

**Moody's**    **S&P**  
**Expected Ratings:**    *Aa1*    *AA+*  
(See "Ratings" herein)

*Interest on the Offered Taxable Bonds is included in gross income for federal income tax purposes pursuant to the Internal Revenue Code of 1986, as amended (the "Code").*

*In the opinion of Hawkins, Delafield & Wood, Special Tax Counsel to the Authority, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein: (i) interest on the Offered Tax Exempt Bonds is excluded from gross income for federal income tax purposes pursuant to Section 103 of the Code; (ii) interest on the Offered Tax Exempt AMT Bonds is treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; and (iii) interest on the Offered Tax Exempt Non-AMT Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code, such interest, however, is included in the adjusted current earnings of certain corporations for the purposes of calculating the alternative minimum tax imposed on such corporations. No opinion is expressed as to the exclusion from gross income of interest on any Offered Tax Exempt AMT Bond, Series S Bond or Series T Bond for any period during which such Bond is held by a person who, within the meaning of Section 147(a) of the Code, is a "substantial user" of any facility financed with the proceeds of the Offered Tax Exempt AMT Bonds, Series S Bonds or Series T Bonds, or a "related person". For more information concerning the tax treatment of the interest on the Offered Tax Exempt Bonds, see "Tax Matters" herein.*

*Under the Authority's Act, income on the Offered Bonds, including any profit made on the sale thereof, is not included in taxable income for purposes of income taxation by the Commonwealth and by the municipalities and all other political subdivisions of the Commonwealth.*

**\$117,370,000**  
**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**  
**VHDA General Purpose Bonds**

**Offered Taxable Bonds**  
**\$29,085,000 2003 Series Q-Taxable**

**Offered Tax Exempt AMT Bonds**  
**\$5,700,000 2003 Series R-AMT**

**Offered Tax Exempt Non-AMT Bonds**  
**\$9,900,000 2003 Series S**  
**\$50,760,000 2003 Series T**  
**\$21,925,000 2003 Series U**

**Dated Date: Date of Delivery**  
**Due: As shown on inside cover**

Principal on the Offered Bonds is payable at maturity or prior redemption. Interest on the Offered Bonds commences to accrue on the date of delivery thereof and is payable semi-annually on each April 1 and October 1, commencing April 1, 2004. The Offered Bonds are subject to redemption, without premium, prior to maturity as described herein. The Offered Bonds are issuable in \$5,000 denominations and in integral multiples thereof. The Offered Bonds will be initially issued and may be purchased only in book-entry form through the facilities of DTC or its agent. SunTrust Bank, Atlanta, Georgia, is the Trustee.

The Offered Bonds are secured by Mortgage Loans, Investment Obligations, Revenues and other Assets of the Authority pledged thereto, and are general obligations of the Authority, subject to agreements heretofore or hereafter made with owners of Authority obligations other than Owners, all as more fully described herein.

**The Authority has no taxing power. The Bonds do not constitute a debt or grant or loan of credit of the Commonwealth, and the Commonwealth shall not be liable thereon, nor shall the Bonds be payable out of any funds other than those of the Authority.**

The Offered Bonds are offered when, as and if issued, subject to prior sale, or withdrawal or modification of the offer without notice. The Offered Bonds are offered subject to the receipt of the Approving Opinion of Hunton & Williams, Richmond, Virginia, Bond Counsel to the Authority, as more fully described in "Legal Matters" herein. In addition, the Offered Bonds are offered subject to the receipt of the Tax Opinion of Hawkins, Delafield & Wood, New York, New York, Special Tax Counsel to the Authority, as more fully described in "Tax Matters" and "Legal Matters" herein. It is expected that the Offered Bonds will be available for delivery through DTC on or about October 30, 2003.

**UNDERWRITER FOR THE OFFERED TAXABLE BONDS**  
**Davenport & Company LLC**

**UNDERWRITER FOR THE OFFERED TAX EXEMPT BONDS**  
**UBS Financial Services Inc.**

**\$117,370,000**  
**VHDA General Purpose Bonds**

**Offered Taxable Bonds**  
**\$29,085,000 2003 Series Q-Taxable**

<u>Maturity (October 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Price or Yield</u>	<u>Serial or Term</u>
2005	\$ 500,000	1.79%	100%	Serial
2006	705,000	2.45	100	Serial
2007	730,000	3.01	100	Serial
2008	755,000	3.42	100	Serial
2009	780,000	3.68	100	Serial
2010	815,000	4.00	100	Serial
2011	850,000	4.26	100	Serial
2012	890,000	4.50	100	Serial
2013	930,000	4.74	100	Serial
2014	980,000	4.84	100	Serial
2015	1,030,000	4.94	100	Serial
2016	1,085,000	5.04	100	Serial
2017	1,140,000	5.14	100	Serial
2023	8,330,000	5.59	NRO	Term
2028	9,565,000	5.69	NRO	Term

**Offered Tax Exempt AMT Bonds**  
**\$5,700,000 2003 Series R-AMT**

<u>Maturity (October 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Price or Yield</u>	<u>Serial or Term</u>
2005	\$ 30,000	1.30%	100%	Serial
2006	160,000	1.60	100	Serial
2007	160,000	2.00	100	Serial
2008	165,000	2.35	100	Serial
2009	170,000	2.75	100	Serial
2010	175,000	3.10	100	Serial
2011	180,000	3.375	100	Serial
2012	190,000	3.55	100	Serial
2013	195,000	3.70	100	Serial
2014	205,000	4.00	100	Serial
2015	215,000	4.00	100	Serial
2016	220,000	4.15	100	Serial
2017	230,000	4.25	100	Serial
2018	240,000	4.40	100	Serial
2019	255,000	4.50	100	Serial
2020	265,000	4.60	100	Serial
2021	280,000	4.70	100	Serial
2022	290,000	4.75	100	Serial
2028	2,075,000	4.90	NRO	Term

**Offered Tax Exempt Non-AMT Bonds**

**\$9,900,000 2003 Series S**

<u>Maturity (April 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Price or Yield</u>	<u>Serial or Term</u>
2004	\$125,000	1.00%	100%	Serial
2005	630,000	1.15	100	Serial
2006	475,000	1.40	100	Serial
2007	485,000	1.85	100	Serial
2008	495,000	2.20	100	Serial
2009	505,000	2.55	100	Serial
2010	520,000	3.00	100	Serial
2011	540,000	3.20	100	Serial
2012	560,000	3.40	100	Serial
2013	580,000	3.55	100	Serial
2014	600,000	4.00	100	Serial
2015	405,000	4.00	100	Serial
2016	330,000	4.00	100	Serial
2017	285,000	4.125	100	Serial
2018	300,000	4.25	100	Serial
2019	310,000	4.35	100	Serial
2020	325,000	4.45	100	Serial
2021	340,000	4.50	100	Serial
2022	355,000	4.60	100	Serial
2027	1,735,000	4.75	NRO	Term

**\$50,760,000 2003 Series T**

<u>Maturity (October 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Price or Yield</u>	<u>Serial or Term</u>
2024	\$15,310,000	4.35%	NRO	Term
2028	7,780,000	4.75	NRO	Term
2033	12,125,000	4.80	NRO	Term
2038	15,545,000	4.875	NRO	Term

**\$21,925,000 2003 Series U**

<u>Maturity (October 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Price or Yield</u>	<u>Serial or Term</u>
2004	\$570,000	1.00%	100%	Serial
2005	500,000	1.15	100	Serial
2006	510,000	1.40	100	Serial
2007	515,000	1.85	100	Serial
2008	530,000	2.20	100	Serial
2009	545,000	2.55	100	Serial
2010	560,000	3.00	100	Serial
2011	580,000	3.20	100	Serial
2012	600,000	3.40	100	Serial
2013	625,000	3.55	100	Serial
2014	650,000	3.75	100	Serial
2015	680,000	3.90	100	Serial
2016	710,000	4.00	100	Serial
2017	740,000	4.125	100	Serial
2018	775,000	4.25	100	Serial
2019	810,000	4.35	100	Serial
2020	850,000	4.45	100	Serial
2021	890,000	4.50	100	Serial
2022	930,000	4.60	100	Serial
2023	975,000	4.65	100	Serial
2027	4,430,000	4.75	NRO	Term
2030	3,950,000	4.80	NRO	Term

**Maturities labeled "NRO" are not to be reoffered.**

No dealer, broker, salesman or other person has been authorized by the Authority or the Underwriters to give any information or to make any representations other than those contained herein and, if given or made, such other information or representations must not be relied upon as having been authorized. There shall not be any offer, solicitation or sale of the Offered Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. Information set forth herein has been furnished by the Authority and other sources which are believed to be reliable, but is not guaranteed as to accuracy or completeness by the Underwriters.

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

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# OFFICIAL STATEMENT

Capitalized terms used in this Official Statement, unless otherwise defined herein, shall have the meanings set forth below or in Appendix A.

<u>Term</u>	<u>Definition</u>
“Bonds” .....	Currently Outstanding Bonds, the Offered Bonds and any VHDA General Purpose Bonds hereafter issued
“Currently Outstanding 1993 Series Bonds” ...	The previously issued VHDA General Purpose Bonds, 1993 Series A, 1993 Series B and 1993 Series C, outstanding as of the date of this Official Statement
“Currently Outstanding 2002 Series Bonds” ...	The previously issued VHDA General Purpose Bonds, 2002 Series W-Taxable, 2002 Series X-AMT, 2002 Series Y, and 2002 Series Z, outstanding as of the date of this Official Statement
“Currently Outstanding 2003 Series Bonds” ...	The previously issued VHDA General Purpose Bonds, 2003 Series V-Taxable, outstanding as of the date of this Official Statement
“Currently Outstanding Bonds” .....	The Currently Outstanding 1993 Series Bonds, the Currently Outstanding 2002 Series Bonds and the Currently Outstanding 2003 Series Bonds
“Development” .....	Multi-family residential housing which shall be (i) the real property and improvements thereon subject to the lien of a Mortgage, (ii) the real property and improvements thereon owned by a cooperative housing association the ownership shares in which are subject to the lien of a Mortgage, (iii) real property and improvements thereon the leasehold interest in which is subject to the lien of a Mortgage, or (iv) Authority Property
“Mortgage Loan” .....	Each of the following financed pursuant to the Act: (1) a loan evidenced by an obligation secured by a Mortgage for financing or refinancing the acquisition, construction, rehabilitation and/or ownership of residential housing as authorized by the Act, (2) an obligation, certificate or instrument for which such a loan secured by a Mortgage is the security or the source of payment, or (3) a participation or other ownership interest in either a loan described in (1) or an obligation, certificate or instrument described in (2) with another party or parties or with another source of funds of the Authority not pledged thereunder
“Mortgagor” .....	The obligor or obligors on a Mortgage Loan
“Multi-Family Mortgage Loan” .....	A Mortgage Loan made or to be made by the Authority to finance or refinance a Development
“Offered Taxable Bonds” .....	VHDA General Purpose Bonds, 2003 Series Q-Taxable
“Offered Tax Exempt AMT Bonds” .....	VHDA General Purpose Bonds, 2003 Series R-AMT
“Offered Tax Exempt Non-AMT Bonds” .....	Series S Bonds, Series T Bonds and Series U Bonds
“Offered Tax Exempt Bonds” .....	Offered Tax Exempt AMT Bonds (if any are offered ) and Offered Tax Exempt Non-AMT Bonds (if any are offered)
“Offered Bonds” .....	Offered Tax Exempt Bonds (if any are offered) and Offered Taxable Bonds (if any are offered)

“Series S Bonds”	VHDA General Purpose Bonds, 2003 Series S
“Series T Bonds”	VHDA General Purpose Bonds, 2003 Series T
“Series U Bonds”	VHDA General Purpose Bonds, 2003 Series U
“Single Family Mortgage Loan”	A Mortgage Loan made or to be made by the Authority to finance or refinance single family residential housing
“Tax Exempt Bonds”	Bonds, including the Offered Tax Exempt Bonds (if any are offered), on which interest is not included in gross income for federal income tax purposes pursuant to Section 103 of the Code
“Tax Exempt AMT Bonds”	Tax Exempt Bonds on which the interest is treated as a preference item in determining the tax liability of individuals, corporations and other taxpayers subject to the alternative minimum tax imposed by Section 55 of the Code
“Tax Exempt Non-AMT Bonds”	Tax Exempt Bonds on which the interest is NOT treated as a preference item in determining the tax liability of individuals, corporations and other taxpayers subject to the alternative minimum tax imposed by Section 55 of the Code
“Taxable Bonds”	Bonds, including the Offered Taxable Bonds (if any are offered), on which interest is included in gross income for federal income tax purposes

This Official Statement is being distributed by the Authority to furnish pertinent information in connection with the initial offering of the Offered Bonds. The Offered Bonds are being offered hereby pursuant to the Virginia Housing Development Authority Act (the “Act”), the VHDA General Purpose Bonds Resolution adopted by the Authority on April 20, 1993 (the “Resolution”), the Supplemental Resolution adopted by the Authority on May 20, 2003 (the “Supplemental Resolution”), and the Written Determinations as to the terms of the Offered Bonds (collectively, the “Bond Resolution”).

The Authority adopted the Resolution to issue Bonds, including the Offered Bonds, to provide funds for any lawful purpose permitted by the Act. The Resolution permits the issuance of Additional Bonds, and Additional Bonds may be issued in the future (see “Additional Bonds” in Appendix A). The Bond Resolution also permits the Authority to execute Exchange Agreements (such as swap agreements) and Enhancement Agreements (such as bond insurance) under which the Authority’s obligations thereunder may be payable from and secured by Assets on a parity basis with the Bonds.

The Code imposes substantial requirements with respect to Tax Exempt Bonds which must be satisfied in order for the interest on the Tax Exempt Bonds not to be included in gross income for federal income tax purposes pursuant to Section 103 of the Code. Any Authority Property or Mortgage Loan financed in whole or in part with proceeds of Tax Exempt Bonds must comply with Code requirements. The Authority has established procedures under which the Authority expects such Code requirements can be met (see “Summary of Certain Federal Requirements” in “Tax Matters”). A portion of the proceeds of the Offered Bonds may be combined with proceeds of Taxable Bonds and Tax Exempt Bonds to finance Mortgage Loans.

SunTrust Bank, Atlanta, Georgia, is the Trustee. Except in the event of the occurrence and continuance of an Event of Default, the Authority may remove and replace the Trustee.

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

**DESCRIPTION OF THE OFFERED BONDS**

The original proceeds of the Offered Tax Exempt AMT Bonds and a portion of the Offered Taxable Bonds are expected to be used to finance a new Multi-Family Mortgage Loan. The original proceeds of the Series S Bonds

and the Series T Bonds and another portion of the original proceeds of the Offered Taxable Bonds are expected to be used to refund outstanding bonds of the Authority issued pursuant to a general bond resolution other than the Resolution for the financing of Multi-Family Mortgage Loans and thereby (i) refinance the source of financing for such Multi-Family Mortgage Loans and (ii) acquire certain funds and investments which qualify as Investment Obligations (such funds and investments are referred to herein as the "Transferred Assets") to be transferred to the Bond Resolution in connection therewith. Substantially all of such Transferred Assets are expected to be thereafter used to finance new Single Family Mortgage Loans. The balance of the original proceeds of the Offered Taxable Bonds are expected to be used to reimburse the Authority for the temporary financing of Multi-Family Mortgage Loans and thereby finance such Mortgage Loans.

The original proceeds of the Series U Bonds are expected to be used to refund Currently Outstanding 1993 Series Bonds issued (i) to provide funds for the costs of improvements and furnishings for the Authority's consolidated headquarters office facility (the "VHDA Building") in Richmond, Virginia, (ii) to refund bonds previously issued by the Authority in 1987 and 1989 (a) to finance the acquisition, construction and furnishing of the VHDA Building, and (b) to finance the acquisition by the Authority of a multi-family rental housing development to be owned and operated by the Authority (the "VHDA Development"), (iii) to fund a deposit to the Debt Service Reserve Account and (iv) to pay costs of issuance, underwriter's fee and capitalized interest. The VHDA Building and the VHDA Development to be financed by the Series U Bonds are Authority Property.

Payments of principal and interest on any Mortgage Loans financed pursuant to the Bond Resolution may be used to finance Multi-Family Mortgage Loans; provided, however, that in the case of such payments on Mortgage Loans financed by the Offered Tax Exempt AMT Bonds, the Series S Bonds and the Series T Bonds, such Multi-Family Mortgage Loans may be financed only to the extent permitted by the Code (including compliance with the requirement in the Code that the Development to be so financed must have been identified in the public notice and must have been approved by the Governor prior to the issuance of the Offered Bonds). In addition, payments of principal and interest on Mortgage Loans financed by the Offered Taxable Bonds and the Series T Bonds may be used to finance Single Family Mortgage Loans.

The Offered Bonds shall be issued in the denominations and in the aggregate principal amount and shall mature in the amounts and on the dates set forth on the inside front cover hereof. Interest on the Offered Bonds shall commence to accrue on their date of delivery and shall be payable semi-annually on the dates set forth on the front cover and at the interest rates set forth on the inside front cover hereof calculated on the basis of a 360-day year consisting of twelve 30-day months.

Principal and interest on the Offered Bonds shall be payable to the Owners thereof by check, draft, electronic funds transfer or other means requested by an Owner and acceptable to the Trustee, unless objected to by the Authority, in any coin or currency of the United States of America which at the time of payment is legal tender for the payment of public and private debts.

The Offered Bonds will be initially issued and may be purchased only in book-entry form through the facilities of DTC. Accordingly, for purposes of the Bond Resolution, the Owner of the Offered Bonds shall be DTC's partnership nominee, Cede & Co., and all references herein to the Owners of the Offered Bonds shall refer to Cede & Co., as aforesaid, and shall not mean the Beneficial Owners of the Offered Bonds as defined in Appendix B. See Appendix B for a description of DTC and its procedures.

For every exchange or transfer of the Offered Bonds, the Authority or the Trustee may make a charge sufficient to reimburse it for any tax, fee or other governmental charge required to be paid with respect to such exchange or transfer.

### **Special Redemption**

The Offered Bonds are subject to redemption, at the election of the Authority, on any date, in whole or in part without premium, from (i) prepayments, in whole or in part, of the outstanding principal balances on Mortgage Loans that are at anytime financed or pledged pursuant to the Bond Resolution, (ii) original proceeds from the issuance and sale of Bonds that the Authority determines will not be used to make, purchase, finance or refinance Mortgage Loans or Authority Property or that will not be used to acquire and finance Investment Obligations on other than a temporary basis, (iii) the net proceeds from the sale or other disposition (including foreclosure) of any Mortgage Loan or Authority Property that is at anytime financed or pledged pursuant to the Bond Resolution, and (iv) proceeds received by the Authority from mortgage insurance, title insurance or hazard insurance with respect to any Mortgage Loan or Authority Property that is at anytime financed or pledged pursuant to the Bond Resolution. The amounts set forth in the previous sentence include amounts derived from the Offered Bonds, Currently Outstanding Bonds

and any Additional Bonds hereafter issued; provided, however, that the Offered Taxable Bonds are not subject to special redemption from the proceeds of, or amounts derived from, Tax Exempt Bonds heretofore or hereafter issued. The Redemption Price shall be the principal amount of the Offered Bonds to be redeemed. Accrued interest, if any, to the date of redemption will be paid upon redemption.

For the purposes of special redemption, if a Mortgage Loan or Authority Property is transferred to the Authority and released from the pledge of the Bond Resolution (see "Security"), such Mortgage Loan or Authority Property may nevertheless be treated by the Authority as if it had remained a Mortgage Loan or Authority Property, and any prepayment or any proceeds from the sale or other disposition thereof or from insurance with respect thereto, as described above, may be used to retire or redeem Bonds.

The Authority has closed, or has issued binding commitments for, a Multi-Family Mortgage Loan in an aggregate principal amount equal to or greater than the amount of original proceeds of the Offered Tax Exempt AMT Bonds and the portion of the Offered Taxable Bonds to be disbursed to fund such Multi-Family Mortgage Loan, which amount to be disbursed may be less than such aggregate principal amount. In the event that any such Multi-Family Mortgage Loan shall fail to close or to be fully disbursed, the Authority may, but is not required to, apply the unused proceeds of the Offered Tax Exempt AMT Bonds to fund another Multi-Family Mortgage Loan or Loans and may, but is not required to, apply the unused proceeds of the Offered Taxable Bonds to fund another Mortgage Loan or Loans. However, the unused proceeds of the Offered Tax Exempt AMT Bonds may be applied to fund another Multi-Family Mortgage Loan only if the Development to be financed by such Multi-Family Mortgage Loan meets the requirements of the Code (including compliance with the requirement that the Development to be so financed must be so identified in the public notice and must have been approved by the Governor prior to the issuance of the Offered Bonds). Another portion of the Offered Taxable Bonds and all of the Series S Bonds and Series T Bonds are expected to refund bonds of the Authority issued pursuant to another bond resolution and thereby (i) refinance the applicable portion of the existing Multi-Family Mortgage Loans currently financed thereby and (ii) acquire approximately \$0.5 million of Transferred Assets allocated to such bonds to be refunded pending their expected usage for the financing of new Single Family Mortgage Loans. The remaining balance of the original proceeds of the Offered Taxable Bonds are expected to refinance existing Multi-Family Mortgage Loans currently financed with other funds of the Authority. Although the Authority has no present expectation that any proceeds of the Offered Taxable Bonds, Series S Bonds or Series T Bonds or Transferred Assets will not be fully used to fund Mortgage Loans, no assurance can be given that such unused proceeds or Transferred Assets will be so fully used or that such Bonds will not be redeemed from any such unused proceeds or Transferred Assets of Bonds. The Offered Bonds are also subject to redemption from the proceeds of Additional Bonds that the Authority determines will not be used to make, purchase, finance or refinance Mortgage Loans. The proceeds of the Series U Bonds may not be used to finance Mortgage Loans.

The Authority generally expects that (i) the terms of the Multi-Family Mortgage Loan to be financed with the proceeds of Offered Tax Exempt AMT Bonds and a portion of the Offered Taxable Bonds will permit the prepayment of such Multi-Family Mortgage Loan subsequent to the expiration of the applicable Qualified Project Period (as defined in "Summary of Certain Federal Tax Requirements"); (ii) the terms of the existing Multi-Family Mortgage Loans with an aggregate outstanding principal balance of approximately \$64.6 million to be financed or refinanced with the proceeds of the Series S Bonds and Series T Bonds and a portion of the Offered Taxable Bonds do not permit prepayment of such Multi-Family Mortgage Loans, and (iii) the terms of the new and existing Multi-Family Mortgage Loans in the approximate amount of \$23.1 million to be financed entirely with the proceeds of the Offered Taxable Bonds permit or will permit the prepayment of such Multi-Family Mortgage Loans subsequent to the expiration of the ten year period following the execution of the Mortgage. No assurance can be given that the Authority will not consent to the prepayment in whole or in part of any Multi-Family Mortgage Loan prior to the expiration of any of the above described periods, although it has no present intention to give any such consent. Single Family Mortgage Loans may be prepaid at any time without the consent of the Authority.

Prepayments and repayments on the Mortgage Loans (or portions thereof) attributable to the Offered Taxable Bonds, at the option of the Authority, may be used to finance new Mortgage Loans or to retire or redeem Bonds or may be transferred to the Authority. As the Multi-Family Mortgage Loans (or portions thereof) attributable to the Offered Tax Exempt AMT Bonds and the Series S Bonds repay or prepay, such repayments or prepayments, at the option of the Authority, may be used to retire or redeem Tax Exempt Bonds or may be transferred to the Authority or used to finance new Multi-Family Mortgage Loans; provided, however, that such repayments or prepayment may be so transferred to the Authority or used to finance new Multi-Family Mortgage Loans only to the extent permitted by the Code (including compliance with the requirement in the Code that any Development to be so financed must have been identified in the public notice and must have been approved by the Governor prior to the issuance of the Offered Bonds). As the Mortgage Loans attributable to the Series T Bonds repay or prepay, such repayments or prepayments, at the option of the Authority, may be used to retire or redeem Tax-Exempt Bonds or to finance new Mortgage Loans or may be transferred to the Authority.

Factors which may affect the demand for Mortgage Loans and consequently the Authority's ability to use for financing of Mortgage Loans the portion of the original proceeds of the Offered Bonds to be used to finance new Multi-Family Mortgage Loans, the Transferred Assets and the repayments and prepayments on the Mortgage Loans attributable to the Offered Bonds include not only general economic conditions but also the relationship between alternative mortgage loan interest rates (including rates on mortgage loans insured or guaranteed by agencies of the federal government, rates on conventional mortgage loans and the rates on other mortgage loans available from the Authority) and the interest rates being charged on the Mortgage Loans by the Authority. Accordingly, lower interest rates on such alternative mortgage loans could cause a lack of demand for Mortgage Loans to be financed by the Offered Bonds and could necessitate the exercise by the Authority of its right (or compliance by the Authority with any requirement under the Code) to apply any unused portion of the original proceeds of the Offered Bonds, any unused Transferred Assets, and any unused repayments or prepayments on Mortgage Loans attributable to the Offered Bonds to redeem the Offered Bonds.

The Authority does not currently expect to sell or otherwise dispose of the VHDA Building or the VHDA Development to be financed by the Series U Bonds but can give no assurance as to whether or not any such sale or other disposition will occur in the future. In the event of any such sale or other disposition, the net proceeds therefrom, at the option of the Authority, may be used to redeem Series U Bonds or may be transferred to the Authority to the extent permitted by the Code.

In redeeming Offered Bonds as described in this section entitled "Special Redemption", the Authority has complete discretion, subject to the Code, to select the amount, series and maturities of Offered Bonds to be redeemed. If less than all of a maturity of a series of the Offered Bonds is to be redeemed, the Offered Bonds to be redeemed shall be selected by lot in such manner as the Trustee may determine.

### Optional Redemption

The Offered Bonds maturing on or after April 1, 2013, are subject to redemption, at the election of the Authority, either in whole or in part on any date on or after October 1, 2012, at a Redemption Price equal to the principal amount, without premium, of the Offered Bonds to be so redeemed. Accrued interest, if any, to the date of redemption will be paid upon redemption.

In redeeming Offered Bonds as described in the preceding paragraph, the Authority has complete discretion to select the amount, series and maturities of Offered Bonds to be redeemed. If less than all of a maturity of a series of the Offered Bonds is to be redeemed, the Offered Bonds to be redeemed shall be selected by lot in such manner as the Trustee may determine.

### Sinking Fund Redemption

The Offered Bonds designated as Term Bonds on the inside front cover hereof are subject to redemption in part prior to maturity from mandatory Sinking Fund Installments which are required to be made in the amounts specified for each of the dates shown below. The Redemption Price shall be the principal amount of the Offered Bonds to be redeemed. Accrued interest, if any, to the date of redemption will be paid upon redemption. The Offered Bonds to be so redeemed shall be selected by lot in such manner as the Trustee may determine.

<u>Offered Taxable Bonds</u> <u>Maturing October 1, 2023</u>		<u>Offered Taxable Bonds</u> <u>Maturing October 1, 2028</u>		<u>Offered Tax Exempt AMT Bonds</u> <u>Maturing October 1, 2028</u>	
Sinking Fund		Sinking Fund		Sinking Fund	
<u>Installment Date</u> <u>(October 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Installment Date</u> <u>(October 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Installment Date</u> <u>(October 1)</u>	<u>Principal</u> <u>Amount</u>
2018	\$1,200,000	2024	\$1,695,000	2023	\$305,000
2019	1,265,000	2025	1,795,000	2024	320,000
2020	1,340,000	2026	1,905,000	2025	335,000
2021	1,420,000	2027	2,025,000	2026	355,000
2022	1,505,000	2028†	<u>2,145,000</u>	2027	375,000
2023†	<u>1,600,000</u>		\$9,565,000	2028†	<u>385,000</u>
	\$8,330,000				\$2,075,000

† Maturity.

Series S Bonds	
<u>Maturing April 1, 2027</u>	
Sinking Fund	
<u>Installment Date</u>	<u>Principal Amount</u>
2023	\$370,000
2024	390,000
2025	410,000
2026	355,000
2027†	<u>210,000</u>
	\$1,735,000

Series T Bonds	
<u>Maturing October 1, 2024</u>	
Sinking Fund	
<u>Installment Date</u>	<u>Principal Amount</u>
April 1, 2014	\$550,000
October 1, 2014	565,000
April 1, 2015	575,000
October 1, 2015	585,000
April 1, 2016	600,000
October 1, 2016	610,000
April 1, 2017	625,000
October 1, 2017	635,000
April 1, 2018	650,000
October 1, 2018	665,000
April 1, 2019	680,000
October 1, 2019	695,000
April 1, 2020	710,000
October 1, 2020	725,000
April 1, 2021	740,000
October 1, 2021	760,000
April 1, 2022	775,000
October 1, 2022	795,000
April 1, 2023	815,000
October 1, 2023	830,000
April 1, 2024	850,000
October 1, 2024†	<u>875,000</u>
	\$15,310,000

Series T Bonds	
<u>Maturing October 1, 2028</u>	
Sinking Fund	
<u>Installment Date</u>	<u>Principal Amount</u>
April 1, 2025	\$895,000
October 1, 2025	915,000
April 1, 2026	935,000
October 1, 2026	960,000
April 1, 2027	985,000
October 1, 2027	1,005,000
April 1, 2028	1,030,000
October 1, 2028†	<u>1,055,000</u>
	\$7,780,000

Series T Bonds	
<u>Maturing October 1, 2033</u>	
<u>Installment Date</u>	<u>Principal Amount</u>
April 1, 2029	\$1,085,000
October 1, 2029	1,110,000
April 1, 2030	1,135,000
October 1, 2030	1,165,000
April 1, 2031	1,195,000
October 1, 2031	1,225,000
April 1, 2032	1,255,000
October 1, 2032	1,285,000
April 1, 2033	1,320,000
October 1, 2033†	<u>1,350,000</u>
	\$12,125,000

Series T Bonds	
<u>Maturing October 1, 2038</u>	
<u>Installment Date</u>	<u>Principal Amount</u>
April 1, 2034	\$1,385,000
October 1, 2034	1,420,000
April 1, 2035	1,455,000
October 1, 2035	1,495,000
April 1, 2036	1,530,000
October 1, 2036	1,570,000
April 1, 2037	1,610,000
October 1, 2037	1,650,000
April 1, 2038	1,695,000
October 1, 2038†	<u>1,735,000</u>
	\$15,545,000

Series U Bonds	
<u>Maturing October 1, 2027</u>	
Sinking Fund	
<u>Installment Date</u>	<u>Principal Amount</u>
2024	\$1,025,000
2025	1,080,000
2026	1,135,000
2027†	<u>1,190,000</u>
	\$4,430,000

Series U Bonds	
<u>Maturing October 1, 2030</u>	
Sinking Fund	
<u>Installment Date</u>	<u>Principal Amount</u>
2028	\$1,250,000
2029	1,315,000
2030 †	<u>1,385,000</u>
	\$3,950,000

† Maturity.

## **Notice to Owners**

Notice of any redemption of an Offered Bond will be sent to the Owner thereof at least thirty days prior to the date of redemption. Any notice to Owners required pursuant to the Bond Resolution shall be sent or transmitted, at the Authority's direction, by mail or other means of physical delivery, or by facsimile or other electronic means to such Owner at his last address, physical or electronic, set forth in the Registration Books. Registration Books as used herein means the records of the Trustee and the Authority which set forth the Owner of any Bond or any other party due a Bond Amount or amounts payable from Assets and such other information as is usual and customary in the securities industry or as specifically directed by the Authority.

