**\$26,055,000**  
**1998 Series D-3**  
**Senior Bonds**  
**(non-AMT)**

**\$1,130,000**  
**1998 Series D**  
**Subordinate Bonds**  
**(non-AMT)**

**Due: As shown below**

**Dated: October 1, 1998**

The Colorado Housing and Finance Authority Single Family Program Senior Bonds, 1998 Series D in the three series shown above and the Colorado Housing and Finance Authority Single Family Program Subordinate Bonds, 1998 Series D are being issued by the Colorado Housing and Finance Authority as fully registered Bonds without coupons in the denomination of \$5,000, and any integral multiple thereof, pursuant to an Indenture of Trust between the Authority and Norwest Bank Colorado, National Association, Denver, Colorado, as Trustee. When issued, the Bonds will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York. DTC initially will act as securities depository for the Bonds. Individual purchases will be made in book-entry form only, in the principal amount of \$5,000 and integral multiples thereof. Purchasers of the Bonds will not receive physical delivery of bond certificates, all as more fully described herein. Interest on the Bonds will be payable semiannually on each May 1 and November 1, commencing May 1, 1999. Principal of and premium, if any, and interest on the Bonds are payable by Norwest Bank Colorado, National Association, Denver, Colorado, or any successor thereto, as Trustee, to DTC. DTC is required to remit such principal, premium, and interest to its Participants, for subsequent disbursement to the Beneficial Owners of the Bonds, as more fully described herein.

Proceeds of the Bonds, or amounts exchanged therefor, will be (i) deposited to certain funds established under the Indenture and (ii) used by the Trustee, on or before the end of the period for the origination of mortgage loans, to purchase a portfolio of qualifying FHA insured or VA or Rural Housing Service (formerly the RHCDS, the successor to FmHA) guaranteed or conventional insured or uninsured mortgage loans which have been made by certain mortgage lending institutions to qualified persons or families of low or moderate income to finance the purchase of single family residences in the State of Colorado.

The Bonds are subject to special, optional and mandatory sinking fund redemption prior to maturity under certain circumstances, as described herein. It is expected that a substantial portion of the Bonds will be redeemed prior to their respective stated maturities at a redemption price equal to the principal amount of the Bonds to be redeemed, without premium.

**Maturity Schedules for Senior Bonds**

**\$4,500,000 of Taxable 1998 Series D-1 Senior Bonds**  
\$4,500,000 of 5.40% Taxable 1998 Series D-1 Senior Bonds Due November 1, 2029—Price: 100%  
(Plus accrued interest)

**\$28,315,000 of 1998 Series D-2 Senior Bonds (AMT)**  
\$2,000,000\* of 6.35% 1998 Series D-2 Senior Bonds Due May 1, 2029—Price: 109.70%  
(Plus accrued interest)  
\$26,315,000 of 6.35% 1998 Series D-2 Senior Bonds Due November 1, 2029—Price: 109.70%  
(Plus accrued interest)

**\$26,055,000 of 1998 Series D-3 Senior Bonds (non-AMT)**  
\$5,420,000 of 4.25% 1998 Series D-3 Senior Bonds Due May 1, 2016—Price: 100%  
(Plus accrued interest)  
\$20,635,000 of 6.125% 1998 Series D-3 Senior Bonds Due November 1, 2023—Price: 109.25%  
(Plus accrued interest)

**Maturity Schedule for Subordinate Bonds (non-AMT)**

\$1,130,000 of 4.25% Subordinate Bonds Due May 1, 2006—Price: 100%  
(Plus accrued interest)

The Bonds constitute special, limited obligations of the Authority payable solely from the moneys, rights and interests pledged under the Indenture of Trust described herein and not from other revenues, funds or assets of the Authority. In no event shall the 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 or any political subdivision thereof other than the Authority.

The Bonds are offered when, as and if issued by the Authority and received by the Underwriters, subject to approval of legality of the Bonds by Sherman & Howard L.L.C., Denver, Colorado, Bond Counsel, and the satisfaction of certain other conditions. Certain legal matters will be passed upon for the Underwriters by their counsel, Hogan & Hartson L.L.P., Denver, Colorado. It is expected that the Bonds will be delivered (through DTC) in New York, New York, on or about October 28, 1998.

**George K. Baum & Company**

INVESTMENT BANKERS

**A.G. Edwards & Sons, Inc.**

**Dain Rauscher Incorporated**

October 15, 1998

\* Purchased directly from the Authority by an institutional investor

This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy any of the Bonds in any jurisdiction in which it is unlawful to make such offer, solicitation, or sale. No dealer, salesman, or other person has been authorized to give any information or to make any representations other than those contained in this Official Statement in connection with the offering of the Bonds, and if given or made, such information must not be relied upon as having been authorized by the Authority or the Underwriters.

The information set forth in this Official Statement has been furnished by the Authority and obtained from other sources believed to be reliable, but nothing contained herein is or shall be relied upon as a representation or warranty of the Underwriters or anyone acting on their behalf. 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.

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

**THE PRICES AT WHICH THE BONDS ARE OFFERED TO THE PUBLIC BY THE UNDERWRITERS MAY VARY FROM THE INITIAL PUBLIC OFFERING PRICES APPEARING ON THE COVER PAGE HEREOF. IN ADDITION, THE UNDERWRITERS MAY ALLOW CONCESSIONS OR DISCOUNTS FROM SUCH INITIAL PUBLIC OFFERING PRICES TO DEALERS AND OTHERS. IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.**

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## OFFICIAL STATEMENT

\$60,000,000

### COLORADO HOUSING AND FINANCE AUTHORITY Single Family Program Senior and Subordinate Bonds

\$4,500,000 Taxable 1998 Series D-1 Senior Bonds	\$28,315,000 1998 Series D-2 Senior Bonds (AMT)	\$26,055,000 1998 Series D-3 Senior Bonds (non-AMT)	\$1,130,000 1998 Series D Subordinate Bonds (non-AMT)
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### INTRODUCTION

This Official Statement, which includes the cover page and appendices hereto, provides certain information concerning the Colorado Housing and Finance Authority (the "Authority") and otherwise in connection with the offer and sale of \$58,870,000 aggregate principal amount of the Authority's Single Family Program Senior Bonds, 1998 Series D (the "Senior Bonds") and \$1,130,000 aggregate principal amount of Single Family Program Subordinate Bonds, 1998 Series D (the "Subordinate Bonds," and collectively, with the Senior Bonds, the "Bonds"). The Senior Bonds will be issued in three series in the aggregate principal amounts shown on the cover page hereof. See "Description of the Bonds" under this caption. Capitalized terms used herein and not defined have the meanings specified in the Indenture of Trust, to be dated as of October 1, 1998 (the "Indenture"), between the Authority and Norwest Bank Colorado, National Association, Denver, Colorado, or any successor thereto, as trustee (the "Trustee"). See "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE."

*This introduction is not a summary of this Official Statement. It is only a description of and guide to, and is qualified by, the information contained in the entire Official Statement, including the cover page and appendices hereto, and the documents summarized or described herein. A full review should be made of the entire Official Statement. The offering of Bonds to potential investors is made only by means of the entire Official Statement.*

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

The Authority is a body corporate and political subdivision of the State of Colorado (the "State") established by the Colorado General Assembly for the purpose of increasing the supply of decent, safe and sanitary housing for low and moderate income families. See "THE AUTHORITY - Background." In order to achieve its authorized purposes, the Authority currently operates numerous housing and commercial loan programs. See "THE 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, provided that the Authority may not have outstanding, at any one time, bonds in an aggregate principal amount exceeding two billion four hundred million dollars (with certain exceptions). *For financial information concerning the Authority, see certain financial statements of the Authority attached hereto as Appendix A.*

## **Authority for Issuance**

The 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"). The Bonds are to be issued and secured under the Indenture. Neither Senior Bonds nor Subordinate Bonds may be issued under the Indenture unless both Senior Bonds and Subordinate Bonds are issued. See "Sources of Payment for the Bonds" under this caption.

## **Description of the Bonds**

### *Series of the Bonds*

The Bonds are being issued as both Senior Bonds and Subordinate Bonds. The Senior Bonds are being issued in three series: Single Family Program Senior Bonds, Taxable 1998 Series D-1 (the "Taxable 1998 Series D-1 Senior Bonds") in the aggregate principal amount of \$4,500,000, Single Family Program Senior Bonds, 1998 Series D-2 (the "1998 Series D-2 Senior Bonds") in the aggregate principal amount of \$28,315,000, and Single Family Program Senior Bonds, 1998 Series D-3 (the "1998 Series D-3 Senior Bonds") in the aggregate principal amount of \$26,055,000. The Subordinate Bonds are being issued as a separate series in the aggregate principal amount of \$1,130,000.

### *Price*

The 1998 Series D-3 Senior Bonds maturing on May 1, 2016 and the Taxable 1998 Series D-1 Senior Bonds (collectively, the "Non-Premium Senior Bonds") will each be sold at a price of par, plus accrued interest from October 1, 1998. The 1998 Series D-2 Senior Bonds and the 1998 Series D-3 Senior Bonds maturing November 1, 2023 (collectively, the "Premium Bonds") will be sold at a price (expressed as a percentage of the principal amount thereof) of 109.70% and 109.25%, respectively, plus accrued interest from October 1, 1998. The Subordinate Bonds will be sold at a price of par, plus accrued interest from October 1, 1998.

### *Payments*

Interest on the Bonds is payable semiannually on May 1 and November 1, commencing on May 1, 1999. Principal of the Bonds is payable in the amounts and on the dates as shown on the front cover page hereof. See "DESCRIPTION OF THE BONDS - General Terms."

### *Denominations*

The Bonds are issuable in denominations of \$5,000 or integral multiples thereof.

### *Redemption of the Bonds*

The Bonds will be subject to special redemption at par, and the Senior Bonds will be subject to optional redemption prior to their respective maturities on and after November 1, 2008, as described in "DESCRIPTION OF THE BONDS - Prior Redemption." Certain of the Bonds will also be subject to mandatory sinking fund redemption at par on the dates set forth in the Indenture and described in "DESCRIPTION OF THE BONDS - Prior Redemption - Sinking Fund Redemption." **It is expected that a substantial portion of the Bonds will be redeemed prior to their respective stated maturities at a redemption price equal to the principal amount of the Bonds to be redeemed, without premium.**

### *Book Entry Form*

The Bonds are issuable only as fully registered Bonds without coupons in the denomination of \$5,000, and any integral multiples thereof. The Depository Trust Company, New York, New York ("DTC") will act as securities depository for the Bonds through its nominee, Cede & Co., to which principal and interest payments on the Bonds are to be made. One or more fully registered bonds in denominations in the aggregate equal to the principal amount per maturity of the Bonds will be registered in the name of Cede & Co. Individual purchases will be made in book entry form only and purchasers of the Bonds will not receive physical delivery of bond certificates, all as more fully 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 Bonds. For a more complete description of the book entry system, see "DESCRIPTION OF THE BONDS - General Terms."

**For a more complete description of the Bonds and the Indenture and other documents pursuant to which such Bonds are being issued, see "DESCRIPTION OF THE BONDS" and "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE."**

### **Purpose of the Bonds**

Certain proceeds of the Bonds will be used to refund or redeem outstanding obligations of the Authority and to refinance advances made to the Authority under an outstanding line of credit (in the aggregate, the "Advance" and together with such outstanding obligations of the Authority, the "Refunded Obligations"), as more fully described in "The Refunding" under this caption. Amounts received in exchange for such proceeds (the "exchanged amounts") together with other proceeds of the Bonds will be deposited in the Acquisition Fund established under the Indenture and used during the period ending on August 1, 1999 (and if necessary ending on or prior to November 1, 1999, with respect to amounts reserved to purchase certain mortgage loans on Targeted Area Residences, as hereinafter defined) to acquire certain qualifying FHA insured, VA or the Rural Housing Service (formerly the RHCDS, a successor agency to the FmHA) guaranteed or conventional insured or uninsured mortgage loans secured by mortgages encumbering certain residential single family housing facilities located within the State of Colorado (the "Mortgage Loans"). Proceeds of the Bonds or certain exchanged amounts will also be used to pay costs of issuance and capitalized interest associated with the Bonds. See "PLAN OF FINANCING." The Mortgage Loans, as described in

"SECURITY AND SOURCES OF PAYMENT FOR THE BONDS - The Mortgage Loans," will be pledged as security for the Bonds.

### **Sources of Payment for the Bonds**

All Bonds are and will be entitled to the benefit, protection and security of the pledge and the covenants and agreements contained in the Indenture as hereinafter described, provided that, under the circumstances described herein, the interests of the holders of the Subordinate Bonds in the revenues and assets pledged under the Indenture (the "Trust Estate") are subordinated to the interests therein of the holders of the Senior Bonds. The pledge of the Trust Estate under the Indenture includes the Revenues (as hereinafter defined), all moneys and Qualified Surety Bonds on deposit in the Funds established under the Indenture (except the Rebate Fund and, with respect to the Subordinate Bonds, the Debt Service Reserve Fund described below which will secure only the Senior Bonds), and the rights and interests of the Authority in the Mortgage Loans and in the Mortgage Purchase Agreements and the Servicing Agreements relating to the Mortgage Loans.

The Senior Bonds are special, limited obligations of the Authority payable solely from the moneys, rights and interests pledged as the Trust Estate under the Indenture. The Subordinate Bonds are payable from the Trust Estate and also constitute general obligations of the Authority in accordance with the Indenture. **In no event shall the Bonds constitute an obligation or liability of the State or any political subdivision thereof. 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 (except the Authority). See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS."**

For information concerning the Mortgage Loans to be purchased with amounts in the Acquisition Fund, see "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS - The Mortgage Loans" and "DESCRIPTION OF THE SINGLE-FAMILY MORTGAGE PROGRAM." For a discussion of certain assumptions made concerning the sufficiency of the Revenues to pay debt service on the Bonds and certain risks, including origination of Mortgage Loans, see "PROGRAM ASSUMPTIONS AND BONDOWNERS' RISKS."

Payment of the Senior Bonds will also be secured by amounts on deposit in the Debt Service Reserve Fund established under the Indenture, which will be funded by a surety bond as described in "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS - Debt Service Reserve Fund for Senior Bonds."

### **The Program**

Mortgage Loans are to be originated and closed by certain participating mortgage lending institutions (the "Lenders") and thereafter transferred to the Trust Estate during the period ending on August 1, 1999, unless extended to a date on or before November 1, 1999 as provided by the Indenture and described in "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE - Acquisition Fund," and, if necessary, with respect to certain reserved amounts relating to Targeted Area Residences (as defined by the Tax Code) ending on or prior to



November 1, 1999 (the "Origination Period"). The Mortgage Loans financed with respect to the Program must be fixed interest rate Mortgage Loans with level monthly payments of principal and interest. Each Mortgage Loan will be accompanied by an advance (a "cash advance") to the Eligible Borrower (as defined herein) of a cash amount of four percent (4%) of the principal amount of the Mortgage Loan (five percent (5%) in certain limited circumstances as described herein). Any such cash advances are to be applied to all or a portion of the Eligible Borrower's cash requirements for closing such Mortgage Loan, which may include payment of an origination fee, closing costs, initial required escrow deposits and/or a portion of a down payment or may be applied as a Prepayment to reduce the initial principal balance of the Mortgage Loan. See "PROGRAM ASSUMPTIONS AND BONDOWNERS' RISKS." The Mortgage Loans must each have a term which is three hundred sixty (360) months from the first payment date of such Mortgage Loan. Each Mortgage Loan made by a Lender must satisfy the rules and regulations of the Authority and the Mortgage Purchase Agreements (as defined herein) between that Lender and the Authority as described in "DESCRIPTION OF THE SINGLE-FAMILY MORTGAGE PROGRAM."

During the Origination Period ending on August 1, 1999, or such later date on or prior to November 1, 1999 as may be established in accordance with the Indenture, and, if necessary, ending on or prior to November 1, 1999 with respect to certain amounts reserved to purchase Mortgage Loans on Targeted Area Residences, the Trustee is to use amounts on deposit in the Acquisition Fund to acquire Mortgage Loans or to reimburse the Authority for its costs of purchasing such Mortgage Loans (including cash advances), and the Mortgage Loans will be then transferred to the Trustee. See "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE - Acquisition Fund."

### **The Refunding**

Certain proceeds of the Bonds will be used to (i) refund or redeem outstanding bonds of the Authority and (ii) repay advances (in the aggregate, the "Advance") which have previously been made to finance the refunding or redemption of outstanding bonds of the Authority subject to prior redemption. Collectively, such outstanding bonds and the Advance are referred to herein as the "Refunded Obligations." The Refunded Obligations are being redeemed and repaid pursuant to certain funds exchange agreements between the Trustee and the Authority and the applicable trustees for certain of the Refunded Obligations (collectively, the "Funds Exchange Agreement"). For a more detailed description of redemption and repayment of the Refunded Obligations, see "PLAN OF FINANCING - The Refunding."

### **Tax Considerations**

IN THE OPINION OF SHERMAN & HOWARD L.L.C., BOND COUNSEL, INTEREST ON THE TAXABLE 1998 SERIES D-1 SENIOR BONDS IS NOT EXCLUDABLE FROM GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES. See "TAX MATTERS - Taxable 1998 Series D-1 Senior Bonds."

In the opinion of Sherman & Howard L.L.C., Bond Counsel, assuming continuous compliance with certain covenants and representations described herein, (i) interest on the 1998 Series D-2 Senior Bonds, the 1998 Series D-3 Senior Bonds and the Subordinate Bonds (collectively, the "Tax-exempt Bonds") is not included in gross income for federal income tax purposes under federal income tax laws pursuant to Section 103 of the Internal Revenue Code of 1986, as amended to the date of delivery of the Bonds (the "Tax Code"); however, interest on the 1998 Series D-2 Senior Bonds is an item of tax preference for purposes of calculating alternative minimum taxable income as defined in Section 55(b)(2) of the Tax Code under federal income tax laws, and interest on the 1998 Series D-3 Senior Bonds and the Subordinate Bonds is not included in alternative minimum taxable income as defined in Section 55(b)(2) of the Tax Code under federal income tax laws except that such interest is required to be included in calculating the "adjusted current earnings" adjustment applicable to corporations for purposes of computing the alternative minimum taxable income of corporations; and (ii) interest on the Bonds is not included in Colorado taxable income or Colorado alternative minimum taxable income under Colorado income tax laws in effect as of the date of delivery of the Bonds. See "TAX MATTERS-Tax-exempt Bonds." Owners of the Premium Bonds should also consider certain federal tax consequences of the treatment of bond premium, as described in "TAX MATTERS - Tax Treatment of Premium on Premium Bonds."

The proposed form of approving opinion of Bond Counsel is attached as Appendix B hereto.

### **Professionals Involved in the Offering**

In connection with the issuance and sale of the Bonds, Sherman & Howard L.L.C., as Bond Counsel, will deliver the opinion discussed in "TAX MATTERS - Tax-exempt Bonds" and attached as Appendix B hereto. Certain legal matters relating to the Bonds will be passed upon for the Underwriters by their counsel, Hogan & Hartson L.L.P. Certain legal matters will be passed upon for the Authority by its Director of Legal Operations and legal counsel, James A. Roberts, Esq. See "CERTAIN LEGAL MATTERS." The Authority's financial statements for Fiscal Year 1997 included as Appendix A hereto have been audited by Ernst & Young LLP, independent auditors, Denver, Colorado. Norwest Bank Colorado, National Association, Denver, Colorado, or any successor thereto, will act as Trustee for the Bonds under the Indenture. See "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE - Appointment of Successor Trustee."

### **Offering and Delivery of the Bonds**

The Bonds are offered when, as and if issued by the Authority and received by the Underwriters, subject to approval of legality of the Bonds by Bond Counsel and the satisfaction of certain other conditions. See "UNDERWRITING AND PLACEMENT." It is expected that the Bonds will be available for delivery to DTC in New York, New York on or about October 28, 1998.

## **Availability of Continuing Information**

In connection with the issuance of the Bonds, the Authority will deliver a Continuing Disclosure Undertaking in which it will agree, for the benefit of the Bondowners, to file annually with each nationally recognized municipal securities information repository approved in accordance with Rule 15c2-12 promulgated under the Securities and Exchange Act of 1934 (the "Rule") such ongoing information concerning the Authority and the Trust Estate and to provide notice of certain enumerated events as described in "CONTINUING DISCLOSURE UNDERTAKING," in the form attached as Appendix E hereto.

## **Other Information**

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 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. See "FURTHER INFORMATION."

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 a contract or agreement between the Authority and the purchasers or holders of any of the Bonds.

## **DESCRIPTION OF THE BONDS**

### **General Terms**

The Bonds are being issued as both Senior Bonds and Subordinate Bonds. The Bonds will be dated October 1, 1998 and will bear interest at the fixed interest rates and mature in the amounts and on the dates set forth on the front cover of this Official Statement. Interest on the Bonds will be payable semiannually on May 1 and November 1, commencing on May 1, 1999, until maturity or earlier redemption, calculated on the basis of a 360-day year of twelve 30-day months.

The Depository Trust Company, New York, New York ("DTC") will act as securities depository for the Bonds. The ownership of one fully registered Bond for each maturity as set forth on the cover page, each in the aggregate principal amount of such maturity, will be registered in the name of Cede & Co., as nominee for DTC. DTC is a limited-purpose trust company organized under the laws of the State of New York, 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, as amended. DTC was created to hold securities of its

Participants (the "Participants") and to facilitate the clearance and settlement of securities transactions among Participants in such securities through electronic book-entry changes in accounts of the Participants, thereby eliminating the need of physical movement of securities certificates. Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations, some of whom (and/or their representatives) own DTC. Access to the DTC system is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Participant, either directly or indirectly.

Ownership interests in the Bonds, in the denominations of \$5,000 or any integral multiple thereof, may be purchased by or through Participants. Such Participants and the persons for whom they acquire interests in the Bonds as nominees will not receive certificate Bonds, but each such Participant is to receive a credit balance in the records of DTC in the amount of such Participant's interest in the Bonds, which is to be confirmed in accordance with DTC's standard procedures. Each such person for which a Participant has an interest in the Bonds, as nominee, may desire to make arrangements with such Participant to receive a credit balance in the records of such Participant, and may desire to make arrangements with such Participant to have all notices of redemption or other communications of the Authority or the Trustee to DTC, which may affect such persons, to be forwarded in writing by such Participant and to have notification made of all interest payments.

With respect to Bonds registered in the registration books kept by the Trustee, in the name of Cede & Co., as nominee of DTC, the Authority and the Trustee shall have no responsibility or obligation to any Participant or to any person on behalf of which a Participant holds an interest in the Bonds with respect to (i) the accuracy of the records of DTC, Cede & Co. or any Participant with respect to any ownership interest in the Bonds, (ii) the delivery to any Participant or any other person, other than Cede & Co., as registered owner, as shown in the registration books kept by the Trustee as bond registrar, of any notice with respect to the Bonds, including any notice of redemption, (iii) the payment to any Participant or any other person, other than Cede & Co., as registered owner, as shown in the registration books kept by the Trustee, of any amount with respect to principal of or interest on the Bonds, (iv) the selection by DTC or any Participant of any person to receive payment in the event of partial redemption of Bonds, or (v) any consent given or other action taken by DTC. The Authority and the Trustee may treat and consider the person in whose name each Bond is registered in the registration books kept by the Trustee as the holder and absolute owner of such Bond for the purpose of payment of principal, premium and interest with respect to such Bond, for the purpose of giving notices of redemption and other matters with respect to such Bond, for the purpose of registering transfers with respect to such Bond, and for all other purposes whatsoever. For the purposes of this Official Statement, the term "Beneficial Owner" shall hereinafter be defined to include the person for whom the Participant acquires an interest in the Bonds.

If any Beneficial Owner of Bonds wishes to receive a copy of any notices or other communications to the registered owner of Bonds held by DTC, such Beneficial Owner may file a request with the Trustee asking that the Beneficial Owner be put on a list to receive copies of all notices and other communications sent to the registered owner of the Bonds for the ensuing

12-month period. The Authority will use its best efforts to cause copies of such notices and other communications to be forwarded to any Beneficial Owner who has made such request within the 12-month period preceding the date of mailing of the notice or other communication. However, failure to give any such notice or other communication to any Beneficial Owner, any defect in any such notice or other communication, or the failure of any Beneficial Owner who has requested such notices and other communications to receive any such notice or other communication is in no way to affect the matter to which the notice or other communication pertains. Full legal notice shall have been given if mailed to the registered owner of the Bonds; copies of notices or other communications provided to Beneficial Owners will be provided as a courtesy only.

DTC is to receive payments from the Trustee, acting as paying agent and bond registrar, to be remitted by DTC to the Participants for subsequent disbursement to the Beneficial Owners. The ownership interest of each Beneficial Owner in the Bonds is to be recorded on the records of the Participants, whose ownership interests is to be recorded on a computerized book-entry system operated by DTC.

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

Beneficial Owners are to receive from the Participants a written confirmation of their purchase detailing the terms of the Bonds acquired. Transfers of ownership interests in the Bonds are to be accomplished by book entries made by DTC and the Participants who act on behalf of the Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except as specifically provided in the Indenture.

*For every transfer and exchange of the Bonds, the Beneficial Owner may be charged a sum sufficient to cover any tax, fee or other governmental charge that may be imposed in relation thereto, and any reasonable fees and expenses of the Trustee and costs incurred in preparing bond certificates.*

Neither the Authority nor the Trustee shall be required to transfer or exchange Bonds from the Record Date (as defined below) applicable to the Bonds through and including the next succeeding interest or principal payment date for the Bonds or from the Record Date next preceding any selection of Bonds to be redeemed or thereafter until after the first mailing of any notice of redemption; or to transfer or exchange any Bonds called for redemption. For purposes hereof, Record Date will mean in the case of each interest or principal payment date, the Trustee's close of business on the fifteenth day of the month immediately preceding such interest or principal payment date, and in the case of each redemption, such Record Date shall be specified by the Trustee in the notice of redemption, provided that such Record Date shall be fifteen calendar days before the mailing of such notice of redemption.

DTC's services with respect to the Bonds may be discontinued or terminated at any time under the following circumstances:

(a) DTC may determine to discontinue providing its services with respect to the Bonds at any time by giving notice to the Authority and discharging its responsibilities with respect thereto under applicable law.

(b) The Authority, in its sole discretion and without the consent of any other person, may terminate the services of DTC with respect to the Bonds if the Authority determines that DTC is unable to discharge its responsibilities with respect to the Bonds or that a continuation of the requirement that all of the Outstanding Bonds be registered in the registration books kept by the Trustee in the name of Cede & Co., or any other nominee of DTC, is not in the best interests of the Beneficial Owners of the Bonds.

In the event that DTC's services are so discontinued or terminated because it is unwilling or is determined to be unable to discharge its responsibilities, and no substitute securities depository willing to undertake the functions of DTC under the Indenture can be found which, in the opinion of the Authority, is willing and able to undertake such functions upon reasonable and customary terms, or in the event it is so determined that continuation of the system of book-entry transfers is not in the best interests of the Beneficial Owners, the Authority is obligated to deliver Bond certificates, at the expense of the Beneficial Owners, as described in the Indenture.

*The foregoing information in this section regarding DTC and the book entry system is based solely on information provided by DTC. No representation is made by the Authority or the Underwriters as to the completeness or the accuracy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof.*

## **Prior Redemption**

### *Special Redemption*

Unspent Amounts in Acquisition Fund. The Bonds (or portions thereof) are subject to mandatory redemption, upon notice as provided in the Indenture, in whole or in part on the earliest date with respect to which notice of redemption can timely be given, at a Redemption Price equal to the principal amount thereof (or, in the case of the 1998 Series D-2 Senior Bonds, a Redemption Price equal to 109.70% of the principal amount thereof or, in the case of the 1998 Series D-3 Senior Bonds maturing on November 1, 2023, a Redemption Price equal to 109.25% of the principal amount thereof), together with accrued interest to the redemption date, from and to the extent there are moneys and/or Investment Securities in the Redemption Fund from amounts transferred thereto from the Acquisition Fund which remain on deposit in the Acquisition Fund on August 1, 1999 (or if the Authority extends and continues to extend such date as provided in the Indenture to not later than November 1, 1999, from amounts transferred to the Redemption Fund from the Acquisition Fund which remain on deposit in the Acquisition Fund on such extended date) or, with respect to amounts in the Acquisition Fund reserved for the purchase of Mortgage Loans for Targeted Area Residences pursuant to the Indenture, on November 1, 1999. The Indenture permits the Authority to extend such date to a later date as to amounts not reserved for Mortgage Loans for Targeted Area Residences (but no later than November 1, 1999) if the Authority has filed with the Trustee an Authority Request specifying a

later date or dates for such withdrawal, accompanied by a Cash Flow Statement (unless the principal amount and term of such extension are covered by a previous Cash Flow Statement). See "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE-Acquisition Fund."

In the event Bonds are to be redeemed in part pursuant to the special redemption provisions described under this caption "Unspent Amounts in Acquisition Fund," the Bonds to be redeemed (after taking into account Bonds maturing or otherwise being redeemed on such date) will be selected on a Proportionate Basis from among all of the remaining maturities of the Bonds then Outstanding.

Prepayments and Excess Revenues. The Bonds (or portions thereof) are subject to mandatory redemption, upon notice as provided in the Indenture, in whole or in part on any May 1 and November 1, commencing May 1, 1999, at a Redemption Price equal to the principal amount thereof together with accrued interest to the redemption date, from and to the extent there are moneys and/or Investment Securities in the Redemption Fund on the 45th day prior to the redemption date from Prepayments and/or Excess Revenues (or from other sources in amounts equal to such Prepayments and Excess Revenues) or from amounts transferred to the Redemption Fund from the Debt Service Reserve Fund in accordance with the Indenture, as described in "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE - Application of Funds - Debt Service Reserve Fund."

"*Prepayments*," with respect to the Bonds, are defined by the Indenture to include any moneys received or recovered by the Authority from any unscheduled payment of or with respect to principal (including any penalty, fee, premium or other additional charge for prepayment of principal which may be provided by the terms of a Mortgage Loan, but excluding any Servicing Fees with respect to the collection of such moneys) of any Mortgage Loan prior to the scheduled payments of principal called for by such Mortgage Loan, whether (a) by voluntary prepayment made by the Mortgagor or (b) as a consequence of the damage, destruction or condemnation of the Eligible Property or any part thereof or (c) by the sale, assignment, endorsement or other disposition of such Mortgage Loan by the Authority in accordance with the provisions of the Indenture (which require, among other things, that the Authority use proceeds of any voluntary sale by the Authority of Mortgage Loans to redeem Bonds only pursuant to the optional redemption provisions of the Indenture described in "Optional Redemption" under this caption) or (d) in the event of a default thereon by the mortgagor, by the acceleration, sale, assignment, endorsement or other disposition of such Mortgage Loan by the Authority or by any other proceedings taken by the Authority.

"*Excess Revenues*," with respect to the Bonds, are defined by the Indenture to include moneys transferred to the Redemption Fund from the Revenue Fund on each Interest Payment Date after any required deposits to the Debt Service Reserve Fund have been made, as described in "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE-Transfers from Revenue Fund."

In the event Bonds are to be redeemed in part pursuant to the special redemption provisions described under this caption "Prepayments and Excess Revenues," Bonds are to be selected for redemption as follows:

(i) If the aggregate principal amount of Bonds Outstanding as of the redemption date (after taking into account the principal of all Bonds to be paid or otherwise redeemed on such date, including Bonds to be redeemed pursuant to the provisions described under this caption) is greater than or equal to the amount for such date set forth in Appendix C hereto multiplied by the Placement Ratio (defined below), the amount of funds available for redemption is to be used (A) first, to redeem the Taxable 1998 Series D-1 Senior Bonds, (B) second, to redeem the 1998 Series D-3 Senior Bonds maturing on May 1, 2016, and (C) third, to redeem the 1998 Series D-2 Senior Bonds, the 1998 Series D-3 Senior Bonds maturing on November 1, 2023 and the Subordinate Bonds on a Proportionate Basis.

(ii) If the aggregate principal amount of Bonds Outstanding as of the redemption date (after taking into account the principal of all Bonds to be paid or otherwise redeemed on such date, including Bonds to be redeemed pursuant to the provisions described under this caption) is less than the amount for such date set forth in Appendix C hereto multiplied by the Placement Ratio, the amount of funds available for redemption will be used (A) first, to redeem the Taxable 1998 Series D-1 Senior Bonds in an amount such that the cumulative principal amount of Taxable 1998 Series D-1 Senior Bonds redeemed to and including such redemption date equals the amount set forth for such redemption date in Appendix D hereto, (B) second, to redeem the 1998 Series D-3 Senior Bonds maturing on May 1, 2016, and (C) third, to redeem the remaining Bonds on a Proportionate Basis.