## **Defeasance**

The Bond Resolution provides that if the Authority deposits sufficient amounts to pay all Bond Amounts due and to become due on the Offered Bonds, such Offered Bonds shall no longer be deemed outstanding under the Bond Resolution and will be secured solely by certain Investment Obligations acquired with the amounts so deposited. For further detail see "Defeasance" in Appendix A.

## **Acceleration**

Pursuant to the Act, in the event that the Authority shall default in the payment of principal of or interest on any issue of the Bonds and such default shall continue for 30 days or in the event that the Authority shall otherwise fail to comply with the provisions of the Bond Resolution, the Owners of 25% in aggregate principal amount of such issue of Bonds may appoint a trustee to represent the Owners of such issue of Bonds, and such trustee may, and upon written request of the Owners of 25% in aggregate principal amount of such issue of Bonds shall, in its name declare all such issue of Bonds due and payable.

# **SECURITY**

## **General Obligations of the Authority**

The Bonds are general obligations of the Authority payable out of any of its revenues, moneys or assets, subject to agreements heretofore or hereafter made with owners of Authority obligations other than the Owners pledging particular revenues, moneys or assets for the payment thereof. The security provided the Bonds by the Authority's general obligation should be evaluated in connection with the performance of other loan programs of the Authority and such pledging of particular revenues, moneys or assets. See Appendix E, "The Programs," "The Authority – Summary of Revenues, Expenses, and Net Assets," and "The Authority – General Fund".

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

## **Pledge of Assets**

The Resolution does not pledge any assets of the Authority as security for the Currently Outstanding Bonds, except for the Debt Service Reserve Account described below. However, the supplemental resolution for the Currently Outstanding 2002 Series Bonds (the "2002 Supplemental Resolution") and the Supplemental Resolution provide that the Bonds are secured, to the limited extent and as provided in the 2002 Supplemental Resolution and the Supplemental Resolution, by a pledge of the Assets, which consist of Mortgage Loans, Authority Property, Revenues and Investment Obligations acquired or financed pursuant to the 2002 Supplemental Resolution or the Supplemental Resolution, and, to the extent made subject to the pledge or lien of the Resolution pursuant to any Written Determinations, any Enhancement Agreements and Exchange Agreements (see "Assets and the Pledge Thereof" in Appendix A). The 2002 Supplemental Resolution and the Supplemental Resolution impose no requirements on the Authority as to a minimum amount or type of Assets and permit the Authority to (i) purchase, sell, exchange, transfer and modify Assets, (ii) apply Assets to the payment of Expenses, and (iii) transfer Assets to itself and release such Assets from the lien or pledge created by the 2002 Supplemental Resolution and the Supplemental Resolution, subject only to the satisfaction of the Asset Withdrawal Determination (see "Asset Withdrawal Determination; Limited Operating Covenants" below and see also "Withdrawal, Transfer, Sale, Exchange and Modification of Assets" and "Asset Withdrawal Determination" in Appendix A).

The Resolution establishes a debt service reserve account (the “Debt Service Reserve Account”), specifies a debt service reserve account requirement (the “Debt Service Reserve Account Requirement”) and pledges the Debt Service Reserve Account as security for the Bonds. The Debt Service Reserve Account Requirement is an amount equal to (i) the aggregate of the maximum amount of principal, interest, and Sinking Fund Installments on the Currently Outstanding 1993 Series Bonds becoming due in any current or future calendar year plus (ii) the amounts specified in each of the supplemental resolutions to be deposited in the Debt Service Reserve Account with respect to any series of Bonds. As of the date hereof, the Debt Service Reserve Account is fully funded in accordance with the Resolution. Upon the partial refunding of the Currently Outstanding 1993 Series Bonds with proceeds of the Series U Bonds, the funds in the Debt Service Reserve Account shall be applied to (i) the payment of costs relating to the issuance of the Series U Bonds and (ii) the redemption of all of the Currently Outstanding 1993 Series Bonds which are not being refunded by the Series U Bonds, and the Debt Service Reserve Account Requirement with respect to the Currently Outstanding 1993 Series Bonds shall terminate. No Debt Service Reserve Account Requirement has been established with respect to the Currently Outstanding 2002 Series Bonds, the Currently Outstanding 2003 Series Bonds or the Offered Bonds. The Authority has not established and does not expect to establish a Debt Service Reserve Account Requirement with respect to Additional Bonds hereafter issued. The Resolution, the 2002 Supplemental Resolution and the Supplemental Resolution do not require the establishment and funding of any other reserve fund, and the Authority does not expect to establish and fund any such reserve fund.

The programs under which the Multi-Family Mortgage Loans and Single Family Mortgage Loans were or are expected to be financed and under which the VHDA Development was acquired and financed are described under “The Programs” below. See also Appendices A and B for additional information regarding such Mortgage Loans. The VHDA Building is described under “VHDA Building” below.

The Authority expects to maintain a substantial portion of Assets attributable to the Currently Outstanding 2002 Series Bonds, the Currently Outstanding 2003 Series Bonds and the Offered Bonds as Investment Obligations. The eligible Investment Obligations for the Currently Outstanding 2002 Series Bonds, the Currently Outstanding 2003 Series Bonds and the Offered Bonds are set forth in the definition thereof in Appendix A and include (i) any investment (debt or other contractual obligation or equity interest) which, in the determination of an Authorized Officer, is a suitable investment, in light of the amount and timing of Bond Obligation payments, the amount of Assets, and the availability of monies to pay Bond Obligations as they become due, at the time of acquisition thereof, and (ii) certain investments which bear, or the obligor(s) or guarantor(s) thereof bear, an investment grade rating assigned by a nationally recognized rating agency. Any Enhancement Agreements or Exchange Agreements, including those made subject to the pledge or lien of the Resolution, are subject to the risk that the other parties to such Agreements may not satisfy their obligations set forth in such Agreements. The 2002 Supplemental Resolution and the Supplemental Resolution do not establish minimum rating requirements for such other parties.

Pursuant to the Resolution, the Authority previously issued the Currently Outstanding 1993 Series Bonds in the original principal amount of \$29,070,000. The outstanding principal amount of such Currently Outstanding 1993 Series Bonds is \$24,035,000 as of the date hereof. Under the terms of the Resolution, the Currently Outstanding 1993 Series Bonds were initially not secured by the pledge of any assets of the Authority other than the Debt Service Reserve Account. The Currently Outstanding Bonds (excluding the Currently Outstanding 1993 Series Bonds upon the refunding thereof with proceeds of the Series U Bonds and funds in the Debt Service Reserve Account), the Offered Bonds and any Bonds hereafter issued will be secured by the pledge of Assets financed or acquired by the Currently Outstanding 2002 Series Bonds, the Currently Outstanding 2003 Series Bonds and the Offered Bonds pursuant to the 2002 Supplemental Resolution or the Supplemental Resolution, subject to the rights of the Authority to purchase, sell, exchange, transfer, apply and modify the Assets and to transfer the Assets to itself and to release such Assets from such pledge in accordance with the 2002 Supplemental Resolution and the Supplemental Resolution as described above. The value of the Assets will initially be substantially below the outstanding principal amount of the Currently Outstanding Bonds and the Offered Bonds. Upon the refunding of the Currently Outstanding 1993 Series Bonds with proceeds of the Series U Bonds, the Authority believes that the outstanding principal balances of Mortgage Loans and Investment Obligations and the market value of Authority Property will be at least equal to the outstanding principal amount of the then Outstanding Bonds; however, the Authority has not performed any verification of the market value of such Authority Property, and no assurance can be given as to whether or not such relationship between then pledged Assets and Outstanding Bonds will be maintained in the future. Moreover, no assurance can be given as to any future pledge of assets under any future supplemental resolution or as to the value of any assets so pledged relative to the principal amount of Outstanding Bonds.

The Act provides that any pledge made by the Authority is valid and binding from the time such pledge is made and that the Authority’s interest, then existing or thereafter obtained, in revenues, moneys, mortgage loans, receivables, contract rights or other property or proceeds so pledged shall immediately be subject to the lien of such pledge without any physical delivery or further act, and the lien of such pledge shall be valid and binding against all

parties having claims of any kind in tort, contract or otherwise against the Authority, irrespective of whether such parties have notice thereof. The Act further provides that no instrument by which a pledge is created need be recorded nor shall any filing be required with respect thereto. The Authority does not expect to record or file any deed of trust, mortgage or other instrument creating or evidencing the pledge or lien created by the Resolution, 2002 Supplemental Resolution, the Supplemental Resolution or any future supplemental resolution with respect to the Debt Service Reserve Account or any Asset or other asset hereafter pledged to secure Bonds. In particular, no deed of trust or mortgage will be executed or recorded as a lien on the VHDA Building or the VHDA Development. The Authority does not expect to physically deliver Assets to the Trustee.

### **Asset Withdrawal Determination; Limited Operating Covenants**

Except for the Asset Withdrawal Determination described below, the Bond Resolution imposes no restrictions on the Authority's ability to transfer Assets to itself and to release such Assets from the pledge of the Bond Resolution and no requirements on the Authority as to the minimum amount or type of Assets, nor does it impose any requirements on the Authority with respect to annual income or net worth.

The 2002 Supplemental Resolution and the Supplemental Resolution do require that the transfer of all or any portion of any Asset to the Authority and the release of such Asset from the pledge thereunder can be undertaken only pursuant to the Asset Withdrawal Determination set forth in the 2002 Supplemental Resolution and the Supplemental Resolution. Such determination requires that prior to effecting any proposed action subject to this Determination, an Authorized Officer shall determine that such action is reasonable in the sole opinion of such Authorized Officer, taking into account such matters, advice and counsel as he shall deem appropriate. See definition of "Asset Withdrawal Determination" in Appendix A. Upon any such transfer of Assets, such Assets shall no longer be subject to the pledge of the Bond Resolution.

### **Sources of Payment**

The scheduled payments of principal or Sinking Fund Installments of and interest on the Series U Bonds (or, if the Series U Bonds are not issued, the Currently Outstanding 1993 Series Bonds) are expected to be paid from (i) rental and other income from the VHDA Development and (ii) assets and funds of the Authority, including Assets pledged under the Bond Resolution.

The scheduled payments of Bond Amounts on the Currently Outstanding 2002 Series Bonds, the Currently Outstanding 2003 Series Bonds and the Offered Bonds (other than the Series U Bonds) are based upon the assumed receipt by the Authority of principal and interest or other payments on or with respect to Mortgage Loans and Investment Obligations pledged as Assets, the income received with respect to any Authority Property other than the VHDA Development (excluding such income to be applied to the payment of operating expenses or to be deposited into reserve or escrow funds for such Authority Property pledged as an Asset), and payments received with respect to any Enhancement Agreement or any Exchange Agreement pledged as Assets. In so scheduling such payments of Bond Amounts on the Currently Outstanding 2002 Series Bonds, the Currently Outstanding 2003 Series Bonds and the Offered Bonds (other than the Series U Bonds), the Authority has assumed that no prepayments of principal will be received with respect to such pledged Multi-Family Mortgage Loans; accordingly, scheduled payments of such Bond Amounts are not expected to be dependent upon the receipt of prepayments of principal with respect to such pledged Multi-Family Mortgage Loans. However, in so scheduling such payments of Bond Amounts, the Authority has assumed a certain level of prepayments of Single Family Mortgage Loans, a substantial portion of which will be used to pay such principal amounts and sinking fund installments. Such assumed level does not exceed 50% of the SPA Rate. For this purpose, revenues received by the Authority as a result of defaults on Single Family Mortgage Loans are treated as prepayments. The SPA Rate is a model that utilizes an assumed rate of prepayment each month relative to the then outstanding principal balance of a pool of mortgage loans. The SPA Rate assumes constant prepayment rates of 0.2% per annum of the then outstanding principal balance of such mortgage loans in the first month of the life of the mortgage loan and an additional 0.2% per annum in each month thereafter until the thirtieth month. Beginning in the thirtieth month and in each month thereafter during the life of the mortgage loans, the SPA Rate assumes a constant prepayment rate of 6% per annum. The SPA Rate does not purport to be a historical description of prepayment experience or a prediction of the anticipated rate of prepayment of any pool of mortgage loans, including the Single Family Mortgage Loans financed or to be financed by the Currently Outstanding 2002 Series Bonds, the Currently Outstanding Series 2003 Bonds, the Offered Taxable Bonds and the Series T Bonds. If any of the above described payments shall be insufficient to pay any such Bond Amounts when due, the Authority expects to use its other assets and funds to pay such Bond Amounts in full.

The ability of the Authority to pay Bond Amounts on the Offered Bonds, the Currently Outstanding Series 2003 Bonds, the Currently Outstanding 2002 Series Bonds (and, if the Series U Bonds are not issued, principal or

Sinking Fund Installments of and interest on the Currently Outstanding 1993 Series Bonds) and any Additional Bonds hereafter issued from the Assets and its other assets and funds may be adversely affected by (i) failure to receive principal and interest or other payments when due or any time thereafter with respect to the Authority's assets (including Assets), (ii) receipt of income with respect to Authority Property, including the VHDA Development and any other Authority Property pledged as an Asset, in amounts (net of amounts to be applied to the payment of operating expenses or to be deposited into reserve or escrow funds for such Authority Property) less than expected by the Authority, (iii) Authority assets (including Assets) not being made, financed or acquired at the times, interest rates or prices, as applicable, contemplated by the Authority or not being made, financed or acquired at all (see "Special Redemption"), and (iv) receipt of net proceeds from the sale or other disposition of Authority assets (including Assets) in amounts less than expected by the Authority. The ability of a Mortgagor to make principal and interest payments on a Multi-Family Mortgage Loan may be adversely affected by reductions (or the failure to receive adequate increases) in federal subsidy payments with respect to the Development financed pursuant to the Bond Resolution or otherwise and assisted by such subsidy payments (see Appendix C – "Section 8 Program – Adjustments of Contract Rents"), as well as by general economic conditions.

### **Amendments to Resolution; Bonds Acquired by the Authority**

The Resolution provides authorization for amendments to certain provisions therein by supplemental resolution of the Authority without the consent of Owners (see "Amendments" in Appendix A). Any such amendments may adversely affect the security for the Bonds.

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

## **TAX MATTERS**

### **Federal Taxes**

#### *Offered Taxable Bonds*

In the opinion of Hawkins, Delafield & Wood, Special Tax Counsel to the Authority, interest on the Offered Taxable Bonds is included in gross income for federal income tax purposes under the Code. All potential purchasers should consult their tax advisors regarding the tax treatment of Offered Taxable Bonds.

#### *Offered Tax Exempt Bonds*

The Code imposes substantial initial and on-going requirements and restrictions on the proceeds of the Tax Exempt Offered Bonds (including occupancy and use limitations on the financing by the Authority of qualified residential rental developments, residential real property for family units and governmentally owned property) in order that interest on the Offered Tax Exempt Bonds be and remain excludable from gross income under applicable federal tax law.

The Code also imposes requirements on the financing of single family residences with proceeds of Tax Exempt Bonds which were issued pursuant to the Mortgage Subsidy Bond Tax Act of 1980, generally effective for bonds of the Authority which were issued on or after January 1, 1981. The financing of single family residences by the Series T Bonds is not subject to such requirements because the Series T Bonds are being issued to refund bonds issued prior to January 1, 1981 or otherwise not subject to the Mortgage Subsidy Bond Tax Act of 1980. Under the Code, the Authority may not finance single family residences with the proceeds of the Offered Tax Exempt AMT Bonds, the Series S Bonds and the Series U Bonds.

The Code imposes limits regarding investment of the proceeds of the Offered Tax Exempt Bonds and other funds, and the rebate of certain investment earnings on such proceeds and other funds on a periodic basis to the federal government (see "Summary of Certain Federal Requirements").

In the opinion of Hawkins, Delafield & Wood, Special Tax Counsel to the Authority, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest on the Offered Tax Exempt Bonds is excluded from gross income for federal income tax purposes pursuant to Section

103 of the Code; (ii) interest on the Offered Tax Exempt AMT Bonds is treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; and (iii) interest on the Offered Tax Exempt Non-AMT Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code, such interest, however, is included in the adjusted current earnings of certain corporations for the purposes of calculating the alternative minimum tax imposed on such corporations. No opinion is expressed as to the exclusion from gross income of interest on any Offered Tax Exempt AMT Bond, Series S Bond or Series T Bond for any period during which such Bond is held by a person who, within the meaning of Section 147(a) of the Code, is a “substantial user” of any facility financed with the proceeds of the Offered Tax Exempt AMT Bonds, Series S Bonds or Series T Bonds or a “related person”. In rendering its opinion, Special Tax Counsel has relied on certain representations, certifications of fact, and statements of reasonable expectations made by the Authority in connection with the Offered Tax Exempt Bonds, and Special Tax Counsel has assumed compliance by the Authority with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the Offered Tax Exempt Bonds from gross income under Section 103 of the Code.

Special Tax Counsel expresses no opinion as to any other matter, with respect to the exemption of interest on the Offered Tax Exempt Bonds from federal income taxation or as to the treatment of any such Bonds for tax purposes by any state, city, county or other jurisdiction. Special Tax Counsel renders its opinion under existing statutes and court decisions as of the issue date, and assumes no obligation to update its opinion after the issue date to reflect any future action, fact of circumstance, or change in law or interpretation, or otherwise. Special Tax Counsel expresses no opinion on the effect of any action hereafter taken or not taken in reliance upon an opinion of other counsel on the exclusion from gross income for federal income tax purposes of interest on the Offered Tax Exempt Bonds, or under state and local tax law.

The Code establishes certain ongoing requirements that must be met subsequent to the issuance and delivery of the Offered Tax Exempt Bonds in order that interest on the Offered Tax Exempt Bonds be and remain excluded from gross income under Section 103 of the Code. These requirements include, but are not limited to, requirements relating to use and expenditure of gross proceeds of the Offered Tax Exempt Bonds, yield and other restrictions on investments of gross proceeds, and the arbitrage rebate requirement that certain excess earnings on gross proceeds be rebated to the federal government. Noncompliance with such requirements may cause interest on the Offered Tax Exempt Bonds to become included in gross income for federal income tax purposes retroactive to their issue date, irrespective of the date on which such noncompliance occurs or is discovered.

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

Prospective owners of the Offered Tax Exempt Bonds should be aware that the ownership of such obligations may result in collateral federal income tax consequences to various categories of persons, such as corporations (including S Corporations and foreign corporations), financial institutions, property and casualty and life insurance companies, individual recipients of Social Security and railroad retirement benefits, individuals otherwise eligible for the earned income tax credit, and taxpayers deemed to have incurred or continued indebtedness to purchase or carry obligations the interest on which is excluded from gross income for federal income tax purposes. Interest on the Offered Tax Exempt Bonds may be taken into account in determining the tax liability of foreign corporations subject to the branch profits tax imposed by Section 884 of the Code.

The Authority’s Tax Certification, which will be delivered concurrently with the delivery of the Offered Bonds, will contain provisions and procedures relating to compliance with the requirements of the Code. The Authority, in executing its Tax Certification, will certify to the effect that it expects to be able to and will comply with the provisions and procedures set forth therein. The Authority has also covenanted in the Bond Resolution that it shall at all times do and perform all acts required by law in order to assure that interest paid on the Offered Tax Exempt Bonds is excluded from in the gross incomes of the Owners thereof pursuant to the Code. In furtherance thereof, if and to the extent necessary to comply with the Code, the Authority has required or will require each Mortgagor with respect to each Mortgage Loan to be financed from the proceeds of the Offered Tax Exempt AMT Bonds, Series S Bonds or Series T Bonds to make certain covenants in the Mortgage Loan documents (the form of which is subject to the review of Hawkins, Delafield & Wood, Special Tax Counsel to the Authority) in order to satisfy the above described requirements of the Code. However, no assurance can be given that in the event of a breach of any such provisions, procedures and covenants, the remedies available to the Authority and/or Owners of the Offered Tax Exempt AMT Bonds, Series S Bonds and Series T Bonds can be judicially enforced in such manner as to assure compliance with the requirements of applicable federal tax law and therefore to prevent the loss of the exclusion of

interest on the Offered Tax Exempt AMT Bonds, Series S Bonds and Series T Bonds pursuant to the Code. Furthermore, with respect to any Mortgage Loan insured by the Federal Housing Administration (the “FHA”) which may be financed with the proceeds of the Offered Tax Exempt AMT Bonds, Series S Bonds or Series T Bonds, such provisions, procedures and covenants will be subordinate to the rights of FHA under the Mortgage Loan documents, and the enforcement of such provisions, procedures and covenants will be subject to FHA approval; however, the Code provides that the above described requirements shall cease to apply to the Development if (i) any action of the FHA prevents the Authority from enforcing such provisions, procedures and covenants, and (ii) if the Offered Tax Exempt AMT Bonds, Series S Bonds and Series T Bonds issued to finance the FHA Mortgage Loan are retired within a reasonable time. Any loss of the exclusion of interest on the Offered Tax Exempt AMT Bonds, Series S Bonds and Series T Bonds may be retroactive to the date such Bonds began to accrue interest, irrespective of when an event of noncompliance may occur or be ascertained.

Legislation affecting municipal bonds is regularly under consideration by the United States Congress. There can be no assurance that legislation enacted or proposed after the date of issuance of the Offered Tax Exempt Bonds will not have an adverse effect on the tax-exempt status or market price of the Offered Tax Exempt Bonds.

### **Summary of Certain Federal Requirements**

The following requirements apply to Developments financed by Multi-Family Mortgage Loans with proceeds of Tax Exempt Bonds.

#### *Requirements Applicable to Developments Financed by Tax Exempt AMT Bonds*

The following requirements apply to Developments to be financed or which have been financed, in whole or in part, with proceeds of Tax Exempt AMT Bonds. Any Offered Tax Exempt AMT Bonds are Tax Exempt AMT Bonds.

Under the Code, Developments financed by Tax Exempt AMT Bonds must meet a requirement that either (i) at least 20% of the units in such Development be occupied during the Qualified Project Period (as defined in this subsection below) by individuals whose incomes are 50% or less of area median gross income, as adjusted for family size, or (ii) at least 40% of the units in such Development be occupied during the Qualified Project Period (as defined in this subsection below) by individuals whose incomes are 60% or less of area median gross income, as adjusted for family size. (The foregoing requirement is hereinafter referred to as the “20/50 or 40/60 Requirement”, as applicable.)

The term “Qualified Project Period” is defined in the Code such that its ending date is the latest of (i) the date which is at least 15 years after the date on which 50% of the units in such Development are first occupied, (ii) the first day on which no Tax Exempt AMT Bond issued with respect to such Development is outstanding, or (iii) the date on which any assistance provided with respect to such Development under Section 8 terminates.

In addition to the 20/50 or 40/60 Requirement, all of each such Development’s units must remain rental property throughout the applicable Qualified Project Period.

#### *Requirements Applicable to Developments Financed by Tax Exempt Non-AMT Bonds*

The following requirements apply to Developments (other than the VHDA Development) financed, in whole or in part, with proceeds of certain tax exempt bonds issued on or after January 1, 1981 and before April 16, 1986 or pursuant to a transition rule in the Tax Reform Act of 1986. The Authority may issue Tax Exempt Non-AMT Bonds from time to time to refund such tax exempt bonds. In such an event, the Mortgage Loans financed by such refunded bonds shall, if and to the extent pledged under the supplemental resolution authorizing the issuance of such Tax Exempt Non-AMT Bonds, become Assets under the Bond Resolution. Any Offered Tax Exempt Non-AMT Bonds are Tax Exempt Non-AMT Bonds.

Developments financed by the above described Tax Exempt Non-AMT Bonds are subject to certain restrictions as to the use and occupancy of units therein under the Code and the predecessor provisions of the Internal Revenue Code of 1954, as amended (the “1954 Code”). Such Developments consisting of residential rental property, as such term is defined in Section 103(b)(4) of the 1954 Code, are subject to the requirement that (i) at least 20 percent of the units in each Development financed by such bonds (15 percent if the Development is located in certain low income or economically distressed areas) be occupied during the “Qualified Project Period” (as defined in this subsection below) by individuals whose incomes do not exceed 80% of the median income for the area (the “20/80 Requirement”), (ii) all of the units of each Development be rented or available for rental on a continuous basis for the longer of the remaining term of the applicable series of such bonds or the Qualified Project Period for the Development, and (iii) no building in any Development contains less than 5 units if one of such units is occupied by

an owner of the units. This 20/80 Requirement does not apply to Developments owned by the Authority (including the VHDA Development), by other governmental entities or by charitable organizations exempt from federal taxation under Section 501(c)(3) of the Code. In addition, the 20/80 Requirement does not apply to Developments financed by Tax Exempt Non-AMT Bonds issued to refund bonds issued by the Authority prior to January 1, 1981.

The term “Qualified Project Period” means (i) for the above described Tax Exempt Non-AMT Bonds issued to refund bonds issued prior to September 4, 1982, a period of 20 years commencing on the date of initial occupancy of the Development or the date of issuance of such bonds, whichever is later, and (ii) for the above described Tax Exempt Non-AMT Bonds issued to refund bonds issued on or after September 4, 1982, a period commencing upon occupancy of 10% of the units in the Development and ending on the later of (a) the date which is 10 years after occupancy of 50% of the units in the Development, (b) the date which is subsequent to initial occupancy of any unit in the Development by a period of time equal to one-half of the sum of the period the refunded bonds were outstanding and the longest term of the Tax Exempt Non-AMT Bonds or (c) the date upon which any Section 8 assistance for the Development terminates.

## **Virginia Taxes**

Under the Act, income on the Offered Bonds, including any profit made on the sale thereof, is not included in taxable income for purposes of income taxation by the Commonwealth and by the municipalities and all other political subdivisions of the Commonwealth. All potential purchasers should consult their tax advisors regarding tax treatment of the Offered Bonds by the Commonwealth.

## **CONTINUING DISCLOSURE**

The Authority will covenant for the benefit of the Holders and Beneficial Owners (as defined in the Continuing Disclosure Agreement -- see Appendix F) of the Offered Bonds, to provide certain financial information and operating data relating to the Authority by not later than 180 days following the end of the Authority’s Fiscal Year (the “Annual Financial Information”), and to provide notices of the occurrence of certain enumerated events, if material. The Annual Financial Information will be filed by the Authority with each Nationally Recognized Municipal Securities Information Repository (each a “Repository”) and the state information depository, if any (the “SID”). The notices of material events will be filed by the Authority with the SID and, at its option, either the Municipal Securities Rulemaking Board or each Repository. No SID currently exists in the Commonwealth.

The specific nature of the information expected to be contained in the Annual Financial Information or the notices of material events and other terms of the Continuing Disclosure Agreement are summarized in Appendix F. These covenants are expected to be made in order to assist the Underwriter to comply with Rule 15c2-12(b)(5) promulgated by the Securities and Exchange Commission (the “Rule”). The Authority has never failed to comply in all material respects with any previous undertakings with respect to the Rule to provide Annual Financial Information or notices of material events.

The rights of the Trustee and of Owners to enforce the provision of the Continuing Disclosure Agreement are expected to be limited as described more fully in “Enforcement” in Appendix F and, any failure by the Authority to comply with the Continuing Disclosure Agreement will not constitute an Event of Default under the Bond Resolution.

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

The Authority periodically compiles certain information on its bond and mortgage loan programs which is available on the Authority’s website ([www.vhda.com](http://www.vhda.com)) or upon request to the Authority (see “The Authority” for address and telephone number). Although the Authority presently intends to continue to compile such information and make it available on the Authority’s website or upon request, it is not obligated to do so pursuant to the Continuing Disclosure Agreement.

## **LEGAL MATTERS**

Certain legal matters relating to the authorization and validity of the Offered Bonds will be subject to the receipt of the approving opinion of Hunton & Williams, Richmond, Virginia, Bond Counsel. Such opinion (the “Approving Opinion”) will be limited to matters relating to the authorization and validity of the Offered Bonds described in “Tax Matters” above, certain legal matters relating to federal income tax treatment of interest on the Offered Bonds will be subject to the receipt of the tax opinion (the “Tax Opinion”) of Hawkins, Delafield & Wood,

Special Tax Counsel. The proposed form of opinions of Bond Counsel and Special Tax Counsel are attached hereto as Appendices G and H. Neither Bond Counsel nor Special Tax Counsel has been engaged to investigate the financial resources of the Authority or its ability to provide for payment of the Offered Bonds, and neither the Approving Opinion nor the Tax Opinion will make any statement as to such matters or as to the accuracy or completeness of this Official Statement generally. Certain legal matters will be passed on for the Authority by its General Counsel, J. Judson McKellar, Jr., Esquire.

## **UNDERWRITING**

The Offered Bonds are being purchased (or placed with a private purchaser) by the one or more underwriters listed on the front cover of this Official Statement as delivered in its final form (the "Underwriters"). The underwriter designated as the Underwriter for the Offered Taxable Bonds on the front cover of this Official Statement as delivered in its final form (the "Underwriter for the Offered Taxable Bonds") has agreed, pursuant to certain terms and conditions with respect to the Offered Taxable Bonds, to purchase at a price of par all of the Offered Taxable Bonds (including any of such Bonds to be placed with a private purchaser if such purchaser shall fail to purchase any of such Bonds) if any are purchased. In connection with said purchase (or placement) and underwriting, the Underwriter for the Offered Taxable Bonds is to receive a fee of \$100,879.26, representing approximately .35% of the principal amount of the Offered Taxable Bonds.

The underwriter designated as the Underwriter for the Offered Tax Exempt Bonds on the front cover of this Official Statement as delivered in its final form (the "Underwriter for the Offered Tax Exempt Bonds") has agreed, pursuant to certain terms and conditions with respect to the Offered Tax Exempt Bonds, to purchase at a price of par all of the Offered Tax Exempt Bonds (including any of such Bonds to be placed with a private purchaser if such purchaser shall fail to purchase any of such Bonds) if any are purchased. In connection with said purchase (or placement) and underwriting, the Underwriter for the Offered Tax Exempt Bonds is to receive a fee of \$476,770.00, representing approximately .54% of the principal amount of the Offered Tax Exempt Bonds.

The information regarding initial public offering prices or yields set forth on the front cover of this Official Statement as delivered in its final form has been provided by the respective underwriter. Said initial public offering prices or yields may be changed by the Underwriters with respect to the Offered Bonds. In connection with the offering of the Offered Bonds, the Underwriters engage in transactions that stabilize, maintain or otherwise affect the price of the Offered Bonds, including transactions to (i) over allot in arranging the sales of the Offered Bonds and (ii) make purchases and sales of the Offered Bonds, for long or short account, on a when-issued or other basis at such prices, in such amounts and such manner as the Underwriters may determine.

## **RATINGS**

As noted on the front cover, the Offered Bonds are expected to receive a long-term rating of "Aa1" from Moody's Investors Service (Moody's) and a long-term rating of "AA+" from Standard & Poor's Rating Services (Standard & Poor's).

Moody's issues ratings from "Aaa" to "C" to designate the relative investment qualities of debt securities. The "Aaa" rating is the highest of the nine such ratings. Moody's describes its "Aa1" rating as follows: Bonds which are rated "Aa" are judged to be of high quality by all standards. Together with the Aaa group they comprise what are generally known as high grade bonds. They are rated lower than the best bonds because margins of protection may not be as large as in Aaa securities or fluctuation of protective elements may be of greater amplitude or there may be other elements present that make the long-term risks appear somewhat larger than in Aaa securities. The modifier 1 indicates that the issue ranks in the higher end of its generic rating category.

Standard & Poor's issues ratings from "AAA" to "D" to designate the relative investment qualities of debt securities. The "AAA" rating is the highest of the ten such ratings. Standard & Poor's describes its "AA+" rating as follows: An obligation rated AA differs from the highest-rated obligations only in a small degree. The obligor's capacity to meet its financial commitment on the obligation is very strong. The addition of a plus or minus sign show relative standing within a major rating category.

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

Ratings address the likelihood of receipt by investors of all payments on the Offered Bonds. The ratings also address the structural, legal and Authority-related aspects associated with the Offered Bonds, the nature of the underlying assets and the credit quality of the credit enhancer or guarantor, if any.

### **THE VHDA BUILDING**

The VHDA Building is located at 601 South Belvidere, Richmond, Virginia, on approximately 5.2 acres and contains approximately 147,060 square feet of office space. Construction of the VHDA Building was completed in May 1989, and certain improvements were made in 1994. Substantially all of the office space in the VHDA Building is occupied by the Authority. Although no appraisal by an independent third party has been recently performed, the Authority estimates the value of the building to be approximately \$19,371,613.

### **THE PROGRAMS**

The information that follows is provided to explain the Authority's programs (the "Programs") of making or purchasing Multi-Family Mortgage Loans and Single Family Mortgage Loans and financing Authority Property (other than the VHDA Building). This information does not purport to be comprehensive or definitive, and the limits, amounts of financial reserves, rules and criteria described are not required by the Bond Resolution and are subject to modification, change or waiver by the Authority, in whole or in part at any time, and with respect to any particular Development or Mortgage Loan.

The 2002 Supplemental Resolution and the Supplemental Resolution authorize the Authority to apply Assets to make, purchase, finance or refinance Mortgage Loans or to acquire, rehabilitate, construct, finance or refinance Authority Property. The 2002 Supplemental Resolution and the Supplemental Resolution require that each Mortgage Loan must be either (i) a loan evidenced by an obligation secured by a Mortgage for financing the acquisition, construction, rehabilitation and/or ownership of residential housing as authorized by the Act, (ii) an obligation, certificate or instrument for which such a loan secured by a Mortgage is the security or the source of payment, or (iii) a participation or other ownership interest in either a loan described in (i) or an obligation, certificate or instrument described in (ii) with another party or parties or with another source of funds of the Authority not pledged pursuant to the 2002 Supplemental Resolution or the Supplemental Resolution, respectively. The 2002 Supplemental Resolution and the Supplemental Resolution define Authority Property as real property and improvements thereon or an ownership share in a cooperative housing association or a leasehold interest under a lease and any personal property attached to or used in connection with any of the foregoing owned by the Authority and either financed or refinanced pursuant to the 2002 Supplemental Resolution or the Supplemental Resolution, respectively, or acquired by the Authority by purchase or foreclosure of a Mortgage Loan or by deed in lieu thereof.

The 2002 Supplemental Resolution and the Supplemental Resolution require that the Mortgage securing each Mortgage Loan must constitute a lien on the real property and improvements (or ownership share in a cooperative housing association or leasehold interest under a lease) financed by the Mortgage Loan, but such lien is not required by the 2002 Supplemental Resolution or the Supplemental Resolution to be a first lien and may, therefore, be subordinate to other liens.

#### **Multi-Family Program**

New and existing Multi-Family Mortgage Loans have been and are expected to be financed under the Authority's multi-family program (the "Multi-Family Program") with the proceeds of the Currently Outstanding 2002 Series Bonds and Currently Outstanding 2003 Series Bonds and are expected to be financed under the Multi-Family Program with proceeds of the Offered Bonds (other than the Series U Bonds). See Appendix D for information on the Developments financed or expected to be financed by such Multi-Family Mortgage Loans. The VHDA Development to be financed by the Series U Bonds was acquired by the Authority under the Multi-Family Program and is regulated, operated and managed in accordance with the procedures and requirements of the Multi-Family Program as described below. Multi-Family Mortgage Loans may also be financed with Revenues, including principal and interest on Mortgage Loans. The Authority has financed and expects to continue to finance Multi-Family Mortgage Loans with proceeds of bonds issued or to be issued by the Authority pursuant to other bond resolutions and with other moneys of the Authority (see "Multi-Family Mortgage Loans Financed under Other Bond Resolutions" and "General Fund").

#### **General**

Neither the Act, the 2002 Supplemental Resolution nor the Supplemental Resolution requires that the Multi-Family Mortgage Loans be insured by the federal government or private mortgage insurance companies or that Developments financed under the Multi-Family Program be entitled to or eligible for federal assistance (see Appendix

C for a description of certain federal programs under which the Authority has previously financed Developments). The Authority has financed and expects to finance Developments assisted under the Low Income Housing Tax Credit Program described in Appendix C. The Authority also has financed and expects to finance Developments assisted under other federal programs described in Appendix C by refunding bonds of the Authority which are currently financing such Developments. Upon such refunding the Mortgage Loans on such Developments shall become Assets, shall continue to be entitled to receive assistance under such programs, and shall be subject to the rental and occupancy requirements under such programs.

The Authority has established income limits for the admission of families and persons to Developments. Under the Authority's current rules and regulations (which are subject to change), the adjusted family income as defined by the Authority for admission to a rental unit in a Development may not exceed 150% of the area median gross income, except that certain developments financed by mortgage loans approved by the Authority prior to November 15, 1991 are subject to a maximum income limit of seven times the total annual rent for such unit including all utilities (except telephone). In addition, the Authority's rules and regulations authorize the establishment of lower income limits with respect to a Development in the resolution of the Authority approving, or in the commitment for, the Multi-Family Mortgage Loan for such Development. In the case of the Multi-Family Mortgage Loans financed or to be financed with proceeds of the Currently Outstanding 2003 Series Bonds, all or a portion of the units in the Developments financed thereby have been or will be subject to various income limits ranging from 40% to 80% of the area median gross income. In the case of certain Developments financed in whole by Tax Exempt Bonds, the Authority has established an income limit of 50% of the area median gross income for 50% of the units and an income limit of 100% (150% if the Development is located in a rural area) of the area median income for the remaining 50% of the units. In the case of certain Developments financed in part by bonds of the Authority and in part by the Virginia Housing Fund described below, the Authority has established income limits that vary between 50% and 100% (50% in the case of most Developments) of the area median gross income for all of the units, except that such Developments located in rural areas are subject to an income limit of 150% of the area median gross income. See "Summary of Certain Federal Requirements" for income limitations and other requirements as to the use and occupancy of units under the Code or predecessor federal tax law, and see Appendix C for income limitations under certain federal programs.

#### **Prior Experience under the Multi-Family Program**

The Authority has financed Multi-Family Mortgage Loans under the Multi-Family Program that are currently pledged under the Resolution (see Appendix D). As of August 31, 2003, all of the Mortgagors of such Multi-Family Mortgage Loans were current in their mortgage loan payments except four Mortgagors with respect to Multi-Family Mortgage Loans having an aggregate principal balance of approximately \$1.6 million. In addition, another Development financed by a Multi-Family Mortgage Loan pledged under the Resolution and having an outstanding principal balance of approximately \$1,125,000 (of which approximately \$800,000 is financed by Outstanding Bonds) was, as of August 31, 2003, in default under the Mortgage Loan covenants, and the Authority is in the process of foreclosing on such Multi-Family Mortgage Loan. See "Multi-Family Mortgage Loans Financed under Other Bond Resolutions" for the Authority's experience with Multi-Family Mortgage Loans financed under the Multi-Family Program with proceeds of bonds issued under other bond resolutions of the Authority. See "General Fund" for the Authority's experience with Multi-Family Mortgage Loans financed under the Multi-Family Program with other moneys of the Authority other than proceeds of bonds.

#### **Underwriting of Multi-Family Mortgage Loans and Management of Developments**

The Multi-Family Mortgage Loans directly originated by the Authority have generally been reviewed and processed as described below. The Multi-Family Mortgage Loans financed or expected to be financed by the 2002 Currently Outstanding Bonds and the Offered Bonds were directly originated by the Authority. The Multi-Family Mortgage Loans that are financed (or pursuant to loan commitments are expected to be financed) by the Currently Outstanding 2003 Series Bonds (such Mortgage Loans are referred to herein as the "Partnership Fund Multi-Family Mortgage Loans") were purchased by the Authority from the Commonwealth's Virginia Housing Partnership Revolving Fund (the "Partnership Fund") and were approved by the Commonwealth's Department of Housing and Community Development ("HCD") after considering the recommendations (including, in certain cases, negative recommendations) of the Authority staff following completion by the Authority staff of the reviews and processes described below. The Partnership Fund Multi-Family Mortgage Loans generally bear below market interest rates, have loan-to-value ratios in excess of 95%, and serve lower income persons and families than the Authority's programs serve. The Partnership Fund Multi-Family Mortgage Loans have been or are to be closed and disbursed and are or will be subject to regulation by the Authority as described below.

### *Underwriting*

When a sponsor submits a proposal for a Development to the Authority (or, in the case of Partnership Fund Multi-Family Mortgage Loans, HCD), it is assigned to an Authority staff Development Officer, who evaluates the proposed Development concept, the Development site and its location. Based upon the initial screening, the Development Officer will then evaluate the suitability of the site and the adequacy of the market for rental housing in the area. The evaluation will include an analysis of the site characteristics, the surrounding land uses, the available utilities, transportation, employment opportunities, recreation opportunities, shopping facilities and other factors affecting the site. An initial evaluation is made of the experience and financial capacity of the general contractor and the qualifications of the architects, attorneys and rental agent of the proposed Development at this time. The Authority's review includes a projection of rental levels and their adequacy to sustain the proposed Development based upon the assumed occupancy rate and existing construction and financing costs, as well as their compatibility with the Authority's (or, in the case of Partnership Fund Multi-Family Mortgage Loans, HCD's) programs and goals. During this stage of processing of Multi-Family Mortgage Loans (except the Partnership Fund Multi-Family Mortgage Loans), the Executive Director submits the Multi-Family Mortgage Loan to the Board of Commissioners of the Authority for review and authorization to approve the Multi-Family Mortgage Loan, subject to satisfactory completion of the underwriting as described below.

After the above-described evaluation and review, the sponsor must submit additional information, including an analysis of the Development's costs and operating expenses, marketing and management information and information about the sponsor and the development team. An analysis of the economic feasibility of the Development, including estimates of construction cost and rentals necessary to cover principal and interest on the Multi-Family Mortgage Loan and operating expenses, is made. The Authority's Development Officer evaluates overall market conditions, makes a site evaluation, identifies and analyzes competitive projects, and gives an opinion on the present and projected demand for the Development in the market area. The analysis of overall market conditions includes trends and projections of housing production, employment and population for the market area. The site evaluation includes access and topography of the site, the neighborhood environment of the site, facilities serving the site and present and proposed uses of nearby land.

A review of the management and marketing information is made with attention to marketing strategies, operating budgets and affirmative marketing. Particular emphasis is given to determining if the operating costs are realistic and if the proposed managing agent is qualified to manage the Development in conformity with the management standards and procedures established by the Authority. Schematic and preliminary drawings, specifications and site plans are reviewed by the Authority's staff architect for design concept with emphasis being placed on functional use for the residents and marketability over the life of the Development. Energy conservation and economy are emphasized.

The Development Officer reviews the financial statements of both the sponsor and the general contractor and may also obtain independent credit reports on both. All individuals who are principals in the proposed Mortgage must also submit personal financial statements for review.

During its feasibility review, the Authority must determine that, based on the actual or projected interest rate and amortization schedule on the Multi-Family Mortgage Loan and an operating expense budget, the Multi-Family Mortgage Loan amount will not result in rents which adversely affect feasibility. Construction costs are reviewed and analyzed, utilizing the Authority's computerized cost estimating and feasibility analysis system. An appraisal of the land is obtained from an independent real estate appraiser. If upon completion of these analyses the Executive Director (or, in the case of a Partnership Fund Multi-Family Mortgage Loan, the Director of HCD) approves the Development, a commitment for a Multi-Family Mortgage Loan is issued with any terms or conditions specified by the Executive Director (or, in the case of a Partnership Fund Multi-Family Mortgage Loan, the Director of HCD).

### *Commitment and Initial Closing*

Upon receipt and acceptance of a Multi-Family Mortgage Loan commitment, the sponsor is to direct its attorney to prepare the documents for the initial Multi-Family Mortgage Loan closing. After review and approval by the Authority of all loan documents and final working drawings and specifications, the initial closing of the Multi-Family Mortgage Loan will be held. At this closing all documents required by the commitment are executed, and the Mortgage will make any required equity investment and other deposits required by the Multi-Family Mortgage Loan commitment.

### *Construction*

The Authority has established various requirements intended, in particular, to assure timely completion of construction and to provide funds in the event difficulties are encountered during construction. Among these requirements are the following:

- A holdback equal to 10% of construction disbursements until completion;
- Unconditional, irrevocable letters of credit (generally 10-15% of construction costs) to secure completion of construction; and
- Letters of credit to secure correction of latent construction defects (generally 2.5% of construction costs).

The foregoing requirements for letters of credit are not applicable to Developments financed by Partnership Fund Multi-Family Mortgage Loans.

Construction of the Development generally commences within 30 days after the initial closing. During construction, the Authority's field inspectors make frequent on-site observations of the progress of construction. The Authority approves or disapproves all construction loan disbursements and construction change orders.

### *Final Closing and Certifications*

Upon completion of construction, the Authority makes a final review to determine that, based on its inspection of the Development and the representations of the architect, (i) construction of the Development has been completed in accordance with approved plans and specifications and other terms of the Multi-Family Mortgage Loan, and in accordance with any applicable zoning, building, housing and other codes and ordinances, and (ii) the Development is in good and tenantable condition. If the final review is satisfactory, the general contractor and the Mortgagor submit cost certifications of all actual costs of construction and development. Such cost certificates must be completed by an independent Certified Public Accountant in accordance with the Authority's guidelines, except that in the case of Developments having limited rehabilitation and in the case of Developments financed by Partnership Fund Multi-Family Mortgage Loans, the Mortgagor is required only to certify that the costs are reasonable, ordinary and necessary for such rehabilitation.

Prior to final closing the Authority's staff reviews and approves the cost certifications, final title insurance policy and certain documents required by the Authority, such as final plans and specifications, as-built survey, waiver of liens and the architect's certification as to completion of the Development. Upon final closing the final Multi-Family Mortgage Loan amount is established and disbursement of the remaining Multi-Family Mortgage Loan proceeds is made.

The final Multi-Family Mortgage Loan amount may be reduced from the initial closing amount based upon the certification of actual costs. Although it is the Authority's present policy (and, in the case of a Partnership Fund Multi-Family Mortgage Loans, it has been HCD's policy) not to finance Multi-Family Mortgage Loan increases at the final closing of a Multi-Family Mortgage Loan, a Multi-Family Mortgage Loan increase may be granted if deemed justified by the Authority (or, in the case of a Partnership Fund Multi-Family Mortgage Loan, HCD).

### *Permanent Financing*

In the case of a Multi-Family Mortgage Loan which is to provide only the permanent financing for a Development, certain of the above described processing procedures relating to the closing of the Multi-Family Mortgage Loan and the construction of the Development are inapplicable (e.g., the closing of the Multi-Family Mortgage Loan is held upon completion of construction, if any, of the Development in accordance with the plans and specifications approved by the Authority and upon satisfaction of the conditions of the commitment, and the proceeds of the Multi-Family Mortgage Loan are fully disbursed at such closing).

### *Regulation and Management*

Generally, each Development is subject to a regulatory agreement between the Authority and the Mortgagor, or, in the case of a Development financed by a Partnership Fund Multi-Family Mortgage Loan, is subject to regulatory covenants in the deed of trust securing such Mortgage Loan. Such regulatory requirement or regulatory covenants

regulate the occupancy, management and operations of the Development. However, the rents to be charged for units in a Development are established by the Mortgagor without the approval of the Authority.

The management of the Development is also usually governed by a housing management agreement between the Mortgagor and its management agent or, if the Mortgagor and the management agent are the same entity, between the Mortgagor and the Authority. The Authority has the right to terminate the housing management agreement for just cause as determined by the Authority. HCD required certain of the Developments financed by Partnership Fund Multi-Family Mortgage Loans to be subject to similar housing management agreements. In the case of Developments that are financed by Partnership Fund Multi-Family Mortgage Loans and are subject to such housing management agreements, HCD, on behalf of the Partnership Fund, has assigned the rights of the Partnership Fund under such housing management agreements (including the right to terminate such agreements) to the Authority.

The Authority establishes the standards and procedures for management of the Development. After completion of construction and occupancy, the Authority periodically inspects the Development and conducts spot audits of the Mortgagor's or management agent's verification of resident eligibility, Development accounts, resident waiting lists, accounts payable and receivable and Development bank accounts and generally observes all management operations. The Mortgagor is required to submit monthly reports to the Authority which include information on the aging of all accounts payable and receivable for the Development, a listing of all occupancies by unit size and rental rate, a summary of marketing activity for the preceding month, operating income and expenses, a cash reconciliation and a budget review. When any potential problems are identified, the Authority attempts to determine the causes in order to facilitate the initiation of appropriate corrective action, which may include management changes, additional equity contributions by the mortgagors, foreclosure, loan modification and other appropriate remedial actions.

After final closing, each Mortgagor pays a monthly amount to fund a reserve for replacements account for the Development. The Mortgagor may request the withdrawal of funds from the reserve for replacements account for payment of the cost of major replacement items. Disbursements are to be made in accordance with the Authority's determinations as to what is in the best interest of the Development.

An escrow account for the payment of real estate taxes and hazard insurance premiums is maintained by the Authority for each Development after final closing and is funded by monthly payments by the Mortgagor of 1/12 of the estimated annual real estate tax assessments and hazard insurance premiums. The Authority pays real estate taxes and hazard insurance premiums for each Development out of the sums available for each Development from the Mortgagor's deposits. The Mortgagor is required to contribute additional funds in the event of a deficiency in the escrow account.

See "Tax Matters" and Appendix C for a description of certain additional restrictions imposed by federal law and regulations regarding the use and occupancy of Developments.

### **Multi-Family Mortgage Loans Financed under Other Bond Resolutions**

New Multi-Family Mortgage Loans to be originated under the Authority's Multi-Family Program are expected to be financed principally with the proceeds of bonds issued under another general bond resolution. The Authority also expects to utilize other moneys of the Authority to finance new Multi-Family Mortgage Loans under its Multi-Family Program as set forth herein under the "General Fund".

The Authority has bonds outstanding under bond resolutions other than the Resolution for the principal purpose of financing Multi-Family Mortgage Loans. Such bond resolutions do not require that the Multi-Family Mortgage Loans be insured by the federal government or private mortgage insurance companies or that Developments financed thereby be entitled to or eligible for federal assistance (see Appendix C for a description of certain federal programs under which the Authority has previously financed Developments). Substantially all of the Developments financed thereby were underwritten, are managed and are subject to use and occupancy restrictions as described above and are assisted under one or more of the federal programs described in Appendix C. Developments originally financed by tax exempt bonds issued by the Authority on or after January 1, 1981 are subject to the applicable restrictions described under "Summary of Certain Federal Requirements". Such resolutions pledge the Multi-Family Mortgage Loans and other assets attributable to such bonds as security for the payment of such bonds and have requirements which must be satisfied prior to the withdrawal of such Multi-Family Mortgage Loans and other assets from the pledge and lien of such resolutions. All of such bonds are general obligations of the Authority.

The scheduled payments of principal and interest on such bonds have been based upon the assumed receipt by the Authority of principal and interest or other payments on or with respect to the assets pledged thereto. In so scheduling such payments of principal and interest on the bonds, the Authority has assumed that no prepayments

of principal would be received with respect to the Multi-Family Mortgage Loans. Based upon such assumptions, the Authority believes that the principal and interest or other payments on or with respect to the assets pledged to such bonds will be in excess of the scheduled debt service on such bonds.

As is also the case with respect to the Offered Bonds, the ability of the Authority to pay such principal and interest on such other bonds may be adversely affected by (i) failure to receive principal and interest or other payments or income when due or any time thereafter with respect to Multi-Family Mortgage Loans, investment obligations and any other asset pledged thereto, (ii) receipt of income with respect to Developments owned by the Authority and financed by the bonds in amounts less than expected by the Authority, (iii) Multi-Family Mortgage Loans, investment obligations and other assets not being made, financed or acquired at the times, interest rates or prices, as applicable, contemplated by the Authority or not being made, financed or acquired at all, and (iv) receipt of net proceeds from the sale or other disposition of assets pledged thereto in amounts less than expected by the Authority. The ability of a Mortgagor to make principal and interest payments on a Multi-Family Mortgage Loans may be adversely affected by reductions (or the failure to receive adequate increases) in federal subsidy payments with respect to any Developments financed by the bonds and assisted by such subsidy payments (see Appendix C – “Section 8 Program – Adjustments of Contract Rents”), as well as by general economic conditions.

As of July 31, 2003, the total of the outstanding principal balances of Multi-Family Mortgage Loans financed under the Multi-Family Program with proceeds of bonds issued by the Authority or with other funds of the Authority was in excess of \$1.99 billion. As of August 31, 2003, all of the Mortgagors of such Multi-Family Mortgage Loans were current in their mortgage loan payments, except four Mortgagors with respect to Multi-Family Mortgage Loans having an aggregate principal balance of approximately \$20 million. Since the inception of the Multi-Family Program utilizing the proceeds of the above described bonds, the Authority has acquired by deed in lieu of foreclosure one Development, has acquired by foreclosure another Development, and has assigned three FHA-insured Multi-Family Mortgage Loans to the U.S. Department of Housing and Urban Development (“HUD”). For developments experiencing financial difficulties, the Authority has also restructured the timing of the receipt of the principal and interest payments due with respect to the applicable Multi-Family Mortgage Loans.

### **Single Family Program**

Single Family Mortgage Loans have been financed and are expected to be financed with proceeds of the Currently Outstanding 2002 Series Bonds, the Currently Outstanding 2003 Series Bonds, the Offered Taxable Bonds and the Series T Bonds. The Single Family Mortgage Loans financed or to be financed with the proceeds of the Currently Outstanding 2003 Series Bonds were acquired from the Partnership Fund (such Single Family Mortgage Loans are referred to herein as the “Partnership Fund Single Family Mortgage Loans”). The Authority may also finance Single Family Mortgage Loans with Revenues, including payments of principal and interest on certain of the Mortgage Loans financed by the Currently Outstanding 2002 Series Bonds, the Currently Outstanding 2003 Series Bonds, the Offered Taxable Bonds and the Series T Bonds. The Authority has financed and expects to continue to finance Single Family Mortgage Loans with proceed of bonds issued or to be issued pursuant to another bond resolutions of the Authority and with other moneys of the Authority. (See “Single Family Mortgage Loans Financed under Other Bond Resolution” and “General Fund”.)

The Partnership Fund Single Family Mortgage Loans were not financed under the Single Family Program but were originated in accordance with the guidelines and criteria of the Partnership Fund. Generally such Partnership Fund Single Family Mortgage Loans have financed home (including energy related) improvements and the Mortgagor’s down payments and closing costs (usually in participation with Single Family Mortgage Loans financed by the Authority under the Single Family Program), are secured by liens which may or may not be first liens on the single family dwelling unit, are not insured or guaranteed by private or government mortgage insurance, have loan-to-value ratios in excess of 95%, serve low income persons and families, bear interest at fixed rates that range from 2.5% to 6% per annum, and have remaining terms that range from a few months to 30 years. Such Partnership Fund Single Family Mortgage Loans are being serviced by the Authority in accordance with its procedures described below.

### **General**

Under the Single Family Program, the Authority makes and may purchase Single Family Mortgage Loans for financing and/or refinancing (including the refinancing of any existing mortgage loan and any equity in the single family residential housing in excess of any such existing mortgage loan) the rehabilitation or ownership or both of owner-occupied single family residential housing consisting of not more than four dwelling units, including condominium units, intended for occupancy by persons and households of low and moderate income. Single Family Mortgage Loans will be originated pursuant to the Authority’s origination system as described below.

The Authority will currently finance Single Family Mortgage Loans in amounts not to exceed (i) in the case of Single Family Mortgage Loans to finance the acquisition of single family homes, 103% of the lesser of (a) the sales price or (b) the appraised value of the single family homes or, in the case of Single Family Mortgage Loans insured or guaranteed by the Federal Housing Administration (“FHA”), Veterans Administration or Department of Veterans’ Affairs (“VA”) or Rural Development (formerly known as the Farmers Home Administration and later as the Rural Economic and Community Development Service), the Single Family Mortgage Loan may be in such other amounts as is permitted by FHA, VA or Rural Development, (ii) in the case of Single Family Mortgage Loans to refinance single family homes, 100% of the appraised value of the single family homes and (iii) in the case of Single Family Mortgage Loans to finance rehabilitation of single family homes under the FHA Title I Home Improvement Program (“Title I Single Family Mortgage Loans”), the costs of the rehabilitation, but in no event greater than the lesser of (i) the appraised or assessed value of the single family homes less amounts secured by existing liens or (ii) \$25,000 (or such higher limit as may be hereafter established by FHA). In the case of Single Family Mortgage Loans described in (i) and (ii) above, the Authority will also finance (a) costs of rehabilitation and improvements to be completed subsequent to the closing of such Single Family Mortgage Loan, subject to a maximum loan-to-value ratio of 105% of the lesser of the sales price (in the case of Single Family Mortgage Loans described in (i) above) or appraised value and (b) costs of retrofitting or adding accessibility features to accommodate the needs of disabled occupants up to an additional 5% of the lesser of the sales price (in case of Single Family Mortgage Loans described in (i) above) or the appraised value. Any Single Family Mortgage Loan described in (i) or (ii) above may also include the financing of rehabilitation costs not in excess of 50% of the as-completed appraised value, provided that the principal amount of the Single Family Mortgage Loan does not exceed 100% of (a) in the case of a Single Family Mortgage Loan described in (i) above, the lesser of the sum of the sales price plus the rehabilitation costs or the as-completed appraised value or (b) in the case of a Single Family Mortgage Loan described in (ii) above, the lesser of the sum of the outstanding principal balance of the Single Family Mortgage Loan being refinanced plus the rehabilitation costs or the as-completed appraised value. The Authority may also finance certain Second Single Family Mortgage Loans (as defined and described below) in excess of the amount permitted by FHA.

In the case of a Mortgage Loan described in (ii) above, the Authority has approved regulatory changes to provide that the loan amount (plus all subordinate debt to be secured by the property after closing of the Mortgage Loan) may not exceed the lesser of the current appraised value of the property or the sum of (i) the payoff (if any) of the applicant’s existing first mortgage loan; (ii) the payoff (if any) of applicant’s or applicants’ subordinate mortgage loans (provided such loans do not permit periodic advancement of loan proceeds) closed for not less than 12 months preceding the date of the closing of the Mortgage Loan and the payoff (if any) of applicant’s or applicants’ home equity line of credit loan (i.e. loan which permits periodic advancement of proceeds) with no more than \$2,000 in advances within the 12 months preceding the date of the closing of the Mortgage Loan, excluding funds used for the purpose of documented improvements to the residence; (iii) improvements to be performed to the property after the closing of the Mortgage Loan and for which loan proceeds will be escrowed at closing; (iv) closing costs, discount points, fees and escrows payable in connection with the origination and closing of the Mortgage Loan; and (v) up to \$500.00 to be payable to applicant or applicants at closing. The Authority has also approved regulatory changes to provide that, if the applicant or applicants request to receive loan proceeds at closing in excess of the limit set forth in (v) above, the loan amount (plus all subordinate debt to be secured by the property after closing of the Mortgage Loan) may be increased to finance such excess cash up to a loan amount not in excess of 95% of the current appraised value. The Authority is also considering changes to provide that, if the applicant’s or applicants’ existing mortgage loan to be refinanced is a Mortgage Loan, the applicant or applicants may request a streamlined refinance of such existing Mortgage Loan in which the Authority may require less underwriting documentation (e.g. verification of employment) and may charge reduced points and fees. For such streamlined refinances, the loan amount (plus all subordinate debt to be secured by the property after closing of the new Mortgage Loan) is limited to (i) the payoff of the existing Mortgage Loan and (ii) required closing costs, discount points, fees and escrows payable in connection with the origination and closing of the new Mortgage Loan ; provided, however, that the loan amount (plus all subordinate debt to be secured by the property after closing of the new Mortgage Loan) may not exceed 100% of the greatest of original appraised value, current real estate tax assessment, current appraised value or other alternative valuation method approved by the Authority.

The 2002 Supplemental Resolution and the Supplemental Resolution do not require that Single Family Mortgage Loans which are financed pursuant thereto have a maximum loan to value ratio or be subject to private or government mortgage insurance. However, the Authority currently finances Single Family Mortgage Loans which are insured or guaranteed by private mortgage insurance, FHA, VA or Rural Development. See Appendix A for additional information concerning mortgage insurance and guaranty policies and coverage. The Authority also finances Single Family Mortgage Loans which are not insured or guaranteed (“Self-Insured Single Family Mortgage Loans”).

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

Since March 1994, the Authority has been using a portion of the proceeds of bonds to make Single Family Mortgage Loans, in conjunction with the financing of certain Single Family Mortgage Loans insured by FHA, to finance part of the Mortgagors' down payment and closing costs not financed by the related FHA insured Single Family Mortgage Loans. Each such Single Family Mortgage Loan (a "Second Single Family Mortgage Loan") may, when combined with the related FHA insured Single Family Mortgage Loan, exceed the sales price and appraised value of the residence, is secured by the lien of a deed of trust subordinate to the lien of the deed of trust securing the FHA insured Single Family Mortgage Loan, and is not insured or guaranteed by FHA, VA, Rural Development or private mortgage insurance. The Authority expects that a portion of the proceeds of Bonds will be used for the financing of Second Single Family Mortgage Loans.

The Single Family Mortgage Loans financed or to be financed, in whole or in part, by Bonds have, or are expected to have, terms of approximately 30 years (except that the Partnership Fund Single Family Mortgage Loans have remaining terms ranging from a few months to 30 years) and bear, or are expected to bear, interest at fixed rates. Some of the Single Family Mortgage Loans bear or are expected to bear interest rates approximately one and one-half percentage points below the customary fixed rates and such initial interest rate increases by one percentage point at the end of the first year of the Single Family Mortgage Loan and by another percentage point at the end of the second year of the Single Family Mortgage Loan and remain at that rate for the remaining life of the Single Family Mortgage Loan.

The interest rate or rates on the Single Family Mortgage Loans financed or to be financed in whole by Taxable Bonds (other than the Partnership Fund Single Family Mortgage Loans which bear interest rates that range from 2.5% to 6%) are expected to be equal to or in excess of the interest cost of such other Taxable Bonds, and the interest rate on the Single Family Mortgage Loans financed or to be financed by Tax Exempt Bonds alone or in participation with Taxable Bonds (other than the Partnership Fund Single Family Mortgage Loans) are expected to be a blend of (1) an interest rate on the portion (if any) of the Single Family Mortgage Loans financed by Taxable Bonds equal to or in excess of the interest cost of Taxable Bonds and (2) an interest rate on the portion (or all) of the Single Family Mortgage Loans financed by the Tax-Exempt Bonds which would be expected to produce a Single Family Mortgage Loan yield not greater than the Single Family Mortgage Loan yield permitted under the Code.

The Mortgages which are to secure the Single Family Mortgage Loans made or purchased by the Authority are to be in the form of deeds of trust, in accordance with Virginia practice, and must constitute and create liens on the single family residential housing.

In addition to the limitations on the principal amount of the Single Family Mortgage Loan and any Single Family Mortgage Loan insurance or guarantees, the Authority relies upon the following security elements in the making and purchasing of Single Family Mortgage Loans: (i) Single Family Mortgage Loan underwriting and servicing procedures (see “Single Family Mortgage Loan Underwriting Criteria and Processing Procedures” and “Servicing Agents”), (ii) an equity buildup through Single Family Mortgage Loan principal repayments and appreciation, if any, in the value of the properties securing the Single Family Mortgage Loans and (iii) geographical diversification of the Single Family Mortgage Loan portfolio within the Commonwealth.