For purposes of the redemption provisions described above, the Indenture defines "*Placement Ratio*" as an amount equal to the quotient of the aggregate principal amount of Mortgage Loans (including any amounts expended for mortgagor assistance costs) purchased with moneys in the Acquisition Fund divided by \$63,218,800.

Redemption in Whole from Funds. The Bonds are also subject to mandatory redemption, upon notice as provided in the Indenture, in whole on the earliest date with respect to which notice of redemption can timely be given, if the sum of the amounts of moneys and the market value of Investment Securities held in the various funds created under the Indenture (other than the Rebate Fund) is sufficient to pay all Outstanding Bonds and all fees and expenses due and payable under the Indenture to the date of such redemption. Whenever the sum of the amounts of moneys and the market value of Investment Securities held in such Funds are sufficient to redeem the Outstanding Bonds in whole pursuant to the Indenture, and to pay all such fees and expenses, all such amounts are to be transferred to the Redemption Fund and all such Investment Securities are to be liquidated to the extent necessary to provide moneys sufficient for such redemption. The Trustee is not to give notice of such redemption pursuant to these provisions of the Indenture, however, until all amounts necessary for such redemption have



the extent necessary to provide moneys sufficient for such redemption.

**It is anticipated that a substantial portion of the Bonds will be redeemed without premium in accordance with the preceding paragraphs. See "PROGRAM ASSUMPTIONS AND BONDOWNERS' RISKS -Average Life of Bonds."**

*Optional Redemption*

The Senior Bonds will be subject to redemption prior to maturity at any time on and after November 1, 2008, at the option of the Authority, in whole or in part but, in the case of a partial redemption, only upon filing of a Cash Flow Statement with the Trustee which demonstrates that such redemption will not adversely affect the ability of the Authority to pay, when due, the debt service required for the Bonds remaining outstanding, upon notice as provided in the Indenture, from moneys made available for such purpose and deposited in the Redemption Fund, at the applicable Redemption Prices (expressed as percentages of principal amount) set forth separately below for (a) the Taxable 1998 Series D-1 Senior Bonds and the 1998 Series D-3 Senior Bonds maturing on May 1, 2016 and (b) the 1998 Series D-2 Senior Bonds and the 1998 Series D-3 Senior Bonds maturing on November 1, 2023, together with accrued interest to the redemption date:

**Taxable 1998 Series D-1 Senior Bonds and the  
1998 Series D-3 Senior Bonds Maturing on May 1, 2016  
Optional Redemption**

<u>Redemption Periods</u> <u>(Both Dates Inclusive)</u>	<u>Redemption Prices</u>
November 1, 2008 through October 31, 2009	102%
November 1, 2009 through October 31, 2010	101
November 1, 2010 and thereafter	100

**1998 Series D-2 Senior Bonds and 1998 Series D-3 Senior Bonds  
 Maturing on November 1, 2023  
 Optional Redemption**

<u>Redemption Periods</u> (Both Dates Inclusive)	<u>Redemption Prices</u>
November 1, 2008 through April 30, 2009	105.0%
May 1, 2009 through October 31, 2009	105.0
November 1, 2009 through April 30, 2010	105.0
May 1, 2010 through October 31, 2010	105.0
November 1, 2010 through April 30, 2011	105.0
May 1, 2011 through October 31, 2011	104.5
November 1, 2011 through April 30, 2012	104.0
May 1, 2012 through October 31, 2012	103.5
November 1, 2012 through April 30, 2013	103.0
May 1, 2013 through October 31, 2013	102.5
November 1, 2013 through April 30, 2014	102.0
May 1, 2014 through October 31, 2014	101.5
November 1, 2014 through April 30, 2015	101.0
May 1, 2015 through October 31, 2015	100.5
November 1, 2015 and thereafter	100.0

*Sinking Fund Redemption*

The Taxable 1998 Series D-1 Senior Bonds will be subject to mandatory redemption in part through Sinking Fund Installments on May 1 and November 1 of each year, commencing May 1, 2025, upon notice as provided in the Indenture, at a Redemption Price equal to the principal amount thereof together with accrued interest to the redemption date, in the aggregate principal amounts set forth below, as may be adjusted as described below:

**Sinking Fund Installments for Taxable 1998 Series D-1 Senior Bonds**

<u>Year</u> (May 1)	<u>Sinking Fund</u> <u>Installments</u>	<u>Year</u> (November 1)	<u>Sinking Fund</u> <u>Installments</u>
2025	\$450,000	2025	\$450,000
2026	450,000	2026	450,000
2027	450,000	2027	450,000
2028	450,000	2028	450,000
2029	450,000	2029(1)	450,000

(1) Final maturity

The 1998 Series D-2 Senior Bonds maturing May 1, 2029 will be subject to mandatory redemption in part through Sinking Fund Installments on May 1 and November 1 of each year, commencing November 1, 2016, upon notice as provided in the Indenture, at a Redemption Price equal to the principal amount thereof together with accrued interest to the redemption date, in the aggregate principal amounts set forth below, as may be adjusted as described below:

**Sinking Fund Installments for 1998 Series D-2 Senior Bonds  
Maturing May 1, 2029**

<u>Year</u> <u>(May 1)</u>	<u>Sinking Fund</u> <u>Installments</u>	<u>Year</u> <u>(November 1)</u>	<u>Sinking Fund</u> <u>Installments</u>
--	\$ --	2016	\$ 40,000
2017	45,000	2017	45,000
2018	50,000	2018	45,000
2019	55,000	2019	50,000
2020	55,000	2020	55,000
2021	60,000	2021	60,000
2022	65,000	2022	60,000
2023	70,000	2023	75,000
2024	75,000	2024	75,000
2025	85,000	2025	85,000
2026	95,000	2026	100,000
2027	105,000	2027	130,000
2028	130,000	2028	140,000
2029	150,000 (1)	--	--

(1) Final maturity

The 1998 Series D-2 Senior Bonds maturing November 1, 2029 will be subject to mandatory redemption in part through Sinking Fund Installments on May 1 and November 1 of each year, commencing May 1, 2013, upon notice as provided in the Indenture, at a Redemption Price equal to the principal amount thereof together with accrued interest to the redemption date, in the aggregate principal amounts set forth below, as may be adjusted as described below:

**Sinking Fund Installments for 1998 Series D-2 Senior Bonds  
Maturing November 1, 2029**

<u>Year</u> <u>(May 1)</u>	<u>Sinking Fund</u> <u>Installments</u>	<u>Year</u> <u>(November 1)</u>	<u>Sinking Fund</u> <u>Installments</u>
2013	\$ 135,000	2013	\$ 170,000
2014	190,000	2014	195,000
2015	205,000	2015	220,000
2016	225,000	2016	465,000
2017	500,000	2017	535,000
2018	545,000	2018	575,000
2019	590,000	2019	615,000
2020	640,000	2020	665,000
2021	685,000	2021	715,000
2022	745,000	2022	780,000
2023	800,000	2023	970,000
2024	1,420,000	2024	1,470,000
2025	1,060,000	2025	1,110,000
2026	1,155,000	2026	1,205,000
2027	1,255,000	2027	1,290,000
2028	1,350,000	2028	1,400,000
2029	1,455,000	2029(1)	980,000

(1) Final maturity

The 1998 Series D-3 Senior Bonds maturing May 1, 2016 will be subject to mandatory redemption in part through Sinking Fund Installments on May 1 and November 1 of each year, commencing May 1, 2000, upon notice as provided in the Indenture, at a Redemption Price equal to the principal amount thereof together with accrued interest to the redemption date, in the aggregate principal amounts set forth below, as may be adjusted as described below:

**Sinking Fund Installments for 1998 Series D-3 Senior Bonds  
Maturing May 1, 2016**

<u>Year</u> <u>(May 1)</u>	<u>Sinking Fund</u> <u>Installments</u>	<u>Year</u> <u>(November 1)</u>	<u>Sinking Fund</u> <u>Installments</u>
2000	\$ 85,000	2000	\$ 85,000
2001	65,000	2001	45,000
2002	30,000	2002	35,000
2003	40,000	2003	50,000
2004	55,000	2004	65,000
2005	70,000	2005	85,000
2006	55,000	2006	130,000
2007	135,000	2007	150,000
2008	160,000	2008	170,000
2009	180,000	2009	195,000
2010	210,000	2010	220,000
2011	230,000	2011	245,000
2012	255,000	2012	270,000
2013	285,000	2013	290,000
2014	295,000	2014	300,000
2015	305,000	2015	310,000
2016(1)	320,000	--	--

(1) Final maturity

The 1998 Series D-3 Senior Bonds maturing November 1, 2023 will be subject to mandatory redemption in part through Sinking Fund Installments on May 1 and November 1 of each year, commencing May 1, 2000, upon notice as provided in the Indenture, at a Redemption Price equal to the principal amount thereof together with accrued interest to the redemption date, in the aggregate principal amounts set forth below, as may be adjusted as described below:

**Sinking Fund Installments for 1998 Series D-3 Senior Bonds  
Maturing November 1, 2023**

<u>Year (May 1)</u>	<u>Sinking Fund Installments</u>	<u>Year (November 1)</u>	<u>Sinking Fund Installments</u>
2000	\$235,000	2000	\$265,000
2001	295,000	2001	320,000
2002	350,000	2002	360,000
2003	365,000	2003	375,000
2004	380,000	2004	385,000
2005	395,000	2005	400,000
2006	445,000	2006	480,000
2007	490,000	2007	495,000
2008	505,000	2008	515,000
2009	525,000	2009	530,000
2010	540,000	2010	550,000
2011	560,000	2011	570,000
2012	585,000	2012	595,000
2013	335,000	2013	315,000
2014	315,000	2014	325,000
2015	335,000	2015	340,000
2016	350,000	2016	405,000
2017	405,000	2017	410,000
2018	420,000	2018	425,000
2019	435,000	2019	450,000
2020	460,000	2020	470,000
2021	485,000	2021	495,000
2022	505,000	2022	515,000
2023	530,000	2023(1)	400,000

(1) Final maturity

Upon any redemption (otherwise than as described under this caption "Sinking Fund Redemption") of Senior Bonds, there is to be credited by the Trustee toward Sinking Fund Installment or Installments thereafter to become due with respect thereto an amount bearing the same ratio to each such Sinking Fund Installment as the total principal amount of such maturity of Senior Bonds so purchased or redeemed bears to the aggregate principal amount of Senior Bonds of such maturity Outstanding prior to such redemption or purchase.

The Subordinate Bonds will be subject to mandatory sinking fund redemption in part through Sinking Fund Installments on May 1 and November 1 of each year, commencing May 1, 2000, upon notice as provided in the Indenture, at a Redemption Price equal to the principal amount thereof together with accrued interest to the redemption date in the aggregate principal amounts set forth below, as may be adjusted as described below:

**Sinking Fund Installments for  
Subordinate Bonds**

Year ( <u>May 1</u> )	Sinking Fund <u>Installments</u>	Year ( <u>November 1</u> )	Sinking Fund <u>Installments</u>
2000	\$65,000	2000	\$80,000
2001	85,000	2001	90,000
2002	90,000	2002	90,000
2003	90,000	2003	90,000
2004	90,000	2004	90,000
2005	90,000	2005	90,000
2006 (1)	90,000	--	--

(1) Final maturity

Upon any redemption (other than as described above) of Subordinate Bonds, there is to be credited by the Trustee toward the Sinking Fund Installment or Installments thereafter to become due with respect thereto an amount bearing the same ratio to each such Sinking Fund Installment as the total principal amount of such Subordinate Bonds so purchased or redeemed bears to the aggregate principal amount of Subordinate Bonds Outstanding prior to such redemption.

*Other Provisions Concerning Redemption*

When the Trustee has received notice from the Authority of its election or direction to redeem Bonds in accordance with the Indenture, and when redemption of Bonds is authorized or required pursuant to the Indenture as described above, the Trustee is to give notice, in the name of the Authority, of the redemption of such Bonds, which notice is to be dated, shall contain the name and address of the Trustee, is to specify the complete name of the Bonds (with series designation, date of issue and interest rate), the maturities of the Bonds to be redeemed, the Redemption Price thereof, the redemption date and the place or places where amounts due upon such redemption will be payable, the letters and numbers or other distinguishing marks of such Bonds so to be redeemed, including CUSIP identification numbers, and, in the case of Bonds to be redeemed in part only, such notices are also to specify the respective portions of the principal amounts thereof to be redeemed. Such notice is to further state that on such date there will become due and payable upon each Bond to be redeemed the Redemption Price thereof, or the Redemption Price of the specified portions of the principal thereof in the case of Bonds to be redeemed in part only, together with interest accrued to the redemption date, and that from and after such date interest thereon will cease to accrue and be payable.

Such notice is to be given by mailing a copy of such notice by first class mail, postage prepaid, not less than 30 days (except notice shall be not less than 15 days in connection with a redemption as described in "Special Redemption - Unspent Amounts in Acquisition Fund") and not more than 60 days before the redemption date, to the registered owners of any Bonds or portions of Bonds which are to be redeemed, at their last addresses, if any, appearing

upon the registration records, but failure so to mail any such notice to one or more registered owners will not affect the validity of the proceedings for the redemption of Bonds with respect to the registered owners of Bonds to which notice was duly mailed. If at the time of giving notice of redemption pursuant to a Sinking Fund Installment or in connection with a refunding of any Bonds, there has not been deposited with the Trustee moneys sufficient to redeem all the Bonds, or portions thereof, called for redemption, such notice may state that it is conditional upon the deposit of the redemption moneys with the Trustee not later than the opening of business on the redemption date, and that such notice shall be of no effect unless such moneys are so deposited.

### **No Additional Bonds**

The Bonds are not secured on a parity on the Trust Estate with any other bonds previously issued by the Authority, and the Authority may not issue additional bonds secured on a parity with either the Senior Bonds or the Subordinate Bonds. The Authority may, however, issue additional bonds, from time to time, that are not secured on a parity on the Trust Estate with either the Senior Bonds or the Subordinate Bonds.



## PLAN OF FINANCING

### **General Description**

Certain proceeds of the 1998 Series D-2 Senior Bonds (together with certain premium amounts), the proceeds of the 1998 Series D-3 Senior Bonds (together with certain premium amounts) and the proceeds of the Subordinate Bonds will be used to repay the Refunded Obligations (as defined below). Amounts exchanged for such proceeds (the "exchanged amounts") in accordance with the Funds Exchange Agreement, together with remaining proceeds of the 1998 Series D-2 Senior Bonds and the proceeds of the Taxable 1998 Series D-1 Senior Bonds and certain premium amounts, will be deposited to the Acquisition Fund and used to acquire (or reimburse the Authority for its costs of purchasing) the Mortgage Loans, including payment of cash advances with respect to certain of the Mortgage Loans, as described in "DESCRIPTION OF THE SINGLE-FAMILY MORTGAGE PROGRAM - Reservation, Delivery and Purchase of Mortgage Loans." Proceeds of the Bonds or certain exchanged amounts will also be (i) used to pay certain costs of issuance associated with the Bonds, including the fee to be paid to the Underwriters as described in "UNDERWRITING AND PLACEMENT," and (ii) deposited to the Revenue Fund to be used to pay interest on the Bonds during the Origination Period.

### **The Refunding**

Certain of the proceeds of the 1998 Series D-2 Senior Bonds (including premium), the proceeds of the 1998 Series D-3 Senior Bonds (including premium) and the proceeds of the Subordinate Bonds will be used (i) to refund or redeem outstanding obligations of the Authority and (ii) to repay outstanding advances to the Authority (in the aggregate, the "Advance" and, together with such outstanding obligations of the Authority, the "Refunded Obligations") which have previously been made to finance the refunding or redemption of outstanding obligations of the Authority. The Refunded Obligations are being repaid pursuant to the Funds Exchange Agreement.

## Sources and Uses of Funds

The following table shows the estimated sources and uses of funds associated with the Bonds.

SOURCES OF FUNDS:	<u>Estimated Amounts</u>
Principal amount of the Taxable 1998 Series D-1 Senior Bonds.....	\$ 4,500,000.00
Principal amount of the 1998 Series D-2 Senior Bonds.....	28,315,000.00
Principal amount of the 1998 Series D-3 Senior Bonds.....	26,055,000.00
Principal amount of the Subordinate Bonds.....	1,130,000.00
Premium relating to certain Senior Bonds .....	4,655,292.50
Exchanged amounts (1).....	<u>46,878,737.50</u>
<b>TOTAL SOURCES OF FUNDS .....</b>	<b><u>\$111,534,030.00</u></b>
USES OF FUNDS:	
Current refunding of the Refunded Obligations (2) .....	\$ 46,878,737.50
Deposit to Acquisition Fund (3).....	63,218,800.00
Deposit to Revenue Fund (4).....	570,112.50
For certain Costs of Issuance (5).....	326,380.00
Underwriters' compensation (6) .....	<u>540,000.00</u>
<b>TOTAL USES OF FUNDS .....</b>	<b><u>\$111,534,030.00</u></b>

- (1) Such amounts will be available to the Authority as a result of redemption and repayment of the Refunded Obligations and are to be deposited with the Trustee in accordance with the Indenture and the Funds Exchange Agreement.
- (2) Certain proceeds of the Bonds are to be deposited with the Trustee in accordance with the Funds Exchange Agreement. Pursuant to the Funds Exchange Agreement, such proceeds are to be simultaneously exchanged for an equal amount of funds on deposit thereunder, and to be used solely to repay an equal principal amount of the Refunded Obligations. See "The Refunding" under this caption.
- (3) Amounts deposited to the Acquisition Fund are expected to be used during the period ending on August 1, 1999 (and, if necessary, on or prior to November 1, 1999 with respect to amounts reserved to purchase Mortgage Loans on Targeted Area Residences) to acquire Mortgage Loans and reimburse the Authority for its costs of purchasing Mortgage Loans, under the Authority's Single-Family Mortgage Program described in "DESCRIPTION OF THE SINGLE-FAMILY MORTGAGE PROGRAM." See also "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE - Acquisition Fund." Such amounts will also be used to make cash advances in connection with certain of the Mortgage Loans. Between the date of delivery of the Bonds and August 16, 1999 (and, if necessary, through November 16, 1999 with respect to amounts reserved to purchase Mortgage Loans on Targeted Area Residences), such amounts while on deposit in the Acquisition Fund (and, if applicable, in the Redemption Fund) will be invested until expended pursuant to an investment agreement as described in "PROGRAM ASSUMPTIONS AND BONDOWNERS' RISKS - Program Assumptions."
- (4) Such amount represents capitalized interest which will be used to pay interest on the Bonds during the Origination Period. See "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE - Transfers from Revenue Fund."
- (5) Costs of Issuance include, among other things, legal fees, rating agency fees, surety bond premium, mortgagor counseling fees and printing costs.
- (6) For information concerning the Underwriters' compensation and certain obligations of the Underwriters, see "UNDERWRITING AND PLACEMENT."

## SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

### Pledge of the Trust Estate

The Senior Bonds are special, limited obligations of the Authority secured by and payable solely from the Trust Estate described in the Indenture. The Subordinate Bonds are payable, on a basis subordinate to the Senior Bonds, from the Trust Estate in accordance with the Indenture and also constitute general obligations of the Authority as described below in "General Obligation Pledge for Subordinate Bonds." **In no event shall the Bonds constitute an obligation or liability of the State of Colorado or any political subdivision thereof, other than the Authority as described herein. The Authority has no taxing power nor does it have the power to pledge the general credit or taxing power of any State or any political subdivision thereof, other than the Authority.**

The Trust Estate includes generally (i) all right, title and interest of the Authority in and to the Mortgage Purchase Agreements and the Servicing Agreements, (ii) the Revenues (as defined below), (iii) all moneys and Qualified Surety Bonds in and interest earnings on any Fund established by or pursuant to the Indenture or under the Mortgage Purchase Agreements and the Servicing Agreements (other than the Rebate Fund and, with respect to the Subordinate Bonds, the Debt Service Reserve Fund described in "Debt Service Reserve Fund for Senior Bonds" under this caption), and (iv) all right, title and interest of the Authority in and to the Mortgage Loans, the right to make a claim for, collect and receive Revenues payable to or receivable by the Authority under the Mortgage Loans, to bring actions and proceedings under the Mortgage Loans or for the enforcement thereof, and to do any and all things which the Authority is or may become entitled to do under the Mortgage Loans.

The pledge of the Trust Estate is subject in all cases to the provisions of the Indenture permitting the application of such moneys and assets for or to the purposes and on the terms and conditions set forth therein. For a detailed description of the various Funds securing the Bonds and the application of Revenues, see "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE." The pledge and lien of the 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 Senior Bonds; second, to secure reimbursement to the Authority for any amounts paid to the Surety Provider under the Financial Guaranty Agreement, as described in "Debt Service Reserve Fund for Senior Bonds" under this caption; and third, to secure the payment of the principal of and interest on the Subordinate Bonds.

### Revenues

Under the Indenture, "Revenues" means:

- (a) Mortgage Repayments, which include the amounts received by the Authority as scheduled payments of the principal of or interest on each Mortgage Loan by or on behalf of the obligor to or for the account of the Authority, but does not include Servicing Fees or Escrow Payments.

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

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

(d) all amounts earned on Investment Securities, except the amount of investments of amounts on deposit in all Funds required by the Tax Code to be deposited to or retained in the Rebate Fund, credited to any Fund pursuant to the Indenture;

(e) penalties paid to the Authority pursuant to a Mortgage Purchase Agreement or a Servicing Agreement;

(f) interest or income received on investments of moneys held in any Payment Account (except insofar as such amounts may be payable to or subject to retention by a Servicer);

(g) all other payments and receipts received by the Authority with respect to Mortgage Loans (other than amounts held in any Payment Account, Escrow Payments, Servicing Fees or any commitment, reservation, extension, application or other fee charged by the Authority in connection with a Mortgage Loan or Mortgage Purchase Agreement which have not been specifically pledged to the Trustee); and

(h) any other moneys provided by the Authority for deposit to the Revenue Fund.

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 - Transfers from Revenue Fund."

### **The Mortgage Loans**

The Mortgage Loans securing the Bonds will consist of mortgage loans to be acquired by or transferred to the Trustee ending on the last day of the Origination Period, which is expected to be August 1, 1999 (except with respect to Mortgage Loans on Targeted Area Residences for which the last day of the Origination Period may be as late as November 1, 1999). Mortgage Loans are to be originated by Lenders and purchased and held by the Authority or the Trustee during the Origination Period. Mortgage Loans will be originated with a cash advance equal to four percent (4%) of the principal amount of the Mortgage Loan (five percent (5%) of

the principal amount in certain circumstances). See "PROGRAM ASSUMPTIONS AND BONDOWNERS' RISKS." 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 (including any cash advances) using amounts on deposit in the Acquisition Fund. See "PLAN OF FINANCING" and "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE - Acquisition Fund."

The Mortgage Loans purchased by the Authority pursuant to the Indenture must be permanent loans satisfying certain requirements secured by a mortgage, deed of trust (or other instrument constituting a first lien on real property) for the purchase of an owner-occupied dwelling in the State made by an originating Lender to an Eligible Borrower and purchased by the Authority. The Lenders may include certain banks, trust companies, FHA-approved mortgage bankers, VA-approved lenders, Federal National Mortgage Association-approved mortgage bankers, Federal Home Loan Mortgage Corporation approved mortgage bankers, national banking associations and savings and loan associations which make mortgage loans on properties located in the State. Such Mortgage Loans are required by the Indenture to be insured by the FHA, to be guaranteed by the VA or the Rural Housing Service (formerly the RHCDS, a successor agency to the FmHA), to be PMI Mortgage Loans or to be a Mortgage Loan which is not insured or guaranteed but has an original principal amount equal to or less than 80% of the appraised value (at the time of origination of such Mortgage Loan) or purchase price, whichever is less, of the property securing such Mortgage Loan (an "Uninsured Mortgage Loan"). PMI Mortgage Loans must be insured by a private insurance company approved by the Authority, qualified to transact business in the State and to provide insurance on mortgages purchased by the Federal Home Loan Mortgage Corporation or the Federal National Mortgage Association and rated by the agency then rating the Senior Bonds at least as high as the rating on the Senior Bonds at the time the Mortgage Loan is purchased (a "Private Insurer"), and such insurance must remain in force until the outstanding principal balance of such PMI Mortgage Loan is reduced to less than 80% of the appraised value (at the time of origination of the Mortgage Loan) or the purchase price, whichever is less, of the property securing such PMI Mortgage Loan, at which time such insurance is cancelable by the Authority.

The Indenture imposes the following limitations on the Mortgage Loan portfolio: (i) up to 22% of the Mortgage Loan portfolio in the aggregate may consist of VA-guaranteed Mortgage Loans, Rural Housing Service-Guaranteed Loans, Uninsured Mortgage Loans and/or PMI Mortgage Loans; and (ii) within the 22% aggregate limitation, up to 8% of the Mortgage Loan portfolio may consist of Uninsured Mortgage Loans and/or PMI Mortgage Loans and up to 10% of the Mortgage Loan portfolio may consist of Rural Housing Service-Guaranteed Loans.

In addition, the Indenture requires that the buildings on the premises with respect to which each Mortgage Loan is made are to be insured against loss by fire and other hazards to protect the Authority's interest to the extent required by the GMI or the Private Insurer or, with respect to an Uninsured Mortgage Loan, in accordance with the guidelines of the Federal National Mortgage Association. Each Mortgage Loan will initially be serviced by the Authority and may also be serviced for the Authority by an eligible financial institution approved by the Authority. See "DESCRIPTION OF THE SINGLE-FAMILY MORTGAGE PROGRAM -

Servicing of the Mortgage Loans." In the Indenture, the Authority has covenanted to take certain action to protect the interests of the owners of the Bonds in the Mortgage Loans. See "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE - Program Covenants; Enforcement of Mortgage Loans." 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. *For a general description of the terms under which Mortgage Loans are expected to be purchased by the Authority, see "DESCRIPTION OF THE SINGLE-FAMILY MORTGAGE PROGRAM."*

### **Debt Service Reserve Fund for Senior Bonds**

In order to further secure the Senior Bonds, the Authority has applied to MBIA Insurance Corporation (the "Surety Provider") for a commitment to issue a surety bond (the "Surety Bond") to be issued at the time of issuance of the Bonds in the available amount and deposited to the Debt Service Reserve Fund. The available amount of the Surety Bond will be an amount equal to (i) the sum of (a) 5% of the aggregate principal amount of the Senior Bonds outstanding at the time of calculation (the "Debt Service Reserve Requirement") plus (b) \$767,173, less (ii) the amount of any previous deposits by the Surety Provider with the Trustee which have not been reimbursed by the Authority. On the Business Day following each Interest Payment Date, the available amount of the Surety Bond will be reduced to an amount equal to the sum of (i) the Debt Service Reserve Requirement as of such date of calculation, plus (ii) \$767,173.

The Surety Bond will provide that, upon notice from the Trustee to the Surety Provider to the effect that insufficient amounts are on deposit in the Revenue Fund to pay the principal of (at maturity or pursuant to mandatory redemption requirements) and interest on the Senior Bonds, the Surety Provider will promptly deposit with the Trustee an amount sufficient to pay the principal of and interest on the Senior Bonds, or the available amount of the Surety Bond, whichever is less. Upon the later of: (i) three (3) days after receipt by the Surety Provider of a Demand for Payment in the form attached to the Surety Bond, duly executed by the Trustee; or (ii) the payment date of the Senior Bonds as specified in the Demand for Payment presented by the Trustee to the Surety Provider, the Surety Provider will make a deposit of funds in an account with State Street Bank and Trust Company, N.A., in New York, New York, or its successor, sufficient for the payment to the Trustee of amounts which are then due to the Trustee (as specified in the Demand for Payment) subject to the Surety Bond Coverage.

The Authority and the Surety Provider will enter into a Financial Guaranty Agreement dated October 28, 1998 (the "Financial Guaranty Agreement"), pursuant to which the Authority will be required as a general obligation of the Authority to reimburse the Surety Provider the amount of any such deposits made by the Surety Provider with the Trustee under the Surety Bond. Under the terms of the Financial Guaranty Agreement, before any deposit is made to the Authority's General Fund, the Authority will be required to reimburse the Surety Provider

for the amount of any such deposits, with interest at certain times, until the available amount of the Surety Bond is fully reinstated. No Senior Bonds may be redeemed pursuant to the optional redemption provisions of the Indenture until the Surety Bond has been reinstated. The Surety Bond will be held by the Trustee under the Indenture in the Debt Service Reserve Fund and is provided as an alternative to the Authority depositing funds equal to the Debt Service Reserve Requirement for outstanding Senior Bonds. The Authority will pay the total premium for such Surety Bond at the time of delivery of the Senior Bonds.

It will be the duty of the Trustee to maintain adequate records, verified with the Surety Provider, as to the amount available to be drawn at any given time under the Surety Bond and as to the amount paid and owing to the Surety Provider under the terms of the Financial Guaranty Agreement.

Potential investors may obtain copies of the Surety Provider's financial statements from the Surety Provider, without charge, by request to 113 King Street, Armonk, New York 10504, (914) 273-4545.

For further information with respect to the Debt Service Reserve Fund, see "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE - Debt Service Reserve Fund." *The Debt Service Reserve Fund will not be available for payments on the Subordinate Bonds.*

#### **General Obligation Pledge for Subordinate Bonds**

The Authority has pledged its full faith and credit for payment of the Subordinate Bonds, subject only to the provisions of any agreements with the owners of particular notes, bonds or other obligations of the Authority pledging any particular revenues or assets to the payment thereof. Certain of the Authority's outstanding general obligations are described in "PROGRAMS TO DATE - General Obligation Financing."

## PROGRAM ASSUMPTIONS AND BONDOWNERS' RISKS

### Program Assumptions

#### *Generally*

The amounts deposited to the Acquisition Fund in accordance with the Indenture will be available, on or before the last day of the Origination Period, to acquire Mortgage Loans and to reimburse the Authority for amounts used to purchase Mortgage Loans originated during the Origination Period. After transfer of such Mortgage Loans to the Trustee on or before the last day of the Origination Period, the Bonds will be secured by, among other moneys, rights and interests, the Revenues derived from such Mortgage Loans which are expected by the Authority to be sufficient to pay the debt service on the Bonds. In addition, the Subordinate Bonds will be secured by the full faith and credit of the Authority. Certain assumptions have been made as to the range of variation in the generation of Revenues from such sources in order to determine the effect of such variation on the sufficiency of Revenues to pay debt service on the Bonds. The Authority has reviewed these assumptions and concluded that they are reasonable, but cannot guarantee that actual results will not vary materially from those projected. **To the extent that (i) Mortgage Loans held under the Indenture are not paid on a timely basis in accordance with their terms, (ii) the rate of receipt of Prepayments is different from that projected, or (iii) actual investment income differs from that estimated by the Authority, the Revenues and other moneys available may be insufficient for the payment of debt service on the Bonds and operating expenses of the Program.**

#### *Mortgage Loan Rates and Cash Advances*

The interest rate borne by the Mortgage Loans acquired with the proceeds of the Bonds and originated with a cash advance will be 6.60%. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS - The Mortgage Loans."

#### *Investment Agreement Rates*

Moneys remaining on deposit in the Acquisition Fund are to be invested from the date of delivery of the Bonds through August 16, 1999 (and, if necessary, with respect to amounts reserved for Mortgage Loans on Targeted Area Residences, through November 16, 1999) pursuant to an Investment Agreement (the "Investment Agreement") to be entered into between the Trustee and AIG Matched Funding Corp. (the "Investment Provider") on the date of delivery of the Bonds. Under the Investment Agreement, amounts on deposit in the Acquisition Fund and amounts on deposit from time to time in the Revenue Fund and the Redemption Fund are to be invested during the term of the Bonds, until such moneys are required to be applied in accordance with the Indenture, at 5.060% per annum pursuant to the Investment Agreement. The assumptions made by the Authority as to projected cashflows include the assumption that the investment rates provided by the Investment Agreement will be available as described. However, in the event that the Investment Agreement is terminated as a result of default by the 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. See "SECURITY



AND SOURCES OF PAYMENT FOR THE BONDS." *Neither the Authority nor the Underwriters make any representation about the financial condition or creditworthiness of the Investment Provider. Prospective investors are urged to make their own investigation into the financial condition and creditworthiness of the Investment Provider.*

*Reservations and Set Asides*

Reservation Period. The Authority expects to begin accepting reservations on October 26, 1998 and will continue to accept reservations during the Origination Period (the "Reservation Period").

Targeted Area Residences. It is assumed that approximately \$2,700,000 of the proceeds of the Bonds (or amounts exchanged therefor) will be reserved and set aside for at least the first year after the Authority begins accepting reservations from lenders (until November 1, 1999) for use in financing the purchase of Mortgage Loans on Targeted Area Residences on or prior to such date.

Non-Metropolitan Areas. Approximately \$6,000,000 of the proceeds of the Bonds (or amounts exchanged therefor) will be set aside and may be reserved beginning on the second business day of the Reservation Period and for a period of twenty nine (29) additional calendar days for use in financing the purchase of Mortgage Loans on Eligible Properties located within certain non-metropolitan areas of the State.

Designated Developments. Approximately \$2,550,000 of the proceeds of the Bonds (or amounts exchanged therefor) will be set aside and may be reserved beginning on the third business day of the Reservation Period and for a period of fifty-nine (59) additional calendar days for use in financing the purchase of Mortgage Loans, through certain designated lenders, on Eligible Properties within certain developments and locations in Colorado. The set-aside period for certain of the developments may be extended for one additional thirty (30) calendar day period upon payment by the designated lender of an extension fee in an amount equal to .25% of the set-aside amount remaining at the time of extension.

Manufactured Housing. Approximately \$1,000,000 of proceeds of the Bonds (or amounts exchanged therefor) will be reserved and set aside beginning on the third business day of the Reservation Period and for a period of fifty-nine (59) additional calendar days for use in financing the purchase of Mortgage Loans on Eligible Properties that are manufactured homes.

Other Specific Jurisdictions. Approximately \$23,868,287 of proceeds of the Bonds (or amounts exchanged therefor) will be reserved and set aside beginning on the third business day of the Reservation Period and for up to 29 additional business days for use in financing the purchase of Mortgage Loans on Eligible Properties located in other specific jurisdictions throughout the State.

Rural Areas. Approximately \$1,000,000 of the proceeds of the Bonds (or amounts exchanged therefor) will be reserved and set aside beginning on the third business day of the Reservation Period and for a period of fifty-nine (59) additional calendar days for use in

financing the purchase of Mortgage Loans to the extent such Mortgage Loans are originated in the following counties: Alamosa, Archuleta, Baca, Cheyenne, Clear Creek, Conejos, Costilla, Crowley, Custer, Eagle, Elbert, Garfield, Gilpin, Grand, Gunnison, Huerfano, Jackson Lake, La Plata, Las Animas, Lincoln, Moffat, Montrose, Ouray, Pitkin, Rio Grande, Routte, Saguache, San Miguel, Sedwick, Summit, and Washington. See "Non-Metropolitan Areas" under this caption.

During the set-aside periods, certain of the jurisdictions may apply different income and purchase price limits in connection with Mortgage Loans originated at that time. For certain jurisdictions the income and purchase price limits applied during the set-aside period may be lower than the purchase price and income limits established by the Authority. After the applicable set-aside periods, the income and purchase price limits for each jurisdiction will be as described in "DESCRIPTION OF THE SINGLE-FAMILY MORTGAGE PROGRAM - Eligibility Requirements."

#### *Early Prepayment*

PURSUANT TO THE SPECIAL REDEMPTION PROVISIONS OF THE INDENTURE, THE BONDS ARE EXPECTED TO BE REDEEMED PRIOR TO THEIR STATED MATURITY FROM REGULAR MORTGAGE LOAN PAYMENTS AS WELL AS FROM PREPAYMENTS. THE FASTER THE RATE AT WHICH PREPAYMENTS OF MORTGAGE LOANS OCCUR, THE FASTER THE BONDS WILL BE REDEEMED PURSUANT TO THE SPECIAL REDEMPTION PROVISIONS OF THE INDENTURE. SEE "DESCRIPTION OF THE BONDS - PRIOR REDEMPTION - SPECIAL REDEMPTION - PREPAYMENTS AND EXCESS REVENUES."

*No assurances can be given that actual results will not vary materially from the assumptions summarized above. If subsequent events do not correspond to such assumptions, the amount of revenues from Mortgage Loans, investment earnings and insurance proceeds available for the payment of principal and interest on the Bonds, and costs of operating the Program, may be adversely affected.*

#### **Average Life of Bonds**

The sinking fund payments and maturities of the Bonds have been fixed based on the estimated average maturity date of the Mortgage Loans assuming no Prepayments. Weighted average life refers to the average amount of time that will elapse from the date of issuance of a security until each dollar of principal of such security will be repaid to the investor. The weighted average life of the Bonds will be influenced by the rate at which principal on the Mortgage Loans securing the Bonds is paid. Principal payments on Mortgage Loans may be in the form of scheduled amortizations or Prepayments. Prepayments on Mortgage Loans are commonly measured by a prepayment standard or model. The model used in the following discussion is the Public Security Association prepayment standard or model (the "PSA Prepayment Model"). The PSA Prepayment Model is based on an assumed rate of prepayment each month of the then unpaid principal balance of the Mortgage Loans. The PSA Prepayment

Model has an increasingly large percentage of the mortgages prepaying each month for the first thirty-six (36) months of the mortgages' life and then assumes a constant prepayment rate of six percent (6%) per annum of the unpaid principal balance for the remaining life of the mortgages.

As used in the following table, "0% PSA" assumes no prepayments on the principal of the Mortgage Loans. "150% PSA" assumes the principal of the Mortgage Loans will prepay at a rate one and a half times as fast as the prepayment rates for one hundred percent (100%) of the PSA Prepayment Model. "200% PSA" assumes the principal of the Mortgage Loans will prepay at a rate twice as fast as the prepayment rates for one hundred percent (100%) of the PSA Prepayment Model. "300% PSA" assumes the principal of the Mortgage Loans will prepay at a rate three (3) times as fast as the prepayment rates for one hundred percent (100%) of the PSA Prepayment Model. "400% PSA" assumes the principal of the Mortgage Loans will prepay at a rate four (4) times as fast as the prepayment rates for one hundred percent (100%) of the PSA Prepayment Model. "500% PSA" assumes the principal of the Mortgage Loans will prepay at a rate five (5) times as fast as the prepayment rates for one hundred percent (100%) of the PSA Prepayment Model.

There is no assurance, however, that prepayment of the principal of the Mortgage Loans will conform to any level of the PSA Prepayment Model. The rate of principal payments on Mortgage Loans is influenced by a variety of economic, geographic, social and other factors, including the level of mortgage interest rates and the rate at which homeowners sell their homes or default on their Mortgage Loans. In general, if prevailing interest rates fall significantly, the Mortgage Loans are likely to be subject to higher prepayment rates than if prevailing rates remain at or above the interest rates on such Mortgage Loans. Conversely, if interest rates rise, the rate of prepayment would be expected to decrease. Other factors affecting prepayment of Mortgage Loans include changes in Mortgagors' housing needs, job transfers, unemployment and mortgagors' net equity in the Eligible Properties. In addition, as homeowners move or default on their Mortgage Loans, the houses are generally sold and the Mortgage Loans prepaid, although under certain circumstances the Mortgage Loans may be assumed by a new buyer. Because of the foregoing and since the rate of prepayment of principal of each Bond will depend in large part on the rate of repayment (including Prepayments) of the Mortgage Loans, the actual maturity of any Bond is likely to occur earlier, and could occur significantly earlier, than its stated maturity.

The figures in the table set forth below are computed utilizing the Program assumptions which have been discussed in "Program Assumptions" under this caption.

**Table of Projected Average Life  
of Senior Term Bonds**

Maturity Prepayment Speed	Maturities				
	May 1, 2016	November 1, 2023	May 1, 2029	November 1, 2029 (Taxable)	November 1, 2029
0% PSA	12.242	13.742	24.833	15.372	24.458
100% PSA	3.558	10.653	15.147	2.328	15.067
150% PSA	2.733	9.164	11.872	2.328	11.897
200% PSA	2.297	8.003	9.792	2.328	9.769
300% PSA	1.897	6.397	7.236	2.328	7.242
400% PSA	1.672	5.381	5.842	2.328	5.850
500% PSA	1.572	4.686	4.989	2.328	4.975

**Special Considerations Relative to the Origination of Mortgage Loans**

There are numerous reasons why the entire amount deposited to the Acquisition Fund may not be used to acquire, or to reimburse the Authority for its costs of purchasing, Mortgage Loans in accordance with the Indenture. One of the principal factors in originating real estate loans is the availability of funds to make such loans at interest rates and on other terms that prospective borrowers can afford. The Authority has determined that there is at the present time a shortage of funds in the State to make such loans on terms competitive with that 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. In addition, the Authority has issued, and could in the future issue, additional single family mortgage revenue bonds to finance the origination or purchase of Mortgage Loans at more favorable rates and terms than the rates and terms on the Mortgage Loans. As of September 28, 1998, the Authority had available from proceeds of its single family revenue bonds previously issued approximately \$85,361 to purchase mortgage loans with a 4% cash advance at 7.40% per annum, approximately \$4,076,247 to purchase loans with a 4% cash advance at 6.95% per annum and approximately \$3,815,437 to purchase loans with a 4% cash advance at 6.90% per annum. A substantial portion of these remaining amounts, however, have been reserved by Lenders in accordance with the procedures described in "DESCRIPTION OF THE SINGLE-FAMILY MORTGAGE PROGRAM - Reservations, Delivery and Purchase of Mortgage Loans." In addition, as of September 28, 1998, the Authority had approximately \$2,629,519 available from recycled prepayments from single family revenue bonds previously issued to purchase loans at 6.80% per annum and approximately \$20,590,483 available from proceeds of single family revenue bonds previously issued to purchase loans at 5.40% per annum which have been set aside for use only by non-profit organizations and governmental entities, mortgage loans originated in connection with a second mortgage loan directly originated by RHS, RHS-guaranteed mortgage loans and mortgage loans with a principal balance less than or equal to \$50,000 until January 1, 1999 (subject to extension to April 1, 1999). No cash advance is made with respect to mortgage loans purchased with such recycled prepayments or the proceeds of such issue, although borrowers may in certain cases obtain a downpayment assistance second mortgage loan.

Another factor in originating Mortgage Loans is the availability of an adequate number of residences for sale in the price ranges and locations permitted under the Program. See "DESCRIPTION OF THE SINGLE-FAMILY MORTGAGE PROGRAM." If an adequate number of residences are not available for sale in the permitted price ranges or locations, all of the funds available in the Acquisition Fund may not be able to be used to purchase Mortgage Loans.

As discussed under the caption "Program Assumptions," approximately \$2,700,000 of the Acquisition Fund amounts must be reserved and set aside for the first year of the Origination Period (until November 1, 1999) for use in financing the purchase of Mortgage Loans on Targeted Area Residences on or prior to such date.

The Tax Code imposes certain requirements as to the qualification of Applicants for Mortgage Loans to be acquired by the Authority under the Program. These requirements restrict the ability of potential Applicants to qualify for Mortgage Loans and thereby may materially impair the ability of Lenders to originate Mortgage Loans. Moreover, the Tax Code may require that some or all of the cash advance offered to Eligible Borrowers by the Authority as part of the Program be included in the taxable income of such Eligible Borrowers. Such tax treatment may further decrease demand among potential Applicants.

In the event that sufficient Mortgage Loans have not been originated so that the costs of such Mortgage Loans on or before August 1, 1999 (and, if necessary, on or prior to November 1, 1999 with respect to amounts reserved for Mortgage Loans on Targeted Area Residences) do not equal the amounts in the Acquisition Fund, such amounts in the Acquisition Fund which cannot be used to acquire, or to reimburse the Authority for its costs of acquiring, Mortgage Loans on such dates are required to be used to redeem Bonds, unless in either case the Origination Period is extended to a date on or before November 1, 1999 in accordance with the Indenture, as described in "DESCRIPTION OF THE BONDS - Prior Redemption - Unspent Amounts in Acquisition Fund."

### **Mortgage Loan Subsidy Recapture**

For mortgage loans made from the proceeds of any tax-exempt qualified mortgage bonds, the Tax Code requires a payment to the United States from certain mortgagors upon sale or other disposition of their homes at a gain (the "Recapture Provision"). The demand for mortgage loans made from the proceeds of such tax-exempt bonds rather than other financing sources, and therefore the use of the entire amount deposited to the Acquisition Fund to acquire Mortgage Loans, may be adversely impacted by this Recapture Provision. The Recapture Provision requires that an amount deemed to be the subsidy provided by tax-exempt qualified mortgage bonds be paid to the United States upon disposition of the home (but not in excess of 50% of the gain realized by the mortgagor). The recapture amount increases during the first five years of ownership, with full recapture occurring if the home is sold at the end of the fifth year. The recapture amount declines ratably to 20% with respect to sales occurring in years six through nine, with no recapture required in connection with sales occurring after the end of the ninth year. The Tax Code excludes from recapture part or all of the subsidy in the case of assisted individuals whose incomes are less than prescribed amounts at the time of the disposition. In

addition, there is no recapture in the event of a disposition resulting from the mortgagor's death or of certain dispositions incident to divorce.

### **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 Authority anticipates that there will be some delinquent Mortgage Loan payments and foreclosed Mortgage Loans. In the event that a Mortgagor defaults in the payment of a Mortgage Loan and the Authority institutes foreclosure proceedings, there will 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 "DESCRIPTION OF THE SINGLE-FAMILY MORTGAGE PROGRAM - Colorado Foreclosure Law and Procedure," "- VA Guaranty," "- Rural Housing Service Guarantee" and "- Private Mortgage Insurance and Uninsured Mortgage Loans." Cash advances to Eligible Borrowers in connection with the Mortgage Loans will decrease the Eligible Borrower's equity in the Eligible Property and, as a result, it is likely that the Mortgage Loans may in the aggregate perform with higher default rates than a portfolio of Mortgage Loans originated without cash advances. 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 repositories. See "CONTINUING DISCLOSURE UNDERTAKING" for a description of the Authority's future obligations with respect to providing information about the Mortgage Loan portfolio, including default rate information. In addition, physical damage to the residences securing the Mortgage Loans may exceed the limits of, or be caused by a peril not insured under, the standard hazard insurance policies insuring such residences, thereby diminishing the value of the Mortgage Loans securing the Bonds.

## **THE 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 Colorado Housing and Finance Authority Act, as amended, being Part 7 of Article 4 of Title 29 of the Colorado Revised Statutes (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 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, and, prior to June 30, 1992, moneys in the economic development fund were available in certain circumstances to make equity investments in business enterprises.

In order to achieve its authorized purposes, the Authority currently operates a Single-Family Mortgage Program, a Multi-Family Housing Facility Loan Program, a Rental Acquisition Program and various commercial loan programs. The Authority previously operated a Loans to Lenders Home Loan Program, a Multi-Family Housing Rehabilitation Program, a Multi-Family Loans to Lenders Program and a Construction Loan Program. See "Programs to Date" under this caption. Bonds or notes issued with respect to such programs are and will be separately secured from other bonds of the Authority, including the Bonds, except as described herein. 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, provided that the Authority may not have outstanding, at any one time, bonds (not including bond anticipation notes, bonds that have been refunded and bonds issued to maintain adequate balances in the State unemployment compensation fund) in an aggregate principal amount exceeding two billion four hundred million dollars.

### **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 of 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 current 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>
Michael J. Rock, Chairman	City Manager; Lakewood, Colorado	June 30, 1999
Veronica Barela, Chairman, <i>pro tem</i>	Executive Director, NEWSED Community Development Corporation; Denver, Colorado	June 30, 2001
Joseph A. Garcia, Secretary/Treasurer	Executive Director, Department of Regulatory Agencies; Denver, Colorado	At the pleasure of the Governor
J. David Barba	Colorado State Auditor; Denver, Colorado	June 30, 2001
Joseph B. Blake	Senior Vice President, Mission Viejo Company; Highlands Ranch, Colorado	June 30, 2001
Jo Ellen Davidson	Director, Denver Office, The Enterprise Foundation; Denver, Colorado	June 30, 2001
Diana F. Gardner	President, Colorado Community First National Bank-Grand Junction; Grand Junction, Colorado	June 30, 2001
Janet L. Gehlhausen	Owner/Manager, Gehlhausen Rentals; Lamar, Colorado	June 30, 1999
Elsie A. Lacy(1)	Member of the Colorado General Assembly; Arapahoe County, Colorado	End of legislative biennium 1995-96
Carolyn D. Love	Executive Director, Minority Enterprise Inc.;; Denver, Colorado	June 30, 1999
Jack Quinn	Executive Director, Housing Authority of the City of Pueblo; Pueblo, Colorado	June 30, 2001

(1) Ms. Lacy's term has expired, but no successor has been appointed.

The principal staff officers of the Authority are at this time as follows:

*David W. Herlinger*, the Executive Director, joined the staff in December 1974 and became the Executive Director in March 1977. Mr. Herlinger, a graduate of Colgate University, received a Masters Degree in Urban and Regional Planning from the University of



Colorado. Mr. Herlinger has served as the President of the National Council of State Housing Agencies and currently serves as a board member of the NCSHA. He also currently serves as a member of the Federal Home Loan Bank Board of Topeka.

*James A. Roberts*, the Director of Legal Operations, joined the staff in December, 1974. Mr. Roberts, a graduate of Yale College and Yale Law School, served with the Michigan State Housing Development Authority from 1970 until December 1974.

*Milroy A. Alexander*, the Director of Finance, joined the staff in October 1988, as Assistant Director of Finance. Mr. Alexander, a graduate of Metropolitan State College, Denver, Colorado, was previously a financial manager with a major Colorado manufacturer and a senior audit manager with Touche Ross. Mr. Alexander is a member of the Colorado Society of Certified Public Accountants and the American Institute of Certified Public Accountants.

*Rodger Hara*, the Director of Home Mortgage Programs, joined the staff in April, 1992, as Assistant Director of the Rental Housing Division. Mr. Hara has a Bachelors Degree in business administration from the University of Denver. From 1979 through 1992, Mr. Hara served in various financial and management capacities with certain mortgage banking and other companies. Mr. Hara worked in various capacities for several offices of the U.S. Department of Housing and Urban Development from 1968 through 1978.

*Grace M. Buckley*, the Director of Rental Housing Programs, joined the staff in February 1984. Ms. Buckley has a Masters Degree in Urban Planning from the University of Colorado-Denver, and worked for the City and County of Denver's Community Development Agency for eight years prior to joining the Authority. Before assuming her present duties at the Authority, Ms. Buckley served as Program Development Officer.

*Harold E. Jenson*, the Director of Information Systems, joined the staff in May 1981. Mr. Jenson is a graduate of the Colorado State University with a degree in Business Administration with an emphasis on information systems and finance. Mr. Jenson also received a Masters of Business Administration degree from the University of Colorado.

*Colleen A. Schwarz*, the Director of Commercial Programs, joined the staff in January 1986 and has served in various capacities within the Commercial Programs Division, including Assistant Director. Ms. Schwarz has a Masters Degree in Business Administration from Arizona State University Graduate School of Business and a Bachelors Degree in Management with a concentration in accounting and finance from Oakland University in Rochester, Michigan. Ms. Schwarz held various management and financial positions at several large financial institutions and a regional construction company prior to joining the Authority.

*Cris A. White*, the Director of Asset Management, joined the staff in 1988, where he served in various capacities until January 1996. Mr. White 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 lender. Mr. White has a Bachelors Degree in business administration from Regis College.

## **Programs to Date**

The following is a brief summary of the housing and loan programs currently operated by the Authority and the bonds, notes or other obligations which have been issued to date to provide funds for such programs. In support of certain of its lending programs and for other corporate purposes, the Authority has not only issued revenue bonds but has also issued general obligation bonds or pledged its full faith and credit to certain bonds as described below. 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, its programs and its financial status. All of the bonds described under this caption have been secured separately from, and are not on a parity with, the Bonds (other than the bonds described in "General Obligation Financing" as they relate to the Subordinate Bonds). Furthermore, all mortgage loans referred to herein secure such other bond issues and are not pledged in any way as security for the Bonds. *For a discussion of the specific sources for repayment of the Bonds, see "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS."*

### *Single Family Financing*

Under its Single-Family Mortgage Program, the Authority may make mortgage loans for single-family residential dwellings (one to four units) directly to individual borrowers or may purchase such mortgage loans from qualified originating lenders. However, under the Authority's current Rules and Regulations and Procedural Guide for its Single-Family Mortgage Program, the Authority generally does not make direct loans and its purchases are limited to mortgage loans on owner-occupied one- or two-unit residences.

In connection with its Single-Family Mortgage Program, the Authority has previously issued the bonds set forth in the following table. The Senior Bonds for the various series of the Authority's Single Family Program Senior and Subordinate Bonds, including the Senior Bonds, are special limited obligations of the Authority, secured by separate mortgage loan portfolios and funds, while certain of the Subordinate Bonds are general obligations of the Authority. See "General Obligation Financing" under this caption.

**Single-Family Mortgage Bonds Issued  
and Outstanding as of September 30, 1998**

<u>Bond Issue</u>	<u>Issued</u>	<u>Outstanding(8)</u>
1978A; 1980A & B (1)	\$ 240,000,000	\$ 0 (1)
1982A	66,050,000	0
1983A, B & C	149,170,000	0
1984A	146,978,750	0 (9)
1985A, B & C	234,838,017	6,057,909
1986A; 1987A, B & C	137,803,508	0
1987 Series 1, 2 & 3	103,080,000	0
1988A	50,000,000	0
1989A, B & C	90,000,000	20,070,000
1990A, B & C	97,000,000	23,890,000
1991A, B, C & D	126,825,000	48,560,000
1992A	50,000,000	24,925,000
1991A (Ref)(1)(2)	110,379,846	70,749,599
1992B(3)	30,425,000	0
1993A(4)	39,760,000	7,225,000
1993A(5)	6,028,047	7,148,728
1994A, B & C	27,530,000	14,780,000
1994D	29,125,000	0 (6)(7)
1994D-I(6)	15,000,000	7,875,000
1994D-II(7)	14,125,000	7,395,000
1994E	20,000,000	9,700,000
1994F	15,000,000	6,070,000
1995A	25,000,000	16,755,000
1995B	25,000,000	17,835,000
1995C	30,000,000	23,345,000
1995D	40,000,000	36,295,000
1995 (Ref.)	17,140,000	13,325,000
1996A	40,000,000	38,970,000
1996AA (Ref.) (1)	34,495,000(1)	34,495,000
1996B	40,000,000	39,135,000
1996C	40,000,000	39,620,000
1997A	45,000,000	44,355,000
1997B	45,000,000	44,890,000
1997C	45,000,000	45,000,000
1998A	50,000,000	50,000,000
1998B	50,001,550	50,020,057
1998C	20,000,785.95	20,043,592
1998I	<u>30,355,000</u>	<u>26,000,000</u>
Total	<u>\$2,376,110,503.95</u>	<u>\$794,529,885</u>

- (1) All of the Series 1978A Bonds and Series 1980B Bonds and \$10,675,000 of the Series 1991A (Ref.) Bonds were redeemed with proceeds of the Series 1996AA Bonds.
- (2) Proceeds were used to refund certain maturities of 1978A, 1980A and 1980B Bonds shown in this table.
- (3) Bonds in the amount of \$1,285,000 were redeemed and the remaining \$29,140,000 principal amount were remarketed as of June 1, 1994 and have been redeemed.
- (4) Proceeds were used to acquire mortgage loans and thereby refund certain maturities of 1983A, 1983B and 1983C Bonds shown in this table.
- (5) Proceeds were used to refund a portion of the 1985A capital appreciation bonds shown in this table.
- (6) \$15,000,000 of Series 1994D Bonds were converted on July 15, 1994 to the Series 1994D-I Bonds.
- (7) The remaining Series 1994D Bonds were converted on November 15, 1994 to the Series 1994D-II Bonds.
- (8) With respect to capital appreciation bonds, the amounts shown reflect accreted amounts of such bonds as of September 30, 1997.
- (9) Series 1984A Bonds were redeemed on January 12, 1995 and June 1, 1995 and the remaining Series 1984A Bonds were defeased on September 1, 1995 by the Authority using amounts drawn under certain lines of credit which were refinanced by the 1995 (Ref.) Bonds.

All of the above-described bonds previously issued in connection with the Single-Family Mortgage Program of the Authority are secured separately from and are not on a parity with the Senior Bonds and are issued and secured under resolutions or indentures of the Authority other than the Indenture.

### *Multi-Family Financing*

Under its Multi-Family Housing Facility Loan Program, the Authority makes mortgage loans to qualified sponsors of low and moderate income multi-family housing within Colorado. The majority of such mortgage loans have been required to be insured by an agency of the United States under an insurance program requiring payment of not less than 99% of the principal amount of each such mortgage loan in the event of a default by the mortgagor. The Authority has previously issued nineteen series of its Multi-Family Housing Insured Mortgage Revenue Bonds under this Program in the aggregate principal amount of \$612,715,000, eighteen series of which are currently outstanding in the aggregate principal amount of \$431,985,000. In connection with certain of these outstanding series of Bonds, the Authority has used and will use proceeds to make mortgage loans insured under Section 542(c) of the Housing and Community Development Act of 1992, as amended. With respect to such mortgage loans, while a claim may be made by the mortgagee to the FHA for 100% of the total mortgage loan amount, the Authority will be responsible, as a general obligation, to reimburse the FHA for 50% of any amounts paid by the FHA as a result of such Section 542(c) claim. To date, no claim has been filed in connection with any such outstanding Section 542(c) mortgage loan.

In addition, under its Multi-Family Housing Facility Loan Program, the Authority has sold to institutional purchasers its Mortgage Revenue Bonds, secured solely by and payable solely from mortgages on certain multi-family projects. The Authority has also acted as a conduit issuer of the Multi-Family Housing Revenue Bonds, the proceeds of which were used to finance various individual mortgage loans for multi-family projects under its Multi-Family Housing Facility Loan Program. Each of these series of Multi-Family Housing Revenue Bonds is supported by a letter of credit or other credit facility. Under its Multi-Family Housing Facility Loan Program, the Authority also has provided loans to finance the acquisition by nonprofit 501(c)(3) corporations and public housing authorities of rental housing facilities, including congregate elderly and special needs housing facilities, from the proceeds of its general obligation bonds described below. See "General Obligation Financing" under this caption.

The Authority has also implemented a Rental Acquisition Program (the "RAP Program") under which 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. Projects in the RAP Program are acquired using a combination of the Authority's general fund monies, proceeds of general obligation bonds and non-recourse seller carryback financing secured solely by the acquired projects.

### *Commercial Financing*

In 1985, the Authority implemented its Small Business Project Loan Purchase Program under which it financed project loans to commercial and industrial enterprises of small and moderate size. The Authority has also implemented a Project Loan Participation Purchase (ACCESS) Program under which it has financed participation interests in commercial and industrial loans by means of certain bonds. The Project Loan Participation Purchase Bonds and Refunding Bonds, outstanding as of June 30, 1998 in the aggregate principal amount of \$29,504,000, constitute general obligations of the Authority payable from the unencumbered assets and available income of the Authority. See "General Obligation Financing" under this caption.

The Authority has also implemented a Quality Investment Capital ("QIC") and a Quality Agricultural Loan ("QAL") Program under which it finances participation interests in commercial and industrial loans by means of SBA Guaranteed Loan Participation Purchase Bonds. Interests in the QIC loans are guaranteed by the U.S. Small Business Administration and interests in the QAL loans are guaranteed by the Farm Services Agency. As of June 30, 1998, \$20,118,000 of such SBA Guaranteed Loan Participation Purchase Bonds were outstanding. These bonds constitute general obligations of the Authority payable from the unencumbered assets and available income of the Authority. See "General Obligation Financing" under this caption.

In addition, the Authority has implemented its Rural Development Loan Program, under which it finances project or working capital loans or participations therein for small businesses in rural areas. As of June 30, 1998, the Authority had issued promissory notes payable to the Rural Business - Cooperative Service (formerly, the Farmer's Home Administration) in the aggregate principal amount of \$2,050,000 (the "RBCS Notes"), of which \$2,050,000 had been drawn from the Rural Business - Cooperative Service and \$462,734.87 was outstanding. The RBCS Notes constitute general obligations of the Authority payable from unencumbered assets and available income of the Authority. See "General Obligation Financing" under this caption.

In connection with its Special Projects area, the Authority has issued as a conduit issuer its industrial development revenue bonds to finance certain manufacturing facilities for corporations. The four series of bonds previously issued by the Authority in connection with its Ventures Program are supported by letters of credit. In addition, the Authority has financed real estate projects for non-profit organizations through its Special Projects area, certain of which have been financed through general obligation bonds of the Authority. See "General Obligation Financing" under this caption.

The Authority has also implemented a loan program for businesses involved in the recycling and waste diversion industries ("RENEW Program"). Funding for the RENEW Program is received from the Colorado Department of Local Affairs. As of June 30, 1998, such loans in the aggregate principal amount of \$4,353,695.30 were outstanding.

The Authority recently introduced its Business and Industry Loan ("B&I") Program that provides funding to Colorado businesses located in rural areas, which loans are supported by an eighty percent guaranty of the Rural Business - Cooperative Services. As of June 30, 1998, no loans had been funded by the Authority under the B&I Program.

#### *General Obligation Financing*

In connection with the refunding of certain of its Single-Family Revenue Bonds, the Authority issued \$3,535,000 of its General Obligation Bonds (1986) Issue A of which the entire amount was outstanding as of June 30, 1998. In addition, under its Multi-Family Housing Facility Loan Program and its Commercial Special Projects area, the Authority had issued nine series of general obligation bonds, five series of which remained outstanding as of June 30, 1998. See "Multi-Family Financing" under this caption. As of June 30, 1998, general obligation bonds in the aggregate principal amount of \$1,610,000 were issued to finance a loan to the Colorado Municipal League under the Authority's Special Projects area described in "Commercial Financing" under this caption. Each issue of such bonds constitutes a general obligation of the Authority, payable from the unencumbered assets and available income of the Authority.

The Authority has also undertaken, as general obligations, (i) its Project Loan Participation Purchase Bonds and Refunding Bonds, SBA Guaranteed Loan Participation Purchase Bonds and the promissory notes to the Rural Business - Cooperative Service, described above under the caption "Commercial Financing," (ii) various Subordinate Bonds supporting Senior Bonds issued in connection with its Single-Family Mortgage Program outstanding as of June 30, 1998 in the aggregate principal amount of \$14,460,000 (as described in "Single Family Financing" under this caption), and (iii) 50% risk in the projects insured by the FHA under Section 542(c), outstanding as of June 30, 1998 in the aggregate principal amount of \$119,622,692, as described in "Multi-Family Financing" under this caption.

The Authority has entered into agreements with the Federal Home Loan Bank of Topeka and a commercial bank, for the borrowing from time to time of up to an aggregate amount of \$65,000,000. Such borrowings are general obligations of the Authority and have generally been used to date to (i) make or purchase loans pending the permanent financing of such loans, and (ii) exchange funds for purposes of refunding both amounts due at maturity and prepayments on outstanding loans. As of August 1, 1998, \$22,845,000 in borrowings were outstanding under those agreements.

Moody's Investors Service has assigned an "A1" rating to the Authority's ability to repay its long-term general obligation liabilities. The rating has been assigned based on the Authority's management, financial performance and overall program performance. 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 circumstances so warrant.

#### **Year 2000 Compliance Plan**

The Authority currently is implementing a plan to make its own computer hardware and software "year 2000 compliant" and to determine the compliance of firms which

provide services to the Authority or with which the Authority has a business relationship. With respect to the Authority's own computer capabilities, the Authority expects to have necessary modifications to its internal hardware and software completed by December 31, 1998 for testing in 1999. Necessary upgrades to the software packages provided to the Authority and integral to the Authority's business operations are scheduled to be completed by the end of the first quarter of 1999. In addition, the Authority has contacted all of its key business partners about their Year 2000 compliance. Based on input to date, the Authority believes that these business partners have plans in place to make Year 2000 enhancements to their systems. Testing with business partners will begin in the first quarter of 1999. The Authority presently anticipates that it will develop contingency plans beginning in mid-1999 in the event the testing of systems or business partners uncovers unexpected problems.

## **DESCRIPTION OF THE SINGLE-FAMILY MORTGAGE PROGRAM**

The Authority's Single-Family Mortgage Program Rules and Regulations, Mortgage Purchase Agreements, Single-Family Mortgage Program Sellers' Guide (the "Sellers' Guide") and Servicing Guide, together with program bulletins and directives published from time to time with respect to the Single-Family Mortgage Program and Servicing Agreements, set forth general requirements and policies with respect to the qualification of Lenders, Servicers, Eligible Borrowers and Eligible Properties as well as the basic requirements for all 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, the Tax Code and any procedures applicable to the Mortgage Loans.*

### **General Requirements**

Pursuant to standards set forth in the Act and the Tax Code, the Authority has determined that an Eligible Borrower under the Single-Family Mortgage Program is any person (i) who meets all guidelines established by the Authority in the Authority's Sellers' Guide; (ii) whose Gross Annual Household Income (including the income of all adult persons who are expected to occupy the Eligible Property) is not in excess of certain limits established by the Authority in accordance with Federal guidelines; and (iii) with respect to all Mortgage Loans other than Targeted Area Loans or Qualified Rehabilitation Loans (as defined in the Code), who has not had a present ownership interest in a principal residence (other than a manufactured home not permanently affixed to real property) at any time within the three-year period ending upon the date the Mortgage Loan is originated. The Purchase Price of an Eligible Property financed with Bond proceeds or amounts exchanged therefor may not exceed certain Purchase Price limits established by the Authority in accordance with the Tax Code. See "Eligibility Requirements" under this caption. The Authority has reserved the right unilaterally to change the applicable asset criteria, Purchase Price limitations and income limits to certain other program terms by regulation or program bulletin, provided that all such changes shall be consistent with the Act and the Tax Code.