Single Family Mortgage Loans are, except as noted below, originated and serviced by commercial banks, savings and loan associations, private mortgage bankers and local redevelopment and housing authorities approved by the Authority to act as the Authority’s originating agents (“Originating Agents”) and the Authority’s servicing agents (“Servicing Agents”) pursuant to originating agreements (“Originating Agreements”) and servicing agreements (“Servicing Agreements”), respectively. An Originating Agent may also act as a Servicing Agent; however, if the Originating Agent is not a Servicing Agent, the Single Family Mortgage Loan will be serviced by another Servicing Agent or by the Authority. In addition, the Authority utilizes mortgage brokers (“Mortgage Brokers”) to originate Single Family Mortgage Loans on the Authority’s behalf, pursuant to originating broker agreements (“Originating Broker Agreements”), and the Authority utilizes financial institutions and other eligible private firms and individuals and governmental entities (“Field Originators”) to receive applications for Single Family Mortgage Loans in certain areas of the Commonwealth in which the Authority desires to increase lending activity under the Single Family Program. In the case of these applications received by Field Originators, the Authority processes, originates and services the Single Family Mortgage Loans and retains all fees which would have otherwise been available to Originating Agents with respect to such Single Family Mortgage Loans, less a fixed fee payable to the Field Originators for each closed Single Family Mortgage Loan. Title I Single Family Mortgage Loans are originated by the Authority or Field Originators and are serviced directly by the Authority. Furthermore, the Authority services directly Self-Insured Single Family Mortgage Loans and also services directly certain of the Authority’s other Single Family Mortgage Loans. See “Single Family Servicing Agents” below. The servicing of the Single Family Mortgage Loans which are serviced directly by the Authority is performed in substantially the same manner as described under “Servicing Agents” below.

**Prior Experience Under the Single Family Program Financed by the Bonds**

The outstanding Single Family Mortgage Loan balance and delinquency and foreclosure statistics for the Single Family Mortgage Loans financed with proceeds of Bonds issued under the Bond Resolution are as set forth below. As of June 30, 2003 the Authority did not hold title to any properties which have been foreclosed upon, but not yet sold.

	Outstanding Balance of Single Family <u>Mortgage Loans</u>	Outstanding Balance of Delinquent* Single Family <u>Mortgage Loans</u>	Percentage of Delinquent* Single Family <u>Mortgage Loans</u>	Outstanding Balance of Single Family Mortgage Loans <u>in Foreclosure</u>	Percentage of Single Family Mortgage Loans <u>in Foreclosure</u>
June 2003	\$44,389,363	\$0	0%	\$0	0%

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

Substantially all of such Single Family Mortgage Loans are Self-Insured Mortgage Loans.

**Single Family Origination System**

Under the origination system (except as noted below in the case of Title I Single Family Mortgage Loans), a prospective Mortgagor submits his Single Family Mortgage Loan application to an Originating Agent, Field Originator or Mortgage Broker. In the case of a Single Family Mortgage Loan to finance the purchase of a residence, the application is submitted after the prospective Mortgagor has contracted for the purchase of the residence. If a preliminary review by the Originating Agent, Field Originator or Mortgage Broker indicates that the prospective Mortgagor and Single Family Mortgage Loan will qualify under the Authority’s underwriting criteria and the Code, if applicable, the Originating Agent, Field Originator or Mortgage Broker notifies the Authority. The Authority then reserves proceeds of bonds (including Bonds) for a period of 60 days for the financing of the Single Family Mortgage Loan, although extensions may be granted by the Authority. The Authority expects to continue to accept such reservations on a first-come, first-served basis up to pre-authorized limits. In the case of a Title I Single Family Mortgage Loan, the application may be submitted to the Authority directly or through a Field Originator, and when such application has been approved by the Authority, proceeds of bonds or other funds of the Authority are reserved

for the Title I Single Family Mortgage Loan. The Authority has allocated, and may in the future allocate, the proceeds of Bonds other than as described above.

### **Single Family Mortgage Loan Underwriting Criteria and Processing Procedures**

The Authority makes Single Family Mortgage Loans under the Single Family Program to persons and households of low and moderate income for financing or refinancing the rehabilitation or ownership, or both under certain circumstances, of single family residential housing, including condominium units. The Authority establishes maximum sales prices and maximum annual gross incomes which vary depending principally upon location within the Commonwealth. The maximum sales prices which the Authority will approve for Single Family Mortgage Loans financed by Tax Exempt Bonds presently range from \$95,400 to \$306,600, and the maximum annual gross incomes for eligibility for Single Family Mortgage Loans to be financed by Tax-Exempt Bonds presently range from \$59,300 to \$100,000. All of the Authority's current maximum sales prices and maximum annual gross incomes applicable to Single Family Mortgage Loans financed in whole or in part, by Tax Exempt Bonds comply with the limits currently established pursuant to the Code. For Single Family Mortgage Loans financed in whole by Taxable Bonds, the Authority has established maximum annual gross incomes equal to 150% of the applicable median family incomes (presently ranging from \$75,000 to \$130,500), has eliminated the maximum sales prices, and has established a maximum principal amount (presently \$322,700) equal to the maximum loan amount permitted by the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation. In the case of Title I Single Family Mortgage Loans, the maximum annual gross income established by the Authority is 120% of the applicable median family incomes, and the maximum principal amount of Title I Single Family Mortgage Loans permitted by FHA is \$25,000. The Authority may waive or change such maximum sales prices and maximum annual gross incomes, subject to compliance with the applicable limits established by the Code.

Applications for Single Family Mortgage Loans are submitted to the Authority for review and approval based on income eligibility, credit and other criteria relating to the proposed Mortgagor's ability to meet payments and compliance with the Code, the Act and the Authority's regulations. In the case of Single Family Mortgage Loans to be insured or guaranteed by the FHA, VA or Rural Development, the application is reviewed for compliance with the Code, the Act and the credit and property standards of the FHA, VA or Rural Development only. In the case of the above-described Single Family Mortgage Loans bearing interest during the first and second years of the Single Family Mortgage Loans at interest rates two percentage points and one percentage point, respectively, lower than the final interest rate at the end of the second year of the Single Family Mortgage Loan (see "General" under "Single Family Program" above), the Authority uses the interest rate to be charged during the second year (or the first year in the case of FHA insured Single Family Mortgage Loans, if permitted by FHA) of the Single Family Mortgage Loan in underwriting the proposed Mortgagor's ability to meet payments on the Single Family Mortgage Loan. Second Single Family Mortgage Loans (as described above) are processed and underwritten in conjunction with the related FHA insured Single Family Mortgage Loans and in accordance with applicable FHA credit and property standards. The Authority's staff reviews the loan application, credit report, verifications of employment and bank deposits, and the appraisal (if required). In addition, applications for Single Family Mortgage Loans are reviewed by the Authority as to the value and other characteristics of the individual dwelling unit proposed to be financed as security for such loan. When such an application is approved by the Authority's single family underwriting staff, an Authority Single Family Mortgage Loan commitment is issued to the applicant. Upon compliance with all terms and conditions of the Authority's Single Family Mortgage Loan commitment, the proceeds of the Single Family Mortgage Loan are disbursed.

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

The Authority has delegated to certain of its Originating Agents the loan underwriting, commitment and closing functions described above. The Authority may also agree to purchase Single Family Mortgage Loans originated by such Originating Agents. In the case of such delegation or purchase, the Authority will, subsequent to the closing of the Single Family Mortgage Loans, review the loan applications and documentation and determine compliance of the Single Family Mortgage Loans with the Authority's underwriting requirements and criteria and the Code. The Authority may require the Originating Agent to purchase or retain any Single Family Mortgage Loans which are not subject to mortgage insurance or guaranty in accordance with the requirements of the Authority, which fail to comply with the provisions of the Code, which do not conform with the Authority's sales price and income limits, which are

not properly documented as required by the Authority, or which were originated based upon any misrepresentation known to the Originating Agent.

### **Single Family Servicing Agents**

The Authority is currently servicing all of the Single Family Mortgage Loans financed by the Currently Outstanding Bonds. Approximately 78% of all Single Family Mortgage Loans financed by the Authority are serviced directly by the Authority and the balance is serviced by Servicing Agents. The Authority is currently retaining the servicing on approximately 75% of all newly originated Single Family Mortgage Loans financed by the Authority. The Authority's servicing of Single Family Mortgage Loans is performed in substantially the same manner as described below.

The Servicing Agreements establish requirements for the servicing of Single Family Mortgage Loans. Among other responsibilities the Servicing Agent must collect monthly payments, retain and apply escrow payments when due, and remit loan principal and interest payments, net of servicing fees, to the Trustee. The annual servicing fee paid by the Authority at present is generally three-eighths of one percent of the outstanding principal balance of the Single Family Mortgage Loan, which fee is retained from each such remittance to the Authority. The Servicing Agent is entitled to retain any late charges on the Single Family Mortgage Loans that they are servicing.

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

The Servicing Agent must keep complete and accurate accounts of and properly apply all sums collected by it on account of each Single Family Mortgage Loan and must furnish the Authority with evidence of all expenditures of taxes, assessments, and other public charges, hazard insurance premiums, and mortgage insurance premiums. The Servicing Agent shall furnish the Authority annual reports of its assets and liabilities with statements of income and expenses in form satisfactory to the Authority.

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

In the case of default under any Single Family Mortgage Loan, the Servicing Agent must promptly give notice to the Authority, must take all actions necessary to obtain the full benefits of any mortgage insurance or guarantee and must keep the Authority fully informed of such actions. If foreclosure proceedings are instituted, the Servicing Agent must manage and protect the mortgaged premises under foreclosure, including maintenance of insurance on the premises, management and supervision of repairs and maintenance of the premises and rendering to the Authority of such reports as the Authority may require.

Each month, each Servicing Agent must submit a Single Debit Report in form approved by the Mortgage Bankers Association of America, which provides a detailed and uniform accounting of the loan balance and payments of each Single Family Mortgage Loan serviced and a monthly delinquency status report. The Authority reconciles these reports to ensure properly allocated and complete remittances; to confirm and update the Authority's books, records and financial statements; and to monitor delinquency rate trends. When delinquency rates on Single Family Mortgage Loans serviced by a particular Servicing Agent increase, it is the Authority's policy to promptly contact the Servicing Agent to determine the cause. Such monitoring is intended to effect (a) reinstatement of scheduled payments by Mortgagors who have been temporarily unemployed, (b) adjusted collection procedures by the Servicing Agent, (c) change or increase in the Servicing Agent's servicing personnel, and (d) more aggressive or rapid foreclosure proceedings. Each Servicing Agent is examined by the Authority after its first full year of performance as a Servicing Agent. Such examination includes examination of the Servicing Agent's principal office facilities, work papers, loan files, business practices, escrow balances, hazard insurance policies and interviews with the Servicing Agent's staff. To the extent that such examinations have revealed unsatisfactory performance by certain Servicing Agents, the Authority has instituted remedial actions which have included termination of the Servicing Agreements and transfer of the servicing of the Single Family Mortgage Loans to the Authority or other Servicing Agents.

## **Single Family Mortgage Loans Financed under Other Bond Resolution**

The Authority has bonds outstanding under one bond resolution for the principal purpose of financing Single Family Mortgage Loans to low and moderate income owner-occupants of single family residences, although other moneys of the Authority may be utilized for such purpose as set forth herein under the "General Fund" (see Appendix E). Such resolution pledges the Single Family Mortgage Loans and other assets attributable to such bonds as security for the payment of such bonds, and has requirements which must be satisfied prior to the withdrawal of such Single Family Mortgage Loans and other assets from the pledge and lien of such resolution. All of such bonds are general obligations of the Authority.

The resolution permits the financing of first lien Single Family Mortgage Loans which are insured or guaranteed by the VA, FHA or other entity of the federal government or by a private mortgage insurance company. Upon satisfaction of certain conditions, the resolution also permits the financing of (i) first lien Self Insured Single Family Mortgage Loans which are not insured or guaranteed by the VA, FHA or other entity of the federal government or by a private mortgage insurance company and which may have loan to value ratios in excess of 97% (and possibly in excess of the sales price and appraised value of the residence), (ii) Second Single Family Mortgage Loans, in conjunction with the financing of certain Single Family Mortgage Loans insured by FHA, to finance part of the Mortgagors' down payment and closing costs not financed by the related FHA insured Single Family Mortgage Loans, and (iii) Title I Single Family Mortgage Loans insured by FHA under its Title I Home Improvement Program.

The Authority's existing principal and interest payment obligations with respect to its single family bonds are expected to be paid from the principal and interest or other payments on or with respect to the Single Family Mortgage Loans and other assets pledged thereto. In so establishing such expectation, the Authority has assumed that such Single Family Mortgage Loans will prepay at an aggregate rate of at least three tenths of one percent per year of their aggregate outstanding principal balance, although such rate of prepayment assumption may be changed in the future.

The ability of the Authority to pay such principal and interest obligations may be adversely affected by (i) failure to receive principal and interest or other payments or income when due or any time thereafter with respect to Single Family Mortgage Loans, investment obligations and any other asset pledged thereto, (ii) terminations and prepayments of Single Family Mortgage Loans at times and at rates not anticipated by the Authority, (iii) Single Family Mortgage Loans, investment obligations and other assets not being made, financed or acquired at the times, interest rates or prices, as applicable, contemplated by the Authority or not being made, financed or acquired at all, and (iv) receipt of net proceeds from the sale or other disposition of Single Family Mortgage Loans and other assets pledged thereto in amounts less than expected by the Authority. A portion of the Single Family Mortgage Loans terminations are terminations due to foreclosure, deed in lieu of foreclosure, and assignment to mortgage loan insurance companies. In addition, principal on certain of the Authority's single family bonds in an amount equal to the principal balances of the Single Family Mortgage Loans which are allocated to such bonds and are so terminated will be due and payable on the 25<sup>th</sup> day of the month following such terminations. The Authority does not necessarily receive cash upon the occurrence of such terminations. The receipt of cash for such terminations may occur at a later time and may be for an amount less than the amount which was due under the Single Family Mortgage Loan.

The outstanding Single Family Mortgage Loan balance, delinquency, foreclosure and insurance statistics for the Authority's Single Family Program have been as set forth below. As of June 30, 2003, the Authority held title to 18 properties which had been foreclosed upon, but not yet sold.

	<u>Outstanding Balance of Single Family Mortgage Loans</u>	<u>Outstanding Balance of Delinquent* Single Family Mortgage Loans</u>	<u>Percentage of Delinquent* Single Family Mortgage Loans</u>	<u>Outstanding Balance of Single Family Mortgage Loans in Foreclosure</u>	<u>Percentage of Single Family Mortgage Loans in Foreclosure</u>
June 1976	\$ 50,010,260	\$ 824,687	1.65%	\$ 471,578	.94%
June 1977	90,519,943	611,210	.68	580,874	.64
June 1978	171,554,983	1,581,906	.92	79,291	.05
June 1979	268,148,233	1,895,958	.71	269,776	.10
June 1980	357,933,006	2,547,500	.71	693,569	.19
June 1981	460,950,915	1,631,812	.35	1,247,993	.27
June 1982	526,154,831	1,934,509	.37	1,551,653	.29
June 1983	576,838,408	2,129,704	.37	1,033,567	.18
June 1984	815,042,910	1,736,677	.21	2,013,348	.25
June 1985	1,055,604,290	2,265,368	.21	2,422,175	.23
June 1986	1,195,864,387	4,158,521	.35	2,172,558	.18
June 1987	1,237,415,544	4,409,492	.36	2,524,506	.20
June 1988	1,537,364,756	5,412,004	.35	3,523,664	.23
June 1989	1,801,428,511	8,146,835	.45	3,628,834	.20
June 1990	1,905,581,579	10,316,930	.54	3,527,303	.19
June 1991	1,973,348,630	16,496,589	.84	7,103,284	.36
June 1992	2,029,417,516	22,755,830	1.12	7,026,107	.35
June 1993	2,015,567,145	23,796,850	1.18	7,600,183	.38
June 1994	1,877,929,438	20,662,329	1.10	6,385,775	.34
June 1995	2,590,062,023	26,301,889	1.02	5,252,832	.20
June 1996	2,926,020,625	45,838,102	1.57	10,863,571	.37
June 1997	3,212,259,451	71,277,888	2.22	12,156,328	.38
June 1998	3,306,246,756	72,577,895	2.20	14,094,196	.43
June 1999	3,343,463,438	69,343,954	2.07	12,247,829	.37
June 2000	3,467,701,927	77,752,107	2.24	11,905,551	.34
June 2001	3,691,477,394	67,359,881	1.82	9,987,932	.27
June 2002	3,688,135,950	67,275,150	1.82	10,311,402	.28
June 2003	2,850,615,920	63,273,425	2.22	8,853,846	.31

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

<u>Insurance or Guaranty Provider</u>	<u>Percentage of Outstanding Principal Balance of Single Family Mortgage Loans as of June 30, 2003</u>
First Lien Single Family Mortgage Loans	
FHA	42.6%
VA	13.5
Rural Development	7.0
Private mortgage insurance companies	5.1
Self-Insured or 80% LTV or less	31.6
Second Lien Single Family Mortgage Loans (uninsured)	.2
	<u>100.00%</u>

### THE AUTHORITY

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

### Commissioners

The Commissioners of the Authority consist of eight members appointed by the Governor and confirmed by the General Assembly and three ex-officio members – a representative of the Board of Housing and Community Development of the Commonwealth, the Treasurer of the Commonwealth and the Director of the Department of Housing and Community Development of the Commonwealth. The Authority's Commissioners are:

<u>Name</u>	<u>Position</u>	<u>Term Expires</u> <u>June 30</u>	<u>Occupation</u>
Charles L. Krum, Jr. . . . .	Commissioner and Chairman	2004	Pharmacist, Clintwood
Jay Fiset . . . . .	Commissioner and Vice Chairman	2005	Member, Board of Supervisors, Arlington County
J. Cheryl J. Avery-Hargrove, Esquire .	Commissioner	2004	Attorney, Virginia Beach
Edward L. McCoy, Jr*. . . . .	Commissioner	2004	President, Eaheart Industrial Service Inc., Glen Allen
Joan D. Gifford . . . . .	Commissioner	2005	Realtor, Coldwell Banker Gifford Realty, Norfolk
Terri M. Ceaser . . . . .	Commissioner	2006	Graduate student, Section 8 Housing Choice Voucher assisted tenant, Hopewell
John P. McCann* . . . . .	Commissioner	2007	Retired, Chairman of United Dominion Realty Trust, Richmond
Douglas R. Fahl* . . . . .	Commissioner	2007	Executive Vice President, Dewberry, Leesburg
Jody M. Wagner . . . . .	Commissioner	ex-officio	Treasurer, Commonwealth of Virginia, Richmond
William C. Shelton . . . . .	Commissioner	ex-officio	Director, Department of Housing and Community Development of the Commonwealth of Virginia, Richmond
Jack Loeb, Jr. . . . .	Commissioner	ex-officio	Member, Board of Housing and Community Development of the Commonwealth of Virginia, Roanoke

\* Subject to confirmation by the General Assembly.

### **Management Structure; Principal Staff Officers**

The Executive Director is appointed by the Board of Commissioners and implements the policies of such Board and manages the operations of the Authority. The Authority has one business unit for multi-family and single family development (including loan origination) and one business unit for multi-family and single family loan servicing and compliance. Listed below are the Authority's principal officers directly involved in the Program and their responsibilities.

Susan F. Dewey. *Executive Director*. Ms. Dewey joined the Authority on June 15, 1999. Prior to joining the Authority, Ms. Dewey was employed by the Commonwealth as Treasurer, Deputy Treasurer, Director of Debt Management and Director of Financial Policy. Ms. Dewey is a Certified Public Accountant and has an undergraduate degree and a Master of Business Administration degree from The College of William & Mary.

Arthur N. Bowen, III. *Finance and Administration*. Mr. Bowen joined the Authority in 2000 as Public Policy Director and has served as Managing Director of Finance and Administration since 2002. Prior to joining the Authority, Mr. Bowen was employed as Deputy Secretary of Transportation for the Commonwealth of Virginia, and prior to that he served as Deputy State Treasurer. Mr. Bowen is a graduate of the University of North Carolina at Chapel Hill.

Conrad K. Sterrett. *Assistant Managing Director of Finance and Administration*. Mr. Sterrett joined the Authority in 1978 as Director of Finance. Prior to joining the Authority, Mr. Sterrett was engaged in investment banking activities as First Vice President, Corporate Finance, at Shearson Hayden Stone Inc., New York, and at

Kidder, Peabody & Co. Incorporated, New York. Mr. Sterrett is a graduate of Rice University and Harvard Business School.

Patrick J. Carey. *Finance Director*. Mr. Carey joined the Authority in 1987 as Finance Manager. Mr. Carey is a graduate of the University of Richmond and has a Master of Business Administration degree from Virginia Commonwealth University.

J. Judson McKellar, Jr. *Legal*. Mr. McKellar joined the Authority in 1975 as Associate Counsel and has served as General Counsel since 1980. Prior to joining the Authority, Mr. McKellar was engaged in the practice of law in Fairfax County, Virginia. Mr. McKellar is a member of the Bar Association of Richmond, the Virginia State Bar and the American Bar Association, and is a graduate of Davidson College and the University of Virginia Law School.

Donald L. Ritenour. *Development*. Mr. Ritenour joined the Authority in 1974 as a Mortgage Loan Officer and previously served as the Authority's Director of Single Family. Prior to joining the Authority, Mr. Ritenour was employed as an Executive Assistant to the President of Hanover Mortgage Corporation, a wholly-owned subsidiary of the Bank of Virginia, and as an Authorization Manager of Bank of Virginia Master Charge. Mr. Ritenour is a graduate of Virginia Commonwealth University.

Thomas A. Dolce. *Servicing and Compliance*. Mr. Dolce joined the Authority in December 1997 as the Assistant Director of Single Family. Prior to joining the Authority, Mr. Dolce was employed as First Vice President at Long Island Savings Bank, FSB. Mr. Dolce is a graduate of Western New England College.

### **Funding of Programs and Operations of the Authority**

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

### **Miscellaneous Programs**

The Authority makes certain Mortgage Loans, including Mortgage Loans bearing below market interest rates, with a portion of the funds in the General Fund (see "General Fund" for a description of Mortgage Loan programs effected with assets in the General Fund). The Authority also administers the federal low income housing tax credit program under Section 42 of the Code and federal grant or subsidy programs and assists HCD in the administration of the federal HOME loan and grant program. Mortgage loans and other assets financed or acquired by money from federal grant or subsidy programs are not pledged or available for the payment of any of the Authority's bonds or other obligations.

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

The following is a summary of the Authority's revenues, expenses and net assets at year end for each of the fiscal years since 1999. The net assets of certain funds are restricted and are subject to varying valuation methodologies pursuant to contracts with bond owners. The totaling of the accounts does not indicate that the combined net assets are available for the payment of principal of or interest on the Bonds, for the payment of the Authority's operating expenses or for any other purpose. The summary should be read in conjunction with the financial statements and notes appearing in Appendix E. The amounts in the summary for each year ended June 30 are derived from the audited financial statements for each such year.

	Year ended June 30				
	(000's Omitted)				
	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
	<i>(Not included in independent accountants' report)</i>				
Memorandum Only – Combined totals					
Revenues:					
Interest on mortgage loans	\$360,556	\$378,095	\$404,508	\$438,702	\$420,504
Investment income	84,773	89,812	96,080	58,012	31,255
Other	<u>10,259</u>	<u>10,197</u>	<u>12,283</u>	<u>10,390</u>	<u>10,026</u>
Total revenues	<u>455,588</u>	<u>478,104</u>	<u>512,871</u>	<u>507,104</u>	<u>461,785</u>
Expenses:					
Interest	326,359	336,995	344,208	336,611	306,417
Total administrative expenses, etc.	<u>45,681</u>	<u>49,214</u>	<u>52,431</u>	<u>53,410</u>	<u>56,562</u>
Total expenses	<u>372,040</u>	<u>386,209</u>	<u>396,639</u>	<u>390,021</u>	<u>362,979</u>
Excess of revenues over expenses	83,548	91,895	116,232	117,083	98,806
Net Assets at beginning of period	<u>935,251</u>	<u>1,018,799</u>	<u>1,110,694</u>	<u>1,226,926</u>	<u>1,344,009</u>
Net Assets at end of period	<u>\$1,018,799</u>	<u>\$1,110,694</u>	<u>\$1,226,926</u>	<u>\$1,344,009</u>	<u>\$1,442,815</u>
Net Assets of the General					
Fund at end of period	\$216,965	\$221,238	\$229,873	\$244,543	\$265,961

### Selected Figures Excluding Effects of GASB 31

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

	Year ended June 30				
	(000's Omitted)				
	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
	<i>(Not included in independent accountants' report)</i>				
Memorandum Only – Combined totals					
Excess of revenues over expenses					
excluding GASB 31 adjustments	\$95,602	\$99,129	\$104,960	\$111,442	\$74,164
Net Assets at end of period					
excluding GASB 31 adjustments	\$1,014,317	\$1,113,446	\$1,218,406	\$1,329,848	\$1,404,012
Net Assets of the General Fund					
at end of period excluding					
GASB 31 adjustments	\$213,666	\$219,913	\$226,363	\$240,372	\$250,794

### Prior and Anticipated Financings of the Authority

As of June 30, 2003, the Authority had approximately \$4.8 billion of notes and bonds outstanding (see Appendix E). Subsequent to June 30, 2003, the Authority has issued or expects to issue the following bonds in addition to the Offered Bonds:

<u>Issue</u>	<u>Par Amount</u>	<u>Issuance Date</u>
Rental Housing Bonds, 2003 Series C-AMT and D	\$63,675,000	August 5, 2003
Rental Housing Bonds, 2003 Series E-Taxable	\$83,775,000	August 5, 2003
Commonwealth Mortgage Bonds, Pass-Through Certificates, 2003 Series C	\$10,056,116	October 1, 2003

### Prepayments

Because of recent declines in interest rates on mortgage loans and increases in the refinancing of high interest rate mortgage loans, the Authority is currently experiencing a high level of prepayments on its Single Family Mortgage Loans. As a result of such high level of prepayments and other factors, the outstanding principal balance of the Authority’s portfolio of Single Family Mortgage Loans has recently declined by approximately 20%, which has

adversely affected Revenues. No assurance can be given as to whether such level of prepayments will continue or will increase or decrease or as to the expected financial impact on the Revenues.

## **Investments**

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

The Authority's current investment portfolio consists principally of direct or indirect obligations of the United States of America or of its agencies and instrumentalities (including but not limited to organizations such as the Federal National Mortgage Association), corporate notes, bonds and debentures, asset backed securities, certificates of deposit, commercial paper, bankers' acceptances, and repurchase agreements, all of which satisfy the requirements in the above referenced Sections of the Code of Virginia (see Appendix E).

## **General Fund**

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

The Authority conducts various Mortgage Loan programs financed or supported by the General Fund through direct loans, deposits into funds and accounts under the Authority's bond resolutions for financing Mortgage Loans or establishment of reserves for below market rate Mortgage Loans. For such programs, the Authority has made available, on a revolving basis, the amount of \$275.7 million as of the date hereof designated as the Virginia Housing Fund ("VHF") for the implementation of additional lending programs, principally for the elderly, disabled, homeless and other low income persons. Amounts disbursed for Mortgage Loans under the VHF may not be available for the payment of debt service on any obligations of the Authority, including the Offered Bonds. As of May 31, 2003, all mortgagors with respect to VHF Multi-Family Mortgage Loans were current in their payments, except two mortgagors with respect to four such Mortgage Loans having an aggregate principal balance of \$2 million was delinquent. Pursuant to a financial study by a consultant, the Authority currently intends to make available to the VHF or similar programs through June 30, 2006 an additional aggregate amount of \$168.8 million. Any amounts made available to the VHF in the future are subject to review by the Authority of the impact of such contributions on its financial position. In addition, repayments of principal on Mortgage Loans in the VHF are expected to be recycled into additional Mortgage Loans in the VHF. Such Mortgage Loans from the General Fund are expected generally to have yields substantially less than that of U.S. government or agency-securities of similar maturity and to have terms of approximately thirty years. The Authority may elect to finance all or any portion of VHF Mortgage Loans with funds under the various bond resolutions of the Authority.

The Authority has agreed to make available a line of credit from the General Fund to the Partnership Fund (see "Other Programs of the Authority – Miscellaneous Programs") in the amount of \$38 million. No amounts have been drawn under the line of credit. Any amounts hereafter drawn under such line of credit will bear interest at a rate of not less than 2.95% per annum, and all principal must be repaid by October 16, 2005. All or any portion of such amount which is drawn and outstanding may not be available for the payment of debt service on any obligations of the Authority, including the Offered Bonds. The repayment of amounts drawn under such line of credit is expected to be secured by mortgage loans hereafter made from the Partnership Fund to finance housing for low income persons and families. Such loans generally would bear below market interest rates and would be based upon loan-to-value ratios in excess of 95%.

Pursuant to legislation enacted by the 2003 Session of the General Assembly, the Authority purchased from the Department on June 30, 2003, the portfolio of outstanding loans and other assets comprising the Commonwealth's Partnership Fund. Such outstanding loans, which had total outstanding principal balances of approximately \$71 million, bear below market interest rates, generally have loan to value ratios in excess of 95%, and serve lower income persons and families than the Authority's programs serve generally. The Authority also purchased approximately \$16 million of investments which have been and will be used to fund an approximately equal amount of similar loans pursuant to outstanding commitments and allocations. The purchase price for the loans and investments was approximately \$60 million. The Authority issued the Currently Outstanding 2003 Series Bonds on June 26, 2003, in the amount of \$52,440,000 to finance the purchase of the loans and assets in the Partnership Fund, with the balance of the purchase price paid from other funds of the Authority. Pursuant to such legislation \$40,822,000 of the approximately \$60 million in proceeds from the sale was transferred to the Commonwealth's General Fund, and the residual balances of approximately \$19 million were transferred to the Authority to be used in conjunction with existing resources to provide financing for affordable housing not otherwise eligible through other programs. The Authority and the Department executed a Memorandum of Understanding that provides for administration of the residual balances as a revolving loan fund for single family and multi-family housing programs. This Memorandum also requires the Authority to contribute to the VHF, in addition to the amounts set forth above, \$1,000,000 annually for three years. This Memorandum provides that, with respect to such revolving loan fund, the Department will (i) make policy decisions regarding the loan programs, (ii) develop the loan programs, (iii) determine eligibility criteria, (iv) initiate agreements with local program administrators, (v) select the applicants for mortgage loans for multi-family developments, (vi) establish or approve loan terms, and (vii) decide on the exercise of rights and remedies under the loan documents. This Memorandum also provides that the Authority will (i) provide advice to the Department concerning development of the programs, (ii) be responsible for the financial management and investment of the funds, and (iii) provide advice, assistance and services in the following areas: program planning; legal and accounting matters; loan origination underwriting; loan closing and servicing; monitoring of multi-family developments; programmatic reporting; and public relations assistance in conformity with the policies established by the Department.

The Authority has outstanding \$140 million of its Commonwealth Mortgage Bonds, 1996 Series E Bonds (the "1996 Series E Bonds") which are multi-modal bonds that bear variable interest rates and are subject to periodic remarketings at the end of interest rate periods and to optional and mandatory tender by the beneficial owners thereof. The obligation to pay the purchase price of such 1996 Series E Bonds in the event that such 1996 Series E Bonds are not remarketed following any optional or mandatory tender is a general obligation of the Authority.