## **Notification to Lenders**

Lenders approved by the Authority to participate in the Authority's Single-Family Mortgage Program have executed a Mortgage Purchase Agreement. The Authority will notify such approved Lenders of the availability of funds under this Program by mailing a directive outlining the terms of the Program (the "Program Directive") to such Lenders. Additional Lenders may become eligible to participate and, if approved by the Authority, will enter into a Mortgage Purchase Agreement.

The Program Directive will specify the approximate amount of moneys expected to be made available to purchase Mortgage Loans through the issuance of the Bonds. The Program Directive will describe the program parameters including the Mortgage Loan interest rates and corresponding cash advance levels, mortgage purchase prices, discounts, Purchase Price limits, income limits and other parameters and information necessary for Lenders to determine the eligibility of Applicants, residences and Mortgage Loans under the Program. See "Eligibility Requirements" under this caption. The Program Directive is incorporated by reference into the Mortgage Purchase Agreement entered into between the Authority and each respective Lender for eligible Mortgage Loans. See "PROGRAM ASSUMPTIONS AND BONDOWNERS' RISKS - Special Considerations Relative to the Origination of the Mortgage Loans."

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

The Sellers' Guide references and incorporates a description of reservation procedures by which a Lender may enter into an agreement with the Authority for the sale and purchase of a Mortgage Loan (a "Commitment Agreement"). The reservation procedures require a Lender to have taken a loan application from an Applicant who has entered into a purchase contract with the seller of a residence. The Lender then may obtain a reservation of funds, subject to certain set asides of amounts for specific purposes and periods as described in "PROGRAM ASSUMPTIONS AND BONDOWNERS' RISKS." Each Lender is permitted to make five reservations per day per office for Mortgage Loans. Lenders are required to make their reservation in order based on loan size with the smallest loan amount receiving first priority. With respect to each Mortgage Loan which is the subject of a confirmed reservation of funds, the Lender must deliver a signed Commitment Agreement, the reservation fee of 2% (for Mortgage Loans reserved under the New Construction set-aside) and other forms and documents, as necessary. Prior to closing the Mortgage Loan, the Lender must deliver to the Authority certain documents in order for the Authority to review the eligibility of the Applicant and the residence. The Lender must then close the Mortgage Loan and deliver it to the Authority for purchase within fifteen (15) calendar days of such closing, but in any event no later than approximately thirty (30) days before expiration of the Origination Period. All Applicants for Mortgage Loans will be required by the Authority (at the Authority's expense financed with amounts in the Costs of Issuance Fund) to attend homebuyer education classes intended to give Applicants a clearer understanding, among other things, of their debt obligations.



At closing, except as described below, the Lender will advance to an Eligible Borrower a cash advance of four percent (4%) of the principal amount of the Mortgage Loan for application to all or a portion of the upfront cash requirements for such Mortgage Loan closing, which may include payment of the origination fee, closing costs, initial required escrow deposits and/or a portion of a down payment or may be applied as a Prepayment to reduce the initial principal balance of the Mortgage Loan. The Lender will advance a cash advance of five percent (5%) of the principal amount of the Mortgage Loan in connection with Mortgage Loans for which a two percent (2%) origination fee may be charged, as described in "Mortgage Purchase Agreement and Commitment Agreements." The Authority or the Trustee will purchase Mortgage Loans from the Lenders with available funds of the Authority at a price sufficient to reimburse such Lenders for such cash advances. On or before the last day of the Origination Period, the Trustee will acquire Mortgage Loans and will reimburse the Authority for its costs of acquiring Mortgage Loans (including any cash advances), with proceeds of the Bonds or amounts exchanged therefor on deposit in the Acquisition Fund.

In order to satisfy the requirements of the Tax Code, the Authority is required by the Indenture to reserve an amount equal to \$2,700,000 in the Acquisition Fund for the purchase of Mortgage Loans on "targeted area residences" within the meaning of Section 143 of the Tax Code ("Targeted Area Residences"). Such amount must be reserved until all of such amount is used to purchase Mortgage Loans on such Targeted Area Residences or a date at least one year after the date on which the proceeds of the Bonds or amounts exchanged therefor are first made available for the purchase of such Mortgage Loans (which, for the Bonds, will be November 1, 1999). See "PROGRAM ASSUMPTIONS AND BONDOWNERS' RISKS" for a discussion of this reservation and certain other amounts expected to be set aside for certain purposes and periods.

### **Eligibility Requirements**

#### *Residency Limitations*

Mortgage Loans must be made only to Applicants who have not owned an interest in a principal residence during the three-year period prior to the date of execution of each respective Mortgage which secures each such Mortgage Loan; provided, that such restriction does not apply with respect to Mortgage Loans secured by Targeted Area Residences or Qualified Rehabilitation Loans (as defined in the Code). Each Applicant must intend to occupy the Eligible Property as his or her principal place of residence.

#### *Purchase Price Limitations*

Except in certain jurisdictions during the set-aside periods as described in "PROGRAM ASSUMPTIONS AND BONDOWNERS' RISKS - Program Assumptions," the Purchase Price of an Eligible Property financed with Bond proceeds or amounts exchanged therefor may not exceed the following Purchase Price limits as established by the Authority. The Authority has established the following Purchase Price limits for Eligible Properties located in the State, which will be applicable during the first ten (10) business days of the Origination Period: \$100,000 for a previously occupied single-family residence, \$124,000 for a single family

residence which is New Construction, \$110,000 for a previously occupied duplex and \$144,000 for a duplex which is New Construction. Certain of these Purchase Price limits are somewhat lower than those permitted by the Tax Code in order to better serve persons and families of lower income. Purchase Price limits determined by the Authority may be amended by the Authority from time to time without notice to Bondowners. Furthermore, a Mortgage Loan may be made in an amount up to \$15,000 in excess of such \$100,000 Purchase Price limit to finance certain capital improvements to the Eligible Property for energy efficiency purposes. In addition to the proceeds of a Mortgage Loan, an Eligible Property may be financed with amounts received as a grant or loaned and secured by a second mortgage encumbering the property.

After the first ten (10) business days of the Origination Period and in certain jurisdictions during the set-aside period, the Authority has established higher Purchase Price limits, not in excess of 90% (110% in the case of Targeted Area Residences) of the Average Area Purchase Price, as defined below, of previously occupied or new single family residences, as the case may be, for the statistical area in which the Eligible Property is located.

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

The term "Average Area Purchase Price" means the most current average area purchase price under the safe harbor limitations from time to time published by the United States Department of the Treasury for each applicable PMSA or MSA or other area within the State, stated separately with respect to Eligible Properties which have not been previously occupied and Eligible Properties which have been previously occupied; provided, however, that in lieu of such safe harbor limitations, the average area purchase price may be determined by the Authority in accordance with the Tax Code. The most recently published safe harbor limitations for Average Area Purchase Prices for Single Family Residences in the State were as follows:

**Average Area Purchase Price for  
Single Family Residence**

<u>Area</u>	<u>New Residences</u>	<u>Existing Residence</u>
Boulder-Longmont PMSA	\$174,062	\$160,891
Colorado Springs MSA	174,062	111,939
Denver PMSA	144,770	131,083
Fort Collins-Loveland MSA	166,510	122,486
All Other Areas	174,062	132,830

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Source: United States Department of the Treasury

In accordance with the Code, the Authority has determined average purchase prices which exceed the safe harbor limitations for a number of jurisdictions.

*Condominium Projects*

Under the 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. With respect to the Bonds, Mortgage Loans encumbering condominium units may not exceed in the aggregate 25% of the outstanding aggregate principal amount of all Mortgage Loans and may not comprise more than 25% of the units in any condominium project. However, any condominium units which are included to increase the percentage in either case above 10% (up to the permitted 25%) must have a first mortgage loan to value ratio of 75% or less. Such condominium units may, however, be financed in addition to the proceeds of a Mortgage Loan, with amounts received as a grant or loaned and secured by a second mortgage encumbering the property.

*Income Limits*

In addition, an Applicant may be an Eligible Borrower for purposes of a Mortgage Loan only if such Applicant has a current Gross Annual Household Income which does not exceed the limits set forth in the Program Directive and as required by the Tax Code. Current maximum income limits set forth in the Program Directive which are applicable for the first ten (10) business days of the Origination Period are \$29,000 for borrowers where one person will occupy the Eligible Property, \$37,500 for borrowers where two persons will occupy the Eligible Property, \$43,000 for borrowers where three persons will occupy the Eligible Property, \$46,000 for borrowers where four persons will occupy the Eligible Property and \$49,300 for borrowers where five or more persons will occupy the Eligible Property. Income limits determined by the Authority may be amended by the Authority from time to time without notice to Bondowners. After the first ten (10) business days of the Origination Period and in certain jurisdictions during the set-aside period, the Authority has established higher income limits, not in excess of area median income for a family of two or less, or 115% of area median income for a family of three or more.

### *Insurance and Guarantee Requirements*

Each Mortgage Loan purchased by the Authority from a Lender is required to meet the requirements for the applicable FHA insurance or PMI or VA guaranty or Rural Housing Service guarantee. For a description of the programs, see "FHA Insurance," "VA Guaranty," "Rural Housing Service Guarantee" and "Private Mortgage Insurance and Uninsured Mortgage Loans" under this caption. Under the Authority's Program requirements, only 22% of the aggregate of all Mortgage Loans may be VA-guaranteed, Rural Housing Service-guaranteed, Uninsured and/or PMI Mortgage Loans. Each Mortgage Loan is to be secured by a Mortgage which constitutes a first lien on real property, subject only to certain permitted encumbrances. See "Mortgage Purchase Agreements and Commitment Agreements" under this caption.

The Authority may purchase "buy down" Mortgage Loans, which are Mortgage Loans where an escrow is established to fund a portion of the Mortgage payments as permitted by the FHA, VA, Rural Housing Service or Private Insurer. The Eligible Borrower may elect to use a portion of any cash advance to fund such an escrow to "buy down" the respective Mortgage Loan.

### **Mortgage Purchase Agreement and Commitment Agreements**

Purchases of Mortgage Loans by the Authority from Lenders are made pursuant to Mortgage Purchase Agreements and Commitment Agreements, each of which incorporates by reference the terms and provisions of the Sellers' Guide and the Servicing Agreement (both more fully described below). Each Commitment Agreement relates to an Applicant, residence and Mortgage Loan amount for which the Lender reserved funds with the Authority pursuant to the reservation procedures described above. Each Commitment Agreement also provides that (i) an origination fee equal to one percent (1%) of each Mortgage Loan may be charged to an Eligible Borrower except that lenders may charge an origination fee equal to two percent (2%) for up to \$7 million aggregate amount of Mortgage Loans reserved under certain set-asides for rural areas, and (ii) an annual servicing fee not to exceed 30/100 of one percent (.30%) of the outstanding principal balance of a Mortgage Loan may be charged in connection with the servicing of such Mortgage Loan, which is included in the fixed interest rate for the Mortgage Loans described in "PROGRAM ASSUMPTIONS AND BONDOWNERS' RISKS - Program Assumptions." The Commitment Agreements for Mortgage Loans are effective for 60 days.

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

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

## **Sellers' Guide**

Each Mortgage Purchase Agreement incorporates by reference the Sellers' Guide, including all of the terms, conditions, representations and warranties therein. Each Sellers' Guide describes the Program, including the procedures for reservation, loan delivery and purchase, and contains representations, warranties, covenants and agreements of the 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 first 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 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 greater of 80% of the insurable value of the improvements at the time of the origination of the Mortgage Loan or the principal amount of the Mortgage Loan; (vii) compliance by the Lender with all requirements relating to the insurance or guaranty of the Mortgage Loan; (viii) compliance with the 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 Sellers' Guide. See "Mortgage Purchase Agreements and Commitment Agreements" under this caption.

*The Sellers' 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**

The Authority has historically caused its portfolios of mortgage loans in the Single-Family Mortgage Program to be serviced by eligible financial institutions ("Servicers") pursuant to servicing agreements with the Authority ("Servicing Agreements"). In 1997, the Board of Directors of the Authority adopted a plan for in-house servicing of mortgage loans by the Authority as an alternative to this historical servicing by Servicers. As of September 30, 1998, the Authority was servicing \$166,215,852 aggregate principal amount of the Authority's mortgage loans, and six financial institutions were collectively servicing \$474,898,186 aggregate principal amount of the Authority's single family mortgage loans. The Authority has entered into a contract with one of the financial institutions servicing the Authority's single family mortgage loans in the aggregate principal amount of \$71,416,731 and is negotiating a contract with a second financial institution servicing the Authority's single family mortgage loans in the aggregate principal amount of \$245,212,844, to transfer to the Authority the servicing of such mortgage loans. The Seller's Guide relating to the Mortgage Loans securing the Bonds will require all originating Lenders to sell to the Authority all of the loan servicing rights to the Mortgage Loans. The Authority will retain for the Mortgage Loans an annual servicing fee of 30/100 of one percent (.30%) of the outstanding balance of the 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.

Although the Authority had not, prior to 1997, serviced a substantial number of single-family mortgage loans, the Authority directly services most of its multi-family loans. See "THE AUTHORITY - Programs to Date - Multi-Family Financing." The Authority also services its commercial loan portfolio other than loans for which the Authority only acquires a participation interest. See "THE AUTHORITY - Programs to Date - Commercial Financing." The Authority will make representations in the Indenture to service, or cause to be serviced, each Mortgage Loan in accordance with acceptable mortgage servicing practices of prudent lending institutions or in accordance with such other standards as are required to maintain the government mortgage insurance or guaranty or private mortgage insurance, as applicable, with respect to such Mortgage Loan.

### **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 or modification agreement, a pre-foreclosure sale, or a deed in lieu of foreclosure. Utilization of certain alternatives to foreclosure may result in quicker receipt of the FHA insurance claim because the time required to complete a foreclosure is eliminated. Attempts to utilize alternatives to foreclosure which are unsuccessful may delay receipt of the FHA insurance claim due to a delay in commencement of foreclosure proceedings.

The FHA insurance claim for a Mortgage Loan will be paid in an amount equal to the outstanding principal balance plus allowable interest and, in most cases, approximately seventy-five percent (75%) of the permitted costs and expenses of acquiring title to the Eligible Property. Interest is allowed (except for two months which is disallowed) at the HUD debenture rate which may be less than the Mortgage Loan interest rate.

Payment for insurance claims may include reimbursement to the Mortgagee for tax, insurance, and similar advances made by the Mortgagee, as well as deductions for amounts received or retained by the Mortgagee after default. Under most FHA insurance programs for single-family residences, the Federal Housing Commissioner has the option of paying insurance claims in cash or in debentures. The HUD debenture rate may be less than the interest rate on the Mortgage Loans, and any debentures would mature 20 years after the date of issue, pay interest semiannually and may be redeemable at par at the option of HUD. Current FHA policy, which is subject to change at any time, is to pay insurance claims in cash.

Except in limited circumstances as approved by HUD properties conveyed to HUD upon completion of the foreclosure process or other acquisition of title must be conveyed vacant. In some circumstances it may be necessary to evict a tenant or Mortgagor upon the completion of the foreclosure proceedings before the Eligible Property can be conveyed to HUD and the FHA insurance claim can be filed.

FHA insurance claims may be denied or curtailed in limited circumstances. An FHA insurance claim may be denied if there was fraud in the origination of the Mortgage Loan or if the Mortgagee is unable to deliver marketable title to HUD. Claims may be curtailed if the Authority, as servicer of the Mortgage Loans, fails to process the foreclosure in accordance with the FHA requirements or fails to adequately protect the Eligible Property. The Authority relies on the warranties and representations of the originating Lenders with respect to proper origination of the Mortgage Loans. If an insurance claim is denied or curtailed due to an error of the Lender, the Authority would have recourse to such Lender for reimbursement. See "Mortgage Purchase Agreement and Commitment Agreements" under this caption. The Authority's ability to collect claims for reimbursement may depend in part on the Lender's financial condition at the time the claim arises.

### **VA Guaranty**

The Veteran's Benefits Act of 1957, Public Law 85-857, as amended, permits a veteran (or in certain circumstances a veteran's spouse) to obtain a mortgage loan guaranty to finance the purchase of a one-to-four unit family dwelling at interest rates permitted by the VA.

Claims for the payment of a VA guaranty may be submitted when any default of the Mortgagor continues for a period of three months. A guaranty may be paid without the Mortgagee instituting foreclosure proceedings or otherwise acquiring title. A Mortgagee intending to institute foreclosure proceedings cannot do so until 30 days after notifying the Administrator of Veteran Affairs of this intention by registered mail. The guaranty provisions for mortgage loans generally are as follows: (i) for home and condominium loans of \$45,000 or less, 50% of the loan is guaranteed; (ii) for home and condominium loans above \$45,000 but not more than \$56,250, \$22,500 of the loan is guaranteed; (iii) for home and condominium loans above \$56,250 but not more than \$144,000, the lesser of \$36,000 or 40% of the loan is guaranteed; and (iv) for home and condominium loans above \$144,000, the lesser of \$50,750 or 25% of the loan is guaranteed. The liability on the guaranty is reduced or increased pro rata with any reduction or increase in the amount of the indebtedness. Notwithstanding the dollar and percentage limitations of the guaranty, a Mortgagee will ordinarily suffer a monetary loss only when the difference between the unsatisfied indebtedness and the proceeds of any foreclosure sale of an Eligible Property is greater than the original guaranty as adjusted. The VA may, at its option and without regard to the guaranty, make full payment to a Mortgagee of unsatisfied indebtedness on a Mortgage upon the Mortgagee's obtaining title and assigning it to the VA.

The Authority relies on the originating Lenders for proper origination of the Mortgage Loans. If a guaranty claim is denied or curtailed due to the error of the Lender, the Authority would have recourse to such Lender for reimbursement. See "Mortgage Purchase

Agreement and Commitment Agreements" under this caption. The Authority's ability to collect claims for reimbursement may depend in part on the 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 3 payments delinquent, the Mortgagee may proceed with foreclosure of the Mortgage Loan unless extenuating circumstances exist. The RHS encourages Mortgagees to explore an acceptable alternative to foreclosure. If the Mortgagee proposes a method of liquidation other than foreclosure, then the Mortgagee must obtain RHS's approval of such method.

Payment of loss is made within 60 days after the Mortgagee files a claim. A claim must be filed within 30 days after liquidation of the Eligible Property. Loss is determined by the difference between the unpaid principal balance of the mortgage loan, unpaid interest and advances approved by RHS and net proceeds from the Eligible Property. Normal costs of liquidation are also included in the loss payment. If the Mortgagee acquires title to the Eligible Property from the foreclosure sale, the Mortgagee must submit a disposition plan to RHS for RHS concurrence. The Mortgagee has six months from the date the Mortgagee acquires title 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 (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.

The Authority relies on the originating Lenders for proper origination of the Mortgage Loans. If a guaranty claim is denied or curtailed due to the error of the Lender, the Authority would have recourse to such Lender for reimbursement. See "Mortgage Purchase Agreement and Commitment Agreements" under this caption. The Authority's ability to collect claims for reimbursement may depend in part on the Lender's financial condition at the time the claim arises.

### **Private Mortgage Insurance and Uninsured Mortgage Loans**

#### *Private Mortgage Insurance*

Under the Indenture, the Authority is authorized to purchase PMI Mortgage Loans which are insured by a private mortgage insurance company approved by the Authority, which is qualified to do business in the State and qualified to provide insurance on mortgages purchased by the Federal Home Loan Mortgage Corporation or the Federal National Mortgage Association and which is rated by the agency then rating the Senior Bonds at least as high as the rating on the Senior Bonds at the time the Mortgage Loan is purchased.

The amount of private mortgage insurance plus the Eligible Borrower's down payment must at least equal the amount by which the PMI Mortgage Loan exceeds 80% of the appraised value (at the time of origination) or purchase price, whichever is less, of the Eligible Property securing such PMI Mortgage Loan, and such insurance must remain in force until the outstanding balance of such PMI Mortgage Loan is reduced to 80% or less of the appraised value (at the time of origination of such Mortgage Loan) or purchase price, whichever is less, of the Eligible Property securing such PMI Mortgage Loan, at which time such insurance is cancelable by the Authority. Effective for Mortgage Loans originated on or after July 29, 1999, federal law requires the Authority to terminate private mortgage insurance in the following circumstances. If requested by the Mortgagor, the Authority shall terminate insurance on the date when, based on the original amortization schedule, the principal balance of the Mortgage Loan is scheduled to be reduced to 80% of the original value of the Eligible Property, provided the Mortgagor has a

"good" payment history and the value of the Eligible Property has not declined. The Authority will be required to automatically terminate private mortgage insurance, on the date when, based on the original amortization schedule, the principal balance of the Mortgage Loan is scheduled to reach 78% of the original value of the Eligible Property if the Mortgagor is current on the Mortgage Loan. In addition to the foregoing, the Authority will be required to terminate private mortgage insurance, if not already terminated, on the first day of the month immediately following the midpoint of the amortization period for the Mortgage Loan if the Mortgagor is current. Mortgage insurance premiums, which are generally  $\frac{1}{4}$  of 1% of the outstanding principal balance of the PMI Mortgage Loan, are payable annually by the Mortgagee, who may be reimbursed therefor by the Mortgagor.

Generally, delinquencies must be reported to the Private Insurer within four months of default, and proceedings to recover title are required to commence within nine months of default. It is also required that prior to presenting a claim under the PMI, title to the Eligible 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 Eligible 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 Eligible 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 Eligible Property, and other costs and expenses incurred to acquire the Eligible Property. Private Insurers may require or permit the Mortgagee to forbear from foreclosing a defaulted Mortgage Loan or enter into an agreement modifying the terms of a Mortgage Loan in certain circumstances.

The Authority relies on the originating Lenders for proper origination of the Mortgage Loans. If an insurance claim is denied or curtailed due to the error of the Lender, the Authority would have recourse to such Lender for reimbursement. See "Mortgage Purchase Agreement and Commitment Agreements" under this caption. The Authority's ability to collect claims for reimbursement may depend in part on the Lender's financial condition at the time the claim arises.

#### *Uninsured Mortgage Loans*

The Indenture also permits the Authority 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 Eligible Property securing such Uninsured Mortgage Loan.

## **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.

## **Colorado Foreclosure Law and Procedure**

The Mortgage Loans are evidenced by promissory notes and secured by deeds of trust encumbering the Eligible Property. The Colorado form of deed of trust is a unique three-party instrument that involves a public rather than a private trustee. The parties to a deed of trust are the borrower (i.e., the Mortgagor), the Public Trustee of the county in which the mortgaged property is located and the 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 beneficiary to secure repayment of the indebtedness. The Public Trustee's duties are generally limited to foreclosure of the deed of trust, issuance of certificates of purchase and deeds following foreclosure, release of deeds of trust, and related matters.

The public trustee will rarely have notice of a deed of trust until the beneficiary 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 indebtedness) generally constitutes a default entitling the Mortgagee to accelerate the indebtedness and foreclose. To start foreclosure proceedings the

Mortgagee must present to the public trustee the original promissory note or evidence of indebtedness (or a lost instruments bond if the note or evidence of indebtedness has been lost), the original or certified copy of the deed of trust and a Notice of Election and Demand for Sale. The Mortgagee or its attorneys must also prepare and submit to the Public Trustee other required notices, certificates and affidavits and a mailing list for the notices. The public trustee must record the Notice of Election and Demand for Sale in the appropriate clerk and recorder's office within ten working days after receipt. The Public Trustee then causes a Notice of Sale to be published and posted. The Notice of Sale must be published once a week for five successive weeks in a newspaper of general circulation in the county where the Eligible Property is located. Copies of the published Notice of Sale must be sent to the persons designated by statute within ten days after the first publication.

The Mortgagee may elect to preserve certain junior interests (like easements or leases) that would otherwise be extinguished by the foreclosure by omitting them from the mailing list for the Notice of Sale and filing a Notice to Affirm prior to the expiration of the owner's redemption period.

Within ten days after recording the Notice of Election and Demand for Sale, the Public Trustee must also mail a notice of Right to Redeem and Cure to the persons designated by statute. A right to redeem inures to the owner of the Eligible Property, junior lienholders whose liens are recorded prior to the expiration of the owner's redemption period, certain other holders of recorded junior interests and any other person liable for a deficiency. A right to cure inures to the owner of the Eligible Property, parties liable on the indebtedness and with respect to deeds of trust recorded on or after October 1, 1990, junior lienholders, lessees, easement holders and installment land contract buyers. For deeds of trust recorded prior to October 1, 1990, cure rights inure only to owners and parties liable on the debt.

Unless the Mortgagee requests a postponement, a Public Trustee foreclosure sale must occur no less than 45 days and no more than 60 days after the date of recording the Notice of Election and Demand for Sale. Prior to the foreclosure sale the Mortgagee must obtain an Order Authorizing Sale in an appropriate Colorado District Court pursuant to Rule 120 of the Colorado Rules of Civil Procedure. Notice of a Rule 120 hearing must be provided to the persons designated by statute. The hearing must be scheduled not less than twenty nor more than thirty days after filing the Notice. The hearing must also be at least eight days prior to the date of the foreclosure sale or the Mortgagee must continue the sale. An order authorizing the Public Trustee foreclosure sale will be issued if the court determines there is a reasonable probability that a default has occurred and no interested party is entitled to protection of the Federal Soldiers' and Sailors' Civil Relief Act of 1940, as amended (the "Relief Act"). The scope of the Rule 120 hearing is limited to determining the existence of a default, whether under the deed of trust foreclosure is authorized and determination of issues related to the Relief Act.

Mortgagors called to active duty after obtaining a Mortgage Loan are entitled to benefit of the Relief Act. Under the Relief Act a Mortgagor may be granted certain relief from the mortgage obligations during active military service. Such relief includes: (i) reduction of the Mortgage Loan interest rate to six percent (6%); (ii) a stay of foreclosure proceedings; and (iii) a

stay of the redemption period. Such relief may reduce revenues received by the Authority during such period.

When foreclosure is initiated due to the nonpayment of sums due under the promissory note or deed of trust (such as principal, interest or real estate taxes), parties entitled by statute to cure who wish to exercise such cure rights must preserve the right to cure by filing a Notice of Intent to Cure with the Public Trustee at least seven days prior to the date of the foreclosure sale. 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 Eligible 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 indebtedness. Any bid by the Mortgagee which is less than the outstanding indebtedness must be a good faith estimate of the fair market value of the Eligible 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 Eligible Property will not affect the validity of the foreclosure sale but may be raised as a defense by a person sued on a deficiency. The Public Trustee will issue a Certificate of Purchase to the successful bidder.

The owner of the Eligible Property and anyone liable on the Mortgage Loan have a right to redeem it from the foreclosure sale for a period of 75 days after the sale if the Eligible Property is non-agricultural property. If the Eligible Property is agricultural property the owner's redemption period is 6 months. "Non-agricultural property" is property which is located in a platted subdivision, is both located within an incorporated city or town, or not assessed as agricultural real estate. If the owner or other person liable on the Mortgage Loan does not redeem, the most senior junior lienholder may redeem within 10 days after expiration of the owner's redemption period and each subsequent junior lienholder has (in order of priority) 5 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 prior to the expiration of the owner's redemption period. If no redemption is made by the owner or a junior lienholder, title will vest in, and the public Trustee will issue a deed to, the holder of the Certificate of Purchase. The Public Trustee's deed will convey the Eligible Property free of all junior interests except junior interests the Mortgagee elected to affirm.

Judicial foreclosure may be required or advisable in certain circumstances including where there are defects in title, where there is a need to reform the Mortgage Loan documents to correct an error or where there is a dispute about the priority of the deed of trust. Generally a judicial foreclosure will take substantially longer and be significantly more expensive than a Public Trustee's foreclosure.

In addition to the statutory requirements with respect to a foreclosure in Colorado, other restrictions may be imposed by the Mortgage Loan documents or by the VA, FHA, RHS or a Private Insurer. VA and FHA encourage lenders to avoid foreclosure wherever possible. VA and FHA also have special programs for certain borrowers whose defaults are caused by circumstances outside of their control, as described in "- VA Guaranty" 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 requires the Mortgagee to give the Mortgagor thirty days' notice prior to accelerating the Mortgage Loan unless the default is violation of the due-on-sale clause.

In the event a Mortgagor files a bankruptcy petition, the foreclosure proceedings are automatically stayed until the Mortgagee is granted relief from stay or the bankruptcy action is dismissed. The Mortgagee may not be granted relief from stay in certain cases. If a bankruptcy petition is filed after all publications of notice of the sale as required by Colorado law have been completed, the Mortgagee may continue the sale for as long as the automatic stay is in effect. Upon obtaining relief from stay or upon dismissal of the bankruptcy, the sale can be held at the next available sale date. If a bankruptcy petition is filed prior to completion of the publication of all notices of the sale as required by Colorado law, the remaining notices must be cancelled. If the Mortgagee obtains relief from stay or the bankruptcy is dismissed, the Mortgagee must rerecord the Notice of Election and Demand for Sale and all required notices must be given before a foreclosure sale may be held.

## SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

The Indenture contains various covenants and security provisions, some of which are summarized below. For convenience of reference, the number of the relevant section or sections of the Indenture appears following the respective captions in this summary. *Wherever particular provisions of the Indenture are referred to, such provisions are incorporated by reference as part of the statements made, and the statements made are qualified in their entirety by such reference. Reference is made to the Indenture for a full and complete statement of its provisions. Copies of the Indenture are available as provided in "FURTHER INFORMATION."*

### Certain Definitions

The following terms have the following meanings when used in connection with the Indenture or otherwise used in this Official Statement.

"*Applicant*" shall mean one or more individuals applying for a Mortgage Loan.

"*Authorized Officer*" shall mean the Chairman, Chairman 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.

"*Bondowner*" or "*Owner*" or "*registered owner*" shall mean any person who shall be the registered owner of any Bond or Bonds.

"*Bond Year*" shall mean each annual period ending on a May 1, beginning with the period ending May 1, 1999.

"*Business Day*" shall mean any day, other than a Saturday or Sunday, that in the city in which the principal corporate trust office of the Trustee is located is neither a legal holiday nor a day on which banking institutions are authorized or obligated by law or executive order to be closed.

"*Cash Flow Statement*" shall mean the Cash Flow Statement described in "Cash Flow Statement" under this caption.

"*Code*" or "*Tax Code*" shall mean the Internal Revenue Code of 1986, as amended to the date of delivery of the Bonds.

"*Costs of Issuance*" shall mean items of expense payable or reimbursable directly or indirectly by the Authority and related to the authorization, sale and issuance of the Bonds and the establishment of the Program, which items of expense shall include, but not be limited to, printing costs, costs of reproducing documents, filing and recording fees, initial fees, charges and expenses (including counsel's fees and expenses) of the Authority and the Trustee, underwriter fees and expenses, legal fees and charges (including, without limitation, the fees and expenses of

Bond Counsel, counsel to the underwriter and counsel to the Authority), professional consultants' fees, mortgagor counseling fees, costs of credit ratings, fees and charges for execution, transportation and safekeeping of Bonds the premiums for any Qualified Financial Instrument in the Debt Service Reserve Fund, and any other costs, charges and fees in connection with the foregoing.

"*Debt Service*" shall mean, with respect to any particular Bond Year, an amount equal to the sum of (a) all interest payable on the Bonds referred to during such Bond Year, except to the extent such interest is to be paid from deposits of the proceeds of such Bonds in the Debt Service Fund and (b) the Principal Installment or Installments of such Bonds during such Bond Year. Such interest and Principal Installments shall be calculated on the assumption that no Bonds Outstanding on the date of calculation will cease to be Outstanding except by reason of the payment of each Principal Installment on the due date thereof.

"*Debt Service Reserve Requirement*" shall mean, as of any May 1 and November 1, an amount equal to 5% of the aggregate principal amount of the Senior Bonds then Outstanding, except to the extent of any Qualified Financial Instrument therein as provided in the Indenture.

"*DTC Participants*" shall mean those broker-dealers, banks and other financial institutions from time to time for which DTC effects book-entry transfers and pledges securities deposited with DTC.

"*Eligible Borrower*" shall mean a person or family of "low or moderate income" qualifying as such under the Act and the Rules and Regulations and in accordance with the Code.

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

"*Escrow Payment*" shall mean 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*" shall mean an Event of Default as such term is defined under the Indenture and as described in "Remedies and Events of Default" under this caption.

"*Excess Investment Revenues*" shall mean the amount of investments of amounts on deposit in all Funds which are required by the Code to be deposited or retained in the Rebate Fund.

"*FHA*" shall mean the Federal Housing Administration and any agency or instrumentality of the United States of America succeeding to the mortgage insurance functions thereof.



"*Funds*" shall mean all the funds established under the Indenture.

"*Funds Exchange Agreement*" means, collectively, the 1998D First Funds Exchange Agreement dated as of October 1, 1998 between the Authority and Norwest Bank Colorado, National Association, and the 1998D Second Funds Exchange Agreement dated as of October 1, 1998 among the Authority, Norwest Bank Colorado, National Association, and Zions First National Bank.

"*GMI*" shall mean governmental mortgage insurance or guaranty issued by a Governmental Insurer and providing primary mortgage insurance or guaranty coverage of a Mortgage Loan in accordance with the requirements of the Indenture.

"*Government Obligations*" shall mean direct, general obligations, or obligations the timely payment of principal and interest of which are unconditionally guaranteed by, the United States of America.

"*Governmental Insurer*" shall mean FHA, VA or RHS.

"*Interest Payment Date*" shall mean each May 1 and November 1, commencing on May 1, 1999.

"*Investment Revenues*" shall mean amounts earned on Investment Securities, except Excess Investment Revenues, credited to any Fund pursuant to the Indenture.

"*Investment Securities*" shall mean and include any of the following securities, if and to the extent the same are at the time legal for investment of Authority funds:

(a) any bonds of obligations, rated (at the time of the investment under the Indenture) "Aaa" by Moody's, of the State or of counties, municipal corporations or political subdivisions of the State;

(b) Government Obligations;

(c) obligations issued by any of the following: Bank for Cooperatives; Federal Farm Credit Banks; Federal Home Loan Banks; Export-Import Bank of the United States; Federal Land Bank; Government National Mortgage Association ("GNMA") (excluding "interest only" mortgage strip securities, and excluding other mortgage strip securities which are valued greater than par); Federal National Mortgage Association (excluding "interest only" mortgage strip securities, and excluding other mortgage strip securities which are valued greater than par); Federal Home Loan Mortgage Corporation which guarantee timely payment of principal and interest; Small Business 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;

(d) certificates of deposit of any national or state bank, which may include the Trustee, which has deposits insured by the Federal Deposit Insurance Corporation

and which (i) has an unsecured, uninsured and unguaranteed obligation rated (at the time of the investment under the Indenture) "Aa" or better by Moody's; or (ii) is the lead bank of a parent holding company with an unsecured, uninsured and unguaranteed obligation rated (at the time of the investment under the Indenture) "Aa" or better by Moody's;

(e) commercial paper rated (at the time of the investment under the Indenture) "P-1" by Moody's;

(f) repurchase agreements collateralized by Government Obligations and/or obligations described in clause (c) above, with any institution, any registered broker/dealer subject to the Securities Investors' Protection Corporation jurisdiction or any commercial bank, which may include the Trustee, provided:

(i) a master repurchase agreement or specific written repurchase agreement governs the transaction; and

(ii) the securities are held free and clear of any lien by the Trustee or an independent third party acting solely as agent for the Trustee, and such third party is (i) a Federal Reserve Bank, (ii) a bank which is a member of the Federal Deposit Insurance Corporation and which has combined capital, surplus and undivided profits of not less than \$25,000,000, or (iii) a bank approved in writing for such purpose, and the Trustee shall have received written confirmation from such third party that it holds such securities, free and clear of any lien, as agent for the Trustee; and

(iii) a perfected first security interest under the Uniform Commercial Code, or book entry procedures prescribe at 31 C.F.R. 306.1 et seq. or 31 C.F.R. 350.0 et seq. in such securities is created for the benefit of the Trustee; and

(iv) the repurchase agreement has a term of thirty days or less, or the Trustee will value the collateral securities no less frequently than monthly and will liquidate the collateral securities if any deficiency in the required collateral percentage is not restored within two business days of such valuation; and

(v) the fair market value of the securities in relation to the amount of the repurchase obligation, including principal and interest, is equal to at least 100%; and

(g) if rated in the highest rating category of Moody's, shares of any investment company that (i) is registered under the Investment Company Act of 1940, as amended (including both corporations and Massachusetts business trusts, and including companies for which the Trustee may provide advisory, administrative, custodial or other services for compensation), (ii) invests substantially all of its assets in short-term high-quality

money-market instruments, limited to obligations issued or guaranteed by the United States, and (iii) maintains a constant asset value pre share; and

(h) any investment agreement.

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

"*Loan Recycling Fund*" means the Loan Recycling Fund established in the Indenture.

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

"*Mortgage Loan*" shall mean a permanent loan secured by a Mortgage for the purchase of Eligible Property made to an Eligible Borrower by an originating Lender which is purchased by the Authority pursuant to a Mortgage Purchase Agreement and which loan satisfies the requirements of the Indenture.

"*Mortgage Purchase Agreement*" shall mean a written agreement between a Lender and the Authority providing for the purchase of Mortgage Loans by the Authority, including any related invitations to Lenders and commitment agreements, and any documents incorporated by reference therein.

"*Mortgage Revenues*" shall mean all Revenues other than (a) Investment Revenues and (b) gains upon the sale or disposition of Investment Securities credited to any Fund pursuant to the Indenture.

"*Mortgagee*" shall mean the beneficiary of the Mortgagor or any subsequent assignee of the Mortgage Loan, including the Authority.

"*Mortgagor*" shall mean an Eligible Borrower who has executed a Mortgage.

"*Non-Premium Senior Bonds*" means all Senior Bonds other than the 1998 Series D-2 Senior Bonds and the 1998 Series D-3 Senior Bonds maturing on November 1, 2023.

"*Outstanding*" shall mean, when used with reference to Bonds, as of any date, Bonds theretofore or thereupon being authenticated and delivered under the Indenture except:

- (i) Bonds cancelled by the Trustee on or prior to such date;
- (ii) Bonds in lieu of or in substitution for which other Bonds shall have been authenticated and delivered pursuant to the Indenture; and

(iii) Bonds deemed to have been paid under the Indenture;

provided, however, that in determining whether the Owners of the requisite principal amount of Bonds Outstanding have taken or concurred in any action under the Indenture, including the making of any request, demand, authorization, direction, notice, consent or waiver under the Indenture, Bonds owned by the Authority or any affiliate of the Authority shall be disregarded and deemed not to be Outstanding, except that, in determining whether the Trustee shall be protected in relying upon any such request, demand, authorization, direction, notice, consent or waiver, only Bonds which the Trustee knows to be so owned shall be so disregarded. Bonds so owned which have been pledged in good faith may be regarded as Outstanding if the pledgee certifies to the Trustee the pledgee's right so to act with respect to such Bonds and that the pledgee is not the Authority or any affiliate of the Authority.

*"Placement Ratio"* means an amount equal to the quotient of the aggregate principal amount of Mortgage Loans (including any amounts expended for mortgage assistance costs) purchased with moneys in the Acquisition Fund divided by \$63,218,800.

*"PMI"* means private mortgage insurance or guaranty issued by a Private Insurer and providing primary mortgage insurance or guaranty coverage of all or a portion of a Mortgage Loan.

*"Principal Installment"* shall mean, with respect to any Interest Payment Date or mandatory redemption date and with respect to Bonds of any specified maturity, the sum of (i) the principal amount, if any, of such Bonds, maturing on such date, plus (ii) the Sinking Fund Installment (as may be adjusted pursuant to the Indenture), if any, due with respect to such Bonds on such date.

*"Private Insurer"* means a private mortgage insurance company approved by the Authority and (i) qualified to transact business in the State, (ii) qualified to provide insurance on mortgages purchased by the Federal Home Loan Mortgage Corporation or the Federal National Mortgage Association and (iii) rated by each nationally recognized rating agency then rating the Senior Bonds at the request of the Authority, at the time each Mortgage Loan subject to PMI provided by such Private Insurer is made or originated, at least as high as the then current rating assigned to the Senior Bonds by each such rating agency.

*"Program"* shall mean the Authority's 1998 Series D Single Family Mortgage Program pursuant to which the Authority has determined to purchase Mortgage Loans in accordance with the Act, the Rules and Regulations and the Indenture.

*"Program Expenses"* shall mean the Authority's expenses incurred with respect to the Program in carrying out and administering its powers, duties and functions as authorized by the Act or any amendment thereof, including the fees, extraordinary fees and expenses of the Trustee (other than the Trustee's Fee), including but not limited to counsel fees and expenses, the costs of complying with the Rebate Covenants, the costs of any Cash Flow Statement, foreclosure expenses, including appraisal and legal fees, security, repairs and other expenses

incurred in connection with the protection and enforcement of its rights in any Mortgage Loan and the preservation of the Eligible Property securing such Mortgage Loan.

*"Proportionate Basis,"* when used with respect to the redemption of Bonds, shall mean that the aggregate principal amount of the Bonds of each maturity to be redeemed shall be determined as nearly as practicable by multiplying the total amount of funds available for redemption by the ratio which the principal amount of Bonds of each maturity then Outstanding bears to the principal amount of all Bonds then Outstanding; provided that if the amount available for redemption of Bonds of any maturity is insufficient to redeem an integral multiple of \$5,000 principal amount of such maturity, such amount shall be applied, to the extent possible using integral multiples of \$5,000 principal amount, to the redemption of Bonds of each maturity in inverse order of maturity. For purposes of the foregoing, the Bonds shall be deemed to mature in the years and in the amounts of the Sinking Fund Installments. Any Bonds purchased with moneys which otherwise would be applied to redemption on a Proportionate Basis on the next succeeding Interest Payment Date shall be taken into account in determining Proportionate Basis with respect to such redemption. When used with respect to the purchase of Bonds, Proportionate Basis shall have the same meaning as set forth above (substituting purchase for redeem or redemption, and purchased for redeemed).

*"Qualified Financial Instrument"* means any unconditional and irrevocable letter of credit, line of credit agreement or other financial instrument deposited in the Debt Service Reserve Fund in lieu of or in partial substitution for or in addition to moneys on deposit therein, (a) the issuer of which is rated by Moody's and by Standard & Poor's Ratings Service in their respective highest rating categories, and (b) if rated by A.M. Best & Company, the issuer of which is rated by A.M. Best & Company in its highest rating category, and which either (A) has an expiration date not earlier than the final maturity of the Bonds or (B) has an expiration date earlier than the final maturity of the Bonds, but which, if not renewed, may be drawn upon in full on or before the expiration date and the reimbursement obligation for which must be satisfied from assets other than the Trust Estate.

*"Rebate Covenants"* shall mean the Authority's covenants as to arbitrage rebate under the Code as contained in a certificate delivered by the Authority concurrently with the issuance of the Bonds.

*"Record Date"* shall mean the close of business on the 15th day (whether or not a Business Day) of the month next preceding an Interest Payment Date on the Bonds or any date on which the principal of Bonds is to be paid.

*"Redemption Price"* shall mean, with respect to any Bond, the principal amount thereof plus the applicable premium, if any, payable upon redemption thereof pursuant to such Bond or the Indenture.

*"RHS"* shall mean the Rural Housing Service, formerly the Rural Housing and Community Development Service, a successor agency to the Farmers Home Administration, and any agency or instrumentality of the United States succeeding to the mortgage insurance functions thereof.

"*Rules and Regulations*" shall mean the Authority's Single Family Mortgage Program Rules and Regulations adopted by the Authority pursuant to the Act, as the same may be amended and supplemented from time to time.

"*Series*" means any series of the Bonds authorized by the Indenture.

"*Servicer*" shall mean the Authority or a financial institution approved by the Authority, which may be a Lender, acting as a servicer of Mortgage Loans pursuant to a Servicing Agreement.

"*Servicing Agreement*" shall mean a written agreement between any Servicer (other than the Authority) and the Authority providing for the Servicing of Mortgage Loans on behalf of the Authority. The Authority presently expects to service the Mortgage Loans itself and not pursuant to a Servicing Agreement with a Servicer. See "DESCRIPTION OF THE SINGLE-FAMILY MORTGAGE PROGRAM - Servicing of the Mortgage Loans."

"*Servicing Fees*" shall mean (a) any fees paid to or retained by a Servicer in accordance with the related Servicing Agreement and (b) any fees and ancillary income retained by the Authority with respect to Mortgage Loans owned and serviced by the Authority.

"*Sinking Fund Installment*" shall mean, with respect to the Bonds, an amount so designated under the caption "DESCRIPTION OF THE BONDS - Prior Redemption - Sinking Fund Redemption."

"*State*" shall mean the State of Colorado.

"*Tax-exempt Bonds*" means, collectively, the 1998 Series D-2 Senior Bonds, the 1998 Series D-3 Senior Bonds and the Subordinate Bonds.

"*Trustee's Fee*" shall mean the fee payable to the Trustee on each Interest Payment Date, which shall be a semiannual amount not exceeding 0.0175% of the aggregate principal amount of Bonds outstanding on the first day of the Bond Year in which such payment is made; provided, however, that if the moneys deposited in the Revenue Fund are insufficient therefor, the Authority shall pay, from its own funds, an amount equal to the amount of such insufficiency to the Trustee.

"*VA*" shall mean the United States of America Veterans Administration and any agency or instrumentality of the United States of America succeeding to the mortgage guaranty functions thereof.

### **Establishment of Funds**

The Indenture establishes the following funds:

- (a) Acquisition Fund;
- (b) Loan Recycling Fund;

- (c) Revenue Fund;
- (d) Costs of Issuance Fund;
- (e) Debt Service Reserve Fund;
- (f) Redemption Fund; and
- (g) Rebate Fund.

All such Funds are to be held by the Trustee in trust for application only in accordance with the provisions of the Indenture. Except as otherwise specified in the Indenture, all deposits and transfers to and all withdrawals and expenditures from the Funds under the Indenture are to be accounted for on a first-in, first-out basis.

### **Acquisition Fund**

Proceeds of the Bonds or certain amounts exchanged therefor, net of amounts to be deposited in the Debt Service Reserve Fund, the Revenue Fund and the Costs of Issuance Fund as described in "PLAN OF FINANCING - Sources and Uses of Funds," and any amounts transferred thereto from the Revenue Fund pursuant to the Indenture are to be deposited in the Acquisition Fund. Such moneys are to be applied on or before the last day of the Origination Period to the purchase of Mortgage Loans from Lenders in accordance with the provisions of the Indenture and/or to reimburse the Authority for advances made to Eligible Borrowers or Lenders with respect to such Mortgage Loans, including cash advances. See "DESCRIPTION OF THE SINGLE-FAMILY MORTGAGE PROGRAM - Reservations, Delivery and Purchase of Mortgage Loans." Such Mortgage Loans must satisfy the terms and conditions of the Indenture, and the Authority may not use such proceeds deposited to the Acquisition Fund or other moneys to finance a Mortgage Loan providing a Mortgage Yield that, by itself or in the aggregate with other Mortgage Loans credited or expected to be credited to the Acquisition Fund and the Loan Recycling Fund, exceeds the limitation on yield required by Section 143 of the Code. Each Mortgage Loan purchased from amounts in the Acquisition Fund is to be purchased from amounts deposited therein from the proceeds of the Taxable 1998 Series D-1 Senior Bonds and from the Tax-exempt Bonds on a proportionate basis.

Any moneys in the Acquisition Fund on August 1, 1998 or, with respect to the amounts in the Acquisition Fund reserved for the purchase of Mortgage Loans on Targeted Area Residences pursuant to the Indenture, on November 1, 1999, not used to purchase Mortgage Loans on or before such date are to be withdrawn by the Trustee and transferred to the Redemption Fund on the redemption date established pursuant to the Indenture; provided, however, that, such transfer may be made on a later date, not later than November 1, 1999, as to all or any part of such moneys, if the Authority has filed with the Trustee, with a copy to Moody's, an Authority Request specifying such later date or dates for such withdrawal, accompanied by a Cash Flow Statement (unless the principal amount and term of such extension is covered by a previous Cash Flow Statement), in which case such withdrawal shall occur on the later specified date or dates.

## **Loan Recycling Fund**

There is to be paid into the Loan Recycling Fund any amounts transferred thereto from the Revenue Fund pursuant to the Indenture. Unless otherwise approved by an opinion of Bond Counsel, no amounts received after 10 years after (i) the initial date of issuance of the refunded bond to which such amount is attributable, in the case of amounts attributable to bonds refunded with the proceeds of any of the Bonds, or (ii) the initial date of issuance of the Bonds, in the case of all other amounts, may be transferred to the Loan Recycling Fund.

Before any moneys are transferred to the Loan Recycling Fund, the Authority is to file with the Trustee an Authority Certificate specifying the interest rate or maximum interest rate to be borne by Mortgage Loans to be purchased with such moneys, the price or maximum price for such Mortgage Loans to be paid to Lenders, and the other terms of such Mortgage Loans. Each such transfer is to be accompanied by a Cash Flow Statement, a written confirmation of the rating on the Senior Bonds and an opinion of Bond Counsel to the effect that the application of such moneys in accordance therewith will not adversely affect the exclusion from gross income of interest on the Bonds for federal income tax purposes, unless a previous Cash Flow Statement, rating confirmation and opinion of Bond Counsel delivered in accordance with the Indenture applies to such transfer and the Mortgage Loans to be made with such amounts.

Amounts deposited in the Loan Recycling Fund are to be applied to purchase Mortgage Loans in accordance with the provisions of the Indenture; provided, however, that such Mortgage Loans must satisfy the terms and conditions set forth in the Indenture, and the Authority shall not use such moneys to finance a Mortgage Loan providing a Mortgage Yield that, by itself or in the aggregate with other Mortgage Loans credited or expected to be credited to the Loan Recycling Fund and the Acquisition Fund, exceeds the limitation on yield required by Section 143 of the Code.

The Trustee is to withdraw moneys from the Loan Recycling Fund upon receipt of an Authority request stating (i) the names of the Lenders, as applicable, to be paid, (ii) the respective amounts to be paid to such Lenders or to the Authority, including principal and unpaid accrued interest (which accrued interest may, at the option of the Authority, be paid from moneys in the Revenue Fund as provided in the Indenture), and (iii) that all conditions precedent to the purchase of the Mortgage Loans have been filled. Mortgage Loans sold by a Lender and purchased with moneys in the Loan Recycling Fund shall bear such interest rate per annum, shall be purchased by the Authority at such price, and shall have such terms as shall be set forth in the Authority Certificate in connection with which the moneys to be used to purchase such Mortgage Loans were deposited in the Loan Recycling Fund, unless the Authority files with the Trustee an Authority Certificate specifying a different interest rate, different pursuant price and/or other different terms, accompanied by a Cash Flow Statement and an opinion of Bond counsel to the effect that the application of such moneys in accordance therewith will not adversely affect the exclusion from gross income of interest on the Bonds for federal income tax purposes.

Moneys remaining in the Loan Recycling Fund on the date or dates set forth in the Cash Flow Statement in connection with which such moneys were deposited in the Loan



Recycling Fund are to be withdrawn therefrom by the Trustee on such date or dates (or such earlier date or dates as may be specified by the Authority), and transferred to the Revenue Fund.

### **Costs of Issuance Fund**

Upon the issuance, sale and delivery of the Bonds pursuant to the Indenture, the Trustee is to deposit in the Costs of Issuance Fund the moneys to be used to pay Costs of Issuance and for no other purpose. The Trustee is to issue its checks for each disbursement from the Costs of Issuance Fund (except for any fees payable to the Trustee, which may be withdrawn directly by it) for the payment of Costs of Issuance or to reimburse the Authority for its prior payment of Costs of Issuance.

### **Deposit of Revenues and Excess Investment Revenues**

The Authority is to pay all Revenues or cause all Revenues to be paid to the Trustee promptly upon their receipt and, in any event, at least once each month. All Revenues are to be deposited by the Trustee for credit to the Revenue Fund, and all Excess Investment Revenues are to be deposited by the Trustee for credit to the Rebate Fund. There is also to be deposited in the Revenue Fund any amounts transferred from the Loan Recycling Fund pursuant to the Indenture. See "Loan Recycling Fund" under this caption. 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.

### **Transfers from Revenue Fund**

Promptly upon receipt of interest on a Mortgage Loan with respect to which moneys were withdrawn from the Acquisition Fund or the Loan Recycling Fund to pay for interest accrued on such Mortgage Loan at the time of purchase from a Lender, the Trustee is to withdraw from the Revenue Fund and transfer to the Acquisition Fund or the Loan Recycling Fund, as the case may be, an amount equal to such accrued interest paid. Notwithstanding the previous sentence, the Authority may, at its option, withdraw moneys from the Revenue Fund to pay for interest accrued on a Mortgage Loan purchased from a Lender at the time the remaining purchase price for such Mortgage Loan is paid from moneys in the Acquisition Fund or the Loan Recycling Fund, as the case may be. In addition, during the respective periods that moneys in the Acquisition Fund or in the Loan Recycling Fund are available to purchase Mortgage Loans pursuant to the Indenture, the Trustee is to withdraw from the Revenue Fund and transfer to the Acquisition Fund or the Loan Recycling Fund, as the case may be, an amount equal to the proceeds of a Lender's repurchase of a Mortgage Loan pursuant to such Lender's repurchase obligation under its Mortgage Purchase Agreement, as must be set forth in an Authority Request. The Trustee is required to transfer or make payments from remaining amounts in the Revenue Fund as described below in the following order of priority, the requirements of each such transfer or payment (including the making up of any deficiencies resulting from lack of Revenues sufficient to make any earlier required transfer or payment) at the time of transfer or payment to be satisfied, and the results of such satisfaction being taken into account, before any transfer or payment is made subsequent in priority:

(a) Not less than 30 and not more than 60 days prior to each Interest Payment Date on the Outstanding Bonds (or, in the case of payment pursuant to the provisions described in (i) or (iv) below, on such other dates as may be required for the payment of Bonds or, in the case of the payments described in (iii) below, on such other dates as may be required for the payment of Program Expenses), the Trustee is required to transfer or make payments from, and apply remaining amounts in the Revenue Fund as follows and in the following order:

(i) First, to the payment of (1) any due and unpaid interest on the Senior Bonds, (2) the interest to become due on such Interest Payment Date or redemption date on the Outstanding Senior Bonds, (3) any due and unpaid Principal Installments of the Senior Bonds, and (4) any Principal Installments due on such Interest Payment Date on the Outstanding Senior Bonds;

(ii) Second, to the Debt Service Reserve Fund, if and to the extent required so that the balance in such Fund as of such Interest Payment Date (taking into account the Principal Installments of the Senior Bonds to be paid on such Interest Payment Date), together with the available amount of any Qualified Surety Bond therein, shall equal the Debt Service Reserve Requirement;

(iii) Third, to itself or to the Authority, as the case may be, the amount necessary to pay the Trustee's Fee and Program Expenses due and payable on such Interest Payment Date and, upon Authority Request, any additional amounts needed to pay other Program Expenses; provided, however, that the total of such payments for Program Expenses in any Bond Year is not to exceed the limitation described in "Limitation on Program Expenses" under this caption; and provided, further, that no Program Expenses will be payable as described in this paragraph (iii) before November 1, 1999;

(iv) Fourth, to the Authority to reimburse it for any amounts paid to the Surety Provider under the Financial Guaranty Agreement;

(v) Fifth, to the payment of (1) any due and unpaid interest on the Subordinate Bonds, (2) the interest due on such Interest Payment Date or redemption date on the Outstanding Subordinate Bonds, (3) any due and unpaid Principal Installments of the Subordinate Bonds, and (4) any Principal Installments due on such Interest Payment Date on the Outstanding Subordinate Bonds;

(vi) Sixth, on and after the date that no Taxable 1998 Series D-1 Senior Bonds remain Outstanding, into the Loan Recycling Fund at the election of the Authority evidenced by an Authority Certificate filed with the Trustee, the amount, if any, set forth in such Authority Certificate, if

and to the extent the requirements of the Indenture described in "Loan Recycling Fund" under this caption are satisfied; and

(vii) Seventh, to the extent of any remaining balance, to the Redemption Fund.

## **Application of Funds**

### *Redemption Fund*

The Trustee, at the written direction of Authority, is required to apply moneys in or to be transferred to the Redemption Fund to the purchase of Bonds then subject to redemption at a price not to exceed the applicable Redemption Price of such Bonds plus any accrued interest as described under "DESCRIPTION OF THE BONDS."

In the event, on an Interest Payment Date or a principal payment date, the amount in the Revenue Fund is insufficient to pay the interest due on the Bonds on such Interest Payment Date or the Principal Installments due on the Bonds on such principal payment date, the Trustee is required to withdraw and make payments from the Redemption Fund (but only to the extent there are amounts therein not needed to redeem Bonds (i) for which notice has been given in accordance with the Indenture or (ii) the redemption of which is necessary to preserve the tax-exempt status of the interest on the Bonds) for such purposes, to the extent that there remains a deficiency after transfers from the Debt Service Reserve Fund (with respect to the Senior Bonds) for such purpose.

### *Debt Service Reserve Fund*

The Authority will cause the Surety Provider to issue, concurrently with the issuance of the Bonds, and maintain a Qualified Surety Bond in the Debt Service Reserve Fund in an amount equal to the sum of (i) the Debt Service Reserve Requirement plus (ii) \$767,173. In connection therewith, the Authority will enter into the Financial Guaranty Agreement. Under the Financial Guaranty Agreement, the Trustee is to deliver a demand for payment at least three days before the date on which any funds are required from the Qualified Surety Bond. It will be the duty of the Trustee to maintain adequate records, verified with the Surety Provider, as to the amount available to be drawn at any given time under the Qualified Surety Bond issued by the Surety Provider in connection with the issuance of the Bonds, and as to the amounts paid and owing to the Surety Provider under the terms of the Financial Guaranty Agreement.

Not less than 30 and not more than 60 days prior to each Interest Payment Date on the Senior Bonds, the Trustee is required to calculate the amount of moneys, if any, then in the Debt Service Reserve Fund which, together with the available amount of any Qualified Surety Bond in the Debt Service Reserve Fund, is in excess of the Debt Service Reserve Requirement as of such Interest Payment Date (taking into account the Principal Installments of the Senior Bonds to be paid on such Interest Payment Date). The amount of such excess is required to be transferred to the Redemption Fund. On the Business Day following each Interest Payment Date, the available amount of any Qualified Surety Bond in the Debt Service Reserve Fund is to be

reduced to an amount equal to the sum of (i) the Debt Service Reserve Requirement as of such date of calculation plus (ii) \$767,173. If at any time the amounts in the Revenue Fund are insufficient to pay foreclosure expenses, including appraisal and legal fees, security, repairs and other expenses incurred in connection with the protection and enforcement of its rights in any Mortgage Loan and the preservation of the Eligible Property securing such Mortgage Loan, amounts in the Debt Service Reserve Fund are to be used to pay such expenses; provided that any Qualified Surety Bond therein may not be used for such purpose. If the amount in the Revenue Fund is less than the amount required to be in such Fund in order to pay interest on or principal of Senior Bonds when due, the Trustee is to apply amounts (including any Qualified Surety Bond) from the Debt Service Reserve Fund to eliminate such deficiency. Cash or Investment Securities in the Debt Service Reserve Fund are to be so used before any Qualified Surety Bond therein is so used.

#### *Rebate Fund*

Moneys deposited and held in the Rebate Fund are not to be subject to the pledge of the Indenture. Investment earnings in the Rebate Fund are to be retained therein. The Authority is to give written directions to the Trustee to pay to the United States at the times required by the Code, out of amounts deposited in the Rebate Fund, the amounts required to be paid to the United States as provided in the Rebate Covenants.

#### *Amounts Remaining in Funds*

Any amounts remaining in any Fund (other than the Rebate Fund to the extent amounts therein are required to be paid to the United States) after full payment of the Bonds and any fees, charges and expenses of the Trustee are to be paid to the Authority.

#### **Investment of Funds**

All Mortgage Revenues and all moneys held in the Funds are to be invested and reinvested by the Trustee, at the written direction of the Authority, in Investment Securities which (other than Investment Agreements) mature within six months from the date of such investment or, if earlier, at or before the time such amounts are required to be used pursuant to the Indenture, or in Investment Agreements. All moneys in any Fund invested in an Investment Agreement are to be so invested during the term of the Investment Agreement.

#### **Creation of Liens**

The Authority will not issue any bonds or other evidences of indebtedness, other than the Bonds, secured by a pledge of the Trust Estate and will not create or cause to be created or suffer to exist any lien, pledge, mortgage, security interest, charge or encumbrance on the Trust Estate; provided, however, that nothing in the Indenture prevents the Authority from issuing other evidences of indebtedness secured by a pledge of Revenues to be derived on and after such date as the pledge of the Revenues provided in the Indenture has been discharged and satisfied.

## **Enforcement and Amendment of Mortgage Loans**

The Authority is required to enforce diligently, and take or cause to be taken all reasonable steps, actions and proceedings necessary for the enforcement of, all terms, covenants and conditions of all Mortgage Loans consistent with sound lending principles and applicable requirements under the Code, including the prompt payment of all Mortgage Repayments and all other amounts due the Authority thereunder. Pursuant to the Indenture, the Authority is not permitted without good cause to release the obligations of any Mortgagor under any Mortgage Loan, and is not permitted to consent or agree to or permit any amendment or modification of the economic terms of any Mortgage Loan except with respect to a Mortgage Loan in default (or which, with the giving of notice or the passage of time or both, would be in default). To the extent permitted by law, the Authority is also required at all times to defend, enforce, preserve and protect the rights and privileges of the Authority, the Trustee and of the Bondowners under or with the respect to all Mortgage Loans; provided that the Authority is granted the power and authority to (i) settle a default on any Mortgage Loan on such terms as the Authority determines to be in the best interests of the Authority and the Bondowners; (ii) release any Mortgagor from, or waive, any of such Mortgagor's obligations under the respective Mortgage Loan to the extent necessary to comply with the Indenture or to the extent required by the Governmental Insurer or Private Insurer, if any, of such Mortgage Loan; or (iii) release any Mortgagor in connection with an assumption of a Mortgage Loan as permitted in accordance with the requirements of any Governmental Insurer or Private Insurer.

Whenever it is necessary in order to protect and enforce the rights of the Authority under a Mortgage Loan and to protect and enforce the rights and interest of the Bondowners under the Indenture, the Authority is to take steps to enforce any policy or certificate of insurance or guaranty relating to such Mortgage Loan and, if the Authority deems such to be advisable, to foreclose the Mortgage or enforce the security interest and to collect, hold and maintain or to sell or otherwise dispose of the Eligible Property securing the Mortgage Loan which is in default under the provisions of such Mortgage Loan.

## **Enforcement of Servicing Agreements**

So long as the Bonds are Outstanding, the Authority is required to service and/or maintain in full force and effect Servicing Agreements with Servicers as to all Mortgage Loans, and is to diligently enforce, or cause the Trustee to enforce, all covenants, undertakings and obligations of the Servicers under the Servicing Agreements.

## **Assignment or Disposition of Mortgage Loans**

The Authority and the Trustee are not to sell, assign, transfer, pledge or otherwise dispose or encumber of 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. The Bonds may not 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 of the Indenture.

### **Limitation on Program Expenses**

In no event may Program Expenses payable from amounts in the Revenue Fund be incurred in excess of the reasonable and necessary amount of such Program Expenses, nor, except as permitted under the Indenture, may amounts in the Revenue Fund be expended for Program Expenses in each Bond Year in excess of 0.19% of the principal amount of Bonds Outstanding at the beginning of the then current Bond Year.

### **Cash Flow Statement**

The Authority is to file or cause to be filed a Cash Flow Statement with the Trustee and the Surety Provider upon the issuance of the Bonds and, if the actions proposed to be taken and the assumptions made differ from the actions and assumptions set forth in the most recent Cash Flow Statement, prior to any optional redemption, in part, purchase of less than all of the Outstanding Bonds, disposition of Mortgage Loans (other than a defaulted Mortgage Loan) or transfer of moneys from the Revenue Fund to the Loan Recycling Fund.

A Cash Flow Statement is to consist of an Authorized Certificate or a certificate of the Authority's duly authorized agent for such purpose, setting forth for the current and each succeeding Bond Year in which Bonds are scheduled to be Outstanding a schedule of all anticipated Revenues, which may include reasonably expected Prepayments, and of all amounts expected to be withdrawn from the Debt Service Reserve Fund, the Redemption Fund and the Revenue Fund to pay Debt Service, the Trustee's Fee and estimated Program Expenses, anticipated deposits to Funds to make up any anticipated deficiencies and anticipated purchases or redemption of Bonds. The certificate is also to state that the assumptions made in such Cash Flow Statement are reasonable.

The Cash Flow Statement to be filed upon the issuance of the Bonds must demonstrate that the scheduled and estimated Revenues, which may include reasonably expected Prepayments, and all amounts which may be available therefor in the Debt Service Reserve Fund, the Redemption Fund and the Revenue Fund are, in each Bond Year, sufficient to pay (i) the Debt Service for each such Bond Year, (ii) the Trustee's Fee payable in each such Bond Year, and (iii) any estimated Program Expenses for each such Bond Year.