The Authority has a \$200 million revolving credit agreement (the "Agreement") with Bank of America (the "Bank") to provide a source of immediately available funds for the general corporate purposes of the Authority, including, at the option of the Authority, the payment of the purchase price of bonds which are tendered but are not remarketed. Upon submission of a completed and duly executed request for advance, the Authority may draw funds under the Agreement up to the maximum outstanding amount of \$200 million, provided that no default by the Authority under the Agreement shall have occurred and be continuing. Defaults include (1) failure by the Authority to pay any amounts due under the Agreement; (2) any representation or warranty made by the Authority in or pursuant to the Agreement being incorrect or untrue in any material respect as of the date of the Agreement or as of the date of any extension thereof; (3) failure by the Authority to comply with certain of its covenants in the Agreement requiring the Authority (a) to submit financial records and information, including its official statements, to the Bank, (b) to provide notice to the Bank of any default by the Authority under the Agreement or any default or other event under any instrument evidencing the Authority's debt that may result in the accelerating of the maturity of such debt and could have a material adverse effect on the Authority, (c) to provide notice to the Bank of any material litigation pending or threatened against the Authority or of any initiative, referendum, or similar events reasonably expected to have any material adverse effect on the Authority, (d) to maintain adequate and proper books and records, (e) to use best efforts to maintain the Authority's existence and the Authority's rights and privileges material to its ability to repay obligations under the Agreement, and (f) to comply with laws and regulations of the Commonwealth of Virginia and the United States; and (4) merger, consolidation or disposition of all or a substantial part of the Authority's property reasonably expected to result in any material adverse effect on the Authority. The initial term of the Agreement was 364 days after its effective date of November 19, 2002. Each day the term of the Agreement is automatically extended to the date 364 days thereafter, subject to the final expiration date of November 30, 2027 or notice of termination by the Bank or the Authority. Any notice of termination by the Bank must be given 364 days prior to the termination date of the Agreement. All amounts due by the Authority are due and payable on the termination date.

## **LITIGATION**

No litigation of any nature as of the date hereof, to the Authority's knowledge, is pending against the Authority or threatened against the Authority (i) to restrain or enjoin the issuance or delivery of any of the Offered Bonds, (ii) to in any material way restrain or enjoin the collection and application of Assets pledged pursuant to the Bond Resolution, (iii) in any way contesting or affecting any authority for the issuance or validity of the Offered Bonds or the validity of the Bond Resolution, the Authority's Notice of Sale for the sale of the Offered Bonds, or the offer of the Underwriter, (iv) in any material way contesting the existence or powers of the Authority, or (v) in any material way contesting or affecting the Assets pledged for the payment of the Offered Bonds.

## **LEGAL INVESTMENT**

The Act provides that the notes and bonds of the Authority are legal investments in which all public officers and public bodies of the Commonwealth, and its political subdivisions, all municipalities and municipal subdivisions, all insurance companies and associations, banks, bankers, banking associations, trust companies, savings banks, savings associations, savings and loan associations, building and loan associations, investment companies, administrators, guardians, executors, trustees and other fiduciaries may properly and legally invest funds, including capital, in their control or belonging to them. The Act further provides that the notes and bonds of the Authority are also securities which may properly and legally be deposited with and received by all public officers and bodies of the Commonwealth or any agency or political subdivisions of the Commonwealth and all municipalities and public corporations for any purpose for which the deposit of bonds or other obligations of the Commonwealth is now or may hereafter be authorized by law.

## **MISCELLANEOUS**

The Authority has furnished all information in this Official Statement relating to the Authority. The financial statements of the Authority in Appendix E as of June 30, 2003 and for the year then ended have been examined by KPMG LLP, independent certified public accountants, to the extent set forth in their report, without further review to the date hereof.

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

The distribution of this Official Statement has been duly authorized by the Authority.

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

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**SUMMARY OF CERTAIN PROVISIONS OF THE BOND RESOLUTION**

The following statements are brief summaries of certain provisions of the Bond Resolution. Such statements are qualified in each case by reference to the Bond Resolution.

**Definitions**

The following terms are defined in the Bond Resolution and unless defined elsewhere in this Official Statement shall have the meanings set forth below whenever capitalized in this Official Statement.

“Accounts” means the Debt Service Reserve Account and the account or accounts established or to be established pursuant to the Bond Resolution.

“Additional Bonds” means any Bonds other than the Currently Outstanding Bonds.

“Asset” means any of the following assets that are acquired (by purchase or exchange) or financed pursuant to the 2002 Supplemental Resolution or the Supplemental Resolution: Mortgage Loan, Authority Property, Investment Obligation or Revenues, and, to the extent made subject to the pledge or lien of the Bond Resolution pursuant to the Written Determinations, any cash, Exchange Agreement or Enhancement Agreement.

“Asset Withdrawal Determination” means that, prior to effecting any proposed action subject to this Determination, an Authorized Officer shall determine that such action is reasonable in the sole opinion of such Authorized Officer, taking into account such matters, advice and counsel as he shall deem appropriate.

“Authority Designations” means the one or more designations given to an Offered Bond or Bonds as set forth in or determined pursuant to the applicable written determinations or such other designations as may be deemed necessary or convenient by an Authorized Officer.

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

“Authorized Denominations” means the principal or Maturity Amount denominations authorized for an Offered Bond or Bonds as set forth in or determined pursuant to the applicable written determinations.

“Authorized Officer” means the Chairman, Vice Chairman, Executive Director, Managing Director of Finance and Administration, Bonds and Investments Director, General Counsel, or any other person authorized by resolution of the Authority to act as an Authorized Officer pursuant to the Bond Resolution.

“Bond Amount” means the one or more payments of principal and interest, including any Compounded Amount, Purchase Price, Redemption Price or Sinking Fund Installment, if applicable, due and payable from time to time with respect to an Offered Bond or a Currently Outstanding 2002 Series Bond from its date of issuance to its maturity, tender or redemption date.

“Bonds and Investments Director” means the Bonds and Investments Director of the Authority.

“Bond Obligation” means the aggregate amount of (i) all interest due or accrued on Outstanding Bonds and unpaid as of a specific date of calculation if such date shall be an interest payment date or as of the most recent interest payment date if otherwise and (ii) all unpaid principal (including if applicable, for such purpose, the accreted amount) on all Outstanding Bonds.

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

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

“Commonwealth” means the Commonwealth of Virginia.

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

“Current Interest Paying Bond” means an Offered Bond on which interest is not compounded, except pursuant to an action by the Trustee in accordance with the Resolution, and which is payable at the interest rate or rates and on the dates set forth in or determined pursuant to the applicable written determinations.

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

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

“DTC” means The Depository Trust Company.

“Enhancement Agreement” means an agreement with one or more third parties which sets forth the terms and conditions upon which such third party or parties will provide, directly or indirectly, for the payment of all or a portion of one or more Bond Amounts.

“Exchange Agreement” means an agreement with one or more third parties which sets forth the terms and conditions upon which such third party or parties and the Authority will exchange or make payments to the other party or parties.

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

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

“Investment Obligation” means any of the following acquired or pledged pursuant to the Bond Resolution, except to the extent limited by any amendments to the Act enacted after the date of the Supplemental Resolution:

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

notes or other obligations (including asset backed securities) of which are unconditionally guaranteed by the United States of America or bear a Rating;

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

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

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

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

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

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

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

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

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

"Official Statement" means one or more offering or reoffering documents prepared by the Authority which describes the terms and conditions of the Offered Bonds being offered or reoffered thereby and matters material thereto.

"Outstanding", when used with reference to Bonds and as of any particular date, describes all Bonds theretofore and thereupon being delivered, except (a) any Bond cancelled by the Trustee, or proven to the satisfaction of the Trustee to have been cancelled by the Authority or by the Trustee, at or before said date, (b) any Bond for the payment of redemption of which either (i) moneys, equal to the principal amount or Redemption Price thereof, as the case may be, with interest to the date of maturity or redemption date, or (ii) defeasance investments or monies, in the amounts, of the maturities and otherwise as described and required under the Resolution, shall have theretofore been deposited with the Trustee in trust therefor (whether upon or prior to maturity or the redemption) shall have been given or provided for in accordance with the Resolution, and (c) any Bonds in lieu of or in substitution for which another Bond shall have been delivered.

"Owner" when used with reference to a Bond or Bonds means any person who shall be the registered owner of any Outstanding Bond or Bonds.

"Programs" means the Authority's programs of financing Mortgage Loans and Authority Property.

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

"Purchase Price" means the purchase price, including accrued interest, of an Offered Bond on a Tender Date as set forth in or determined pursuant to the applicable written determinations.

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

“Redemption Price”, when used with respect to a Bond or portion thereof, means the principal amount (or, if applicable, accreted or compounded amount) of such Bond or portion thereof plus the applicable premium, if any, payable upon redemption thereof as set forth in the written determinations applicable to such Bond or, with respect to Additional Bonds, as set forth in or determined pursuant to the supplemental resolution(s) authorizing such Additional Bonds.

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

“Sinking Fund Installment” means the amount of principal or Compounded Amount of any particular Offered Bonds that are Term Bonds and are to be redeemed or retired prior to the maturity date of such Term Bonds all as set forth in or determined pursuant to the applicable written determinations.

“Special Tax Counsel” means law firm of Hawkins, Delafield & Wood or any other attorney or firm of attorneys designated by the Authority to provide legal advice on compliance by the Authority with the Tax Covenant.

“Tax Covenant” means the covenant set forth in the 2002 Supplemental Resolution and the Supplemental Resolution providing that the Authority shall at all times do and perform all acts required by the Code in order to assure that interest paid by the Authority on a Tax Exempt Bond shall not be included in gross income of the Owner thereof pursuant to the Code.

“Tender Date” means any date on which an Offered Bond is subject to tender to the Trustee or the Authority or any other party serving as tender agent for purchase, which date shall be set forth in or determined pursuant to the applicable written determinations.

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

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

“Written Determinations” means one or more determinations made in writing by an Authorized Officer which sets forth those terms and conditions authorized by the applicable supplemental resolution to be contained therein and as shall not be inconsistent with the Resolution and the applicable supplemental resolution. Any such Written Determinations may be amended by an Authorized Officer from time to time prior to the issuance of Bonds designated therein and may thereafter be amended as provided in the Resolution and the applicable supplemental resolution.

## **Issuance of Bonds**

The Resolution authorized the issuance of the Currently Outstanding Bonds. The Resolution provides for the terms of Additional Bonds thereafter issued under the Resolution to be set forth in supplemental resolutions adopted by the Authority and in written determinations made in writing by an Authorized Officer of the Authority.

## **Liens and Pledges**

Payment of the principal or Redemption Price of and interest on the Bonds shall be secured by the pledge of the Debt Service Reserve Account (see “Accounts” below) and the Assets (see “Assets and the Pledge Thereof” below). The Bonds may be hereafter secured by any lien or liens on such real property and/or by any other pledge or pledges of such personal property, tangible or intangible (including, without limitation, revenues, moneys and securities and any accounts established pursuant to the Bond Resolution) as may be set forth in or provided pursuant to supplemental resolution(s) authorizing other Additional Bonds. The Executive Director, Managing Director of Finance and Administration, the Bonds and Investments Director, and General Counsel of the Authority are each

authorized to execute and deliver such agreements, instruments and documents and take such other action as he shall deem necessary or appropriate to effect such lien(s) or such other pledges(s). Any terms and conditions relating to such lien(s) or such other pledge(s) shall be set forth in or determined pursuant to supplemental resolution(s) authorizing such other Additional Bonds.

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

Subject only to the right of the Authority to withdraw, transfer, sell, exchange or otherwise apply Assets in accordance with the provisions of the Bond Resolution, the Assets, regardless of their location or method of identification, are pledged to secure the full and final payment of the principal or Redemption Price of and interest on all Bonds (including, without limitation, the Bond Amounts) heretofore or hereafter issued under the Bond Resolution and, to the extent provided in or pursuant to the Written Determinations or any supplemental resolution, obligations of the Authority under any Exchange Agreement or Enhancement Agreement and any other obligation of the Authority under the Bond Resolution. The Assets so pledged shall be held in trust for the purposes and under the terms and conditions of the Bond Resolution.

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

On any date, the Authority may either directly or by direction to the Trustee (i) apply Assets to make, purchase, finance or refinance Mortgage Loans, to acquire, rehabilitate, construct, finance or refinance Authority Property, to purchase Investment Obligations and make any required payments associated therewith, to make payments pursuant to any agreement associated, related or entered into with respect to the Offered Bonds, to make payments to any party to comply with the Tax Covenant, to purchase any Offered Bond, to pay any Expense, or to make any other withdrawal, transfer, sale, exchange or other application of Assets required, permitted or contemplated by the Bond Resolution, or (ii) subject to satisfaction of the Asset Withdrawal Determination described below, transfer all or any portion of any Asset to the Authority. Assets so transferred to the Authority shall not thereafter be subject to the lien or pledge created by the Bond Resolution.

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

The Authority may modify or amend, in any manner it deems appropriate in its sole judgment, the terms and conditions of any Asset, subject to satisfaction of the Asset Withdrawal Determination described below or subject to the determination of an Authorized Officer that such modification or amendment is either (i) not materially adverse to the payment of any Bond Amount, or (ii) in the best interests of the Owners.

### **Asset Withdrawal Determination**

The Asset Withdrawal Determination requires that, prior to effecting any proposed action subject to this Determination, an Authorized Officer shall determine that such action is reasonable in the sole opinion of such Authorized Officer, taking into account such matters, advice and counsel as he shall deem appropriate.

### **Investment of Funds**

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

### **Covenants**

An asset or property may be acquired (by purchase or exchange) or financed pursuant to the Bond Resolution only if such asset or property constitutes an Asset.

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

### **Accounts**

The Bond Resolution establishes the Debt Service Reserve Account and authorizes the Authority to establish other accounts for the deposit of funds and investments. Accounts shall be pledged under the Bond Resolution if so

determined by the Authority. The Authority has so determined to pledge the Debt Service Reserve Account but has not determined to pledge any other accounts.

The Debt Service Reserve Account will be funded up to the Debt Service Reserve Account Requirement (see "Security" above). There is no additional funding of the Debt Service Reserve Account with respect to the Offered Bonds.

If on any Principal Installment Date or Interest Payment Date amounts deposited by the Authority with the Trustee are not sufficient to make payment of principal, interest and sinking fund installments on the Bonds when due, the Trustee shall withdraw from the Debt Service Reserve Account (or such other account as the Authority may direct) the amount of the deficiency. The Authority covenants that it will pay to the Trustee for deposit in Debt Service Reserve Account the amount of any deficiency in the Debt Service Reserve Account Requirement from any of the Authority's revenues, moneys or assets, subject only to any agreements heretofore and hereafter made with the owners of any notes or bonds other than the Bonds pledging any portion thereof.

Moneys in the Debt Service Reserve Account and any other accounts may be invested in Investment Obligations as directed by the Authority.

### **Additional Bonds**

The Authority may adopt supplemental resolutions, which will become effective upon filing with the Trustee, to make the necessary or desirable amendments to the Resolution to provide for the issuance of Additional Bonds for any lawful purpose permitted by the Act and any amendments thereto. Such Additional Bonds are required to be on a parity with the Bonds. Any such Additional Bonds may have different principal and interest payment dates from those established for the Currently Outstanding Bonds and may be payable in coin or currency other than that of the United States. The Bond Resolution does not require the maintenance or confirmation of any rating as a precondition to the issuance of Additional Bonds.

### **Amendments**

Amendments of the Resolution may be made by a supplemental resolution.

Supplemental resolutions which may become effective upon filing with the Trustee shall be those which concern only adding restrictions on the Authority, adding covenants by the Authority, surrendering privileges of the Authority, adding to the rights or privileges of the Bondowners, adding additional security for the Bonds, making changes that are not contrary or inconsistent with the Bond Resolution, authorizing additional Bonds (including any amendments to the Bond Resolution that are necessary or desirable to provide for the issuance of such Additional Bonds) and modifying the Bond Resolution in any aspect which will not have the effect of reducing the rating of any Outstanding Bonds by the rating agency or agencies which have rated, the Outstanding Bonds at the request of the Authority.

Supplemental resolutions which may become effective upon consent of the Trustee shall be those which concern, only curing or clarifying an ambiguity, omission, defect or inconsistency.

Other supplemental resolutions may become effective only with consent of the Owners of at least sixty per centum (60%) of the Bond Obligation.

However, no amendment shall permit a change in the terms of redemption or maturity of any Outstanding Bond or of any installment of interest thereon or a reduction in the principal amount thereof or the Redemption Price thereof or the rate of interest thereon without the consent of the Owner of such Bond, or shall reduce the percentages, or otherwise affect the description of the Bonds, the consent of the Owners of which is required to effect any such amendment.

Any amendment may be made with unanimous consent of the Owners of Outstanding Bonds.

No amendment shall change any of the rights or obligations, of the Trustee without its written consent.

### **Defeasance**

Bonds for the payment or redemption of which moneys shall have been deposited with the Trustee shall be deemed to have been paid, provided that, if any of such Bonds are to be redeemed prior to the maturity thereof,

provisions satisfactory to the Trustee shall have been made for the giving of notice of redemption thereof. Moneys so held by the Trustee shall be invested by the Trustee, as directed by the Authority, in (i) direct general obligations of the United States of America or the Commonwealth, (ii) obligations the principal of and interest on which are unconditionally guaranteed by the United States of America or the Commonwealth, or (iii) obligations of governmental or government-sponsored agencies which have been or may hereafter be created and only for so long as such agency is owned or sponsored by the United States of America and such obligations are unconditionally guaranteed by the United States of America, all as more particularly described in the Bond Resolution, provided that the maturing principal thereof and the interest to fall due thereon shall be at least equal to the amount of money required for the payment on any future date of the interest on or principal or Redemption Price of the Bonds so deemed to have been paid.

### **Events of Default**

Each of the following shall constitute an event of default under the Resolution: (1) interest on any, of the Bonds shall become due on any date and shall not be paid on said date, or the principal or Redemption Price of any of the Bonds shall become due on any date, whether at maturity or upon call for redemption, and shall not be paid on said date; or (2) a default shall be made in the observance or performance of any covenant, contract or other provision contained in the Bonds or Bond Resolution and such default shall continue for a period of ninety days after written notice to the Authority from an Owner or from the Trustee specifying such default and requiring the same to be remedied; or (3) Bonds subject to redemption by operation of Sinking Fund Installments shall not have been redeemed and paid as required in the Resolution; or (4) there shall be filed by or on behalf of the Authority a petition seeking a composition of indebtedness under any applicable law or statute of the United States of America or of the Commonwealth.

### **Remedies**

Upon the happening and continuance of an event of default, the Trustee may, and upon the request of the owners of 25% of the Bond Obligation shall, proceed to protect the rights of the Owner under the laws of the Commonwealth of Virginia or under the Resolution. Without the previous consent of the Trustee and unless the proceeding is brought for the ratable benefit of all owners of all Bonds, no Owner of a Bond shall have the right to institute any proceedings for any remedy under the Resolution unless the Trustee, after being so requested to institute such proceedings by the owners of 25% of the Bond Obligation and offered satisfactory indemnity, shall have refused or neglected to comply with such request within a reasonable time. However, nothing contained in the Resolution shall affect or impair the right of the Owner of any Bond to enforce the payment of the principal of and interest on his Bond.

### **Notice to Owners**

Notice of any redemption is to be mailed, not less than thirty days nor more than forty-five days prior to the redemption date, to the registered Owner of any Bond all or a portion of which is to be redeemed at such Owner's last address appearing on the Registration Books of the Authority kept by the Trustee.

Notice of any proposed modification or amendment of the Resolution by means of a supplemental resolution to be effective with consent of Owners is to be mailed to the registered owner of any Bond then Outstanding at his last address appearing upon the Registration Books of the Authority kept by the Trustee.

If the Bonds are available only in book-entry form through DTC, then the above notices will be sent to DTC and DTC will then pass the notices along to DTC Participants for delivery to the Beneficial Owners.

The Trustee may establish dates for DTC to use for determining to whom redemption funds are to be paid or who may consent to actions required or permitted by the Resolution.

### **Registration**

The Authority and the Trustee may deem and treat the party in whose name any Offered Bond shall be registered upon the Registration Books on an applicable Record Date as the absolute Owner of such Offered Bond, whether such Offered Bond shall be overdue or not, for the purpose of receiving payment of any Bond Amount due and payable during the time period such person is the Owner of said Offered Bond, and for all other purposes, and all such payments so made to any such Owner or upon his order shall be valid and effectual to satisfy and discharge the liability with respect to such Offered Bond to the extent of the Bond Amount(s) so paid, and neither the Authority nor the Trustee shall be affected by any notice to the contrary.

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## DESCRIPTION AND PROCEDURES OF DTC

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

DTC or its agent will act as securities depository for the Offered Bonds. The Offered Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee). One fully-registered certificate will be issued for each maturity of each series of the Offered Bonds and will be deposited with DTC or its agent.

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

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

To facilitate subsequent transfers, all Offered Bonds deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of Offered Bonds with DTC and their registration in the name of Cede & Co. or such other nominee effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Offered Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Offered Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers. Beneficial Owners of Offered Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Offered Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Resolution. Beneficial Owners of Offered Bonds may wish to ascertain that the nominee holding the Offered Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners.

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

Redemption notices shall be sent to DTC or such other nominee. If less than all of the Offered Bonds of a maturity of a series (or, if applicable, a subseries) are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity of a series (or, if applicable, a subseries) of the Offered Bonds to be redeemed.

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

Principal and interest payments on the Offered Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from Issuer or Trustee on payable date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on payable date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other such nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Trustee, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository at any time by giving reasonable notice to the Authority or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, Offered Bond certificates, as necessary, are required to be printed and delivered.

The Authority may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Offered Bond certificates, as necessary, will be printed and delivered.

**INFORMATION CONCERNING FEDERAL PROGRAMS AND REQUIREMENTS  
AND MORTGAGE INSURANCE POLICIES**

**PART I – FEDERAL PROGRAMS AND REQUIREMENTS**

*The information in this Part I applies only to Developments financed or to be financed by Multi-Family Mortgage Loans.*

The following descriptions do not purport to be comprehensive or definitive and are qualified in their entirety by reference to the statutes, regulations, agreements and contracts referred to herein, as from time to time amended. Neither the Act nor the Bond Resolution obligates the Authority to qualify any Development for federal housing mortgage insurance or housing assistance.

**FHA Insurance Program**

Under the terms of the Section 221(d)(4) insurance program, a mortgagee is entitled to claim insurance benefits upon the failure of the mortgagor to make a mortgage payment (or to perform any other obligation under the mortgage if, because of such failure, the mortgagee accelerates the debt), if such default continues for 30 days. To perfect its claim for payment, the mortgagee is required either to assign the mortgage to FHA, acting through the Federal Housing Commissioner, or to tender to it good and marketable title to the property covered by the insured mortgage loan. Upon transfer of the property to FHA, mortgage insurance benefits will be paid in cash unless the mortgagee files a written request for payment in FHA debentures.

The insurance benefits paid by FHA will be an amount equal to the aggregate of (1) the unpaid principal amount of the mortgage, (2) the amount of all payments made by the mortgagee (i) for taxes, special assessments and water rates which are liens prior to the mortgage, (ii) for insurance on the property, and (iii) for any mortgage insurance premiums paid after default, (3) an allowance for reasonable payments made by the mortgagee with the approval of FHA for the completion and preservation of the property, and (4) an amount equivalent to FHA debenture interest covering the period of time from the date of default on the mortgage loan to the date the insurance settlement occurs. From the aggregate of the foregoing amounts is deducted the total of (1) any amount received by the mortgagee on account of the mortgage after the date of default, (2) any net income received by the mortgagee from the property covered by the mortgage after the date of default, and (3) the sum of (i) any cash held by the mortgagee for the account of the mortgagor and which shall not have been applied in reduction of the principal of the mortgage indebtedness, (ii) all funds held by the mortgagee for the account of the mortgagor received pursuant to any other agreement, and (iii) the amount of any undrawn balance under a letter of credit used in lieu of a cash deposit. If the mortgage is assigned to FHA in lieu of a conveyance of the property there shall also be deducted an amount equivalent to 1% of the outstanding mortgage balance, except that all or part of the 1% may be waived by FHA if, at its request and in lieu of foreclosure, the mortgage is assigned to FHA.

**Section 8 Program**

The Housing and Community Development Act of 1974 amended Section 8 of the United States Housing Act of 1937 so as to establish a federal assistance program. HUD has issued special regulations for state housing finance and development agencies (“HFAs”) such as the Authority. With respect to Developments to be permanently financed by the Authority without federal mortgage insurance, the Section 8 regulations give the Authority a high degree of program responsibility -- e.g., selection of the developer (either by advertising or negotiation), approval of design and construction quality, site selection, economic feasibility and marketability.

*Subsidy Contracts*

Under Section 8, three principal contracts are executed. First, the HFA enters into an “Agreement to Enter Into Housing Assistance Payments Contract” with the mortgagor of the development to be constructed. This agreement (“Agreement to Enter”) is approved by HUD and, subject to certain conditions, commits the mortgagor and the HFA upon completion and acceptance of the development to enter into a Housing Assistance Payments Contract (“Payments Contract”) providing for the payment of the subsidy to or for the account of the mortgagor by the HFA.

At the same time that the Agreement to Enter is executed, the HFA and HUD execute an Annual Contributions Contract ("ACC"), which provides for the payment to the HFA by HUD of the subsidy to be paid by the HFA to the owner of the development pursuant to the terms of the Payments Contract. The subsidy contracts for mortgage loans currently provide for the payment of the Section 8 subsidy for a period of 30 or 40 years. The subsidy contracts for FHA mortgage loans have terms of 15, 20 or 30 years.

#### *Initial Amount of Subsidy*

Section 8 subsidies received by the HFA are based upon the "Contract Rent" applicable to specified dwelling units. The Contract Rent is initially based on the "fair market rent" for the dwelling unit, which is determined by HUD periodically with respect to each locality. Contract Rent may be initially established at an amount up to 120% of the fair market rent. Contract Rent over 100% of the fair market rent requires HUD approval upon a showing of special circumstances.

The amount of the subsidy actually payable to the Authority for the account of the Mortgagor is the Contract Rent less the payment made to the Mortgagor by the tenant. The proportion of the Contract Rent paid by HUD and that paid by tenants will vary from month to month depending upon tenant income. The method of computation of the tenant's payment is determined by HUD regulation and is subject to change. Subject to certain exceptions for the elderly, disabled, and low-income wage earners, each tenant is required to pay a minimum rent of \$25 per month.

Under HUD's present practices, the maximum amount of money available annually for subsidy payments under an ACC will equal the annual initial Contract Rents for assisted units in the Development. If the amount actually disbursed under the ACC in any given year is less than the total available amount, the excess (initially an amount approximately equal to the portion of the contract rents payable by the tenants) will be set aside by HUD in an account for the particular Development and will be available for future years to fund increases in contract rents for the Development to the extent they exceed the amount otherwise available under the ACC (see "Funding of Increase in Subsidy" below).

#### *Tenants Eligible for Housing Assistance Payments*

A tenant eligible for housing assistance payments ("Eligible Tenant") is a family, including an elderly, disabled or displaced person, whose income, as determined in accordance with the Section 8 regulations, does not exceed income limits promulgated by HUD for the area and who meets certain other conditions specified in the regulations. The Section 8 income limit is, in general, 80% of median income for the area, as determined by HUD. However, under the Housing and Community Development Amendments of 1981, no more than 25% of the Section 8 units which as of October 1, 1981, were subject to Payments Contracts and available for occupancy may be occupied by persons or families with incomes above 50% of the median. In addition, no more than 5% of the Section 8 units which were subject to a Payments Contract or were available for occupancy subsequent to October 1, 1981, may be leased to persons or families with incomes in excess of 50% of the median. The criteria for tenant eligibility are determined by HUD regulations and are subject to change.

#### *Limitation on Subsidy -- Vacancies*

Generally, the Section 8 subsidy is payable in respect to the dwelling unit only when it is occupied by an Eligible Tenant. However, the law and the regulations provide for payment of the subsidy under certain limited circumstances when the dwelling unit is not occupied.

Upon completion of the project, 80% of the Contract Rent is payable during a period of not exceeding sixty days, subject to compliance by the Mortgagor with certain conditions relating primarily to a diligent effort to rent the subsidized unit.

The subsidy payments for vacant units can, under certain conditions, continue for an additional twelve months after the sixty day vacancy period described above. The amount of these subsidy payments is equal to that portion of the vacant units' Contract Rents allocable to the debt service on the permanent financing. However, the Development must be operating at a deficit, and the amount of the payments cannot exceed that portion of the deficit attributable to the vacant units. HUD may deny the application for these additional subsidy payments for vacant units if it determines that there is not a reasonable prospect that the Development can achieve financial soundness within a reasonable time. Furthermore, a Mortgagor is entitled to these payments only if it has complied with the Section 8 marketing requirements, has taken and continues to take all feasible action to rent the units, has not rejected any eligible applicant without good cause, and has provided the Authority with the requisite notification of vacancy. Finally, the vacant units must provide safe, decent and sanitary housing.

### *Adjustments of Contract Rents*

The statute and applicable regulations contain various provisions for review and readjustment of the Contract Rent. Provision is made in the regulations for HUD to determine an Annual Adjustment Factor at least annually and to publish such factors in the Federal Register. HUD currently determines the Annual Adjustment Factor based on a formula using rent and utility data from the Consumer Price Index and the HUD Random Digit Dialing (“RDD”) rent change surveys. The Annual Adjustment Factor is applied to the then existing Contract Rents. Current law requires that the Annual Adjustment Factor be reduced by one percentage point for those units in which there was no tenant turnover during the previous year and that, in establishing Annual Adjustment Factors, HUD take into account the fact that debt service is a fixed expense.

Upon request from the owner on each anniversary date of the Payments Contract, Contract Rents will be adjusted in accordance with the Annual Adjustment Factor. In addition, provision is made in the regulations for special additional adjustments in the Contract Rents to reflect increases in actual and necessary expenses of owning and maintaining the subsidized units which have resulted from substantial general increases in real property taxes, utility rates or similar costs, to the extent that such general increases are not adequately compensated for by the Annual Adjustments. Current law prohibits any reduction in Contract Rents in effect on or after April 15, 1987 unless the Section 8 assisted development has been refinanced in a manner that reduces the debt payments of the owner of such development.

The Section 8 law and regulations require that rent adjustments shall not result in material differences between the Contract Rents and rents for comparable unassisted units, except to the extent that the differences existed at the time of execution of the Payments Contract (the difference between Contract Rents and rents for comparable units at the time of execution of the Payments Contract being referred to herein as the “Initial Difference”). Current law requires that Annual Adjustment Factor rent increases be denied to those Section 8 Developments with rents above the applicable fair market rents established by HUD plus the Initial Difference, unless the Mortgagor demonstrates that the adjusted rent would not exceed rents for comparable unassisted units plus the Initial Difference.

Proposals have been discussed (and, in some instances, legislation has been introduced or statements made that legislation will be introduced) by HUD and by members of Congress which, if enacted into law, promulgated as HUD regulations or adopted as official enforceable policies of HUD, would affect many HUD programs, including the Section 8 Program. One such proposal made by HUD would have deleted the above described provision in current law that prohibits any reduction in Contract Rents in effect on or after April 15, 1987. Among the effects of such proposals could be a reduction in the Contract Rents or in the Annual Adjustments thereof for Section 8 assisted projects. Any such reduction in Contract Rents or Annual Adjustments could adversely affect the financial feasibility of certain of the Section 8 Developments and the adequacy of rental income to pay principal and interest on the Multi-Family Mortgage Loans financing such Developments. There can be no assurance that these proposals or legislation will or will not be enacted into law, promulgated as HUD regulations or adopted as official enforceable policies of HUD. At this time, the Authority cannot predict the terms of any proposals which may be enacted or implemented or the effect that any such proposals, if enacted or implemented, would have on the ability of the Section 8 Developments to make timely payments of principal and interest on the Multi-Family Mortgage Loans and, in turn, on the ability of the Authority to make timely payments of interest and principal on the Bonds. The enactment or implementation of such proposals may adversely affect the rating on the Bonds and the market price of the Bonds. The Authority has not covenanted, and is not obligated under the Bond Resolution to take any action to maintain the ratings or market price of the Bonds or, except as described in Appendix F -- “Summary of Certain Provisions of the Continuing Disclosure Agreement,” to notify the Owners of any withdrawal or revision of the ratings of the Bonds or any actions which would affect the ratings or market price of the Bonds.