The Authority will covenant in the Indenture that it will only purchase or redeem Bonds pursuant to an optional redemption out of amounts in the Redemption Fund, or dispose of Mortgage Loans in accordance with the Indenture, if the most recent Cash Flow Statement demonstrates that such action will not adversely affect the then ability of the Authority to pay, when due, the principal or Redemption Price of and interest on the Bonds.

## **Arbitrage and Tax Covenant**

Pursuant to the Indenture, the Authority has agreed not to permit at any time or times any of the proceeds of the Tax-exempt Bonds or any other funds of the Authority to be used directly or indirectly to acquire any securities or obligations the acquisition of which could cause any Tax-exempt Bond to be an "arbitrage bond" under Section 148 of the Internal Revenue Code of 1986, as amended, or the applicable Treasury Regulations thereunder. The Authority will covenant to forgive or forbear payments due on the Mortgage Loans in the amounts and at the times necessary in order to comply with the immediately preceding sentence.

The Authority agrees at all times to do and perform all acts and things permitted by law and necessary or desirable in order to assure that interest paid by the Authority on the Tax-exempt Bonds will be excluded from gross income for federal income tax purposes to the holders thereof. In furtherance thereof, the Authority is to comply with the Rebate Covenants contained in a certificate delivered by the Authority concurrently with the initial issuance of the Tax-exempt Bonds.

## **Remedies and Events of Default**

Events of Default specified in the Indenture include default in the due and punctual payment of the principal or Redemption Price of any Bond when due or default in the due and punctual payment of any interest installment or failure to pay the unsatisfied balance of any Sinking Fund Installment when due; default by the Authority for 30 days after written notice thereof in the performance or observance of any other covenants, agreements or conditions on its part in the Indenture or in the Bonds contained; the filing by the Authority of a petition seeking a composition of its debts under the federal bankruptcy laws or under any other applicable law or statute of the United States of America or the State; and an event of default under the Financial Guaranty Agreement.

Upon the occurrence and continuance of an Event of Default, the Trustee may, and upon the written request of the owners of not less than 25% in aggregate principal amount of Bonds Outstanding and in the case of an Event of Default relating to the Financial Guaranty Agreement, the Surety Provider is required to, proceed to declare all Bonds Outstanding immediately due and payable; and such Bonds are to become and be immediately due and payable, anything in the Bonds or in the Indenture to the contrary notwithstanding, except that in the case of an Event of Default as to payment of any Subordinate Bond, the payment of the Bonds may not be so accelerated unless at such time either an Event of Default as to payment of any Senior Bond has occurred or is continuing or no Senior Bonds remain Outstanding and except that in the case any other Event of Default has occurred, the payment of the Bonds shall not be so accelerated except upon the written request of the owners of 100% of the Senior Bonds Outstanding. In the event of such declaration, there will be due and payable on the Bonds an amount equal to the total principal amount of all such Bonds, plus all interest accrued thereon and which will accrue thereon to the date of payment.

At any time after the principal of the Bonds 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 upon the written request of not less than a majority in aggregate principal amount of Bonds Outstanding is required to, annul such declaration and its consequences with respect to any Bonds not then due by their terms if (i) all matured installments of interest and principal or redemption price (other than principal then due only because of such declaration) of all Outstanding Bonds have been paid or duly provided for; (ii) moneys 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 by the Authority under the Indenture have been paid or a sum sufficient to pay the same 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) has been remedied to the satisfaction of the Trustee. No such annulment is to extend to or affect any subsequent default or Event of Default or impair any right consequent thereon.

Upon the happening and continuance of an Event of Default, the Trustee may proceed and, upon written request of the Owners of not less than 25% in aggregate principal amount of the Bonds then Outstanding under the Indenture and in the case of an Event of Default relating to the Financial Guaranty Agreement, the Surety Provider, shall proceed to protect and enforce, or cause the protection and enforcement of, its rights and the rights of the Owners and the Surety Provider under applicable laws and under the Indenture including enforcement of any rights under the Mortgage Purchase Agreements and the Servicing Agreements, by such suits, actions or special proceedings in equity or at law, or by proceedings in the office of any board or officer having jurisdiction, for the specific performance of any covenant or agreement contained in the Indenture or in aid or execution of any power legal or equitable remedy, as otherwise the Trustee, being advised by counsel, shall deem most effectual to protect and enforce such rights. Notwithstanding the previous sentence, in the case of an Event of Default as to the payment of any Subordinate Bond, unless at such time either an Event of Default as to the payment of any Senior Bond has also occurred or is continuing or no Senior Bonds remain Outstanding, the only remedy available to the owners of the Subordinate Bonds is recourse to the general credit of the Authority, and the owners of the Subordinate Bonds will have no action against the Trust Estate.

In the enforcement of any remedy under the Indenture, the Trustee shall be entitled to sue for, enforce payment of and receive any and all unpaid amounts then or during any default becoming, and at any time remaining, due, from the Authority for principal, interest or otherwise under any of the provisions of the Indenture or of the Bonds and unpaid, with interest on overdue payments of principal at the rate or rates of interest specified in such Bonds, together with any and all costs and expenses of collection and of all proceedings under the Indenture and under such Bonds, without prejudice to any other right or remedy of the Trustee or of the Owners or the Surety Provider, and to recover and enforce any judgment or decree against the Authority, but solely as provided in the Indenture and in such Bonds, for a portion of such amounts remaining unpaid and interest, costs and expenses as above provided, and to collect (but solely from moneys in the Funds pledged to secure the Bonds under the provisions of the Indenture, except the Rebate Fund, any other moneys available for such purposes) in any manner provided by law, the moneys adjudged or decreed to be payable.



During the continuance of such an Event of Default, the Trustee is to apply such Revenues and other property as follows and in the following order:

(i) to the payment of all Trustee's Fees, extraordinary fees and expenses, including counsel fees and expenses;

(ii) to the payment of the interest and principal or Redemption Price then due on the Senior Bonds as follows:

(a) unless the principal of all the Senior Bonds has become due or has been declared due and payable,

First: To the payment to the persons entitled thereto of all installments of interest then due in the order of the maturity of such installments, and, if the amount available is not 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 or Redemption Price of any Senior Bonds which has become due, whether at maturity or by call for redemption, in the order of their due dates, and, if the amount available is not sufficient to pay in full all the Senior Bonds due on any date, then to the payment thereof ratably, according to the amounts of principal or Redemption Price due on such date, to the persons entitled thereto, without any discrimination or preference;

(b) if the principal of all of the Senior Bonds has become or has been declared due and payable, to the payment of the principal and interest then due and unpaid upon the Senior Bonds without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Senior Bond over any other Senior Bonds, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or preference;

(iii) to the payment of the Principal Installments of and interest then due on the Subordinate Bonds in accordance with the provisions described in (ii) above as if such provisions referred to the Subordinate Bonds rather than the Senior Bonds; and

(iv) to the payment of the amounts required for reasonable and necessary Program Expenses allocable to the Bonds, the Indenture or the Program, other than amounts paid to the Trustee under (i) above.

In addition, the Trustee and the Bondowners will be entitled to all the rights and remedies otherwise provided or permitted by law or under the Indenture.

### **Removal of Trustee**

The Trustee may be removed, with or without cause, at any time (i) by an instrument or concurrent instruments in writing, filed with the Trustee, and signed by the owners of a majority in principal amount of the Bonds then Outstanding or their attorneys-in-fact duly authorized, excluding any Bonds held by or for the account of the Authority or the Trustee, or (ii) except upon the occurrence and during the continuation of an Event of Default, by the Authority. Such removal is not to take effect until a successor trustee has been appointed, provided such removal will take effect immediately on the successor Trustee's acceptance of such appointment. The Surety Provider is to be provided with notice of any removal of the Trustee.

### **Appointment of Successor Trustee**

In case at any time the Trustee resigns or is removed or becomes incapable of acting, or is adjudged as bankruptcy or insolvent, or if a receiver, liquidator or conservator of the Trustee, or of its property, is appointed, or if any public officer takes charge or control of the Trustee, or of its property or affairs, a successor is to be appointed by the Authority. The Authority is to cause notice of any such appointment made by it to be mailed, by first-class postage prepaid, to the Bondowners and the Surety Provider within 20 days after such appointment.

If in a proper case no appointment of a successor Trustee is made within 45 days after the Trustee has given written notice of resignation or after a vacancy in the office of the Trustee has occurred by reason of its inability to act, its removal, or for any other reason whatsoever, the Trustee (in the case of a resignation under the Indenture), or the Authority or the owner of any Bond (in any case) may apply to any court of competent jurisdiction to appoint a successor Trustee. Said court may thereupon, after such notice, if any, as such court may deem proper, appoint a successor Trustee.

Any company into which the Trustee may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it shall be a party or any company to which the Trustee may sell or transfer all or substantially all of its corporate trust business, provided such company shall be a bank or trust company organized under the laws of any state of the United States or a national banking association, and shall be authorized by law to perform all the duties imposed upon it by the Indenture, shall be the successor to such Trustee without the execution or filing of any paper or the performance of any further act.

Any Trustee appointed under the provisions of the Indenture in succession to the Trustee must be a bank or trust company or national banking association, having capital surplus and undivided profits aggregating at least \$50,000,000.

## **Supplemental Indentures**

Any of the provisions of the Indenture may be amended by the Authority and the Trustee, by a supplemental indenture, upon the consent of the owners of at least a majority in principal amount of the Bonds Outstanding (or, with respect to Supplemental Indentures affecting only the Subordinate Bonds, the majority in aggregate principal amount (or Appreciated Amount, as applicable) of the Subordinate Bonds then Outstanding); provided, however, no such modification or amendment may, without the consent of 100% of the owners of all Bonds Outstanding, permit an extension in the payment of any principal or Redemption Price of or interest on any Bond issued under the Indenture, a reduction in the principal amount or Redemption Price of any Bond, any Sinking Fund Installment on account of the Bonds or the rate of interest on any Bond, the creation of a lien upon or pledge of the Trust Estate other than the lien upon and pledge of the Trust Estate created by the Indenture, a preference or priority of any other Senior Bond or of any Subordinate Bond over any other Subordinate Bond, or a reduction in the aggregate principal amount of the Bonds required for consent to such Supplemental Indenture.

The Authority and the Trustee (without the consent of or notice to any owners of the Bonds) may enter into supplemental indentures to add to the covenants and agreements of the Authority contained in and consistent with the Indenture; to add to the limitations and restrictions contained in and consistent with the Indenture; to confirm any pledge under, and the subjection to any lien or pledge created or to be created by, the Indenture of the Trust Estate; to cure any ambiguity, supply any omission, or correct any defect or inconsistent provision in the Indenture; to insert such provisions clarifying matters or questions arising under the Indenture as are necessary or desirable and are not contrary to or inconsistent with the Indenture as theretofore in effect; to modify, amend or supplement the Indenture in such manner as to permit the qualification thereof under the Trust Indenture Act of 1939 or any similar federal statute hereafter in effect or under any state Blue Sky law; or to make any other amendment or change that will not materially adversely affect the interest of Owners of Outstanding Bonds; or to preserve the exclusion from gross income for federal income tax purposes of interest on the Tax-exempt 1998 Series D Bonds.

## **Defeasance**

All outstanding Bonds will prior to the maturity or redemption date thereof be deemed to have been paid and will cease to be entitled to the pledge of the Trust Estate under the Indenture and all covenants, agreements and other obligations of the Authority to the Bondowners will cease if the following conditions are met: (i) in case any Bonds are to be redeemed on any date prior to their maturity, the Authority has given to the Trustee irrevocable instructions to publish notice of redemption therefor, (ii) there have been deposited with the Trustee either moneys in an amount which are sufficient, or Government Obligations the principal of and interest on which when due will provide moneys, which, together with the moneys, if any, deposited with the Trustee at the same time, will be sufficient (as evidenced by a verification report of any independent nationally recognized certified public accountant), to pay when due the principal or redemption price, if applicable, of and interest due and to become due

on said Bonds on or prior to the redemption date or maturity date thereof, as the case may be, and all amounts owing to the Surety Provider in respect of any Qualified Surety Bond have been paid and (iii) in the event said Bonds are not subject to redemption within the next succeeding 60 days, the Authority has given the Trustee irrevocable instructions to mail, as soon as practicable, a notice to the owners of such Bonds that the above deposit 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, if applicable, of and interest on such Bonds.

However, any provisions of the Indenture which relate to the maturity of Bonds, interest payments and dates thereof, optional redemption, mandatory redemption in part through Sinking Fund Installments, selection of Bonds for partial redemption, exchange, transfer and registration of Bonds, replacement of mutilated, destroyed, lost or stolen Bonds, the safekeeping and cancellation of Bonds, non-presentment of Bonds, the holding of moneys in trust and the Rebate Fund, and the duties of the Trustee in connection with all of the foregoing, will remain in effect and be binding upon the Trustee and the Bondowners, notwithstanding the release and discharge of the Indenture. The provisions of the Indenture described in the preceding sentence will survive the release, discharge and satisfaction of the Indenture.

Notwithstanding the Authority's deposit of Government Obligations to pay when due the principal and interest to become due on the Taxable 1998 Series D-1 Senior Bonds as described above, the Authority is obligated to contribute additional securities to pay the Taxable 1998 Series D-1 Senior Bonds if necessary to provide sufficient amounts to satisfy the payment obligations on the Taxable 1998 Series D-1 Senior Bonds unless the Authority has obtained an opinion of nationally recognized bond counsel to the effect that such continuing Authority obligation to contribute additional securities is not necessary to prevent a deemed reissuance under Section 1001 of the Tax Code.

## **TAX MATTERS**

### **Tax-exempt Bonds**

Sherman & Howard L.L.C., Bond Counsel, is of the opinion that, assuming continuous compliance with certain covenants and representations of the Authority: (i) interest on the 1998 Series D-2 Senior Bonds, the 1998 Series D-3 Senior Bonds and the Subordinate Bonds (collectively, the "Tax-exempt Bonds") is not included in gross income under federal income tax laws pursuant to Section 103 of the Internal Revenue Code of 1986, as amended to the date of delivery of the Bonds (the "Tax Code"); however, interest on the 1998 Series D-2 Senior Bonds is an item of tax preference for purposes of calculating alternative minimum taxable income as defined in Section 55(b)(2) of the Tax Code under federal income tax laws and interest on the 1998 Series D-3 Senior Bonds and the Subordinate Bonds is not included in alternative minimum taxable income as defined in Section 55(b)(2) of the Tax Code under federal income tax laws except that such interest is required to be included in calculating the "adjusted current earnings" adjustment applicable to corporations for purposes of computing the

alternative minimum taxable income of corporations; and (ii) interest on the Tax-exempt Bonds is not included in Colorado taxable income or Colorado alternative minimum taxable income under Colorado income tax laws in effect as of the date of delivery of the Tax-exempt Bonds.

The Tax Code imposes several requirements which must be met with respect to the Tax-exempt 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 Tax-exempt Bonds. These requirements include: (a) limitations as to the use of proceeds of the Tax-exempt Bonds; (b) limitations on the extent to which proceeds of the Tax-exempt Bonds may be invested in higher yielding investments; and (c) a provision, subject to certain limited exceptions, that requires all investment earnings on the proceeds of the Tax-exempt Bonds above the yield on the Tax-exempt Bonds to be paid to the United States Treasury. The Authority will covenant and represent in the Indenture that it will take all steps to comply with the requirements of the Tax Code to the extent necessary to maintain the exclusion of interest on the Tax-exempt Bonds from gross income under federal income tax laws. Bond Counsel's opinion as to the exclusion of interest on the Tax-exempt Bonds from gross income is rendered in reliance on these covenants, and assumes continuous compliance therewith. The failure or inability of the Authority to comply with these requirements could cause the interest on the Tax-exempt Bonds to be included in gross income from the date of issuance.

Section 55 of the Tax Code contains a 20 percent alternative minimum tax on the alternative minimum taxable income of corporations and a 24 percent alternative minimum tax on the alternative minimum taxable income of taxpayers other than corporations. Alternative minimum taxable income is defined to include "items of tax preference" and under Section 57 of the Tax Code, interest on the 1998 Series D-2 Senior Bonds is an item of tax preference.

Under the Code, 75 percent of the excess of a corporation's "adjusted current earnings" over the corporation's alternative minimum taxable income (computed without regard to this adjustment and the alternative tax net operating loss deduction) is included in calculating the corporation's alternative minimum taxable income for purposes of the alternative minimum tax applicable to the corporation. "Adjusted current earnings" includes interest on the 1998 Series D-3 Senior Bonds and the Subordinate Bonds.

The Tax Code contains numerous provisions which may affect an investor's decision to purchase the Tax-exempt Bonds. Owners of the Tax-exempt Bonds should be aware that the ownership of tax-exempt obligations by particular persons and entities, including, without limitation, financial institutions, insurance companies, recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, foreign corporations doing business in the United States and certain "subchapter S" corporations may result in adverse federal tax consequences. Bond Counsel's opinion relates only to the exclusion of interest on the Tax-exempt Bonds from gross income and the exclusion of interest (and to the extent described below for the Taxable 1998 Series D-1 Senior Bonds) on the Tax-exempt Bonds from State of Colorado taxable income and State of Colorado alternative minimum taxable income as described above and will state that no opinion is expressed regarding other federal or State of Colorado tax

consequences arising from the receipt or accrual of interest on or ownership of the Tax-exempt Bonds. Owners of the Tax-exempt Bonds should consult their own tax advisors as to the applicability of these consequences.

The opinions expressed by Bond Counsel are based upon existing law as of the delivery date of the Tax-exempt Bonds. No opinion is expressed as of any subsequent date nor is any opinion expressed with respect to any pending or proposed legislation. Amendments to federal and Colorado tax laws may be pending now or could be proposed in the future which, if enacted into law, could adversely affect the value of the Tax-exempt Bonds, the exclusion of interest on the Tax-exempt Bonds from gross income, the exclusion of interest on the 1998 Series D-3 Senior Bonds and the Subordinate Bonds from alternative minimum taxable income (to the extent described above), or the exclusion of interest on the Tax-exempt Bonds (and to the extent described below for the Taxable 1998 Series D-1 Senior Bonds) from State of Colorado taxable income or State of Colorado alternative minimum taxable income or any combination thereof from the date of issuance of the Tax-exempt Bonds or any other date, or which could result in other adverse federal or State of Colorado tax consequences. Bondowners are advised to consult with their own advisors with respect to such matters.

### **Taxable 1998 Series D-1 Senior Bonds**

IN THE OPINION OF SHERMAN & HOWARD L.L.C., BOND COUNSEL, UNDER EXISTING LAW THE INTEREST ON THE TAXABLE 1998 SERIES D-1 SENIOR BONDS IS NOT EXCLUDED FROM GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES UNDER SECTION 103(a) OF THE TAX CODE. Interest on the Taxable 1998 Series D-1 Senior Bonds, however, is not included in Colorado taxable income or Colorado alternative minimum taxable income under Colorado income tax laws in effect as of the date of delivery of the Taxable 1998 Series D-1 Senior Bonds. Bond Counsel will express no opinion as to any other tax consequences regarding the Taxable 1998 Series D-1 Senior Bonds.

Owners of the Taxable 1998 Series D-1 Senior Bonds should consult with their own tax advisors as to the tax consequences pertaining to the Taxable 1998 Series D-1 Senior Bonds, such as the consequences of a sale, transfer, redemption or other disposition of the Taxable 1998 Series D-1 Senior Bonds prior to stated maturity, and as to other applications of federal, state, local or foreign tax laws.

### **Tax Treatment of Premium on Premium Bonds**

The Premium Bonds will be reoffered at a price in excess of the principal amount thereof. Under the Tax Code, the excess of the cost basis of a Premium Bond to a Bondowner over the principal amount of the Premium Bond is "bond premium." Under the Tax Code, bond premium is amortized over the term of a Premium Bond (i.e., the maturity date of the Premium Bond or its earlier call date) for federal income tax purposes. A Bondowner is required to decrease his or her basis in the Premium Bond by the amount of amortizable bond premium attributable to each taxable year (or portion thereof) he or she holds the Premium Bond. The amount of the amortizable bond premium attributable to each taxable year is determined on an actuarial basis at a constant interest rate compounded on each interest payment date. The

amortizable bond premium attributable to a taxable year is not deductible for federal income tax purposes. Special rules apply under the Tax Code to Bondowners who hold Premium Bonds primarily for sale to customers in the ordinary course of business. Bondowners should consult their own tax advisors with respect to the precise determination for federal income tax purposes of the treatment of bond premium upon sale, redemption or other disposition of Premium Bonds and with respect to the state and local tax consequences of owning and disposing of Premium Bonds.

## **LITIGATION**

At the time of delivery of and payment for the Bonds, the Authority will deliver an opinion of its Director of Legal Operations and legal counsel, James A. Roberts, 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 Bonds, or the collection or application of Revenues and assets of the Authority pledged or to be pledged to pay the principal of and interest on the Bonds, or the pledge thereof, or in any way contesting or affecting the validity or enforceability of the Bonds, the Indenture or the contract for the purchase of the Bonds.

## **RATINGS**

The Senior Bonds are expected to be rated "Aa2" by Moody's Investors Service ("Moody's"). The Subordinate Bonds are expected to be rated "A1" by Moody's. Such ratings reflect only the views of Moody's. An explanation of the significance of the ratings given by Moody's may be obtained from Moody's. There is no assurance that either of such ratings will continue for any given period of time or that either of such ratings will not be revised downward or withdrawn entirely by Moody's if circumstances so warrant. Any such downward revision or withdrawal of either of such ratings may have an adverse effect on the market price of the respective Bonds.

## **UNDERWRITING AND PLACEMENT**

Subject to the terms and conditions set forth in the Composite Purchase Contract dated October 15, 1998 (the "Purchase Contract"), the Authority has agreed to sell to the Underwriters identified on the cover page of this Official Statement (who may also form and represent a selling group of other dealers) and to an institutional investor, and the Underwriters and an institutional investor have agreed, subject to certain conditions, to purchase from the Authority, all, but not less than all, the Bonds for an aggregate purchase price equal to 100% of the aggregate principal amount of the Non-Premium Senior Bonds and the Subordinate Bonds, 109.70% of the aggregate principal amount of the 1998 Series D-2 Senior Bonds and 109.25% of the aggregate principal amount of the 1998 Series D-3 Senior Bonds maturing on November 1, 2023), plus accrued interest from October 1, 1998 to the date of delivery of and payment for the Bonds. The obligations of the Underwriters to accept delivery of the Bonds are subject to various conditions contained in the Purchase Contract. The Underwriters will receive an underwriting fee of \$540,000 in connection with the Bonds, payable on the delivery date of the

Bonds. The Bonds will be offered to the public at the offering prices set forth on the front cover page hereof. The initial public offering prices may be changed from time to time by the Underwriters.

### **CONTINUING DISCLOSURE UNDERTAKING**

In connection with its issuance of the Bonds, the Authority will deliver a Continuing Disclosure Undertaking, a form of which is attached hereto in Appendix E, wherein the Authority will agree for the benefit of the Bondowners to provide certain annual financial information and to provide notices of occurrence of certain enumerated events relating to the Bonds, if material.

### **CERTAIN LEGAL MATTERS**

In connection with the issuance and sale of the Bonds, Sherman & Howard L.L.C., Denver, Colorado, as Bond Counsel, will deliver the opinion discussed in "TAX MATTERS - Tax-exempt Bonds" and attached as Appendix B hereto. Certain legal matters will be passed upon for the Authority by its Director of Legal Operations and legal counsel, James A. Roberts, Esq.

Certain legal matters will be passed upon for the Underwriters by their counsel, Hogan & Hartson L.L.P., Denver, Colorado.

### **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 Bondowners 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.

### **FINANCIAL STATEMENTS OF THE AUTHORITY**

The financial statements of the Authority as of and for the years ended December 31, 1996 and 1997, included in this Official Statement, have been audited by Ernst & Young LLP, independent auditors, as stated in their report dated March 4, 1998 and are included in Appendix A hereto.

### **FURTHER INFORMATION**

The information contained above is subject to change without notice, and no implication should be derived therefrom or from the sale of the Bonds that there has been no change in the affairs of the Authority from the date hereof.

Additional information may be obtained from the undersigned at 1981 Blake Street, Denver, Colorado 80202 (fax: 303-294-9773).

### **MISCELLANEOUS**

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

**COLORADO HOUSING AND FINANCE  
AUTHORITY**

By: /s/ David W. Herlinger  
Executive Director

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**APPENDIX A**

**Financial Statements and Additional Information  
of the Authority for the Fiscal Year  
Ended December 31, 1996 and 1997 and  
Independent Auditors' Report**

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## Report of Independent Auditors

Board of Directors  
Colorado Housing and Finance Authority

We have audited the statements of financial condition of the Colorado Housing and Finance Authority (the Authority) as of December 31, 1997 and 1996, and the related statements of revenue, expenses and changes in retained earnings, and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on the financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Colorado Housing and Finance Authority at December 31, 1997 and 1996, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information on pages A-28 and A-29 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This supplemental information is the responsibility of the Authority's management. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

*Ernst & Young LLP*

March 4, 1998

COLORADO HOUSING AND FINANCE AUTHORITY

Statements of Financial Condition

	<u>December 31,</u>	
	<u>1997</u>	<u>1996</u>
	(000's Omitted)	
<u>Assets</u>		
Cash	\$ 2,430	1,222
Marketable securities:		
Short-term, at amortized cost which approximates market	<u>256,078</u>	<u>183,933</u>
Cash and cash equivalents	258,508	185,155
Long-term, at amortized cost (market value \$139,558 and \$130,726)	<u>132,316</u>	<u>124,881</u>
Total cash and marketable securities	390,824	310,036
Loans receivable, net	1,013,155	929,301
Accrued interest receivable	13,008	11,615
Property and equipment, net:		
Corporate facilities	3,305	3,567
Rental operations	29,376	29,886
Deferred debt financing costs, net	15,651	16,123
Other real estate owned, net	461	201
Other assets	<u>9,465</u>	<u>8,313</u>
	\$ <u>1,475,245</u>	<u>1,309,042</u>
<u>Liabilities and Fund Equity</u>		
Liabilities:		
Bonds and notes payable, net	1,332,307	1,185,951
Accrued interest payable	21,442	19,453
Accounts payable and other liabilities	7,199	7,179
Federally assisted program advances	776	345
Deferred fee income	695	730
Escrow and refundable deposits	<u>2,940</u>	<u>1,808</u>
Total liabilities	<u>1,365,359</u>	<u>1,215,466</u>
Fund equity - retained earnings:		
Restricted	52,641	45,227
General fund - Board designated	<u>57,245</u>	<u>48,349</u>
Total fund equity - retained earnings	<u>109,886</u>	<u>93,576</u>
	\$ <u>1,475,245</u>	<u>1,309,042</u>

See notes to financial statements.

COLORADO HOUSING AND FINANCE AUTHORITY

Statements of Revenue, Expenses  
and Changes in Retained Earnings

	Years Ended December 31,	
	<u>1997</u>	<u>1996</u>
	(000's Omitted)	
Interest and investment revenue:		
Loans receivable	\$ 77,993	71,904
Marketable securities	<u>23,659</u>	<u>22,060</u>
Total interest and investment revenue	101,652	93,964
Interest expense - bonds and notes payable	<u>85,584</u>	<u>79,973</u>
Net interest and investment revenue	<u>16,068</u>	<u>13,991</u>
Other revenue:		
Rental operations	9,456	8,924
Fees and miscellaneous income	<u>9,370</u>	<u>6,175</u>
Total other revenue	<u>18,826</u>	<u>15,099</u>
Net revenue	<u>34,894</u>	<u>29,090</u>
Other expenses:		
Salaries and related benefits	6,776	6,371
General operating	9,103	8,394
Provision for losses	571	762
Other interest expense	<u>2,134</u>	<u>2,253</u>
	<u>18,584</u>	<u>17,780</u>
Net income	16,310	11,310
Retained earnings, beginning of year	<u>93,576</u>	<u>82,266</u>
Retained earnings, end of year	\$ <u>109,886</u>	<u>93,576</u>

See notes to financial statements.

COLORADO HOUSING AND FINANCE AUTHORITY

Statements of Cash Flows

	Years Ended	
	December 31,	
	<u>1997</u>	<u>1996</u>
	(000's Omitted)	
Operating activities:		-
Net income	\$ 16,310	11,310
Adjustments to reconcile to net cash (used)		
by operating activities:		
Cost of mandatory bond calls	-	27
Depreciation	1,548	1,579
Accretion of capital appreciation		
term bonds	1,939	2,297
Capitalized interest on construction		
loans	(685)	(1,585)
Amortization of:		
Deferred debt financing costs	1,785	1,815
Premiums and discount on bonds, net	(1,798)	(1,654)
Premiums and discounts on long-		
term marketable securities, net	(22)	(53)
Deferred fee income	(2,463)	(2,126)
Deferred cash assistance expense	789	702
Mortgage yield recoupment income	(265)	(266)
Provision for losses	571	762
Gain on sale of long term marketable		
securities	(15)	(16)
Principal repayments on loans receivable	108,806	100,130
Investment in loans receivable	(190,174)	(195,992)
Deferred fee income	1,682	1,300
Deferred cash assistance expense	(4,599)	(5,073)
Changes in assets and liabilities:		
Accrued interest receivable	(1,393)	(169)
Other assets	1,035	1,726
Accrued interest payable	1,989	(63)
Accounts payable, federally assisted		
program advances and escrow and		
refundable deposits	<u>1,583</u>	<u>1,985</u>
Total adjustments	<u>(79,687)</u>	<u>(94,674)</u>
Net cash (used) by operating		
activities	\$ <u>(63,377)</u>	<u>(83,364)</u>



COLORADO HOUSING AND FINANCE AUTHORITY

Statements of Cash Flows

	Years Ended December 31,	
	<u>1997</u>	<u>1996</u>
	(000's Omitted)	
Net cash (used) by operating activities	\$ (63,377)	(83,364)
Investing activities:		
Sales and maturities of long-term marketable securities	33,672	30,111
Purchases of long-term marketable securities	(40,595)	(21,214)
Proceeds from sale of other real estate owned	2	-
Purchases of property and equipment:		
Corporate facilities	(203)	(440)
Rental operations	(574)	(931)
Net cash (used) provided by investing activities	(7,698)	7,526
Financing activities:		
Proceeds from issuance of bonds and notes payable	370,582	383,257
Debt financing costs	(1,959)	(2,242)
Repayments of bonds and notes payable	(224,195)	(305,998)
Bond call premiums	-	(348)
Net cash provided by financing activities	144,428	74,669
Net increase (decrease) in cash and cash equivalents	73,353	(1,170)
Cash and cash equivalents, beginning of year	185,155	186,325
Cash and cash equivalents, end of year	\$ 258,508	185,155
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest	\$ 78,991	78,900
Supplemental schedule of non-cash operating, investing and financing activities:		
Transfer of mortgage loans to real estate owned	32	-
Transfer of mortgage loans to other assets	2,428	698
Transfer of allowance on other real estate owned to allowance on loans receivable	90	52
Transfer of deferred debt financing costs to deferred refunding	499	980
Charge-offs of other real estate owned, loans receivable and other assets	147	1,618

See notes to financial statements.

COLORADO HOUSING AND FINANCE AUTHORITY

Notes to Financial Statements

Years Ended December 31, 1997 and 1996

(1) Organization and Summary of Significant Accounting Policies  
(Amounts for all notes in tabular format are in thousands)

(a) Authorizing Legislation

Colorado Housing and Finance Authority (the "Authority") is a corporate body and a political subdivision of the State of Colorado established pursuant to the Colorado Housing and Finance Authority Act, Title 29, Article 4, Part 7 of the Colorado Revised Statutes, as amended (the "Act"). Operations of the Authority commenced in 1974.

The Authority was created for the purpose of making funds available to assist private enterprise and governmental entities in providing housing facilities for low and moderate income families. Under the Act, the Authority is also authorized to finance project and working capital loans to industrial and commercial enterprises of small and moderate size. The power to make equity investments expired in 1992.

At December 31, 1997, the Authority was authorized to have bonds, notes and other obligations outstanding in the aggregate amount of \$2.4 billion, which do not constitute debt of the State of Colorado.

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

(b) Reporting Entity

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

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

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

COLORADO HOUSING AND FINANCE AUTHORITY

Notes to Financial Statements

Years Ended December 31, 1997 and 1996

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

(c) Fund Accounting

The financial activities of the Authority are recorded in funds ("Bond Funds") established under various bond resolutions and in other funds established in connection with the administration of the Authority's programs. All activities of the Authority not performed pursuant to the bond resolutions, excluding the Economic Development Fund (EDF) and the Housing Opportunity Fund (HOF), are recorded in the Operating Fund. The Operating Fund, EDF, HOF and those funds established under bond programs secured by the pledge of the Authority's general obligation, constitute the General Fund.

The financial statements of the Authority are presented on the basis of the governmental proprietary fund accounting concept. All interfund and intercompany balances and transactions have been eliminated in the basic financial statements. Revenue and expenses are recognized on an accrual basis.

The Authority's Board of Directors (the "Board") has designated certain amounts of the retained earnings of the General Fund as of December 31, 1997 and 1996 for various purposes as follows:

	<u>1997</u>	<u>1996</u>
Appropriations:		
Housing fund	\$ 2,224	4,136
Economic development fund	8,242	3,939
Housing opportunity fund - CHFA	14,694	10,502
Housing opportunity fund - FAF	<u>4,794</u>	<u>3,888</u>
	<u>29,954</u>	<u>22,465</u>
Reserves:		
Debt service:		
General Obligation Bonds, Issue A	-	3,300
General Obligation Bonds -		
Rental Housing and Commercial	7,240	8,536
General operating and working		
capital reserve	<u>4,000</u>	<u>500</u>
	<u>11,240</u>	<u>12,336</u>
Restrictions	<u>16,051</u>	<u>13,548</u>
Total designated retained earnings	\$ <u>57,245</u>	<u>48,349</u>

COLORADO HOUSING AND FINANCE AUTHORITY

Notes to Financial Statements

Years Ended December 31, 1997 and 1996

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

(c) Fund Accounting (continued)

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

The Authority has adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting". As permitted by the GASB Statement, the Authority may also adopt all applicable Financial Accounting Standards Board (FASB) Statements and Interpretations issued after November 30, 1989, except for those that conflict with or contradict GASB pronouncements. As of December 31, 1997, no such FASB pronouncements have been adopted.

(d) Budget Policies and Procedures

The Authority's budget year is the calendar year. A budget committee consisting of Finance, Planning & Development and Human Resources staff reviews the initial drafts, makes necessary changes and presents the budget to the Executive Director for further review and approval. The Board is first presented with a draft in September. Modifications are made in an iterative process by the Board in September, October and November. A public hearing is held in late November and if further changes are made they are incorporated into the final version adopted by the Board in December. The Board may modify the budget at any point during the fiscal year, but has chosen to do so only once in its history, in 1992.

The budget is developed on a full accrual basis with estimations of revenues by source and expenses by object. Funds remaining at the end of one year are then budgeted again in the following year if requested and approved.

(e) Cash

Cash at December 31, 1997 and 1996 primarily includes market interest accounts and approximately \$2,047,000 and \$936,000, respectively, which is restricted for various General Fund program purposes.

COLORADO HOUSING AND FINANCE AUTHORITY

Notes to Financial Statements

Years Ended December 31, 1997 and 1996

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

(f) Marketable Securities

Short-term marketable securities are carried at amortized cost, which approximates market. For purposes of the statements of cash flows, the Authority considers all short-term investments to be cash equivalents. Long-term marketable securities are carried at amortized cost, as the Authority has the ability and intent to hold such instruments to maturity. Included in long-term marketable securities are \$121,474,000 and \$114,045,000 at December 31, 1997 and 1996, respectively, which are restricted for future debt service as required under the various bond resolutions. All purchases and sales of investments must be authorized in writing by the Authority.

The GASB has issued its Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools" effective for periods beginning after June 15, 1997, with earlier application encouraged. The Authority has not yet implemented this statement because the financial statement effects have not been fully determined.

(g) Loans Receivable

Mortgage loans are carried net of deferred fee income, deferred mortgage yield recoupment income and allowance for loan losses. Generally, mortgage loans bear interest at rates ranging from 6.50% to 14.00% per annum, payable monthly over terms from 15 to 40 years. Commercial loans bear interest at rates ranging from 6.00% to 11.60% per annum, payable monthly or annually over terms from 4 to 30 years. Servicing of mortgage loans is provided by the Authority and various approved and qualified private lending institutions on behalf of the Authority. Servicing costs are accounted for as a reduction of interest income.

(h) Fee Income and Expense

Loan and commitment fees, net of related costs, are deferred and amortized into interest income, using the effective interest method, over the estimated average lives of the loans. Under the Authority's current Single Family Bond Program, the borrower is provided a cash assistance payment equivalent to 4% of the loan amount. These payments are deferred and amortized into interest income, using the effective interest method, over the estimated average lives of the loans.

(i) Mortgage Yield Recoupment Income

Income in excess of arbitrage limits under the U.S. Treasury regulations advanced to the Authority in connection with certain bond issues are accounted for as an adjustment of the yield on the respective mortgage loan portfolio to the yield permitted under the regulations. These amounts are deferred and amortized over the lives of the respective mortgage loans.

COLORADO HOUSING AND FINANCE AUTHORITY

Notes to Financial Statements

Years Ended December 31, 1997 and 1996

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

(j) Compensated Absences

Full-time employees accrue vacation leave at the rate of between ten days and twenty days per year, depending on length of service. Part-time employees accrue vacation leave at one-half the rate of a full time employee. Sick leave accrues to full-time employees at the rate of ten days per year, five days for part-time staff, but is non-vesting in either case. The liability for compensated absences is included in the financial statements.

(k) Allowance for Losses

The allowance for losses on loans and other real estate owned is provided through charges against current operations based on management's periodic review of the loan and other real estate owned portfolios. This review considers such factors as the payment history of the loans, the projected cash flows of the borrowers, estimated value of the collateral, subsidies, historical loss experience for each type of insurance or guarantee (for losses particular to other real estate owned), additional guarantees provided by the borrowers and economic conditions. When this review determines that an exposure to loss is probable and can be reasonably estimated, a provision against current operations is made in the amount quantifiable. Loans receivable and other real estate owned are shown net of allowance for losses of \$3,363,000 and \$754,000, respectively, for 1997, and \$2,896,000 and \$798,000, respectively, for 1996.

(1) Property, Equipment and Rental Real Estate Operations

Office building, furniture and equipment are carried at \$3,305,000 and \$3,567,000 at December 31, 1997 and 1996, respectively, representing cost net of accumulated depreciation of \$2,619,000 and \$2,220,000, respectively. The Authority uses the straight-line method of depreciation with estimated useful lives of three to thirty-five years.

The Authority commenced its Rental Acquisition Program ("RAP") in 1988, when the Board authorized the acquisition, rehabilitation and operation of below-market priced multi-family properties to provide affordable housing to low- and moderate-income families. The Authority has acquired and rehabilitated these properties with a combination of funds, including (i) general obligation and multi-family bond proceeds, (ii) seller-carry notes, and (iii) contributions from the Operating Fund. As a policy matter, the Authority sells these properties from time-to-time to qualified non-profit sponsors. Further, it is the policy of the Authority, to distribute excess surplus equity from the component units semi-annually. These distributions are reflected in the component unit equity from period to period.

As of December 31, the Authority owned a total of 15 RAP projects, including its three component units, containing 1,488 units. Selected balance sheet items of the RAP are presented below:

COLORADO HOUSING AND FINANCE AUTHORITY

Notes to Financial Statements

Years Ended December 31, 1997 and 1996

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

(1) Property, Equipment and Rental Real Estate Operations (continued)

	<u>1997</u>	<u>1996</u>
RAP combined, including component units:		
Property, net of accumulated depreciation of \$5,350,000 and \$4,341,000	\$ 29,376	29,886
Total assets	35,657	34,783
Total debt	31,208	31,859
Equity	4,449	2,924
RAP component units only:		
Property, net of accumulated depreciation of \$2,433,000 and \$1,808,000	\$ 18,825	19,004
Total assets	22,246	22,114
Total debt	20,048	20,832
Equity	2,198	1,282

All revenues and expenses of these properties, including depreciation and interest, are reflected in the operating results of the Authority's Operating Fund. RAP rents and other revenue are recorded as other revenue, operating and other expenses are recorded in general operating expenses, and interest expense on notes payable and general obligation bond proceeds used to acquire the properties is recorded in other interest expense. A summary of the operating results of the RAP properties is presented below on a proforma stand-alone basis before elimination of intercompany transactions:

	<u>1997</u>	<u>1996</u>
RAP combined, including component units:		
Rents and other revenue	\$ 9,456	8,924
General operating expenses	(4,135)	(3,739)
Depreciation expense	(1,084)	(1,036)
Interest expense	(2,273)	(2,357)
Net income	\$ <u>1,964</u>	<u>1,792</u>
RAP component units only:		
Rents and other revenue	\$ 5,791	5,614
General operating expenses	(2,347)	(2,290)
Depreciation expense	(625)	(607)
Interest expense	(1,464)	(1,526)
Net income	\$ <u>1,355</u>	<u>1,191</u>

COLORADO HOUSING AND FINANCE AUTHORITY

Notes to Financial Statements

Years Ended December 31, 1997 and 1996

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

- (m) Deferred Debt Financing Costs and Bond Discounts and Premiums  
Costs of debt issuance are deferred and amortized over the expected average lives of the bond issues using either the straight-line or effective interest method depending on the nature of the underlying debt. Discounts and premiums on bonds payable are deferred and amortized over the lives of the respective bond issues using the effective interest method.
- (n) 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. Subsequent losses are provided for through the allowance for losses.
- (o) Other Assets  
Included in other assets are escrows related to RAP and loans serviced by the Authority, deferred compensation plan assets, unamortized costs of mortgage servicing rights, and investments in public/private partnerships and corporations, designed to foster economic development. Where such investments represent a 20% to 50% ownership interest, the Authority uses the equity method of accounting. All other investments are recorded at cost. The carrying value of such investments is approximately \$583,000 and \$1,669,000 at December 31, 1997 and 1996, respectively.
- (p) Federally Assisted Program Advances  
In accordance with and pursuant to contracts between the Authority and the Department of Housing and Urban Development ("HUD"), the Authority administers the Section 8 Housing Assistance Payments (HAP) Program in certain areas of the State of Colorado. Under this program, housing assistance payments are made to the owners of rental housing developments on behalf of tenants of limited income who meet the eligibility requirements. HUD advances funds to the Authority for the housing assistance payments and, for certain developments, pays a monthly fee to the Authority for its administration of the subsidy contracts. These administrative fees, approximately \$1,180,000 and \$1,157,000 in 1997 and 1996, respectively, are recognized as other revenue when earned.
- (q) Other Revenue and Other Interest Expense  
Other revenue includes rent income from RAP, administrative fees from HAP, tax credit program fees, and reimbursements and fees from other programs. Other interest expense includes actual interest costs on debt incurred to finance RAP projects and on borrowings incurred to finance the Authority's facilities and equipment.



COLORADO HOUSING AND FINANCE AUTHORITY

Notes to Financial Statements

Years Ended December 31, 1997 and 1996

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

(r) Debt Refunding

For current refundings and advance refundings resulting in defeasance of debt reported by proprietary activities, 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.

(s) Certain 1996 amounts have been reclassified to conform to the 1997 presentation.

(2) Cash and Marketable Securities

Investment of the Authority's monies is made in accordance with the Authority's investment guidelines, which have been approved by the Board and are in compliance with the Act and the laws of the State of Colorado.

Permitted investments under these investment guidelines include obligations of the U.S. Treasury, its agencies and instrumentalities, commercial paper rated A-1 or P-1, certificates of deposit, repurchase agreements, money market mutual funds and investment agreements.

At December 31, 1997 the carrying amount of the Authority's cash deposits totaled \$2,430,000. Of this amount, \$762,000 was covered by federal depository insurance and \$1,668,000 was required to be collateralized under provisions of the Colorado Public Deposit Protection Act with securities held by the pledging depository but not in the Authority's name.

Marketable securities are categorized below to provide an indication of the level of risk assumed by the Authority as of December 31, 1997. Category 1 includes those investments which are insured or registered securities held by the Authority or its trustee in the Authority's name. Category 2 includes those investments which are uninsured and unregistered, with securities held by the counterparty's trust department or its agent in the Authority's name. Category 3 includes those investments which are uninsured and unregistered, with securities held by the counterparty or its agent, but not in the Authority's name. Amounts not subject to categorization include money market mutual funds and uncollateralized investment agreements because securities are not issued as evidence of investment.

Notes to Financial Statements

Years Ended December 31, 1997 and 1996

(2) Cash and Marketable Securities (continued)

	Categories			Carrying Amount	Market Value
	1	2	3		
Commercial paper	\$ 10,632	-	-	10,632	10,632
U.S. government & agency obligations	75,818	-	-	75,818	83,060
Investment agreements	-	53,235	-	53,235	53,235
Repurchase agreements	<u>2,053</u>	-	-	<u>2,053</u>	<u>2,053</u>
	\$ <u>88,503</u>	<u>53,235</u>	-	<u>141,738</u>	<u>148,980</u>
Uncategorized:					
Treasury money market funds				7,637	7,637
Investment agreements				<u>239,019</u>	<u>239,019</u>
				\$ <u>388,394</u>	<u>395,636</u>

Investment agreements meet the requirements of the rating agency providing the rating on the debt issue for which the investment serves as collateral, and of the Board in accordance with the Act. Such investments are held by financial institutions having the same or higher ratings as that of the applicable debt issue, and the agreements generally provide for collateralization of balances in the event of rating agency downgrade of the institution below the related bond ratings.

From time to time, the Authority invests in repurchase agreements. Securities underlying repurchase agreements are limited to those government obligations permitted by the Authority's investment guidelines and have a market value of 102% of the cost of the repurchase agreement. The Authority's collateral interest in the underlying securities is perfected by delivery of the securities to the Authority's trustee.

(3) Loans Receivable

Loans receivable at December 31, consist of the following:

	1997	1996
General Fund	\$ 126,862	121,932
Multi-family bond programs:		
Housing Insured Mortgage Revenue	286,848	247,988
Mortgage Revenue	4,334	4,385
Single Family bond programs:		
Housing Revenue	98,454	96,548
Taxable Program Senior and Subordinate Revenue	9,210	11,420
Residential Housing Revenue	5,915	8,271
Program Senior and Subordinate Revenue Refunding	30,176	37,503
	452,336	406,402
	<u>1,300</u>	<u>1,486</u>
Total loans receivable	1,015,435	935,935

COLORADO HOUSING AND FINANCE AUTHORITY

Notes to Financial Statements

Years Ended December 31, 1997 and 1996

(3) Loans Receivable (continued)

Total loans receivable	1,015,435	935,935
Deferred cash assistance expense	14,493	10,689
Deferred fee income	(12,255)	(13,007)
Deferred mortgage yield recoupment income	(1,155)	(1,420)
Allowance for loan losses	<u>(3,363)</u>	<u>(2,896)</u>
Total loans receivable, net	\$ <u>1,013,155</u>	<u>929,301</u>

General Fund loans are generally collateralized by mortgages on real property and improvements. At December 31, 1997 and 1996, \$25,642,000 and \$25,090,000 of these loans (ACCESS program), respectively, are secured by first liens ahead of second liens from the Small Business Administration. Generally, the Authority's lien is secured at origination with collateral having a loan-to-value ratio of at least 45%. Additionally, at December 31, 1997 and 1996, \$18,962,000 and \$21,022,000 of these loans (QIC/QAL program), respectively, are secured by a guarantee of the Small Business Administration or Consolidated Farm Services, formerly Farmers Home Administration.

Multi-family bond program loans are collateralized by first mortgages on applicable real estate, and, in most cases, are further insured by an agency of the United States government.

Single family bond program loans are collateralized by first mortgages on applicable real property, and in the case of loans with a loan-to-value ratio of 80% or more, are either insured by private mortgage insurance or the Federal Housing Administration or guaranteed by the Veterans Administration or Rural Economic and Community Development Department, formerly Farmers Home Administration.

All loans receivable of the Authority are originated in the State of Colorado, with a majority of the underlying collateral in the front range and Denver metropolitan areas. Single family program loans are made to low and moderate-income families. Multi-family housing borrowers are non-profit and for-profit developers, while commercial borrowers are generally for-profit entities, doing business throughout Colorado.

At December 31, 1997 and 1996, the amounts available in the Bond Funds for additional investments in new loans are as follows:

	<u>1997</u>	<u>1996</u>
Recycled funds loans (Single-family mortgage prepayments)	\$ 22,634	11,846
Single family mortgage program	44,206	43,220
General obligation mortgages and projects	4,496	3,795
Multi-family mortgages and projects	190	190
	\$ <u>71,526</u>	<u>59,051</u>

COLORADO HOUSING AND FINANCE AUTHORITY

Notes to Financial Statements

Years Ended December 31, 1997 and 1996

(4) Bonds and Notes Payable

The aggregate principal amounts of bonds and notes payable at December 31, 1997 and 1996 are shown below. Interest is payable semi-annually unless otherwise noted.

<u>Description and due date</u>	<u>Interest rate (%)</u>	<u>1997</u>	<u>1996</u>
<b>General Fund:</b>			
<b>General Obligation Bonds:</b>			
Issue A 2016	8.00	\$ 3,535	3,535
1986 Series A 1998-2021	7.25	2,465	5,815
1991 Series A 1998-2029	6.90 to 7.50	20,735	20,985
1992 Series A 1998-2030	9.125	3,355	3,365
1994 Series A 1998-2030	5.30 to 6.875	27,855	28,265
<b>ACCESS Programs:</b>			
1991 Series A 1998-2011	8.625 to 9.15	8,650	9,320
1991 Series B 1998-2011	7.30 to 9.40	7,965	8,485
1995 Series A 1998-2015	7.67	6,996	7,141
1997 Series A 1998-2018	7.22	7,071	-
<b>QIC Program:</b>			
1993 Series A 1998-2018	7.87	1,898	2,844
1994 Series A 1998-2019	6.51	1,305	1,804
1994 Series B 1998-2021	6.53	5,032	5,708
1995 Series A 1998-2020	7.60	7,470	8,950
1997 Series A 1998-2023	6.56	<u>4,756</u>	<u>-</u>
<b>Multi-family Mortgage Revenue Bond:</b>			
1994 Series A 1998-2002	7.25	<u>300</u>	<u>349</u>
<b>Multi-family Housing Insured Mortgage Revenue Bonds:</b>			
1977 Series A 1998-2019	5.70 to 6.00	16,395	16,775
1977 Series B 1998-2020	6.00	34,830	35,485
1979 Series A	6.30 to 6.90	-	36,255
1982 Series A 1998-2025	9.00	21,695	21,695
1982 Series B 1998-2025	6.00	11,645	11,645
1984 Series A 1998-2016	7.50	6,250	6,250
1991 Series A 1998-2026	7.35	2,525	2,535
1992 Series A 1998-2023	7.85 to 8.30	82,710	83,820
1993 Series A 1998-2029	5.125 to 5.90	16,985	17,130
1995 Series A 1998-2037	5.20 to 6.80	12,140	13,130
1995 Series B 1998-2037	5.00 to 6.75	14,455	14,455
1995 Series C 1998-2015	5.10 to 7.00	13,085	13,085
1996 Series A 1998-2036	3.95 to 7.20	38,880	39,430

COLORADO HOUSING AND FINANCE AUTHORITY

Notes to Financial Statements

Years Ended December 31, 1997 and 1996

(4) Bonds and Notes Payable (continued)

<u>Description and due date</u>	<u>Interest rate (%)</u>	<u>1997</u>	<u>1996</u>
1996 Series B 1998-2037	5.75 to 8.00	9,055	9,055
1996 Series C 1998-2038	4.50 to 8.10	24,465	24,465
1997 Series A 1998-2038	4.00 to 7.125	20,150	-
1997 Series B 1998-2038	3.90 to 7.25	29,860	-
1997 Series C 1998-2039	4.10 to 6.75	56,130	-
		<u>411,255</u>	<u>345,210</u>
<b>Multi-family Mortgage</b>			
Revenue Bonds (Principal and interest payable monthly):			
Series 1978-3 1998-2017	6.50	\$ 1,398	1,427
Series 1980-1 1998-2021	10.50	782	789
Series 1981-1 1998-2022	11.00	2,154	2,169
		<u>4,334</u>	<u>4,385</u>
<b>Single Family Housing Revenue Bonds:</b>			
1991 Refunding Series A 1998-2031	6.10 to 7.25	78,636	80,762
1995 Refunding Series A 1998-2015	4.20 to 5.85	13,930	16,815
1996 Refunding Series AA 2005-2023	4.80 to 5.625	34,495	34,495
		<u>127,061</u>	<u>132,072</u>
<b>Taxable Single Family Program Senior and Subordinate Bonds:</b>			
1993 Issue A 1998-2011	6.625 to 7.625	9,535	12,010
<b>Single Family Revenue Bonds:</b>			
1985 Series A 2014	11.125	1,059	1,005
1985 Series B 2010-2017	8.75	3,525	4,815
1985 Series C 1998-2017	8.65 to 10.00	4,125	5,765
1993 Refunding Series A 2005-2014	7.00	6,790	6,698
		<u>15,499</u>	<u>18,283</u>

COLORADO HOUSING AND FINANCE AUTHORITY

Notes to Financial Statements

Years Ended December 31, 1997 and 1996

(4) Bonds and Notes Payable (continued)

<u>Description and due date</u>	<u>Interest rate (%)</u>	<u>1997</u>	<u>1996</u>
Single Family Residential			
Housing Revenue Bonds:			
1986 Series A 1998-2017	7.60 to 8.75	13,486	15,062
1987 Series A 1998-2017	7.00 to 8.125	7,165	8,655
1987 Series B 1998-2017	8.00 to 9.00	10,135	12,275
1987 Series C 1998-2017	7.80 to 8.75	<u>9,190</u>	<u>11,555</u>
		<u>39,976</u>	<u>47,547</u>
Single Family Mortgage Revenue			
Bonds (GNMA Mortgage-Backed			
Securities Program):			
1988 Series A 1998-2021			
Principal and interest			
payable monthly; subject			
to a one time conversion			
with principal and interest			
payable June 1 and December 1.	Variable	\$ <u>5,360</u>	<u>6,677</u>
Single Family Program Senior			
and Subordinate Bonds:			
1989 Series A 1998-2020	7.50 to 9.25	8,320	10,070
1989 Series B 1998-2021	7.10 to 8.70	9,975	13,070
1989 Series C 1998-2021	7.10 to 9.60	10,345	12,575
1990 Series A 1998-2021	7.625 to 9.375	7,755	9,605
1990 Series B 1998-2022	7.20 to 10.40	9,680	11,555
1990 Series C 1998-2022	6.65 to 9.20	16,345	19,675
1991 Series A 1998-2023	6.50 to 9.40	9,780	12,495
1991 Series B 1998-2023	6.40 to 9.00	14,885	17,685
1991 Series C 1998-2023	6.30 to 9.075	22,015	25,995
1991 Series D 1998-2023	6.00 to 8.65	15,940	18,350
1992 Series A 1998-2024	6.00 to 8.70	27,025	30,725
1994 Series B 1998-2024	4.75 to 7.50	6,925	8,235
1994 Series C 1998-2024	5.00 to 7.90	9,675	11,870
1994 Series D-I 1998-2024	5.10 to 8.00	10,590	12,420
1994 Series D-II 1998-2025	5.65 to 8.125	9,975	11,660
1994 Series E 1998-2024	5.30 to 8.125	13,120	15,920
1994 Series F 1998-2025	6.75 to 8.625	8,920	11,010
1995 Series A 1998-2025	5.30 to 8.00	20,275	22,745
1995 Series B 1998-2025	5.20 to 7.90	20,715	23,480
1995 Series C 1998-2017	4.65 to 7.65	26,425	29,365
1995 Series D 1998-2026	5.20 to 7.375	38,860	39,745
1996 Series A 1998-2014	4.30 to 7.15	39,615	40,000
1996 Series B 1998-2027	4.40 to 7.65	39,890	40,000
1996 Series C 1998-2027	4.25 to 7.55	40,000	40,000

COLORADO HOUSING AND FINANCE AUTHORITY

Notes to Financial Statements

Years Ended December 31, 1997 and 1996

(4) Bonds and Notes Payable (continued)

<u>Description and due date</u>		<u>Interest rate (%)</u>	<u>1997</u>	<u>1996</u>
1997 Series A	1998-2027	4.00 to 7.25	45,000	-
1997 Series B	1998-2026	4.20 to 7.00	45,000	-
1997 Series C	1998-2016	4.80 to 6.875	<u>45,000</u>	<u>-</u>
			<u>572,050</u>	<u>488,250</u>
Single Family Revenue Refunding:				
1994 Series A	1998-2011	5.00 to 5.30	<u>1,350</u>	<u>1,575</u>
Mortgage notes:				
September 4, 2020		1.00	\$ 1,036	1,036
June 22, 2025		1.00	850	850
July 1, 2004		4.50	800	817
June 30, 1998		5.00	65	65
June 30, 2001		5.37	1,296	1,318
June 30, 1998		6.00	100	100
April 1, 2010		11.47	55	57
November 1, 1999		11.47	78	80
August 1, 1999		11.47	28	28
July 5, 1999		11.47	278	284
March 31, 2003		-	255	298
November 1, 2005		-	90	100
Unsecured notes payable:				
April 1, 2028		7.4	1,117	1,117
January 2, 1998		6.24	9,620	-
February 21, 1997		variable	-	2,902
September 1, 1998		variable	84	83
June 8, 2000		-	65	70
March 7, 1997		variable	<u>-</u>	<u>1,500</u>
			<u>15,817</u>	<u>10,705</u>
Total bonds and notes payable			1,311,625	1,173,280
Discounts/premiums, net			20,448	12,160
Deferred refunding amounts			<u>234</u>	<u>511</u>
Total bonds and notes payable, net			\$ <u>1,332,307</u>	<u>1,185,951</u>

COLORADO HOUSING AND FINANCE AUTHORITY

Notes to Financial Statements

Years Ended December 31, 1997 and 1996

(4) Bonds and Notes Payable (continued)

Included in several of the bond issues shown above are Capital Appreciation Bonds (CAB), Capital Appreciation Term Bonds (CATB), and Principal Appreciation Conversion Securities (PACS). The principal amounts of these bonds appreciate based on semiannual compounding of the original principal balances at the interest rates specified. The PACS appreciated for a period of 11 years until the conversion date of March 2, 1997 and thereafter interest is payable semiannually until maturity. The appreciated balances of these bonds at maturity and as reflected in the accompanying statements of financial condition at December 31, 1997 and 1996 are as follows:

<u>Description, due date and type</u>	<u>Interest rate (%)</u>		<u>Appreciated Balances</u>		
			<u>Maturity</u>	<u>1997</u>	<u>1996</u>
Single Family Revenue Bonds:					
1985 Series A      2014 CATB	11.125	\$	6,430	1,059	1,005
1985 Series C      2017 PACS	10.00		2,830	1,855	2,785
1993 Refunding Series A      2014 CATB	7.00		21,370	6,790	6,698
Single Family Residential Housing Revenue Bonds:					
1986 Series A      2010 CATB	8.75		18,005	6,086	5,587
Single Family Housing Revenue Bonds:					
1991 Refunding Series A      2001-2006 CAB	6.70 to 7.00		18,725	12,726	11,897



COLORADO HOUSING AND FINANCE AUTHORITY

Notes to Financial Statements

Years Ended December 31, 1997 and 1996

(4) Bonds and Notes Payable (continued)

Bonds and notes payable sinking fund installments and maturities during the five years subsequent to December 31, 1997, are as follows:

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Bonds:					
General Fund:					
General Obligation	\$ 2,761	2,956	3,211	2,887	3,733
Multi-family Revenue Bonds	52	57	61	66	64
Multi-family:					
Housing Insured Mortgage					
Revenue	4,230	4,770	5,170	5,580	5,980
Mortgage Revenue	50	55	60	66	72
Single Family:					
Housing Revenue					
Taxable Program Senior	3,990	3,935	4,255	4,579	4,708
and Subordinate	120	120	100	-	-
Revenue	105	40	-	-	-
Residential Housing					
Revenue	1,750	1,810	1,920	1,985	2,212
Mortgage Revenue, GNMA	1,120	1,106	1,048	993	951
Program Senior and					
Subordinate	7,430	8,570	8,810	8,940	8,817
Revenue Refunding	80	80	80	80	80
Notes Payable	<u>10,109</u>	<u>485</u>	<u>241</u>	<u>1,377</u>	<u>157</u>
	<u>\$ 31,797</u>	<u>23,984</u>	<u>24,956</u>	<u>26,553</u>	<u>26,774</u>

Aggregate maturities of bonds and notes payable subsequent to the year 2002 are \$1,177,561,000.

Assets of the various Bond Funds are pledged for payment of principal and interest on the applicable bonds. In addition, certain assets are further restricted by bond resolutions for payment of interest on and/or principal of bonds in the event that the related debt service funds and other available monies are insufficient. Such assets are segregated within the various Bond Funds and are held in cash, marketable securities or investment agreements. At December 31, 1997 and 1996, these assets were at least equal to the amounts required to be restricted.

COLORADO HOUSING AND FINANCE AUTHORITY

Notes to Financial Statements

Years Ended December 31, 1997 and 1996

(4) Bonds and Notes Payable (continued)

As of December 31, 1997 and 1996, the Authority had a \$439,000 and \$449,000, respectively, note payable to a bank under its Taxable Multi-family Rental Housing Rehabilitation Program. The note is secured by the pledge of, and is being repaid with the principal and interest payments on, the mortgage loan participations, which were acquired with the note proceeds. In the event of default of any underlying mortgage loan, the Authority is obligated to the bank for up to one-third of any deficiency of amounts due the bank upon foreclosure or other conversion of the defaulted loan. The Authority receives an on-going fee representing .25% of the unpaid balance of its participation interest.

The Authority has an agreement with the Federal Home Loan Bank of Topeka (FHLB) for borrowings of up to \$35,000,000. Amounts drawn under the agreement bear interest at the same rates charged by the FHLB to its member banks and are collateralized by certain mortgage loans and/or investment securities. As of December 31, 1997 and 1996, the outstanding borrowings under this agreement were zero and \$1,500,000, respectively.

The Authority also has a revolving, unsecured, bank line of credit for borrowings of up to \$30,000,000. Amounts drawn under the agreement bear interest fixed at .55% per annum above the London Interbank Offered Rates (LIBOR). The line of credit matures on July 31, 1999. At December 31, 1997, the outstanding borrowings under this agreement were \$9,620,000.

As of December 31, 1996, the Authority also had a revolving, unsecured, bank line of credit for borrowings of up to \$30,000,000. Amounts drawn under the agreement bear interest at .70% per annum above the fixed LIBOR rate. The line of credit matured on June 30, 1997. At December 31, 1996, the outstanding borrowings under this agreement were \$2,902,000.

The Authority has issued certain conduit Multi-Family Housing Revenue Bonds and Industrial Development Bonds, the proceeds of which were made available to various developers and corporations for rental housing and commercial purposes. As of December 31, 1997, \$158,960,000 and \$18,100,000, respectively, of these bonds were outstanding. As of December 31, 1996, \$159,060,000 and \$16,645,000, respectively, of these bonds were outstanding. 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 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.

COLORADO HOUSING AND FINANCE AUTHORITY

Notes to Financial Statements

Years Ended December 31, 1997 and 1996

(5) Debt Refundings

On November 19, 1997, the Authority issued its Multi-family Housing Insured Mortgage Revenue Bonds, 1997 Series C, in the aggregate principal amount of \$56,130,000. Proceeds of the bonds were used for new mortgage loans and to refund its outstanding Multi-family Housing Insured Mortgage Revenue Bonds, 1979 Series A in the amount of \$35,695,000. The refunding resulted in a substantial decrease in aggregate debt service requirements of \$7,184,000 and an approximate economic gain to the Authority of \$6,812,000.

As part of a restructuring of certain outstanding debt on December 19, 1996, the Authority issued its Single Family Housing Revenue Refunding Bonds, 1996 Series AA, in the aggregate principal amount of \$34,495,000. Proceeds of the bonds were used to refund all of its outstanding Single Family Housing Revenue Bonds, 1978 Series A and 1980 Series B in the amount of \$23,820,000, and \$10,675,000 of the 1991 Refunding Series A. Of the amounts available from the refunding, \$23,513,000 was for the purchase of new mortgage loans. While the refunding extended the term of the debt beyond the prior maturity date, debt service requirements have been reduced substantially through the year 2011, and by \$648,000 in the aggregate. The transaction, overall, resulted in an approximate economic gain to the Authority of \$4,133,000.

On April 1, 1996, the Authority issued its Multi-Family Housing Insured Mortgage Revenue Bonds, 1996 Series A, in the aggregate principal amount of \$39,720,000. Proceeds of the bonds were used for new mortgage loans and to partially refund its outstanding 1984 Multi-Family Housing Insured Mortgage Revenue Bonds, Series A in the amount of \$13,940,000. The refunding resulted in a substantial decrease in aggregate debt service requirements of \$6,181,000 and an estimated economic gain to the Authority of \$5,444,000.

In accordance with Governmental Accounting Standards Board statement No. 23, the following deferred amounts related to the 1997 and 1996 refunding transactions are being amortized over the estimated remaining lives of the old debt.