### *Funding of Increases in Subsidy*

Funds for the payment of increased subsidies which may result from the adjustment in the Contract Rents described above are to be obtained in two ways. Provision is made in the law for the payment by HUD into a special reserve account held by HUD in respect of each subsidized Development of the amount by which the Contract Rents in effect from time to time exceed the actual subsidy paid by HUD (this amount is initially the approximate equivalent of the amount of rent paid by the tenants). The amount of increases in the subsidy payable by reason of increases in the Contract Rent will initially be drawn from this fund. The regulations provide that when the HUD-approved estimate of required annual contributions exceeds the maximum ACC commitment then in effect and would cause the amount in such fund to be less than 40 percent of the maximum ACC commitment, HUD shall take such additional steps as authorized by subdivision (c)(6) of Section 8 (quoted below) to obtain funds to bring the amount in the account to the 40 percent level. Subdivision (c)(6) of Section 8 provides:

“The Secretary [of HUD] shall take such steps as may be necessary, including the making of contracts for assistance payments in amounts in excess of the amounts required at the time of the initial renting of dwelling units, the reservation of annual contributions authority for the purpose of amending housing assistance contracts, or the allocation of a portion of new authorizations for the purpose of amending housing assistance contracts, to assure that assistance payments are increased on a timely basis to cover increases in maximum monthly rents or decreases in family incomes.”

It has been the practice of HUD that, when the amount in any such fund has fallen below the 40% level, HUD has not immediately replenished such fund to the 40% level but has obtained budget authority from the Congress to meet its obligation under the Payments Contract.

#### *Payment of Subsidy*

The regulations provide that in the event of foreclosure, assignment or sale to the HFA in lieu of foreclosure, or in the event of an assignment or sale agreed to by the HFA and approved by HUD (which approval shall not be unreasonably delayed or withheld), subsidy payments will continue in accordance with the Payments Contract.

Payment of the subsidy is paid into a special account maintained by the Authority for the receipt of Section 8 payments. The Authority disburses such subsidy payments by paying the amount of the current payment due from the Mortgagor on the Multi-Family Mortgage Loan into the Revenue Fund and the multi-family escrow payment account, with the balance, if any, being paid directly to the Mortgagor.

#### *Compliance with Subsidy Contracts*

The Agreement to Enter, the ACC and the Payments Contract all contain numerous agreements on the part of the Authority and the Mortgagor including maintenance of the Development as decent, safe and sanitary housing and compliance with a number of requirements typical of federal contracts (such as those relating to nondiscrimination, equal employment opportunity, relocation, pollution control and labor standards) as to which noncompliance by either the Authority or the Mortgagor, or both, might endanger the payment of the federal subsidy. Reference is made to the complete text of these agreements which are available for inspection at the offices of the Authority. Default by a Mortgagor in the performance of its obligations under the Payments Contract is an event of default under the terms of its Multi-Family Mortgage Loan from the Authority which would permit foreclosure by the Authority.

#### *Administration of Subsidy for Certain FHA Mortgage Loans*

On some of the FHA Multi-Family Mortgage Loans, the Authority does not administer the Section 8 subsidy in the manner described above. Any failure to make full and timely payment on such Multi-Family Mortgage Loans shall, subject to and in accordance with the conditions described above under “FHA Insurance Program”, provide a basis for a claim for payment of FHA mortgage insurance benefits.

### **Low Income Housing Tax Credit Program**

The Authority has issued bonds to finance Developments which are to receive low income housing tax credits. The Code provides for credits to owners of residential rental projects containing low income units, provided certain occupancy and use of loan proceeds requirements are met. The credits are taken annually for a term of ten years, beginning with the tax year in which the project is placed in service or, at the owner’s election, the next tax year.

Twenty percent or more of the units in an eligible project must be occupied by tenants whose incomes are 50% or less of the area median gross income, as adjusted for family size, or 40% or more of the units in the project must be occupied by tenants whose incomes are 60% or less of such area median gross income, as so adjusted. Each building in the project must comply with these income restrictions within 12 months of the date placed in service. The owner may designate more than 20% or 40%, as the case may be, of the units in the project as low-income units.

The gross rent (including an allowance for any utilities paid directly by the tenant) charged to a tenant in a low income unit may not exceed 30% of the maximum qualifying income.

In the event that the income of a family occupying a low income unit exceeds the maximum qualifying income by more than 40% or in the event that a low income unit becomes vacant, such low income unit shall continue to qualify if no other vacant units of comparable or smaller size are rented to non-qualifying families.

The project must comply with the income and rent limitations for a period of 15 years in the case of credits allocated prior to or during 1989, or 30 years, in the case of credits allocated after 1989. Failure to comply results in a recapture of a portion of the credits.

### **Section 236 Interest Reduction Payments Program and Section 236(f)(2) Rental Assistance Program**

Pursuant to Section 236 of the United States Housing Act of 1937, as amended, HUD, the Authority and the Mortgagor enter into an agreement for interest reduction payments. HUD makes monthly payments with respect to the subsidized dwelling units in such Development directly to the Authority on behalf of the Mortgagor. The amount of the monthly HUD payment for any such Development will equal the difference between (a) the monthly payment for principal, if any, interest and the Authority's fees and charges which the Mortgagor is obligated to pay and (b) the monthly payment for principal, if any, and interest which the Mortgagor would be required to pay if the Multi-Family Mortgage Loan were to bear interest at the rate of 1% per annum. The Mortgagor makes monthly payments to the Authority for the balance.

The agreements contain several covenants of the Mortgagor, including among other things that (1) the Mortgagor has established, "basic rents" computed assuming a Multi-Family Mortgage Loan interest rate of 1% per annum and "fair market rents" (unsubsidized) for each subsidized dwelling unit, (2) the rent for each subsidized dwelling unit, including all utilities except telephone, will be equal to 30% of the tenant's adjusted income or the basic rent, whichever is greater, up to a maximum of the fair market rent, (3) the Mortgagor will limit admission to subsidized dwelling units to families whose incomes do not exceed the lower of the income limits prescribed by HUD or the Authority, and (4) the Mortgagor shall remit to HUD the amount ("Excess Income Payment") by which the total rents collected on all subsidized dwelling units exceeds the sum of the basic rents for all such units. Under the Balanced Budget Down payment Act, I, Pub. L. 104-99, enacted January 26, 1996 and the Balanced Budget Down payment Act, II, Pub. L. 104-134, enacted April 26, 1996 (the "Fiscal Year 1996 Appropriations Act"), the rent chargeable to the tenant is also limited by the fair market rent set forth in HUD's Section 8 program and by the rent for a comparable unassisted unit in the market area. The Fiscal Year 1996 Appropriations Act also provides that Excess Income Payments must be remitted to HUD on a unit-by-unit basis, thus precluding the ability of mortgagors to use such Excess Income Payments to offset collection losses and potentially reducing the income available to the projects. The Authority covenants in the agreements that it will not agree to the forbearance or deferment of any payment due under the Mortgage Loan without HUD's approval. HUD may, at its discretion, terminate payments under the agreement upon default by the Mortgagor or the Authority under any provision of the agreement. If payments are terminated by HUD, such payments may be reinstated by HUD on such conditions as it may prescribe. The rights and obligations under the agreement are not assignable by the Authority or by the Mortgagor without the approval of HUD.

Each of the Developments which is subject to Section 236 interest reduction payments is also subject to rental assistance payments under Section 236(f)(2) of the National Housing Act, as amended. Payments under this program are paid by HUD directly to the Mortgagor on behalf of eligible tenants occupying assisted dwelling units. The payments for each assisted unit are generally in an amount equal to the difference between the "basic rent" approved by HUD for the unit and 30% of the eligible tenant's adjusted income (as defined by HUD). Such payments to the Mortgagor in effect represent rental income and do not reduce or otherwise affect the amounts the Mortgagor must pay to the Authority under the Multi-Family Mortgage Loan.

The maximum amount of rental assistance payments for any Section 236 Development is originally established by HUD and set forth in the subsidy agreement between HUD and the Authority. In order to provide sufficient rental income to pay debt service and expenses of the Development, an increase in this maximum amount may become necessary if rents are increased or if the amount of rent payable by the tenants decreases due to an overall reduction in the tenants' incomes. HUD will increase the maximum amount of rental assistance payments by an amount equal to 100% of the needed increase.

### **HOME Program**

The federal HOME program is authorized in Title II of the National Affordable Housing Act of 1990. Through the HOME program, HUD allocates funds by formula among eligible state and local governments for affordable housing programs. In Virginia, HCD has received all of the HOME funds allocated to the state government and has administered such funds under the HOME program.

HOME funds can be used for tenant based rental assistance or in the acquisition, new construction or rehabilitation of multi-family rental developments. HOME funds may be provided as equity investments, grants,

interest bearing or non-interest bearing loans or advances, deferred loans (forgivable or repayable), interest subsidies or other forms of assistance approved by HUD.

Ninety percent of HOME assisted rental units must benefit households with incomes not exceeding 60 percent of the area median income, and the balance of the HOME assisted rental units must benefit households with incomes not exceeding 80 percent of the area median income. The rents for units in developments assisted with HOME funds cannot exceed the lesser of 30 percent of 65 percent of the area median income or the Section 8 Fair Market Rents. In addition, in the case of developments containing 5 or more units, at least 20 percent of the units must have rents not exceeding the least of 30 percent of the tenant's income, 30 percent of a family income equal to 50 percent of area median income, or the maximum rent under any state or federal project-based rental subsidy program under which the tenants in the development pay no more than 30% of their incomes toward rent. These income restrictions and rent limitations apply for minimum periods depending upon the amount of HOME funds invested per unit and upon the type of financing (acquisition/rehabilitation, refinancing of rehabilitation, or new construction) and range from 5 to 20 years.

## **PART II – MORTGAGE INSURANCE POLICIES**

*This Part II applies only to single family residential housing financed or to be financed by Single Family Mortgage Loans.*

### **Federal Housing Administration Mortgage Insurance**

*The description below is not applicable to the FHA Title I Home Improvement Program.*

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

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

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

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

FHA requires that, absent the consent of the mortgagor, at least three full monthly installments be due and unpaid before the mortgagee may initiate any action leading to foreclosure of the mortgage. FHA also requires a

face-to-face conference between the mortgagee and the mortgagor in an effort to cure the delinquency without foreclosure.

### **FHA Title I Home Improvement Program**

Title I of the National Housing Act, as amended, provides a program in which financial institutions and the federal government combine in assisting borrowers to make eligible improvements to their property. Under Title I, the FHA is authorized and empowered to enter into an FHA Title I contract or insurance with financial institutions and federal, state, and municipal governmental agencies, insuring any such entity against losses that it may sustain as a result of defaults on home improvement loans.

For each insured party, such as the Authority (each, an "Insured"), there is maintained by the FHA an insurance coverage reserve account in an amount initially equal to 10% of the amount disbursed, advanced, or expended on all loans originated or purchased by the Insured, less the amount of all insurance claims approved for payment in connection with losses on such loans, and less the amount of any annual adjustment. The amount of insurance coverage in the reserve account credited to each Insured is adjusted annually following the expiration of five years after the issuance of the contract of insurance with each Insured (regardless of when insured loans are originated) by deducting therefrom an amount equal to 10% of the amount of insurance coverage contained in the reserve account, provided that such adjustments may not reduce the amount of insurance coverage in the reserve account to an amount less than \$50,000. On June 5, 1995, HUD issued its Title I Letter TI-431, which waived, as of October 1, 1995, the application of the above-described annual reduction of such insurance reserves, and which states that such waiver is to remain in effect until rulemaking procedures to change the regulations providing for such reductions have been carried out.

With respect to insurance claims, each Insured will be reimbursed for its losses on loans up to the amount of its reserve, and the reserve is reduced by the amount of each claim paid. Such reimbursement will be 90% of the sum of the following amounts: (a) the unpaid amount of the loan (net unpaid principal and uncollected interest earned to the date of default); (b) the unpaid amount of interest on the unpaid amount of the loan obligation from the date of default to the date of the claim application submission plus 15 calendar days, calculated at the rate of seven percent per annum (however, interest will not be paid for any period greater than nine months from the date of default); (c) uncollected court costs; (d) attorneys' fees on an hourly or other basis for time actually expended and billed, not to exceed \$500; and (e) expenses for recording the assignment of the security to the United States.

A contract of insurance may be terminated by the FHA, with respect to future loans at any time upon five day's prior written notice from the FHA, or the Insured may request termination at any time. Insurance reserves will remain to the credit of the Insured until liquidation of the portfolio. The cancellation of a contract of insurance will not adversely affect the insurance coverage reserve account on loans previously accepted for insurance absent fraud or misrepresentation.

Title I regulations set forth certain eligible and ineligible improvements to properties. The Authority will only be financing loans classified as single family property improvement loans. Single family property improvement loans are those applicable to existing structures used or to be used as a single family residence, including an existing one-family manufactured home that qualifies as real property if the home is placed on a permanent foundation, the home and lot are classified as realty by the state or locality in which the property is located, and any loans on the property are secured by mortgages or deeds of trust covering the home and lot. The maximum loan amount under Title I for any home improvement loan financed by the Authority is \$25,000 (lower limits would apply under the Code for home improvement loans financed by Tax-Exempt Bonds). Title I regulations currently provide that the minimum term of a home improvement loan is six months and the maximum term is 20 years and 32 days.

A dated credit application must be obtained for each loan on a form approved by HUD. The credit information must clearly show the borrower to be solvent with reasonable ability to repay the loan. If any misstatement or misuse of the loan proceeds is discovered with respect to a loan made in good faith and the Insured promptly reports this to the FHA, the eligibility of the loan for insurance will not be affected provided that the validity of any lien on the property has not been impaired.

A claim for loss on a defaulted loan may be filed with the FHA by the Insured after default, provided written demand has previously been made on the borrower for the full unpaid balance of the loan. For the purposes of determining the date of default, any payments received on an account, including payment on judgments predicated thereon, must be applied to the earliest unpaid installment. The allowable claim period will run to nine months after the due date of the final installment. An insurance claim must be filed not later than nine months after the date of default. The FHA may extend the claim filing period in a particular case, but only where the Insured shows clear

evidence that the delay in claim filing was in the interest of the Secretary or was caused by (i) litigation related to the loan or (ii) management control of the Insured or the Title I loan portfolio having been assumed by a Federal or state agency. The Insured may elect whether to proceed against the loan's security or make a claim but may not take both actions unless the approval of the FHA is received. If the Insured elects to file a claim, the loans and any security held or judgment taken must be assigned in its entirety to the United States.

Title I regulations presently provide that the insurance charge on any home improvement loan will be an annual amount equal to 0.5% of the original principal amount of the home improvement loan multiplied by the number of years of the loan term. Insureds are billed directly for the insurance charge. Certain other financing charges may be imposed to cover the costs of the Insured in carrying the home improvement loan, such as title examination charges and appraisals. These costs may be included in the face amount of the home improvement loan (provided that the loan amount does not exceed the Title I limit and, if applicable, the Code limit) or may be paid directly to the Insured or the servicer by the borrower.

The Authority expects to finance any Title I Single Family Mortgage Loans solely from proceeds of Taxable Bonds. Therefore, the Authority expects that any Title I Single Family Mortgage Loans will not be subject to the requirements under the Code applicable to rehabilitation and home improvement loans.

### **Veterans Administration Mortgage Guaranty**

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

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

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

### **Rural Development Mortgage Guarantee**

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

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

that the mortgagee arrange a meeting with the mortgagor before payment on the mortgage loan becomes 60 days delinquent. Rural Development does not accept assignment of property subject to its guarantee.

### **Private Mortgage Insurance**

Each private mortgage insurance policy with respect to a Single Family Mortgage Loan must contain provisions substantially as follows: (a) the mortgage insurer must pay a claim, including unpaid principal, accrued interest, the amounts equal to deferred interest in connection with Single Family Mortgage Loans with graduated payments schedules, if any, and expenses, within sixty days of presentation of the claim by the Authority; (b) when a claim for the outstanding principal amount, accrued interest and expenses is presented, the mortgage insurer must either (i) pay such claim in full and take title to the mortgaged property and arrange for its sale or (ii) pay the insured percentage of such claim and allow the Authority to retain title to the mortgaged property or (iii) settle a claim for actual losses where such losses are less than the insured percentage of the claim. (See "Single Family Program" under "The Programs" for a discussion of The Homeowners Protection Act of 1998 that affects private mortgage insurance).

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**DEVELOPMENTS FINANCED BY THE CURRENTLY OUTSTANDING BONDS OR EXPECTED TO BE FINANCED BY THE OFFERED BONDS**  
 Information as of June 30, 2003

Development	Location	Mortgage Loan Amount (1)	Program	Type of Occupancy	Number of Units	Percentage of Occupancy Rate	Percentage of	
							Construction	Complete
<b>Developments Funded by, or Committed to, the Currently Outstanding Bonds</b>								
<b>Developments which have had final closing (permanent loans)</b>								
14th Street	Roanoke	\$ 4,447	Tax Credit	General	2	(4)		100 %
2nd & Jackson	Richmond	380,000	Conventional	General	11	(4)		100
Ada Mccoy House	Lexington	55,000	(5)	Disabled	4	(4)		100
Alcove Lane	Luray	227,600	Conventional	Elderly	19	(4)		100
Alleghany Building	Clifton Forge	200,000	Tax Credit	Elderly	20	(4)		100
Annie B. Rose	Alexandria	3,679,062	Section 8	Elderly	91	100 %		100
Arlington Mountain Mens Shelter	Arlington	45,000	(5)	Transitional	20	(4)		100
Ashton Commons	Manassas	1,000,000	Tax Credit	General	180	96		100
Ashton House North	Arlington	393,850	Conventional	General	9	(4)		100
Augusta Farms	Augusta County	663,000	Section 236/FHA	General	50	100		100
Autumn Ridge	Roanoke	683,000	Tax Credit	General	72	98		100
Autumn Ridge	Roanoke	200,000	Tax Credit	General	72	(4)		100
Bacon Retirement	Richmond	900,000	Tax Credit	Elderly	58	(4)		100
Bainbridge Commons	Chesapeake	2,518,640	Section 8	General	92	98		100
Baker Home	Franklin	350,000	Conventional	Elderly	60	(4)		100
Baker Street	Winchester	52,500	Tax Credit	General	18	(4)		100
Beaverdam Creek	Mechanicsville	1,000,000	Tax Credit	General	120	87		100
Bell Diamond Manor	Norfolk	2,212,200	Section 236/FHA	General	128	100		100
Bellefonte	Alexandria	514,426	Section 8	General	166	100		100
Bellevue Senior	Orange	1,000,000	Tax Credit	Elderly	36	(4)		100
Belvoir Plaza	Alexandria	1,000,000	Conventional	General	45	(4)		100
Berkley South (7)	Newport News	1,872,158	Section 8/FHA	Elderly	190	96		100
Blue Ridge Estates	Richmond	4,865,961	Section 8	General	182	96		100
Bowler Retirement	Richmond	1,000,000	Tax Credit	Elderly	62	(4)		100
Bradford I	Smithfield	1,000,000	Tax Credit	General	84	95		100
Braywood Manor	Norfolk	7,579,911	Section 8	Elderly	238	99		100
Brook Run Townhomes	Richmond	750,000	Tax Credit	General	132	100		100
Brookridge	Newport News	1,200,000	Conventional	General	559	(4)		100
Buckman Road	Fairfax County	3,272,100	Section 236/FHA	General	204	(4)		100
Burton Creek(3)	Lynchburg	1,626,774	Section 8	General	85	95		100
Calvert Manor	Arlington	990,000	Tax Credit	General	23	(4)		100
Cambridge Square	Blacksburg	1,083,844	Section 8	General	40	95		100
Campbell Ave	Roanoke	117,000	Conventional	General	1	(4)		100

Development	Location	Mortgage Loan Amount (1)	Program	Type of Occupancy	Number of Units	Percentage of Occupancy Rate	Percentage of Construction Complete
Campostella	Chesapeake	1,000,000	Tax Credit	General	132	100	100
Canterbury Crossing	Chesapeake	195,000	Tax Credit	General	30	(4)	100
Carriage House	Petersburg	4,125,000	Section 8	Elderly	118	96	100
Cary 2000 Phase 3	Richmond	350,000	Tax Credit	General	30	(4)	100
Cedar Crest I	Blacksburg	650,000	Tax Credit	General	26	(4)	100
Center for Community Living	Winchester	350,000	(5)	Disabled	38	(4)	100
Century Plaza	Hampton	1,570,400	Sect. 221(d)(3)/FHA	General	120	(4)	100
Chantilly Mews(3)	Fairfax County	1,541,939	Section 8	General	50	98	100
Charlottesville Hope House 2	Charlottesville	115,500	(5)	Transitional	11	(4)	100
Charnwood Forest(3)	Richmond	1,406,690	Section 8	Elderly	100	99	100
Christian Relief	Burke	131,942	(5)	Disabled	12	(4)	100
City Wide Homes	Virginia Beach	1,032,000	Tax Credit	General	32	(4)	100
Clarendon Court	Arlington	850,200	Tax Credit	General	103	98	100
Claridge House II(3)	Alexandria	2,723,759	Section 8	Elderly	304	100	100
Clearview Manor	Roanoke County	2,531,271	Section 8	Elderly	101	97	100
Colonial Hall	Norfolk	1,311,076	Section 8	General	40	100	100
Columbia Commons (3)	Arlington County	1,296,022	Tax Credit	General	199	96	100
Columns On Grove	Richmond	433,099	Tax Credit	Elderly	28	(4)	100
Countryside I & II	Pratt	347,999	Tax Credit	Disabled	24	(4)	100
Countryside 2	Boswells Tavern	228,000	(5)	Disabled	20	(4)	100
Countryside Townhomes	Bealeton	350,000	Tax Credit	General	8	(4)	100
Coverstone IV	Prince William County	5,916,947	Section 8	General	166	100	100
Cralle Ave Adult Home	Kenbridge	269,485	Conventional	Elderly	26	(4)	100
Crevenna Oak	Fairfax County	2,103,858	Section 8	General	50	100	100
Dahlgren Harbour	Dahlgren	942,025	Conventional	General	72	96	100
Danville House	Danville	5,443,457	Section 8	Elderly	105	98	100
Dolly Ann	Alleghany County	1,477,600	Sect. 221(d)(3)/FHA	General	108	(4)	100
Dominion Place	Richmond	6,921,323	Section 8	Elderly	249	97	100
East Bay	Norfolk	1,800,000	Conventional	General	64	97	100
Effingham A (3)	Portsmouth	4,017,183	Section 8	Elderly	176	98	100
Elbert Avenue	Alexandria	900,000	Tax Credit	General	29	(4)	100
Elmtree	Giles County	309,290	Section 8	Disabled	13	100	100
Evans Ridge	Leesburg	500,000	Tax Credit	General	150	98	100
Evergreen House(3)	Fairfax County	5,215,966	Section 8	Elderly	246	100	100
Fairfax Village	Radford	1,081,350	Section 8	General	40	98	100
Fellowship House II	Fairfax County	2,535,155	Section 236	Elderly	100	100	100
Ferncliff South	Roanoke	1,806,762	Section 8	General	84	90	100
Fifville Project	Charlottesville	110,000	Conventional	General	4	(4)	100
Fillmore St	Lynchburg	96,000	(5)	Disabled	15	(4)	100
Flint Hill Rd	Powhatan	140,000	Tax Credit	Disabled	3	(4)	100
Fort Henry Gardens	Arlington	900,000	Tax Credit	General	82	100	100

Development	Location	Mortgage Loan Amount (1)	Program	Type of Occupancy	Number of Units	Percentage of Occupancy Rate	Percentage of Construction Complete
Fort Myer	Arlington	618,000	Conventional	General	11	(4)	100
Four Mile Road	Alexandria	234,115	(5)	Disabled	6	(4)	100
Fox Hill	Hampton	264,000	Conventional	General	252	(4)	100
Foxwood(3)	Richmond	1,080,462	Section 8	General	60	100	100
Francis Drive	Alexandria	269,158	(5)	Disabled	8	(4)	100
Frank Roane	Lynchburg	638,919	Section 8	Elderly	26	96	100
Freetown House	Reston	200,000	(5)	Disabled	6	(4)	100
Friendship Village	Virginia Beach	725,000	Tax Credit	General	110	99	100
G&T Adult Home	Farmville	204,684	Conventional	Elderly	18	(4)	100
Garrison Woods	Stafford	5,049,600	Section 8	General	131	94	100
Gateway	Lynchburg	93,978	Tax Credit	Sub. Abuse	23	(4)	100
George Mason Square	Richmond	617,327	Section 236	General	26	100	100
Glendale(3)	Galax	758,740	Section 8	General	68	100	100
Gold Hill Village	Buckingham County	485,314	Section 8	Elderly	20	100	100
Good Shepherd	Woodbridge	15,000	(5)	Transitional	5	(4)	100
Great Oak	Newport News	3,194,470	Section 8	Elderly	141	99	100
Greenbrier Woods I (3)	Chesapeake	2,465,140	Conventional	General	152	100	100
Greenbrier Woods II (3)	Chesapeake	2,200,000	Conventional	General	120	98	100
Greene Hills Estates	Fairfax County	4,752,644	Section 8	General	100	99	100
Gypsy Hill House	Staunton	2,187,307	Section 8	Elderly	100	99	100
Hampton Transition Center	Hampton	283,202	Section 8	Disabled	12	100	100
Harbor House	Herndon	1,000,000	Tax Credit	Elderly	60	(4)	100
Harmony Heights	Harrisonburg	368,000	(5)	Disabled	8	(4)	100
Harris Gardens I	Harrisonburg	1,737,000	Section 236/FHA	General	100	(4)	100
Harris Gardens II	Harrisonburg	1,734,900	Sept. 221(d)(3)/FHA	General	100	(4)	100
Hazelridge Road	Roanoke County	266,588	Section 8	Disabled	13	100	100
Hegira House	Roanoke	230,364	(5)	Transitional	18	(4)	100
Heritage Acres XVIII(3)	Dillwyn	671,076	Section 8	General	40	93	100
Heritage Towers	Danville	3,256,116	Section 8	Elderly	100	100	100
Highland Common	Warrenton	1,000,000	Tax Credit	General	96	96	100
Hillside Apts	Tazewell	873,000	Tax Credit	Elderly	36	(4)	100
Holcomb House	Winchester	50,000	Tax Credit	Disabled	6	(4)	100
Holiday Village I	Danville	1,203,130	Section 8	Elderly	64	100	100
Holiday Village II	Danville	1,094,227	Section 8	Elderly	51	100	100
Holiday Village III(3)	Danville	244,960	Section 8	Elderly	18	100	100
Hope Village	Portsmouth	823,500	Tax Credit	General	48	(4)	100
Hopewell Heights	Hopewell	4,540,104	Section 8	Elderly	150	100	100
Howard Street	Alexandria	125,000	(5)	Transitional	4	(4)	100
Hunting Creek	Fairfax County	1,597,498	Section 8	General	35	100	100
Jackson Ward	Richmond	722,897	Section 8	General	18	100	100
Janna Lee I	Fairfax County	2,746,821	Section 236	General	110	97	100

Development	Location	Mortgage Loan Amount (1)	Program	Type of Occupancy	Number of Units	Percentage of Occupancy Rate	Percentage of Construction Complete
Janna Lee II	Fairfax County	4,369,074	Conventional	General	209	97	100
Jefferson Mew	Richmond	400,000	Tax Credit	General	29	(4)	100
Johnson Transitional Center	Alexandria	50,000	Conventional	Elderly	6	(4)	100
Johnson Williams	Berryville	515,000	Tax Credit	General	40	98	100
Lakeview Terrace I	Colonial Heights	1,432,100	Sept. 221(d)(4)/FHA	General	76	(4)	100
Langley Square I	Hampton	2,109,000	Section 236/FHA	General	126	(4)	100
Langley Square II	Hampton	2,283,300	Section 236/FHA	General	126	(4)	100
Langley Village I I	Hampton	345,000	Conventional	General	10	(4)	100
Lawndale Farm	Richmond	1,000,000	Tax Credit	General	50	82	100
Lee-High Residence	Rockingham	290,844	Section 8	Disabled	12	100	100
Leisure Park Towers	Bristol	3,856,694	Section 8	Elderly	150	100	100
Lexington House	Lexington	1,418,134	Section 8	Elderly	78	100	100
Liberty Manor	Bedford	417,290	Section 8	General	24	100	100
Lineweaver	Harrisonburg	800,000	Tax Credit	Elderly	60	98	100
Locust / Jarman	Charlottesville	689,000	(5)	Disabled	12	(4)	100
London Oaks	Portsmouth	6,201,932	Section 8	General	296	99	100
Lorcom Arms	Arlington Co	1,100,000	Tax Credit	General	40	100	100
Lynchburg High	Lynchburg	2,024,100	Section 8	General	70	94	100
Lynnhaven Landing	Virginia Beach	7,200,000	Conventional	General	252	99	100
Lynnhill Commons 1 & 2	Suffolk	1,375,392	Tax Credit	General	24	(4)	100
M.O. Mohr Center 1 & 2	Charlottesville	116,124	(5)	Sub. Abuse	24	(4)	100
Madison Ave	Roanoke	120,000	Tax Credit	General	4	(4)	100
Madison House(3)	Loudoun County	1,644,983	Section 8	Elderly	100	100	100
Malvern Hill	Portsmouth	2,048,818	Section 8	Elderly	56	100	100
Maple Avenue	Purcellville	150,000	Tax Credit	General	60	(4)	100
Market Slip	Richmond	750,000	Tax Credit	General	30	(4)	100
Marquis Villa	Norfolk	1,575,000	Conventional	General	76	97	100
Massanutten Manor(3)	Shenandoah	1,569,160	Section 8	Elderly	114	100	100
Massie Haven	Stuarts Draft	250,000	(5)	Disabled	22	(4)	100
Meadow Landing North	Chesapeake	1,400,000	Conventional	General	40	(4)	100
Meadows	Lynchburg	2,000,300	Section 8	General	66	(4)	100
Mecklenburg Manor	Mecklenburg County	664,900	Section 236/FHA	General	51	(4)	100
Metro Gardens	Petersburg	108,000	Conventional	Elderly	27	(4)	100
Mill Park Terrace (3)	Fredericksburg	3,110,346	Section 8	Elderly	129	100	100
Monticello Vista	Charlottesville	825,000	Tax Credit	Elderly	50	97	100
Morris Glen	Alexandria	1,000,000	Tax Credit	Elderly	60	98	100
Mount Vernon Gardens	Alexandria	250,000	Conventional	General	34	(4)	100
Murraygate	Alexandria	500,000	Tax Credit	General	204	(4)	100
Nansemond Square I	Suffolk	3,426,700	Section 8	General	128	95	100
New Clay House	Richmond	225,000	Tax Credit	Transitional	47	(4)	100
Newman Village	Richmond	2,350,589	Section 236	General	99	96	100