	<u>1997</u>	<u>1996</u>
Multi-Family Housing Insured Mortgage Revenue Bonds, 1979 Series A and 1984 Series A:		
Gain on sale of investments	\$ (475)	-
Deferred debt financing costs	499	207
Unamortized discount	106	-
Bond call premiums	-	348
Single Family Housing Revenue Bonds, 1978 Series A, 1980 Series B and 1991 Refunding Series A		
Gain on sale of investments	-	(2,844)
Deferred debt financing costs	-	773
Unamortized discount	-	479
Total deferred amount	\$ <u>130</u>	<u>(1,037)</u>

COLORADO HOUSING AND FINANCE AUTHORITY

Notes to Financial Statements

Years Ended December 31, 1997 and 1996

(6) Selected Financial and Operating Data

Selected financial and operating data of the various program funds of the Authority as of December 31, 1997 are as follows:

	<u>Total Assets</u>	<u>Bonds and Notes Payable</u>	<u>Fund Equity</u>
General Fund	\$ 216,700	141,616	55,960
Multi-family:			
Housing Insured Mortgage Revenue	418,516	400,836	9,783
Mortgage Revenue	4,368	4,335	-
Single Family:			
Housing Revenue	152,811	128,569	23,027
Taxable Program Senior and Subordinate	10,680	9,987	635
Revenue	19,288	15,455	3,600
Residential Housing Revenue	48,420	39,826	7,650
Mortgage Revenue (GNMA Program)	6,072	5,360	55
Program Senior and Subordinate	621,389	602,551	9,049
Revenue Refunding	1,722	1,350	127
Intercompany Eliminations	<u>(24,721)</u>	<u>(17,578)</u>	<u>-</u>
	\$ <u>1,475,245</u>	<u>1,332,307</u>	<u>109,886</u>

	<u>Total Revenue</u>	<u>Interest Expense</u>	<u>Net Income (Loss)</u>
General Fund	\$ 35,708	7,881	9,324
Multi-family:			
Housing Insured Mortgage Revenue	29,261	25,940	3,306
Mortgage Revenue	412	412	-
Single Family:			
Housing Revenue	8,606	8,387	301
Taxable Program Senior and Subordinate	971	745	200
Revenue	1,981	1,594	378
Residential Housing Revenue	4,443	3,851	589
Mortgage Revenue (GNMA Program)	615	627	(14)
Program Senior and Subordinate	39,718	37,092	2,234
Revenue Refunding	80	77	(8)
Intercompany Eliminations	<u>(1,317)</u>	<u>(1,022)</u>	<u>-</u>
	\$ <u>120,478</u>	<u>85,584</u>	<u>16,310</u>

Certain multi-family insured mortgage revenue bonds are secured by insured mortgage loans receivable from the Authority's instrumentalities, whose assets and operations are accounted for within the General Fund. For financial statement purposes, all transactions between the General Fund and the Bond Funds are eliminated.

COLORADO HOUSING AND FINANCE AUTHORITY

Notes to Financial Statements

Years Ended December 31, 1997 and 1996

(7) Retirement Plans

Employees of the Authority are members of the Public Employees' Retirement Association of Colorado (PERA), which is a cost-sharing, multi-employer public employee retirement system plan.

Generally all employees are required to participate in PERA. Under the plan, State statute provides that members are eligible for full retirement benefits at age 55 with at least 30 years service with a participating employer, at age 60 with at least 20 years of service or at age 65 with at least 5 years service, or by earning 35 or more years of credited service. Reduced retirement benefits are available at age 55 with at least 20 years service or at age 60 with at least 5 years service. Additionally, disability and survivors benefits are available. Benefits are vested after five years of service.

On May 6, 1997, the Governor signed into law House Bill 97-1082. This legislation changed the benefit formula for each year of service over 20 from 1.5 percent of Highest Average Salary per year to 2.5 percent with a 100 percent maximum. All current benefit recipients with more than 20 years of service have their benefit recalculated. Benefit payments dated July 31, 1997, and later will reflect this new calculation. The legislation also establishes a two-tier disability retirement program applicable to members who apply for disability on or after January 1, 1999.

Under the plan, State statute requires the Authority and participating employees to contribute 10% and 8%, respectively, of the employees' gross salaries, as defined by the plan. The Authority's total eligible payroll for participating employees was \$5,172,000 and \$4,929,000 for 1997 and 1996, respectively. Contributions by the Authority and employees approximated \$517,000 and \$414,000, respectively, for 1997, while for 1996 the amounts were \$493,000 and \$394,000, respectively.

The pension benefit obligation, which is the actuarial measure of the present value of credited projected benefits, is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and any step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure is intended to help users of the Authority's financial statements assess PERA's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among PERA and other pension programs and among employees. As of December 31, 1996, the date of the latest available audited information, the total actuarial accrued liability and total net assets available for benefits of the Municipal Division of PERA, in which the Authority's pension contributions and benefits are included, were \$920,713,000 and \$1,067,641, respectively.

Notes to Financial Statements

Years Ended December 31, 1997 and 1996

(7) Retirement Plans (continued)

PERA, as a separate entity, issues its own annual financial statements included in which is historical ten-year trend information for all contributions to the retirement system.

Included in the Authority's general obligation debt are bonds payable to PERA of \$34,528,000 and \$26,447,000 at December 31, 1997 and 1996, respectively.

An additional benefit offered to eligible Authority employees through PERA is a Voluntary Investment Program (VIP), established under Section 401(k) of the Internal Revenue Code. Participants may invest between 1% and 18% of their annual gross salaries up to the annual IRS limit. The Authority is not required to make any contributions into the VIP plan and none have been made since inception of the plan.

The Authority also offers a deferred compensation plan for the purpose of providing retirement income for eligible employees, defined as those who have completed three months of employment with the Authority. This defined contribution plan is qualified under Section 457 of the Internal Revenue Code. The assets of the plan remain the property of the Authority until paid or made available to the plan participants. The Authority is not required to make any contributions into this plan and none have been made since inception of the plan.

(8) Related Party Transactions

One of the regular servicers of the Authority's on-going single family programs is a private lending institution whose chief executive officer was a member of the Authority's Board until June 1997, and who abstained from voting on Authority matters involving single family programs in which his institution participates. This institution receives the Authority's standard loan servicing fee paid to all such servicers. At December 31, 1997 and 1996, this institution serviced approximately \$86,127,000 and \$87,172,000 of the Authority's single family mortgages and received \$257,000 and \$249,000 in fees for those years, respectively.

(9) Litigation

In April, 1988, a claim pertaining to the application by a start-up company (Phonetica, Inc.) for certain public economic development funds was filed in Denver District Court against the Authority and other defendants. In July, 1990, the Authority filed a motion to dismiss the claim and, on February 19, 1991, the motion was granted by the Court. On November 4, 1993, the Colorado Court of Appeals affirmed the dismissal except with respect to Phonetica's claims for breach of contract against the State of Colorado and the Authority and for breach of a joint venture agreement against the Authority. As to those claims, the dismissal was reversed and the claim remanded for further proceedings. On March 17, 1997, after certain discovery proceedings, the Authority moved for summary judgment on the remaining breach of contract and joint venture claims, which motion was granted by the District Court by order dated June 5, 1997.

COLORADO HOUSING AND FINANCE AUTHORITY

Notes to Financial Statements

Years Ended December 31, 1997 and 1996

(10) Year 2000 Issue (Unaudited)

The Authority has developed a plan for year 2000 information technology readiness and compliance. The project is expected to be substantially complete by December 31, 1998. The Authority does not expect this project to have a significant effect on its operations. However, management continues to monitor developments and implications of this project.

## Supplemental Information



Statements of Financial Condition by Program  
December 31, 1997 and 1996  
(000's Omitted)

<u>Assets</u>	<u>General Fund</u>	<u>Single Family</u>	<u>Multi-family</u>	<u>Eliminations</u>	<u>Memorandum Totals</u>
	1997	1996	1997	1996	1997
Cash	\$ 2,430	-	-	-	1,222
Marketable securities:					
Short-term	36,984	148,283	70,811	-	183,933
Long-term	<u>17,786</u>	<u>76,539</u>	<u>37,991</u>	-	<u>124,881</u>
Total cash and marketable securities	57,200	224,822	108,802	-	310,036
Loans receivable, net	119,258	604,863	306,612	(17,578)	929,301
Accrued interest receivable	2,083	12,107	5,961	(7,143)	11,615
Property and equipment, net:					
Corporate facilities	3,305	-	-	-	3,567
Rental operations	29,376	-	-	-	29,886
Deferred debt financing costs, net	1,803	10,703	3,145	-	16,123
Other real estate owned, net	339	122	-	-	201
Other assets	8,778	667	20	-	9,465
Due (to) from other funds	<u>(5,442)</u>	<u>7,098</u>	<u>(1,656)</u>	-	-
Total	\$ <u>216,700</u>	<u>860,382</u>	<u>422,884</u>	<u>(24,721)</u>	<u>1,475,245</u>
<u>Liabilities and Fund Equity</u>					
Liabilities:					
Bonds and notes payable, net	\$ 141,616	803,098	405,171	(17,578)	1,332,307
Accrued interest payable	2,719	11,927	6,885	(89)	19,453
Accounts payable and other liabilities	12,847	361	1,045	(7,054)	7,179
Federally assisted program advances	776	-	-	-	345
Deferred fee income	81	614	-	-	730
Escrow and refundable deposits	<u>2,701</u>	<u>239</u>	-	-	<u>1,808</u>
Total liabilities	\$ <u>160,740</u>	<u>816,239</u>	<u>413,101</u>	<u>(24,721)</u>	<u>1,365,359</u>
Fund equity - retained earnings:					
Restricted	(1,285)	44,143	9,783	-	52,641
General fund - Board designated	<u>57,245</u>	-	-	-	<u>57,245</u>
Total fund equity - retained earnings	55,960	44,143	9,783	-	109,886
Total	\$ <u>216,700</u>	<u>860,382</u>	<u>422,884</u>	<u>(24,721)</u>	<u>1,475,245</u>

See notes to financial statements

Statements of Revenue, Expenses  
and Changes in Retained Earnings By Program  
Year Ended December 31, 1997 and 1996  
(000's Omitted)

	General Fund	Single Family	Multi- family	Eliminations	Memorandum Totals 1997	1996
Interest and investment revenue:						
Loans receivable	\$ 10,278	45,040	23,992	(1,317)	77,993	71,904
Marketable securities	<u>2,902</u>	<u>14,571</u>	<u>6,186</u>	-	<u>23,659</u>	<u>22,060</u>
Total interest and investment revenue	13,180	59,611	30,178	(1,317)	101,652	93,964
Interest expense - bonds and notes payable	<u>7,881</u>	<u>52,373</u>	<u>26,352</u>	(1,022)	<u>85,584</u>	<u>79,973</u>
Net interest and investment revenue	5,299	7,238	3,826	(295)	16,068	13,991
Other revenue	18,826	-	-	-	18,826	15,099
Program fees (expense)	<u>3,702</u>	<u>(3,197)</u>	<u>(505)</u>	-	-	-
Net revenue	27,827	4,041	3,321	(295)	34,894	29,090
Other expenses:						
Salaries and related benefits	6,776	-	-	-	6,776	6,371
General operating	8,764	339	-	-	9,103	8,394
Provision for losses	534	22	15	-	571	762
Other interest expense	<u>2,429</u>	-	-	(295)	<u>2,134</u>	<u>2,253</u>
Net income	<u>18,503</u>	361	15	(295)	18,584	17,780
Retained earnings, beginning of year	<u>9,324</u>	<u>3,680</u>	<u>3,306</u>	-	<u>16,310</u>	<u>11,310</u>
Retained earnings, end of year	<u>46,636</u>	<u>40,463</u>	<u>6,477</u>	-	<u>93,576</u>	<u>82,266</u>
Retained earnings, end of year	\$ <u>55,960</u>	<u>44,143</u>	<u>9,783</u>	-	<u>109,886</u>	<u>93,576</u>

See notes to financial statements

**APPENDIX B**

**Proposed Form of Approving  
Opinion of Bond Counsel**

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October 28, 1998

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

Colorado Housing and Finance Authority  
Single Family Program Senior Bonds  
Taxable 1998 Series D-1, 1998 Series D-2 and 1998 Series D-3

and

Colorado Housing and Finance Authority  
Single Family Program Subordinate Bonds  
1998 Series D

Ladies and Gentlemen:

We have examined the law of the State of Colorado (the "State") and of the United States relevant to the opinions herein, and a certified copy of the record of proceedings of the Board of Directors of the Colorado Housing and Finance Authority (the "Board" and the "Authority," respectively), and other documents relevant to the issuance by the Authority of its Single Family Program Senior Bonds, Taxable 1998 Series D-1 (the "1998 Series D-1 Senior Bonds"), Single Family Program Senior Bonds, 1998 Series D-2 (the "1998 Series D-2 Senior Bonds"), Single Family Program Senior Bonds, 1998 Series D-3 (the "1998 Series D-3 Senior Bonds" and, together with the 1998 Series D-1 Senior Bonds and the 1998 Series D-2 Senior Bonds, the "Senior Bonds") and its Single Family Program Subordinate Bonds, 1998 Series D (the "Subordinate Bonds" and, together with the Senior Bonds, the "Bonds") in the aggregate principal amount of \$60,000,000. The Bonds are authorized and issued pursuant to an Indenture of Trust (the "Indenture") dated as of October 1, 1998 between the Authority and Norwest Bank Colorado, National Association, as trustee (the "Trustee"). The capitalized terms used herein, unless parenthetically defined herein, have the meanings ascribed to them in the Indenture.

The Bonds are dated, bear interest at the rates and mature on the dates and in the respective principal amounts as provided in the Indenture. The Bonds are subject to redemption prior to maturity in the manner and upon the terms set forth therein and in the Indenture.

Colorado Housing and Finance Authority  
Single Family Program Senior Bonds, Taxable 1998  
Series D-1, 1998 Series D-2 and 1998 Series D-3,  
and Single Family Program Subordinate Bonds,  
1998 Series D  
October 28, 1998

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The Bonds are issued for the principal purpose of providing funds to purchase mortgage loans on residential facilities within the State, intended for use as the sole place of residence for low- and moderate-income families. The Senior Bonds are special, limited obligations of the Authority payable solely from the sources provided in the Indenture, shall never constitute the debt or indebtedness of the Authority within the meaning of any provision or limitation of the Constitution or statutes of the State or of any home rule charter of any political subdivision thereof, and shall never constitute nor give rise to a pecuniary liability of the Authority or a charge against its general credit. The Subordinate Bonds are payable from the moneys, rights and interests pledged therefor in the Indenture, and also are general obligations of the Authority for the payment of which the Authority has pledged its full faith and credit, subject only to the provisions of any agreements with the owners of particular notes, bonds or other obligations pledging any particular revenues or assets to the payment thereof.

As to questions of fact material to our opinion, we have relied upon representations of the Authority contained in the certified proceedings and other certifications furnished to us, without undertaking to verify the same by independent investigation. We have assumed the genuineness of all signatures, the authenticity of all documents submitted to us as originals and the conformity to authentic original documents of all documents submitted to us as certified, conformed or photostatic copies.

Based upon such examination and, for purposes of paragraph 4 below, assuming continuous compliance with the covenants and representations contained in such proceedings and other documents, it is our opinion as bond counsel that:

1. The Authority has been duly created and is a body corporate and political subdivision, validly organized and existing under the Constitution and laws of the State and has the power and authority to issue the Bonds and perform all of its obligations under the Indenture.

2. The Bonds have been duly authorized by the Authority, duly executed and delivered by the authorized officials of the Authority and, assuming due authentication by the Trustee, constitute the legal, valid and binding obligations of the Authority, enforceable in accordance with their terms, except as may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or other laws in effect from time to time affecting the rights of creditors

Colorado Housing and Finance Authority  
Single Family Program Senior Bonds, Taxable 1998  
Series D-1, 1998 Series D-2 and 1998 Series D-3,  
and Single Family Program Subordinate Bonds,  
1998 Series D  
October 28, 1998

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generally and by the application of general principles of equity, and are entitled to the benefits and security of the Indenture.

3. The Indenture has been duly authorized by the Authority, duly executed and delivered by the authorized officials of the Authority, and, assuming due authorization, execution and delivery by the Trustee, constitutes the legal, valid and binding obligation of the Authority enforceable in accordance with its terms, except as may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or other laws in effect from time to time affecting the rights of creditors generally and by the application of general principles of equity.

4. Interest on the 1998 Series D-2 Senior Bonds, the 1998 Series D-3 Senior Bonds and the Subordinate Bonds is not included in gross income under federal income tax laws pursuant to Section 103 of the Internal Revenue Code of 1986, as amended to the date hereof (the "Tax Code"); however, interest on the 1998 Series D-2 Senior Bonds is an item of tax preference for purposes of calculating alternative minimum taxable income as defined in Section 55(b)(2) of the Tax Code, and interest on the 1998 Series D-3 Senior Bonds and the Subordinate Bonds is not included in alternative minimum taxable income as defined in Section 55(b)(2) of the Tax Code except that such interest is required to be included in calculating the "adjusted current earnings" adjustment applicable to corporations for purposes of computing the alternative minimum taxable income of corporations.

5. Interest on the 1998 Series D-1 Senior Bonds is not excluded from gross income for federal income tax purposes.

6. Interest on the Bonds is not included in Colorado taxable income or Colorado alternative minimum taxable income under Colorado laws in effect on the date hereof.

7. The enforceability of the obligations of the Authority is subject to the reasonable exercise in the future by the State and its governmental bodies of the police power inherent in the sovereignty of the State and to the exercise by the United States of the powers delegated to it by the Federal Constitution.

Colorado Housing and Finance Authority  
Single Family Program Senior Bonds, Taxable 1998  
Series D-1, 1998 Series D-2 and 1998 Series D-3,  
and Single Family Program Subordinate Bonds,  
1998 Series D  
October 28, 1998

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We understand that MBIA Insurance Corporation has issued a reserve fund surety bond relating to the Senior Bonds. We express no opinion as to the validity or enforceability of such surety bond or the security afforded thereby.

As bond counsel, we are passing only upon matters set forth in this opinion and are not passing upon the accuracy or completeness of any statement made in connection with any offer or sale of the Bonds or upon any federal or Colorado tax consequences arising from the receipt or accrual of interest on or the ownership of the Bonds except those specifically addressed above.

Respectfully submitted,



**APPENDIX C**

**Schedule for Partial Special Redemption**

<u>Date</u>	<u>Bonds Outstanding*</u>	<u>Date</u>	<u>Bonds Outstanding*</u>
05/01/99	\$60,000,000	11/01/12	\$24,515,000
11/01/99	59,820,000	05/01/13	23,390,000
05/01/00	58,605,000	11/01/13	22,325,000
11/01/00	57,060,000	05/01/14	21,275,000
05/01/01	55,675,000	11/01/14	20,240,000
11/01/01	54,060,000	05/01/15	19,225,000
05/01/02	52,380,000	11/01/15	18,225,000
11/01/02	50,740,000	05/01/16	17,240,000
05/01/03	49,140,000	11/01/16	16,215,000
11/01/03	47,585,000	05/01/17	15,320,000
05/01/04	46,070,000	11/01/17	14,310,000
11/01/04	44,595,000	05/01/18	13,450,000
05/01/05	43,145,000	11/01/18	12,460,000
11/01/05	41,725,000	05/01/19	11,555,000
05/01/06	40,335,000	11/01/19	10,655,000
11/01/06	38,970,000	05/01/20	9,770,000
05/01/07	37,630,000	11/01/20	8,895,000
11/01/07	36,315,000	05/01/21	8,035,000
05/01/08	35,020,000	11/01/21	7,180,000
11/01/08	33,760,000	05/01/22	6,340,000
05/01/09	32,530,000	11/01/22	5,505,000
11/01/09	31,335,000	05/01/23	4,680,000
05/01/10	30,170,000	11/01/23	3,860,000
11/01/10	29,030,000	05/01/23	3,060,000
05/01/11	27,795,000	11/01/24	2,265,000
11/01/11	26,720,000	05/01/25	1,505,000
5/01/12	25,540,000	11/1/25	730,000
		5/1/26	55,000

\* Amounts listed under the Column "Bonds Outstanding" represent the Bonds Outstanding as of a redemption date after taking into account scheduled principal payments and any redemption of Bonds through such date, assuming Prepayments are received at the rate of 75% of the standard or model developed by the Public Securities Association to measure prepayments on Mortgage Loans.

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**APPENDIX D**

**Cumulative Amounts of Taxable 1998 Series D-1  
Senior Bonds To Be Redeemed**

<u>Date</u>	<u>Amount</u>
11/1/99	\$ 180,000
5/1/00	1,010,000
11/1/00	2,125,000
5/1/01	3,065,000
11/1/01	4,225,000
5/1/02	4,500,000

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**APPENDIX E**

**Form of Continuing Disclosure Undertaking**

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## **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 \$60,000,000 Colorado Housing and Finance Authority Single Family Program Bonds, 1998 Series D (the "Bonds"). The Bonds are being issued pursuant to an Indenture of Trust dated as of October 1, 1998 (the "Trust Document") between the Authority and Norwest Bank Colorado, National Association, Denver, Colorado, as trustee.

### **BACKGROUND**

1. The Bonds are being issued to provide funds to be used to pay at maturity or redeem prior to maturity certain outstanding obligations of the Authority, to provide funds to finance the purchase of mortgage loans under the Program (as defined in the Trust Document), to pay costs of issuance of the Bonds, to establish necessary reserves, and to otherwise attain the goals of the Authority pursuant to the Colorado Housing and Finance Authority Act.

2. In order to allow the Participating Underwriters (as defined in the Rule defined below) of the Bonds to comply with Rule 15c2-12 promulgated by the Securities and Exchange Commission under the Securities and Exchange Act of 1934 (17 CFR Part 240, § 240.15c2-12) as amended to the date hereof ("Rule 15c2-12"), the Authority has agreed to make certain continuing disclosure undertakings for the benefit of owners (including beneficial owners) of the Bonds.

3. This Disclosure Certificate is intended to satisfy the requirements of said Rule 15c2-12, as in effect on the date hereof.

### **AUTHORITY COVENANTS AND AGREEMENTS**

#### **Section 1. Definitions.**

(a) "Annual Financial Information" means the financial information or operating data with respect to the Authority, delivered at least annually pursuant to Sections 2(a) and 2(b) hereof, of the type set forth in the sections of the final Official Statement, included but not limited to such financial information and operating data set forth in (i) "Program Assumptions and Bondowners' Risks - Program Assumptions" and "Appendix C - PSA Prepayment Table for Special Redemption," by the means of supplying the information as to loan portfolio characteristics, investments and equity described in Exhibit A attached hereto, and (ii) the section of the final Official Statement captioned "Colorado Housing and Finance Authority - Programs to Date." Annual Financial Information includes Audited Financial Statements.

(b) "Audited Financial Statements" means the annual financial statements for the Authority, prepared in accordance with generally accepted accounting principles consistently applied, as in effect from time to time, audited by a firm of certified public accountants.

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

(d) "MSRB" means the Municipal Securities Rulemaking Board. The current address of the MSRB is 1640 King Street, #300, Alexandria, Virginia 22314; fax: 703-683-1930.

(e) "NRMSIR" means a nationally recognized municipal securities information repository recognized by the SEC from time to time pursuant to Rule 15c2-12. As of the date hereof, such NRMSIRs include Kenny Information Systems, Inc., 65 Broadway, New York, New York 10006-2503; Thompson NRMSIR, 395 Hudson Street, New York, New York 10014; Bloomberg Municipal Repositories, P.O. Box 840, Princeton, New Jersey 08542-0840; and DPC Data Inc., One Executive Drive, Fort Lee, New Jersey 07024.

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

(g) "Repository" means (i) each NRMSIR and (ii) any SID.

(h) "Rule 15c2-12" means Rule 15c2-12 promulgated by the SEC under the Securities Exchange Act of 1934, as amended (17 CFR Part 240, § 240.15c2-12), as the same may be amended from time to time.

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

(j) "Senior Manager" means George K. Baum & Company, 717 Seventeenth Street, Suite 2500, Denver, Colorado 80202.

(k) "SID" means any State Information Depository operated or designated by the State of Colorado that receives information from all issuers within the State. As of the date of this Disclosure Certificate, no SID exists for the State.

(l) "State" means the State of Colorado.

**Section 2. Provision of Annual Information and Reporting of Events.**

(a) Commencing with the fiscal year ending December 31, 1999 and annually while the Bonds remain outstanding, the Authority agrees to provide or cause to be provided annually to each Repository (with a copy, upon request, to the Senior Manager) the following information:

- i. Annual Financial Information; and
- ii. Audited Financial Statements, if prepared.



(b) Such Annual Financial Information shall be provided not later than 240 days after the end of each fiscal year for the Authority (i.e., each December 31). If not provided as a part of the Annual Financial Information, the Audited Financial Statements will be provided when available.

(c) The Authority may provide Annual Financial Information and Audited Financial Statements by specific reference to other documents, including information reports and official statements relating to other debt issues of the Authority, which have been submitted to each Repository; provided, however, that if the document so referenced is a final official statement within the meaning of Rule 15c2-12, such final official statement must also be available from the MSRB. The Authority shall clearly identify each such other document so incorporated by cross-reference.

(d) At any time the Bonds are outstanding, the Authority shall provide, in a timely manner, to the MSRB and any SID, with a copy to the Senior Manager, notice of the occurrence of any of the following Events with respect to the Bonds, if material (provided, that any event under clauses (viii), (ix) or (xi) will always be deemed to be material):

- i. Principal and interest payment delinquencies;
- ii. Non-payment related defaults;
- 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;
- vii. Modifications to the rights of the owners of the Bonds;
- viii. Bond calls (other than mandatory sinking fund redemption);
- ix. Defeasance;
- x. Release, substitution or sale of property securing repayment; and
- xi. Rating changes.

(e) At any time the Bonds are outstanding, the Authority shall provide, in a timely manner, to the MSRB and any SID, with a copy to the Senior Manager, notice of any

failure of the Authority to timely provide the Annual Financial Information and Audited Financial Statements as specified in Sections 2(a) and 2(b) hereof.

Section 3. Method of Transmission. Subject to technical and economic feasibility, the Authority shall employ such methods of electronic or physical information transmission as is requested or recommended by the Repositories or the MSRB unless otherwise required by law.

Section 4. Enforcement. The obligations of the Authority hereunder shall be for the benefit of the owners (including beneficial owners) of the Bonds. The owner or beneficial owner of any 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 any other owners or beneficial owners of the Bonds; provided, that any owner or beneficial owner of 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 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 it in any future annual filing or Event filing.

Section 6. Term. This Disclosure Certificate shall be in effect from and after the issuance and delivery of the Bonds and shall extend to the earliest of (i) the date all principal and interest on the Bonds shall have been deemed paid or legally defeased pursuant to the terms of the Trust Document; (ii) the date that the Authority shall no longer constitute an "obligated person" with respect to the 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 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 Bonds upon the Authority's receipt of an opinion of counsel experienced in federal securities laws to the effect that such amendment or waiver will not adversely affect compliance with Rule 15c2-12. Any Annual Financial Information containing amended operating data or financial information will explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided. If an amendment changes the accounting principles to be followed in preparing financial statements, the Annual Financial Information for the year in which the change is made will present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The Authority shall provide notice of such amendment or waiver to each Repository and the Senior Manager.

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

Dated as of October 1, 1998.

COLORADO HOUSING AND FINANCE  
AUTHORITY

By: \_\_\_\_\_  
Executive Director

EXHIBIT A  
Colorado Housing and Finance Authority  
Single Family Program Bonds  
1998 Series D  
as of \_\_\_\_\_

I. GENERAL INFORMATION:

BONDS OUTSTANDING  
OUTSTANDING MORTGAGE PRINCIPAL BALANCE  
NUMBER OF LOANS OUTSTANDING  
OUTSTANDING COMMITMENTS  
UNCOMMITTED LENDABLE FUNDS

TRUSTEE: NORWEST BANK COLORADO, NATIONAL ASSOCIATION  
TELEPHONE:  
CONTACT:

PROGRAM ADMINISTRATOR: COLORADO HOUSING AND FINANCE AUTHORITY  
TELEPHONE:  
CONTACT:

II. LOAN PORTFOLIO CHARACTERISTICS:

TYPE OF HOUSING (AS A PERCENTAGE OF LOANS OUTSTANDING)

SINGLE FAMILY DETACHED  
CONDOMINIUMS/TOWNHOMES  
OTHER: DUPLEX  
TOTAL

NEW CONSTRUCTION  
EXISTING HOMES  
TOTAL

PRIVATE (DOWN TO 75% LTV)  
 FHA  
 VA  
 RHCDS  
 UNINSURED  
 TOTAL

DELINQUENCY STATISTICS:

% OF MORTGAGE

# OF LOANS \$ VALUE

OUTSTANDING

BALANCE

30 DAYS

60 DAYS

90 DAYS OR MORE  
 IN FORECLOSURE

NO. OF LOANS PREPAID IN FULL TO DATE

NO. OF LOANS FORECLOSED TO DATE

REAL ESTATE OWNED:

NUMBER OF LOANS

CURRENT BALANCE

MORTGAGE LOAN RATES:

# OF LOANS MORTGAGE RATE

III. BOND CHARACTERISTICS:

LIST OF BONDS BY MATURITY:

MATURITY DATE	BOND TYPE (SERIAL OR TERM)	INTEREST RATE	ORIGINAL AMOUNT	PRINCIPAL MATURED	PRINCIPAL REDEMPTIONS	PRINCIPAL OUTSTANDING
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LIST OF UNSCHEDULED REDEMPTIONS:

DATE OF CALL	MATURITY CALLED	AMOUNT	TYPE OF CALL
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IV. INVESTMENT INFORMATION:

FUND	INVESTMENT TYPE	AMOUNT	RATE	MATURITY DATE
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RESERVE FUNDS

ORIGINAL  
AMOUNT

CURRENT  
AMOUNT

V.

EQUITY:

TOTAL  
ASSETS

TOTAL  
LIABILITIES

SURPLUS  
(DEFICIT)

COLORADO HOUSING AND FINANCE AUTHORITY  
DEFINITIONS FOR DISCLOSURE REPORTS

SECTION      DESCRIPTION      DEFINITIONS

I. GENERAL INFORMATION:

BONDS OUTSTANDING      TOTAL PAR VALUE OF SERIAL AND TERM BONDS

II. LOAN PORTFOLIO CHARACTERISTICS:

30 DAYS DELINQUENT      NO. OF LOANS 1 PAYMENT DELINQUENT

60 DAYS DELINQUENT      NO. OF LOANS 2 PAYMENTS DELINQUENT

90 DAYS OR MORE DELINQUENT      NO. OF LOANS AT LEAST 3 PAYMENTS DELINQUENT WITH  
NO CLAIM FILED

NO. OF LOANS FORECLOSED TO DATE      LOANS FOR WHICH FORECLOSURE HAS BEEN COMPLETED  
(INCLUDES REAL ESTATE OWNED)

REAL ESTATE OWNED      NUMBER OF UNITS OWNED AS A RESULT OF FORECLOSURE  
(HAVE PASSED TRUSTEE SALE DATE AND REDEMPTION  
DATE, BUT HAVE NOT BEEN CONVEYED OR ASSIGNED).

III. BOND CHARACTERISTICS:

LIST OF BONDS BY MATURITY:

MATURITY DATE      STATED MATURITY DATE ON BOND

INTEREST RATE      STATED INTEREST RATE ON BOND



ORIGINAL AMOUNT	TOTAL PAR AMOUNT
PRINCIPAL MATURED	TOTAL PAR AMOUNT OF BONDS PAID AT MATURITY
PRINCIPAL REDEMPTIONS	TOTAL PAR AMOUNT OF BONDS REDEEMED PRIOR TO MATURITY

LIST OF UNSCHEDULED REDEMPTIONS:

DATE OF CALL	UNSCHEDULED DATE OF PREPAYMENT, UNEXPENDED PROCEEDS CALL, REFUNDING OR PURCHASE ON THE MARKET REDEMPTION
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MATURITY CALLED	BOND MATURITY THAT THE REDEMPTION WAS APPLIED AGAINST
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AMOUNT	TOTAL \$ AMOUNT OF BONDS CALLED AT PAR VALUE (UNLESS OTHERWISE SPECIFIED)
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TYPE OF CALL	P = PURCHASE ON THE MARKET UP = UNEXPENDED PROCEEDS CALL PP = PREPAYMENT CALL SR = SURPLUS REVENUE CALL R = REFUNDING O = OTHER
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IV. INVESTMENT INFORMATION:

AMOUNT	FACE OR PAR VALUE OF THE INVESTMENT
RATE	STATED INTEREST RATE OF THE SECURITY (EXCEPT FOR DISCOUNT NOTES WHICH ARE STATED AT YIELD)

RESERVE FUNDS:

OTHER

ORIGINAL AMOUNT

ORIGINAL AMOUNT FUNDED FROM BOND PROCEEDS OR

CURRENT AMOUNT

FACE OR PAR VALUE OF SECURITIES IN RESERVE AT  
PRESENT

**DISCLAIMER:**

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