Development	Location	Mortgage Loan Amount (1)	Program	Type of Occupancy	Number of Units	Percentage of Occupancy Rate	Percentage of Construction Complete
Newport News Transition Center	Newport News	256,311	Section 8	Disabled	13	100	100
Norcroft Apts	Richmond	1,000,000	Tax Credit	General	109	(4)	100
North Armistead 479	Alexandria	45,000	Tax Credit	Transitional	3	(4)	100
North Armistead 525	Alexandria	45,000	Tax Credit	Transitional	3	(4)	100
North Hills	Pittsylvania County	1,825,000	Section 236/FHA	General	114	(4)	100
North Kent St	Winchester	69,000	Tax Credit	General	4	(4)	100
Northpointe	Danville	1,000,000	Tax Credit	General	168	(4)	100
Northview Gardens	Martinsville	1,312,000	Section 236/FHA	General	100	(4)	100
Northwinds	Wythe County	3,198,751	Section 8	General	144	94	100
Notabene 607	Alexandria	348,050	(5)	Transitional	12	(4)	100
Notabene 612	Alexandria	351,050	(5)	Transitional	9	(4)	100
Nottingham Farm	Nassawadox	4,000	Tax Credit	Transitional	20	(4)	100
Oakland Village(3)	Henrico County	2,303,412	Section 236	General	100	97	100
Oaks, The	Warrenton	1,000,000	Tax Credit	Elderly	96	(4)	100
Orday House	Richmond	358,028	Section 8	Disabled	12	100	100
Osage House	Petersburg	388,191	Section 8	Disabled	13	100	100
Palace Court I	Martinsville	150,000	Conventional	General	6	(4)	100
Parc II	Portsmouth	50,000	(5)	Transitional	2	(4)	100
Park Terrace	Norfolk	1,631,606	Section 8	General	81	99	100
Parkway Village I	Augusta County	1,614,000	Section 8	General	66	98	100
Pathway Homes	Alexandria	221,058	(5)	Disabled	28	(4)	100
Petersberg Home	Petersburg	188,670	Conventional	Elderly	31	(4)	100
Petersburg East II	Petersburg	1,352,500	Section 236/FHA	General	68	93	100
Pierce Queen	Arlington	531,424	Conventional	General	50	98	100
Pilot House	Newport News	3,360,000	Tax Credit	General	132	98	100
Pinetta Community House	Chesterfield	79,266	(5)	Disabled	4	(4)	100
Pittston Place	Lebanon	400,000	(5)	Disabled	10	(4)	100
Pleasant Park II	Chesapeake	1,444,800	Sect. 221(d)(3)/FHA	General	100	(4)	100
Pleasant View I	Timberville	13,000	(5)	Transitional	4	(4)	100
Pleasant View II	Timberville	29,750	(5)	Transitional	6	(4)	100
Poachers Run	Chesterfield	156,150	(5)	Disabled	3	(4)	100
Preston II	Winchester	1,000,000	Tax Credit	General	72	(4)	100
Quary Station	Manassas	700,000	Tax Credit	Disabled	79	99	100
Randolph Village	Richmond	2,698,417	Section 8	General	91	99	100
Renaissance(3)	Richmond	4,198,421	Section 8	Elderly	240	99	100
Ridge Run Group home	Chesterfield	80,000	Conventional	General	3	(4)	100
Rio Hill	Charlottesville	1,000,000	Tax Credit	General	139	96	100
River Trace	Newport News	1,000,000	Tax Credit	General	56	(4)	100
River Woods Townsquare	Woodbridge	1,000,000	Tax Credit	Transitional	135	99	100
Roanoke Home	Roanoke	350,000	Conventional	General	43	(4)	100
Roper Rental	Petersburg	378,000	(5)	Transitional	28	(4)	100

Development	Location	Mortgage Loan Amount (1)	Program	Type of Occupancy	Number of Units	Percentage of Occupancy Rate	Percentage of Construction Complete
Rose Hall I	Virginia Beach	4,040,000	Conventional	General	152	93	100
Runk & Pratt 1	Lynchburg	350,000	Conventional	General	90	(4)	100
Runk & Pratt 2	Lynchburg	350,000	Conventional	Elderly	90	(4)	100
Runk & Pratt Adult Care	Bedford	415,000	Conventional	Elderly	44	(4)	100
S A F E Transitional home	Culpeper	55,000	(5)	Transitional	4	(4)	100
Saunders	Suffolk	190,000	(5)	Transitional	6	(4)	100
Sea Haven	Virginia Beach	604,500	Conventional	General	26	(4)	100
Seminary Road	Alexandria	250,000	(5)	Disabled	6	(4)	100
Shenadoah Homes	Roanoke	57,672	Conventional	Elderly	204	(4)	100
Shenadoah Recovery 1 & 2	Roanoke	174,000	(5)	Sub. Abuse	30	(4)	100
Shepherd House 2	Woodbridge	110,000	(5)	Disabled	1	(4)	100
Shockoe Hill II	Richmond	1,968,100	Tax Credit/FHA	Elderly	64	97	100
Shockoe I I I	Richmond	354,108	Conventional	Elderly	12	(4)	100
Shore Street	Petersburg	75,560	(5)	Transitional	4	(4)	100
Sideburn 4904	Fairfax	207,935	(5)	Disabled	6	(4)	100
Silver Hill @ Great Neck	Virginia Beach	1,000,000	Tax Credit	Elderly	122	91	100
South George Mason	Falls Church	157,500	(5)	Disabled	2	(4)	100
Southridge	Wytheville	213,704	Tax Credit	Disabled	20	(4)	100
Southview	Smyth County	2,066,431	Section 8	Elderly	100	99	100
Spring Hill	Richmond	1,000,000	Tax Credit	General	30	(4)	100
St Andrews Apartments	Richmond	414,061	Tax Credit	Disabled	22	(4)	100
St Mark St	Petersburg	545,491	Tax Credit	General	14	(4)	100
Stafford Lakes	Fredericksburg	1,000,000	Tax Credit	General	150	93	100
Steppingstone	Charlottesville	107,679	Conventional	General	4	(4)	100
Stevens Varnum House	Lovingsston	375,000	(5)	Disabled	7	(4)	100
Stirrup House	Reston	290,000	(5)	Disabled	6	(4)	100
Stonebriar	St Paul	350,000	Tax Credit	Elderly	24	(4)	100
Stuart Gardens I	Newport News	5,970,233	Section 8	General	252	93	100
Stuart Gardens II	Newport News	6,131,890	Section 8	General	239	93	100
Sullivan House	Arlington	65,000	(5)	Transitional	10	(4)	100
Sumler Terrace	Norfolk	2,643,626	Section 8	General	126	99	100
Sunhouse	Bristol	305,842	Section 8	Disabled	13	92	100
Sunnyside Village	Accomac	88,000	Conventional	General	16	(4)	100
Tavenner Lane	Alexandria	380,000	Tax Credit	General	24	(4)	100
Tekoa Group home	Christiansburg	350,000	(5)	Sub. Abuse	16	(4)	100
Thornhill Place	Roanoke	300,000	Tax Credit	General	20	(4)	100
Tiffanies Manor	Richmond	100,000	(5)	Disabled	140	(4)	100
Tobacco Landing	Richmond	1,000,000	Tax Credit	General	60	(4)	100
Totty Place	Ettrick	180,047	Conventional	Elderly	22	(4)	100
Town & Country South	Richmond	2,192,922	Section 8	General	132	98	100
Treemont(3)	Buena Vista	897,378	Section 8	General	60	97	100

Development	Location	Mortgage Loan Amount (1)	Program	Type of Occupancy	Number of Units	Percentage of Occupancy Rate	Percentage of Construction Complete
Twin Canal Village	Virginia Beach	7,658,311	Section 8	General	300	98	100
Tysons Tower	Fairfax County	7,231,575	Section 236	Elderly	274	99	100
Washington Columns	Petersburg	400,000	Tax Credit	General	26	100	100
Waverton Place Chesapeake	Chesapeake	2,414,030	Tax Credit	General	304	73	100
Westbridge Commons	Chesapeake	780,000	Tax Credit	General	60	100	100
Westbrook Commons	Falls Church	1,000,000	Tax Credit	General	96	92	100
Westminster Oaks(3)	Fairfax County	1,406,292	Section 8	General	50	100	100
Westover Station	Newport News	3,455,000	Tax Credit	General	108	100	100
Westside Village	Halifax	1,561,567	Section 8	General	70	100	100
William Byrd	Richmond	1,000,000	Tax Credit	Elderly	107	99	100
Williamsburg Estates	Dublin	792,520	Conventional	General	52	97	100
Willow Oaks	South Boston	2,002,300	Section 8	General	72	(4)	100
Winchester House	Winchester	2,044,155	Section 8	Elderly	80	96	100
Woodbridge Chesapeake	Chesapeake	1,000,000	Tax Credit	General	152	96	100
Woodbridge Point	Newport News	4,400,000	Conventional	General	138	91	100
Woodcroft Village A	Richmond	5,628,496	Section 236	General	250	94	100
Woodland Hill	Arlington	7,069,602	Section 8	Elderly	235	98	100
Woodridge	Roanoke	1,200,000	Tax Credit	General	96	99	100
Woods of Williamsburg	James City County	2,363,685	Conventional	General	125	94	100
Woodside Village(3)	Danville	1,017,765	Section 8	General	160	96	100
Woodview	Newport News	6,050,000	Tax Credit	General	240	95	100
Wythe Row Townhouses	Petersburg	400,000	Tax Credit	General	12	(4)	100
Subtotals		\$ 355,379,624			19,736		
<b>Developments which are financed by construction loans</b>							
Bay Breeze	Norfolk	\$ 5,490,000	Conventional	General	168	n/a	99 %
Crater Square	Petersburg	4,750,000	Conventional	General	130	n/a	94
Greenlakes	Virginia Beach	5,350,000	Conventional	General	150	n/a	48
Manassas Park Seniors	Prince William County	12,285,000	Conventional	Elderly	148	n/a	39
McGuire Park	Richmond	1,700,000	Tax Credit	General	80	n/a	37
Metropolitan at Dulles	Fairfax County	26,200,000	Conventional	General	244	n/a	15
Poplar Forest III	Prince Edward County	626,000	Conventional	General	22	n/a	100
Prince William Town Center	Prince William County	17,500,000	Tax Credit	General	224	n/a	10
Subtotals		\$ 73,901,000			1,166		
<b>Developments which have been committed but not initially closed</b>							
Afton Square	Portsmouth	\$ 160,000	Tax Credit	General	79	n/a	n/a
Ann Wingfield Commons (6)	Culpeper Co	750,000	Tax Credit	General	33	100 %	100 %
Cedar Crest I I I	Montgomery Co	620,000	Tax Credit	General	28	n/a	10
Cedar Forest	Alleghany Co	500,000	Tax Credit	General	40	100	100
Crystal Chase	Shenandoah Co	500,000	Tax Credit	General	32	n/a	n/a

Development	Location	Mortgage Loan		Program	Type of Occupancy	Number of Units	Percentage of Occupancy Rate	Percentage of Construction Complete
		Amount (1)						
Gretna Village	Pittsylvania	340,000		Tax Credit	General	47	n/a	n/a
Harbor Landing	Bristol	500,000		Tax Credit	General	32	n/a	30
Heather Glen	Radford	730,000		Tax Credit	General	40	n/a	40
Herman Court	Norfolk	60,000		Conventional	General	16	n/a	n/a
Maury Senior Retirement Village	Richmond	800,000		Tax Credit	Elderly	45	40	90
Ridgewood Place	Radford	130,000		Tax Credit	General	32	66	100
Ridgewood Place Seniors	Radford	985,000		Tax Credit	Elderly	40	n/a	50
Rose Hill	Lee Co	420,000		Tax Credit	General	32	n/a	20
Sandston Woods	Henrico Co	397,000		Tax Credit	General	64	90	90
Whitewood Village	Charlottesville	2,300,000		Conventional	General	96	n/a	n/a
Subtotals		\$ 9,192,000				656		
Totals for the Currently Outstanding Bonds		\$ 521,565,624				23,380		

**Developments and Commitments Expected to be Funded by the Offered Bonds**

**Developments which have had final closing (permanent loans)**

Berkley South (7)	Newport News	\$ 2,697,842		Sec. 8, FHA	Elderly	190	96 %	100 %
Brandywine	Virginia Beach	5,528,400		Conventional	General	172	97	100
Burton Creek	Lynchburg	2,504,374		Sec. 8	General	85	96	100
Chantilly Mews	Fairfax	2,337,376		Sec. 8	General	50	98	100
Charmwood Forest	Richmond	3,183,990		Sec. 8	Elderly	100	99	100
Claridge House II	Alexandria	11,487,523		Sec. 8	Elderly	304	100	100
Delmont Plaza	Henrico	1,052,911		Sec. 8	General	41	100	100
Denbigh Trace	Newport News	3,745,890		Sec. 8	General	128	99	100
Elkhart	Chesapeake	600,000		Conventional	General	34	(4)	100
Forestbrooke	Richmond	4,844,251		Sec. 8	General	158	99	100
Foxwood	Richmond	1,816,415		Sec. 8	General	60	97	100
Friendship Court	Charlottesville	3,860,650		Sec. 8	General	150	94	100
Glendale	Galax	1,716,807		Sec. 8	General	68	97	100
Granby House	Norfolk	4,466,068		Sec. 8	Elderly	154	98	100
Hillcrest	Lynchburg	3,022,861		Sec. 8	Elderly	103	100	100
Holiday Village III	Danville	500,769		Sec. 8	Elderly	18	100	100
Laurel Ridge	Hillsville	1,726,452		Sec. 8	General	56	89	100
Lincoln Square	Staunton	3,349,427		Sec. 8	General	110	73	100
Massanutten Manor	Shenandoah	3,293,775		Sec. 8	Elderly	114	100	100
Midway Manor	Charlottesville	3,035,502		Sec. 8	Elderly	98	99	100

Development	Location	Mortgage Loan Amount (1)	Program	Type of Occupancy	Number of Units	Percentage of Occupancy Rate	Percentage of Construction Complete
Minerva Fisher Hall	Fairfax	437,157	Sec. 8	Disabled	12	100	100
Mosby Heights	Harrisonburg	3,219,022	Sec. 8	General	112	99	100
Mountain View	Big Stone Gap	3,455,985	Sec. 8	General	97	93	100
North Jefferson Square	Newport News	2,747,654	Sec. 8	General	100	100	100
Old Mill Townehomes	Lynchburg	n/a	Conventional	General	156	85	100
Parkway Village II	Waynesboro	1,651,450	Sec. 8	General	60	92	100
Pinecrest	Brunswick	2,302,457	Sec. 8	General	70	94	100
Place One	Henrico	2,750,000	Sec. 8	General	114	99	100
Randolph Place	Richmond	1,908,046	Sec. 8	Elderly	50	96	100
Renaissance	Richmond	10,214,000	Sec. 8	Elderly	240	99	100
Riverbend	Radford	1,432,698	Sec. 8	General	60	100	100
Shockoe Hill I	Richmond	3,460,180	Sec. 8	Elderly	113	93	100
Southside Gardens	Portsmouth	3,825,000	Sec. 8	General	134	100	100
Spruce Village	Martinsville	2,805,715	Sec. 8	Elderly	101	96	100
Suburban House	Norfolk	3,732,888	Sec. 8	Elderly	154	99	100
Summit Oaks	Fairfax	2,327,881	Sec. 8	General	50	100	100
Sussex Trace	Sussex	1,465,835	Sec. 8	General	50	98	100
Treemont	Buena Vista	1,685,945	Sec. 8	General	60	91	100
Valley View	Lexington	1,698,129	Sec. 8	General	64	100	100
VHDA Building	Richmond	n/a	n/a	n/a	n/a	n/a	100
Waterford Pointe	Hampton	5,200,000	Tax Credit	General	120	99	100
Westwood Village	Roanoke	2,824,271	Sec. 8	General	113	93	100
Woodside Village	Danville	3,985,206	Sec. 8	General	160	96	100
Subtotals		\$ 127,900,802			4,383		

**Developments which have been committed but not closed**

Clearfield (3)	Colonial Heights	\$ 1,000,000	Tax Credit	General	144	96 %	100 %
Columbia Heights	Arlington	6,300,000	Tax Credit	General	109	n/a	n/a
Newbridge Village	Henrico	4,250,000	Tax Credit	General	152	n/a	n/a
Mangrove III	Norfolk	630,000	Conventional	General	19	n/a	n/a
Picadilly Street	Norfolk	287,000	Conventional	General	10	n/a	n/a
River Woods (3)(6)	Woodbridge	2,250,000	Tax Credit	General	156	96	100
Rolling Meadows I (3)	James City County	1,000,000	Tax Credit	General	144	94	100
Sandston Woods	Henrico	310,000	Tax Credit	General	64	n/a	100
Summerdale	Henrico	6,660,000	Tax Credit	General	124	n/a	n/a
Thalia Commons	Virginia Beach	2,475,000	Conventional	General	22	n/a	n/a
Subtotals		\$ 25,162,000			944		

Development	Location	Mortgage Loan Amount (1)	Program	Type of Occupancy	Number of Units	Percentage of Occupancy Rate	Percentage of Construction Complete
Totals for the Offered Bonds		\$ 153,062,802			5,327		
Grand Totals for All Developments		\$ 674,628,426			28,707		

- (1) Mortgage Loan amount established at final closing. For Developments which have not yet achieved final closing, the amount shown represents the Mortgage Loan commitment.
- (2) For Developments which have achieved final closing, this percentage is for all units; for Developments under construction or major rehabilitation, it is only for those units which are completed and available for rent.
- (3) In addition to the Mortgage Loan amount shown here, additional mortgage loan amounts are pledged to the owners of Authority bonds other than the Bonds. Such amounts are treated as a participation in the aggregate mortgage loan on the development.
- (4) The Authority does not monitor occupancy rates for these Developments. Generally, the units in the developments are fully occupied with minimal periods of vacancies.
- (5) The Developments were financed by the Virginia Housing Partnership Revolving Fund without any project based subsidy, mortgage insurance, or federal low-income housing tax credits. Some of the developments have received other external subsidy.
- (6) Development has had final closing since June 30, 2003.
- (7) In addition to the Mortgage Loan amount shown here, additional Mortgage Loan amounts are pledged to the Bonds.

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**

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

June 30, 2003 and 2002

(With Independent Auditors' Report Thereon)

# VIRGINIA HOUSING DEVELOPMENT AUTHORITY

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# VIRGINIA HOUSING DEVELOPMENT AUTHORITY

## Management's Discussion and Analysis

June 30, 2003 and 2002

This section of the Virginia Housing Development Authority's (the Authority) annual financial report presents management's discussion and analysis of the Authority's financial performance during the fiscal years that ended June 30, 2003 and 2002. Please read it in conjunction with the Authority's financial statements, which follow this section. The annual financial report consists of four parts, management's discussion and analysis (this section), the basic financial statements, the accompanying footnotes, and the supplementary information.

### FINANCIAL HIGHLIGHTS

#### Fiscal Year 2003

The following information represents a comparative analysis of key financial aspects of the Authority's operations between the years ended June 30, 2003 and June 30, 2002.

- €# Total assets decreased \$1.237 billion (or 15.80%)
- €# Total liabilities decreased \$1.336 billion (or 20.60%)
- €# Total net assets increased \$98.81 million (or 7.35%)
- €# Investments decreased \$371.09 million (or 34.78%)
- €# Investment income decreased \$26.76 million (or 46.12%)
- €# Mortgage and other loans receivable decreased \$638.87 million (or 10.79%)
- €# Interest on mortgage and other loans receivable decreased \$18.20 million (or 4.15%)
- €# Notes and bonds payable decreased \$1.304 billion (or 21.51%)
- €# Interest on notes and bonds payable decreased \$30.19 million (or 8.97%)

Primary factors that contributed to these changes were as follows:

- €# Total assets decreased by approximately 15.8%, primarily due to a net decline in mortgage and other loans receivable. While the multi-family and other loan portfolios grew by approximately 8.9%, falling interest rates and associated single family loan repayments resulted in a net decrease of approximately 22.7% in the primary single family lending programs.
- €# Total liabilities were reduced by approximately 20.6%, principally due to bond redemptions associated with the high levels of loan repayments.
- €# The reduction in notes and bonds outstanding, coupled with lower interest rates on new and refinanced debt, served to reduce debt interest expense.
- €# While the smaller mortgage portfolios produced lower mortgage interest income for the year, and lower interest rates contributed to reduced investment income, lower debt costs and emphasis on operating expense management resulted in an increase in total net assets of \$98.8 million.

# VIRGINIA HOUSING DEVELOPMENT AUTHORITY

## Management's Discussion and Analysis

June 30, 2003 and 2002

### Fiscal Year 2002

The following information represents a comparative analysis of key financial aspects of the Authority's operations between the years ended June 30, 2002 and June 30, 2001.

- ## Total assets increased \$441.9 million (or 5.98%)
- ## Total liabilities increased \$324.8 million (or 5.27%)
- ## Total net assets increased \$117.1 million (or 9.54%)
- ## Investments decreased \$77.8 million (or 6.79%)
- ## Investment income decreased \$38.1 million (or 39.6%)
- ## Mortgage and other loans receivable increased \$288.4 million (or 5.12%)
- ## Interest on mortgage and other loans receivable increased \$34.2 million (or 8.45%)
- ## Notes and bonds payable increased \$353.2 million (or 6.19%)
- ## Interest on notes and bonds payable decreased \$7.6 million (or 2.20%)

Primary factors that contributed to these changes were as follows:

- ## The mortgage loan portfolio experienced net growth despite a high volume of loan repayments
- ## Cash and cash equivalents also increased significantly while investments declined slightly
- ## The growth in total assets resulted principally from increased outstanding bonds issued, net of retirements, and the impact of operating income and non-operating revenues.
- ## Declines in investment income were more than offset by increases in mortgage and other loan income and decreases in note and bond interest costs

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**

Management's Discussion and Analysis

June 30, 2003 and 2002

**FINANCIAL ANALYSIS OF THE AUTHORITY**

The following table summarizes select financial information regarding the Authority's operations as of the dates and for the periods indicated:

	<u>June 30, 2003</u>	<u>June 30, 2002</u>	<u>June 30, 2001</u>	<u>2003 vs. 2002 % Increase (Decrease)</u>	<u>2002 vs. 2001 % Increase (Decrease)</u>
Cash and cash equivalents	\$ 603,070,533	814,161,221	570,008,604	(25.93%)	42.83%
Investments	695,815,220	1,066,905,240	1,144,680,125	(34.78%)	(6.79%)
Mortgage and other loans receivable	5,282,268,807	5,921,143,180	5,632,689,955	(10.79%)	5.12%
Other assets	<u>11,586,344</u>	<u>27,648,883</u>	<u>40,552,451</u>	<u>(58.09%)</u>	<u>(31.82%)</u>
Total assets	<u>6,592,740,904</u>	<u>7,829,858,524</u>	<u>7,387,931,135</u>	<u>(15.80%)</u>	<u>5.98%</u>
Notes and bonds payable	4,759,188,310	6,063,481,967	5,710,287,753	(21.51%)	6.19%
Other liabilities	<u>390,737,465</u>	<u>422,366,774</u>	<u>450,716,717</u>	<u>(7.49%)</u>	<u>(6.29%)</u>
Total liabilities	<u>5,149,925,775</u>	<u>6,485,848,741</u>	<u>6,161,004,470</u>	<u>(20.60%)</u>	<u>5.27%</u>
Net assets	\$ <u><u>1,442,815,129</u></u>	<u><u>1,344,009,783</u></u>	<u><u>1,226,926,665</u></u>	<u><u>7.35%</u></u>	<u><u>9.54%</u></u>

Description of Net Assets. The Authority's Net Assets are reported on the Statement of Net Assets in the following three categories:

1. Invested in capital assets, net of related debt – which represents an office building and land, furniture and equipment, as well as an investment in rental property, less the current outstanding applicable debt.
2. Restricted by bond indentures – which reflects those net assets held in trust accounts for the benefit of the respective bond owners, subject to the resolution requirements of the various bond indentures.
3. Unrestricted – those portions of the total net assets, which while not restricted, have been designated for a broad range of housing initiatives such as the capitalization of the Virginia Housing Fund.

Net Assets as of June 30, 2003 and 2002:

	<u>2003</u>	<u>2002</u>
Invested in capital assets, net of related debt	\$ (1,722,009)	\$ (1,938,122)
Restricted by bond indentures	1,172,959,128	1,099,302,214
Unrestricted	<u>271,578,010</u>	<u>246,645,691</u>
Total net assets	\$ <u><u>1,442,815,129</u></u>	\$ <u><u>1,344,009,783</u></u>

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**

Management's Discussion and Analysis

June 30, 2003 and 2002

Results of Operations for the Years Ended June 30, 2003 and 2002. Despite low investment rates and unprecedented loan repayment levels, the Authority had a strong year in 2003 with operating revenues in excess of operating expenses plus non-operating revenues totaling \$98.8 million, down 15.6% from \$117.1 million in 2002. The following table summarizes the key sources of revenues and expenses for the years 2003 and 2002 (in millions):

	<b>2003</b>	<b>2002</b>
Operating revenues:		
Interest on mortgage and other loans receivable	\$ 420.5	438.7
Pass-through grants received	114.0	122.1
Other operating revenues	9.6	9.9
Total operating revenues	544.1	570.7
Operating expenses:		
Interest on notes and bonds payable	306.4	336.6
Pass-through grants disbursed	114.0	122.1
Other operating expenses	56.6	53.4
Total operating expenses	477.0	512.1
Net operating income	67.1	58.6
Non-operating revenues:		
Investment income *	31.3	58.0
Other non-operating revenue	0.4	0.5
Total non-operating revenue	31.7	58.5
Change in net assets	\$ 98.8	117.1

\* Investment income includes fair market value adjustment totaling \$1.9 million and \$5.6 million for the years ended June 30, 2003 and 2002, respectively.

Long-Term Debt. As of June 30, 2003 and 2002, the Authority had net outstanding notes and bonds payable totaling \$4.76 billion and \$6.06 billion, respectively, and has maintained its strong long-term bond ratings of Aa1 from Moody's Investors Services and AA+ from Standard & Poor's Rating Services.

## Independent Auditors' Report

Commissioners  
Virginia Housing Development Authority:

We have audited the accompanying statements of net assets of the Virginia Housing Development Authority (the Authority), a component unit of the Commonwealth of Virginia, as of June 30, 2003 and 2002, and the related statements of revenues, expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 basic financial statements referred to above present fairly, in all material respects, the financial position of the Virginia Housing Development Authority as of June 30, 2003 and 2002, and its changes in financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 1 through 4 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included in schedules 1 – 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 12, 2003 on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our 2003 audit.

KPMG LLP

September 12, 2003

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**

Statements of Net Assets

June 30, 2003 and 2002

	<b>2003</b>	<b>2002</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents (note 5)	\$ 603,070,533	814,161,221
Investments (note 5)	162,974,448	505,585,335
Interest receivable – investments	2,613,315	3,143,022
Mortgage and other loans receivable (note 4)	87,829,920	86,178,995
Interest receivable – mortgage and other loans	28,334,439	31,003,432
Other real estate owned	1,826,962	3,018,465
Other assets	2,606,968	2,479,280
Total current assets	889,256,585	1,445,569,750
Noncurrent assets:		
Investments (note 5)	532,840,772	561,319,905
Mortgage and other loans receivable (note 4)	5,194,438,887	5,834,964,185
Less allowance for loan loss	29,257,513	21,987,683
Less net deferred loan fees	40,514,524	39,928,834
Mortgage and other loans receivable – net	5,124,666,850	5,773,047,668
Investment in rental property – net	16,897,508	17,516,245
Property, furniture and equipment, less accumulated depreciation and amortization of \$21,566,269 and \$20,126,864 (note 6)	14,209,708	16,084,130
Unamortized bond issuance expenses	6,220,444	5,734,197
Other assets	8,649,037	10,586,629
Total noncurrent assets	5,703,484,319	6,384,288,774
Total assets	\$ 6,592,740,904	7,829,858,524
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Notes and bonds payable (note 7)	\$ 445,193,661	441,758,494
Accrued interest payable on notes and bonds	76,360,051	95,325,540
Housing Choice Voucher contributions payable	5,882,555	5,032,036
Escrows and project reserves (note 8)	26,869,102	31,556,999
Accounts payable (notes 5, 9 and 12)	82,483,689	28,465,827
Total current liabilities	636,789,058	602,138,896
Noncurrent liabilities:		
Bonds payable – net (note 7)	4,313,994,649	5,621,723,473
Escrows and project reserves (note 8 and 13)	145,728,513	144,978,650
Virginia Housing Partnership Revolving Fund liability (note 13)	—	86,586,662
Other liabilities (notes 5, 9, 12 and 13)	53,413,555	30,421,060
Total noncurrent liabilities	4,513,136,717	5,883,709,845
Total liabilities	5,149,925,775	6,485,848,741
Net Assets (note 11):		
Invested in capital assets, net of related debt	(1,722,009)	(1,938,122)
Restricted by bond indentures	1,172,959,128	1,099,302,214
Unrestricted	271,578,010	246,645,691
Total net assets	1,442,815,129	1,344,009,783
Total liabilities and net assets	\$ 6,592,740,904	7,829,858,524

See accompanying notes to financial statements.

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**

Statements of Revenues, Expenses and Changes in Net Assets

Years ended June 30, 2003 and 2002

	<b>2003</b>	<b>2002</b>
Operating revenues:		
Interest on mortgage and other loans	\$ 420,504,229	438,702,240
Pass-through grants received	113,980,467	122,156,521
Housing Choice Voucher fee income earned	1,706,291	1,936,770
Gains and recoveries on sale of other real estate owned	1,005,160	1,648,013
Other	6,901,957	6,305,727
Total operating revenues	544,098,104	570,749,271
Operating expenses:		
Interest on notes and bonds	306,416,880	336,611,252
Salaries and related employee benefits (note 12)	24,445,932	21,881,744
General operating expenses	13,633,959	15,536,982
Amortization and bond issuance expenses	1,707,595	1,057,177
Pass-through grants disbursed	113,980,467	122,156,521
Housing Choice Voucher program expenses	2,715,720	3,367,583
External mortgage servicing expenses	5,485,065	4,735,371
Losses and expenses on other real estate owned	1,304,486	1,928,215
Provision for loan losses	7,269,830	4,902,722
Total operating expenses	476,959,934	512,177,567
Operating income	67,138,170	58,571,704
Non-operating revenues:		
Investment income (note 9)	31,255,429	58,011,473
Other	411,747	499,941
Total non-operating revenues	31,667,176	58,511,414
Change in net assets	98,805,346	117,083,118
Total net assets, beginning of year	1,344,009,783	1,226,926,665
Total net assets, end of year	\$ 1,442,815,129	1,344,009,783

See accompanying notes to financial statements.

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**

Statements of Cash Flows

Years ended June 30, 2003 and 2002

	<b>2003</b>	<b>2002</b>
Cash flows from operating activities:		
Cash payments for mortgage and other loans	\$ (709,459,139)	(1,089,170,530)
Principal repayments on mortgage and other loans	1,294,597,486	762,992,034
Interest received on mortgage and other loans	419,074,194	433,871,339
Housing Choice Voucher contributions and pass-through grants received	123,088,334	125,273,666
Housing Choice Voucher contributions and pass-through grants disbursed	(122,803,751)	(139,634,027)
Cash received for Virginia Housing Partnership Fund program	3,140,260	3,064,097
Grants and cash payments made from Virginia Housing Partnership Fund program	(41,448,275)	(517,105)
Escrow payments received	155,401,478	150,303,459
Escrow payments disbursed	(158,716,189)	(140,189,883)
Other operating revenues	5,466,967	5,018,195
Cash received from loan origination fees	10,056,234	13,114,740
Cash payments for salaries and related benefits	(23,110,448)	(23,558,098)
Cash payments for general operating expenses	(16,939,294)	(20,010,094)
Cash payments for mortgage servicing expenses	(2,704,654)	(3,464,999)
Proceeds from sale of other real estate owned	16,577,214	26,759,761
Net cash provided by operating activities	952,220,417	103,852,555
Cash flows from noncapital financing activities:		
Proceeds from sale of notes and bonds	1,019,629,054	1,693,151,061
Principal payments on notes and bonds	(2,322,032,287)	(1,313,064,227)
Interest payments on notes and bonds	(312,913,824)	(337,260,711)
Cash payments for bond issuance expenses	(11,068,776)	(21,132,722)
Redemption premium paid on bond calls	(3,116,050)	(11,142,195)
Net cash provided by (used in) noncapital financing activities	(1,629,501,883)	10,551,206
Cash flows from capital and related financing activities:		
Principal payments on building bonds	(1,000,000)	(800,000)
Interest payments on building bonds	(1,457,050)	(1,504,300)
Purchases of property, furniture and equipment	(503,815)	(1,736,809)
Net cash used in capital and related financing activities	(2,960,865)	(4,041,109)
Cash flows from investing activities:		
Purchase of investments	(1,632,703,467)	(1,144,291,194)
Proceeds from sales or maturities of investments	2,071,923,254	1,228,711,446
Interest received on investments	29,931,856	49,369,713
Net cash provided by investing activities	469,151,643	133,789,965
Net increase (decrease) in cash and cash equivalents	(211,090,688)	244,152,617
Cash and cash equivalents, at beginning of year	814,161,221	570,008,604
Cash and cash equivalents, at end of year	\$ 603,070,533	814,161,221

(Continued)

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**

Statements of Cash Flows

Years ended June 30, 2003 and 2002

	<b>2003</b>	<b>2002</b>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 67,138,170	58,571,704
Adjustments to reconcile operating income to net cash provided by operating activities:		
Gain on sale of furniture and fixtures	7,255	12,978
Depreciation of property, furniture and equipment	2,387,074	2,813,567
Other depreciation and amortization	5,070,951	2,839,460
Interest on notes and bonds	306,416,880	336,611,252
(Increase) decrease in mortgage and other loans receivable	610,029,870	(288,373,678)
(Increase) decrease in interest receivable – mortgage and other loans	2,639,198	(1,083,355)
Decrease in other real estate owned	1,062,034	3,109,209
(Increase) decrease in other assets	(556,400)	1,337,344
Decrease in accounts payable and other liabilities	(6,998,844)	(27,831,595)
Increase (decrease) in Section 8 contributions payable	850,519	(6,416,242)
Increase (decrease) in escrows and project reserves	(3,314,711)	10,113,576
Increase (decrease) in and termination of Virginia Housing Partnership Fund liability	(38,343,676)	2,456,560
Increase in net deferred loan fees	5,832,097	9,691,775
Net cash provided by operating activities	\$ 952,220,417	103,852,555
Supplemental disclosure of noncash investing activity – increase in other real estate owned as a result of loan foreclosures	\$ 15,463,950	21,776,908

See accompanying notes to financial statements.

# VIRGINIA HOUSING DEVELOPMENT AUTHORITY

## Notes to Financial Statements

June 30, 2003 and 2002

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

#### (a) Organization

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

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

#### (b) Basis of Accounting

The Authority utilizes the accrual basis of accounting in preparing its financial statements where revenues are recognized when earned and expenses when incurred. The accounts are organized on the basis of funds and groups of funds, which are set up in accordance with the authorizing act and the various note and bond resolutions. The Authority has adopted Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*. The Authority elected not to apply Financial Accounting Standards Board pronouncements issued after November 30, 1989, as allowed by GASB Statement No. 20.

#### (c) Accounting Changes

Effective July 1, 2001, the Authority implemented GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements - and Management’s Discussion and Analysis - for State and Local Governments: Omnibus*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. The primary impact of the implementation of these statements on the Authority was the addition of a Management’s Discussion and Analysis as required supplementary information; a change in the classifications of fund equity from fund balance to net assets, which are also required to be further categorized between (1) invested in capital assets, net of related debt, (2) restricted by bond indentures and (3) unrestricted net assets; use of the direct method to present the statement of cash flows; and certain additional note disclosures.

The Authority has implemented GASB Technical Bulletin 2003-1, *Disclosure Requirements for Derivatives Not Reported at Fair Value on the Statement of Net Assets*, as of June 30, 2003. This statement had no effect on the current year financial statements.

# VIRGINIA HOUSING DEVELOPMENT AUTHORITY

## Notes to Financial Statements

June 30, 2003 and 2002

**(d) Use of Estimates**

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

**(e) Investments**

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

**(f) Investment in Rental Property**

Investment in rental property represents three multi-family apartment complexes, including property, furniture and equipment. These assets are recorded at cost and are depreciated using the straight-line method over the estimated useful lives, which are thirty years for the building and five years for furniture and equipment. The investment is carried net of accumulated depreciation of \$2,325,263 as of June 30, 2003 and \$2,168,527 as of June 30, 2002.

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

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

**(h) Allowance for Loan Losses**

The Authority provides for losses when a specific need for an allowance is identified. The provision for loan losses charged or credited to operating expense is the amount necessary, in management's judgment to maintain the allowance at a level it believes sufficient to cover losses in collection of loans. Estimates of future losses involve the exercise of management's judgment and assumptions with respect to future conditions. The principal factors considered by management in determining the adequacy of the allowance are the composition of the loan portfolio, historical loss experience, economic conditions, the value and adequacy of collateral, and the current level of the allowance. The provision for loan losses was \$7,269,830 and \$4,902,722 for the years ended June 30, 2003 and 2002, respectively.

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

Property, furniture and equipment are capitalized at cost and depreciation is provided on the straight-line basis over the estimated useful lives, which are thirty years for the building and from three to ten years for furniture and equipment.

# VIRGINIA HOUSING DEVELOPMENT AUTHORITY

## Notes to Financial Statements

June 30, 2003 and 2002

**(j) Bond Issuance Expense**

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

**(k) Other Real Estate Owned**

Other real estate owned represents real estate acquired through foreclosure and is stated at the lower of cost or fair value less estimated disposal costs. Gains and losses from the disposition of other real estate owned are reported separately in the statement of revenues, expenses and changes in net assets.

**(l) Notes and Bonds Payable**

Notes and bonds payable are stated at their unpaid balance less any remaining premiums or discounts. Bond premiums and discounts are amortized over the lives of the issues using the interest method.

**(m) Retirement Plans**

The Authority has a defined contribution employees' retirement savings plan covering substantially all employees. The retirement expense is fully funded as incurred, thus resulting in no unfunded future retirement liabilities. To the extent that terminating employees are less than one hundred percent vested in the Authority's contributions, the unvested portion is forfeited and redistributed to remaining participating employees.

The Authority also provides postretirement health care benefits to all employees who have at least 10 years of service, and who retire from the Authority on or after attaining age 55 or become permanently disabled. The expense is fully funded as incurred. The decision to continue benefits offered under the postretirement health care plan is determined annually by the Board of Commissioners.

**(n) Compensated Absences**

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

**(o) Housing Choice Voucher Contributions**

As the Commonwealth of Virginia's administrator for the Department of Housing and Urban Development's Section 8 "Lower Income Housing Assistance" program, the Authority requisitions Section 8 funds, makes disbursements to eligible landlords and tenants, and recognizes fee income. Upon receipt of Section 8 funds, a liability is recorded for the Authority's obligation to disburse funds to Section 8 participants. The Authority received and disbursed pass-through grants totaling \$113,980,467 and \$122,156,521 during the years ended June 30, 2003 and 2002, respectively.

# VIRGINIA HOUSING DEVELOPMENT AUTHORITY

## Notes to Financial Statements

June 30, 2003 and 2002

**(p) *Virginia Housing Partnership Revolving Fund and the Commonwealth Priority Housing Fund***

The Virginia Housing Partnership Revolving Fund, established by the 1988 Session of the Virginia General Assembly, used funds provided by the state to provide loans and grants for a wide variety of housing initiatives. The Department of Housing and Community Development developed the program guidelines and the Authority acted as administrator for the Fund. On June 30, 2003, the Authority purchased all the assets of the Fund. A portion of the proceeds from the sale have been designated by the Commonwealth to establish the Commonwealth Priority Housing Fund. Similar to the Virginia Housing Partnership Revolving Fund, the Department of Housing and Community Development will develop and oversee program guidelines and the Authority will act as administrator for the new fund.

**(q) *Cash Equivalents***

For purposes of the statement of cash flows, cash equivalents consist of investments with original maturities of three months or less.

**(r) *Statement of Net Assets***

The assets presented in the statement of net assets represent the total of similar accounts of the Authority's various groups (see note 2). Since the assets of certain of the groups are restricted by the related debt resolutions, the total does not indicate that the combined assets are available in any manner other than that provided for in the resolutions for the separate groups.

**(2) Description of Account Groups**

**(a) *General Operating Accounts***

The General Operating Accounts consist of one group of accounts used to record the receipt of income not directly pledged to the repayment of specific notes or bonds and the payment of expenses related to the Authority's administrative functions. The General Purpose Bonds are also recorded within the General Operating Accounts. Proceeds of these bonds are used to finance construction and permanent loans on multi-family projects, loans on single family dwellings, as well as, permanent financing for owned rental property and the Authority's office facilities.

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

The proceeds of Multi-Family Housing and Rental Housing Bonds are used to finance construction and permanent loans on multi-family projects.

**(c) *Commonwealth Mortgage Bond Group***

The proceeds of Commonwealth Mortgage Bonds are used to purchase or make long-term loans to owner-occupants of single-family dwelling units.

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**

Notes to Financial Statements

June 30, 2003 and 2002

**(3) Non-restricted Assets**

The following assets of the Authority are non-restricted in nature. These assets have been designated for a broad range of housing initiatives.

	<b>June 30, 2003</b>	<b>June 30, 2002</b>
Current assets:		
Cash and cash equivalents	\$ 110,439,597	76,399,117
Investments	35,995,821	8,418,998
Interest receivable – investments	1,356,265	1,319,745
Mortgage and other loans receivable	3,267,254	2,459,631
Interest receivable – mortgage and other loans	1,374,149	1,442,450
Other real estate owned	50,761	52,209
Other assets	412,589	1,316,086
Total non-restricted current assets	152,896,436	91,408,236
Noncurrent assets:		
Investments	268,327,955	244,679,324
Mortgage and other loans receivable – net	133,396,093	115,230,484
Investment in rental property – net	2,729,508	2,886,245
Property, furniture and equipment, less accumulated depreciation and amortization of \$21,566,269 and \$20,126,864	14,209,708	16,084,130
Unamortized bond issuance expenses	122,609	130,272
Other assets	4,274,092	3,437,610
Total non-restricted noncurrent assets	423,059,965	382,448,065
Total non-restricted assets	\$ 575,956,401	473,856,301

All other assets of the Authority are restricted in nature, either by the requirements of the relevant bond indenture or other agreements or resolutions. A portion of these restricted assets are included in the Authority's General Operating Accounts.

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

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

<u>Loan Program/Bond Group</u>	<u>Interest rates</u>	<u>Initial loan terms</u>
Multi-Family Housing Bond Group	4.55% to 13.92%	Thirty to forty years
Rental Housing Bond Group	6.43% to 9.52%	Thirty to forty years
Multi-Family Mortgage Purchase Bond Group	7.00%	Forty years
Multi-Family Mortgage Bond Group	6.97% to 9.14%	Thirty to forty years
Commonwealth Mortgage Bond Group	0.50% to 13.85%	Thirty years
Energy Conservation and Rehabilitation Loan Program	0% to 8.00%	Up to fifteen years

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**

Notes to Financial Statements

June 30, 2003 and 2002

Commitments to fund new loans and monies available to provide future loans were as follows at June 30, 2003:

Multi-Family Housing, Rental Housing and General Purpose Bond Groups	\$ 102,101,000
Commonwealth Mortgage Bond Group	<u>192,130,000</u>
	<u>\$ 294,231,000</u>

The Authority conducts various mortgage loan programs financed or supported by the General Fund through direct loans, deposits into funds and accounts under the Authority's bond resolutions for financing mortgage loans or establishment of reserves for below market rate loans. For such programs, the Authority has made available, on a revolving basis, the amount of \$275.7 million and \$218.6 million as of June 30, 2003 and 2002 designated as the Virginia Housing Fund for the implementation of additional lending programs, principally for the elderly, disabled, homeless and other low income persons. Amounts disbursed for loans under the Virginia Housing Fund may not be available for the payment of debt service on any obligations of the Authority. Such loans from the General Operating Accounts are expected generally to have yields substantially less than that of U.S. Government or agency-securities of similar maturity and to have terms of approximately thirty years.

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

Cash includes cash on hand and amounts in checking accounts, which are insured by the Federal Depository Insurance Corporation or are collateralized under provisions of the Virginia Security for Public Deposits Act. At June 30, 2003 and 2002, the carrying amount of the Authority's deposits were \$21,263,151 and \$16,353,029 and checks drawn in excess of bank balances, included in accounts payable and other liabilities, was \$16,927,530 and \$21,861,155. The associated bank balance of the Authority's deposits were \$13,438,707 and \$22,245,748 at June 30, 2003 and 2002. The difference between the carrying amount and the bank balance is due to outstanding checks, deposits in transit and other reconciling items.

Cash equivalents include investments with original maturities of three months or less. Investments consist of U.S. Government and agency securities, municipal tax-exempt securities, corporate notes and various other investments for which there are no securities as evidence of the investment. Investments in the bond funds consist of those permitted by the various resolutions adopted by the Authority. Certain bond indentures include reserve fund requirements, and investments in these reserve funds are generally not available for mortgage loans. The Authority's cash equivalents and investments are categorized to give an indication of the level of credit risk assumed by the Authority at June 30, 2003 and 2002.

Category 1 includes bank balances that are insured or securities held by the Authority or its agent in the Authority's name. Category 2 includes bank balances collateralized with securities held by the pledging financial institution's trust department or agent in the Authority's name. Certain balances have not been categorized because securities are not used as evidence of the investment.

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**

Notes to Financial Statements

June 30, 2003 and 2002

The credit risk categorization and fair value of the Authority's cash equivalents at June 30, 2003 were as follows:

	<b>Category</b>		<b>Fair value</b>
	<b>1</b>	<b>2</b>	
Repurchase agreements	\$ 508,598,294	71,257,748	579,856,042
Interest bearing checking	23,008	—	23,008
Municipal tax-exempt securities	1,075,000	—	1,075,000
Totals	\$ 509,696,302	71,257,748	580,954,050
Add amounts not categorized because securities are not used as evidence of the investments:			
Federal Home Loan Bank Note			853,332
Total cash equivalents			\$ 581,807,382

The credit risk categorization and fair value of the Authority's cash equivalents at June 30, 2002 were as follows:

	<b>Category</b>		<b>Fair value</b>
	<b>1</b>	<b>2</b>	
Repurchase agreements	\$ 771,113,176	10,857,782	781,970,958
Interest bearing checking	5,995,762	—	5,995,762
Municipal tax-exempt securities	1,600,000	—	1,600,000
Totals	\$ 778,708,938	10,857,782	789,566,720
Add amounts not categorized because securities are not used as evidence of the investments:			
NationsBank treasury portfolio			393,391
Federal Home Loan Bank Note			7,848,081
Total cash equivalents			\$ 797,808,192

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**

Notes to Financial Statements

June 30, 2003 and 2002

Category 1 credit risk for investments includes insured or registered investments or securities held by the Authority or its agent in the Authority's name. The credit risk categorization and fair value of the Authority's investments at June 30, 2003 and 2002 (all of which were classified Category 1) were as follows:

	<b>2003</b>	<b>2002</b>
U.S. Government and agency securities	\$ 45,903,161	86,697,668
Corporate notes	114,069,040	9,730,020
Municipal tax-exempt securities	29,546,081	29,339,343
Asset backed securities	342,194,422	324,398,134
Agency mortgage backed	155,567,516	134,800,075
Totals	687,280,220	584,965,240
Add amounts not categorized because securities are not used as evidence of the investments:		
Lehman Brothers Special Financing Agent	—	475,000,000
Federal Home Loan Bank Note	8,535,000	6,940,000
Total investments	\$ 695,815,220	1,066,905,240
Current investments	\$ 162,974,448	505,585,335
Noncurrent investments	532,840,772	561,319,905
Total investments	\$ 695,815,220	1,066,905,240

The Virginia Security for Public Deposits Act requires that securities collateralizing repurchase agreements must have a fair value at least equal to 102% of the cost and accrued interest of the repurchase agreement.

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

Activity in the property, furniture and equipment accounts for fiscal year 2003 was as follows:

	<b>Balance June 30, 2002</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance June 30, 2003</b>
Land	\$ 1,945,095	—	—	1,945,095
Building	19,106,393	—	—	19,106,393
Furniture and equipment	14,846,513	503,815	(938,832)	14,411,496
Motor vehicles	312,993	—	—	312,993
	\$ 36,210,994	503,815	(938,832)	35,775,977

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**

Notes to Financial Statements

June 30, 2003 and 2002

Activity in the related accumulated depreciation accounts during fiscal year 2003 was as follows:

	<b>Balance June 30, 2002</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance June 30, 2003</b>
Building	\$ (7,822,846)	(666,838)	—	(8,489,684)
Furniture and equipment	(12,117,723)	(1,684,370)	947,669	(12,854,424)
Motor vehicles	(186,295)	(35,866)	—	(222,161)
	<u>\$ (20,126,864)</u>	<u>(2,387,074)</u>	<u>947,669</u>	<u>(21,566,269)</u>

Activity in the property, furniture and equipment accounts for fiscal year 2002 was as follows:

	<b>Balance June 30, 2001</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance June 30, 2002</b>
Land	\$ 1,945,095	—	—	1,945,095
Building	19,106,393	—	—	19,106,393
Furniture and equipment	17,704,255	1,635,863	(4,493,605)	14,846,513
Motor vehicles	212,047	100,946	—	312,993
	<u>\$ 38,967,790</u>	<u>1,736,809</u>	<u>(4,493,605)</u>	<u>36,210,994</u>

Activity in the related accumulated depreciation accounts during fiscal year 2002 was as follows:

	<b>Balance June 30, 2001</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance June 30, 2002</b>
Building	\$ (7,156,008)	(666,838)	—	(7,822,846)
Furniture and equipment	(14,468,979)	(2,129,371)	4,480,627	(12,117,723)
Motor vehicles	(168,937)	(17,358)	—	(186,295)
	<u>\$ (21,793,924)</u>	<u>(2,813,567)</u>	<u>4,480,627</u>	<u>(20,126,864)</u>

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**

Notes to Financial Statements

June 30, 2003 and 2002

**(7) Notes and Bonds Payable**

Notes and bonds payable at June 30, 2003 were as follows:

<u>Description</u>	<u>Balance at June 30, 2002</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance at June 30, 2003</u>
		(Amounts shown in thousands)		
<u>General Operating Accounts</u>				
<u>Notes</u>				
Federal Home Loan Bank, floating rate (weighted average rate of 1.27% at June 30, 2003), no fixed maturity	\$ 6,940	181,955	180,360	8,535
<u>VHDA General Purpose Bonds</u>				
1993 Series A/B/C, dated June 16, 1993, 5.79% effective interest rate, final due date July 1, 2019	26,035	—	1,000	25,035
2002 Series W, dated October 31, 2002, 5.91% effective interest rate, final due date January 1, 2028	—	89,010	—	89,010
2002 Series X/Y/Z, dated October 31, 2002, 4.82% effective interest rate, final due date January 1, 2043	—	263,360	—	263,360
2003 Series V, dated June 26, 2003 4.52% effective interest rate, final due date October 1, 2029	—	52,440	—	52,440
	26,035	404,810	1,000	429,845
Unamortized premium (discount)	3			(3,749)
	26,038			426,096
Total General Operating Accounts	32,978			434,631
<u>Multi-Family Housing Bond Group</u>				
1982 Series A, dated June 30, 1982, 10.88% effective interest rate, final due date November 1, 2017	25,110	—	20,960	4,150
1985 Series B, dated December 5, 1985, 6.87% effective interest rate, final due date May 1, 2008	2,840	—	—	2,840
1989 Series C, dated April 1, 1989 and April 27, 1989, 7.84% effective interest rate, final due date May 1, 2021	103	—	—	103

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**

Notes to Financial Statements

June 30, 2003 and 2002

Description	Balance at June 30, 2002	Issued	Retired	Balance at June 30, 2003
1989 Series D, dated September 15, 1989 and October 11, 1989, 7.37% effective interest rate, final due date November 1, 2014	\$ 441	—	—	441
1990 Series A, dated December 1, 1989, 7.45% effective interest rate, final due date May 1, 2010	530	—	530	—
1991 Series B/C, dated April 15, 1991, 6.90% effective interest rate, final due date May 1, 2014	1,370	—	1,370	—
1991 Series F, dated August 15, 1991, 7.05% effective interest rate, final due date May 1, 2013	23,520	—	23,405	115
1992 Series A, dated January 15, 1992, 7.98% effective interest rate, final due date May 1, 2013	3,000	—	3,000	—
1992 Series B, dated March 1, 1992, 7.86% effective interest rate, final due date May 1, 2008	1,740	—	1,740	—
1992 Series C/D, dated March 15, 1992, 6.88% effective interest rate, final due date May 1, 2018	57,165	—	56,765	400
1992 Series E, dated June 9, 1992, 6.68% effective interest rate, final due date May 1, 2015	3,990	—	3,990	—
1992 Series F/G, dated October 1, 1992 and October 14, 1992, 6.26% effective interest rate, final due date November 1, 2022	14,615	—	14,145	470
1992 Series H, dated October 14, 1992, 7.86% effective interest rate, final due date May 1, 2018	15,115	—	15,115	—
1993 Series A, dated February 10, 1993, 7.79% effective interest rate, final due date November 1, 2015	13,350	—	12,760	590
1993 Series B, dated April 1, 1993, 6.42% effective interest rate, final due date May 1, 2016	3,865	—	3,865	—
1993 Series C/D/E/F, dated April 1, 1993, May 1, 1993 and June 1, 1993, 5.64% effective interest rate, final due date November 1, 2017	125,445	—	35,530	89,915

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**

Notes to Financial Statements

June 30, 2003 and 2002

Description	Balance at June 30, 2002	Issued	Retired	Balance at June 30, 2003
		(Amounts shown in thousands)		
1993 Series G, dated August 1, 1993, 7.00% effective interest rate, final due date November 1, 2015	\$ 5,335	—	5,335	—
1993 Series H, dated November 1, 1993, 5.09% effective interest rate, final due date May 1, 2013	6,395	—	465	5,930
1994 Series A, dated March 1, 1994, 6.94% effective interest rate, final due date November 1, 2015	14,720	—	690	14,030
1994 Series B/C, dated April 1, 1994, 5.99% effective interest rate, final due date May 1, 2015	23,310	—	1,940	21,370
1994 Series D, dated April 1, 1994, 7.78% effective interest rate, final due date May 1, 2015	21,450	—	2,500	18,950
1994 Series F/G, dated June 1, 1994, 6.34% effective interest rate, final due date May 1, 2015	11,070	—	625	10,445
1994 Series H, dated September 1, 1994, 6.30% effective interest rate, final due date November 1, 2015	8,345	—	390	7,955
1995 Series A/B/C, dated February 2, 1995, 7.51% effective interest rate, final due date November 1, 2015	17,875	—	765	17,110
1995 Series D, dated April 26, 1995, 8.13% effective interest rate, final due date November 1, 2015	10,750	—	445	10,305
1995 Series E/F, dated June 29, 1995, 6.18% effective interest rate, final due date May 1, 2014	3,885	—	230	3,655
1995 Series G, dated October 3, 1995, 7.61% effective interest rate, final due date November 1, 2014	13,455	—	670	12,785
1995 Series H/I, dated October 3, 1995, 6.01% effective interest rate, final due date November 1, 2015	50,045	—	2,585	47,460
1995 Series J, dated October 26, 1995, 7.10% effective interest rate, final due date November 1, 2014	6,400	—	320	6,080

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**

Notes to Financial Statements

June 30, 2003 and 2002

Description	Balance at June 30, 2002	Issued	Retired	Balance at June 30, 2003
		(Amounts shown in thousands)		
1995 Series K/L, dated October 26, 1995, 5.88% effective interest rate, final due date November 1, 2015	\$ 23,750	—	1,195	22,555
1996 Series A/B/C, dated January 11, 1996, 6.43% effective interest rate, final due date May 1, 2016	52,055	—	2,490	49,565
1996 Series D/E/F, dated March 28, 1996, 6.70% effective interest rate, final due date May 1, 2016	27,975	—	1,300	26,675
1996 Series G, dated April 25, 1996, 7.76% effective interest rate, final due date May 1, 2016	4,895	—	215	4,680
1996 Series H/I, dated April 25, 1996, 5.94% effective interest rate, final due date May 1, 2016	29,015	—	1,460	27,555
1996 Series J, dated August 8, 1996, 6.15% effective interest rate, final due date May 1, 2017	18,245	—	795	17,450
1996 Series K/L/M, dated October 1, 1996, 6.36% effective interest rate, final due date November 1, 2017	16,140	—	610	15,530
1996 Series N/O, dated December 19, 1996, 6.55% effective interest rate, final due date November 1, 2017	21,205	—	830	20,375
1997 Series A/B, dated May 15, 1997, 6.90% effective interest rate, final due date November 1, 2019	45,965	—	1,695	44,270
1997 Series C/D/E, dated September 11, 1997, 6.20% effective interest rate, final due date November 1, 2019	50,625	—	1,600	49,025
1997 Series F, dated October 16, 1997, 5.34% effective interest rate, final due date November 1, 2017	6,990	—	290	6,700
1997 Series G/H/I, dated December 18, 1997, 6.24% effective interest rate, final due date May 1, 2019	52,215	—	1,925	50,290
1998 Series A, dated April 23, 1998, 6.79% effective interest rate, final due date November 1, 2019	48,515	—	1,540	46,975

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**

Notes to Financial Statements

June 30, 2003 and 2002

Description	Balance at June 30, 2002	Issued	Retired	Balance at June 30, 2003
		(Amounts shown in thousands)		
1998 Series B/C/E, dated April 23, 1998 and September 23, 1998, 5.29% effective interest rate, final due date November 1, 2018	\$ 53,245	—	2,110	51,135
1998 Series F, dated July 29, 1998, 6.50% effective interest rate, final due date May 1, 2019	30,790	—	1,065	29,725
1998 Series G, dated July 29, 1998, 5.10% effective interest rate, final due date November 1, 2018	45,815	—	1,880	43,935
1998 Series H, dated October 27, 1998, 6.31% effective interest rate, final due date May 1, 2019	34,530	—	1,190	33,340
1998 Series I, dated October 27, 1998, 4.94% effective interest rate, final due date November 1, 2019	33,850	—	1,270	32,580
1999 Series A/B, dated January 28, 1999, 5.74% effective interest rate, final due date May 1, 2019	73,515	—	2,695	70,820
	<u>1,154,569</u>	<u>—</u>	<u>236,290</u>	<u>918,279</u>
Compound interest payable	<u>671</u>			<u>696</u>
	1,155,240			918,975
Unamortized discount	<u>(15,637)</u>			<u>(283)</u>
Total Multi-Family Housing Bonds	<u>1,139,603</u>			<u>918,692</u>
<u>Rental Housing Bond Group</u>				
1999 Series C/D/E/F, dated May 20, 1999, 5.89% effective interest rate, final due date May 1, 2022	46,820	—	1,390	45,430
1999 Series G/H, dated August 19, 1999, 6.70% effective interest rate, final due date May 1, 2022	55,245	—	1,340	53,905
1999 Series I/J, dated November 4, 1999, 6.83% effective interest rate, final due date February 1, 2023	37,055	—	905	36,150
1999 Series K/L, dated December 16, 1999, 6.21% effective interest rate, final due date February 1, 2023	36,115	—	925	35,190

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**

Notes to Financial Statements

June 30, 2003 and 2002

<u>Description</u>	<u>Balance at June 30, 2002</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance at June 30, 2003</u>
		(Amounts shown in thousands)		
2000 Series A/B, dated May 10, 2000, 7.14% effective interest rate, final due date August 1, 2024	\$ 63,240	—	1,140	62,100
2000 Series C, dated August 3, 2000, 8.18% effective interest rate, final due date April 1, 2024	17,265	—	345	16,920
2000 Series D/E, dated August 3, 2000, 5.98% effective interest rate, final due date April 1, 2024	46,290	—	1,170	45,120
2000 Series F/G/H, dated October 12, 2000, 6.90% effective interest rate, final due date October 1, 2024	64,960	—	980	63,980
2001 Series A/B, dated January 9, 2001, 7.02% effective interest rate, final due date March 1, 2025	62,880	—	1,100	61,780
2001 Series C/D, dated March 22, 2001, 5.87% effective interest rate, final due date June 1, 2024	14,765	—	335	14,430
2001 Series E/F/G, dated April 26, 2001, 5.94% effective interest rate, final due date June 1, 2025	21,650	—	495	21,155
2001 Series H/I, dated July 31, 2001, 6.56% effective interest rate, final due date July 1, 2025	50,230	—	300	49,930
2001 Series J/K/L, dated October 23, 2001, 6.06% effective interest rate, final due date December 1, 2025	64,775	—	635	64,140
2001 Series M, dated December 18, 2001, 6.78% effective interest rate, final due date January 1, 2027	43,165	—	—	43,165
2001 Series N/O, dated December 18, 2001, 5.40% effective interest rate, final due date January 1, 2027	37,595	—	35	37,560
2002 Series A, dated April 11, 2002, 6.70% effective interest rate, final due date April 1, 2027	24,605	—	—	24,605
2002 Series B, dated April 11, 2002, 5.30% effective interest rate, final due date April 1, 2027	44,950	—	—	44,950

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**

Notes to Financial Statements

June 30, 2003 and 2002

<u>Description</u>	<u>Balance at June 30, 2002</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance at June 30, 2003</u>
		(Amounts shown in thousands)		
2002 Series C/D, dated June 27, 2002, 6.45% effective interest rate, final due date September 1, 2027	\$ 63,385	—	—	63,385
2002 Series E/F/G, dated December 19, 2002, 5.45% effective interest rate, final due date January 1, 2028	—	77,435	—	77,435
2003 Series A/B, dated April 24, 2003, 5.04% effective interest rate, final due date June 1, 2028	—	58,820	—	58,820
	794,990	136,255	11,095	920,150
Unamortized discount	(3,981)			(3,601)
Total Rental Housing Bonds	791,009			916,549
<u>Other Multi-Family Lending Programs</u>				
<u>Multi-Family Mortgage Purchase Bonds</u>				
1973 Series A, dated December 1, 1973, 5.73% effective interest rate, final due date June 1, 2014	26,860	—	26,860	—
Unamortized premium	31			—
	26,891			—
<u>Multi-Family Mortgage Bonds</u>				
1977 Series A, dated April 10, 1977, 6.43% effective interest rate, final due date November 1, 2018	19,015	—	19,015	—
1977 Series B, dated November 1, 1977, 6.40% effective interest rate, final due date November 1, 2020	31,135	—	31,135	—
1978 Series A, dated April 1, 1978, 6.20% effective interest rate, final due date November 1, 2020	31,705	—	31,705	—

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**

Notes to Financial Statements

June 30, 2003 and 2002

Description	Balance at June 30, 2002	Issued	Retired	Balance at June 30, 2003
		(Amounts shown in thousands)		
1978 Series B, dated October 1, 1978, 6.71% effective interest rate, final due date November 1, 2021	\$ 39,285	—	39,285	—
	121,140	—	121,140	—
Unamortized discount	(278)			—
	120,862			—
Total Other Multi-Family Lending Programs	147,753			—
<u>Commonwealth Mortgage Bonds</u>				
1993 Series A/B, dated February 25, 1993, 5.67% effective interest rate, final due date July 1, 2022	7,015	—	7,015	—
1993 Series E/F, dated August 31, 1993, 5.94% effective interest rate, final due date July 1, 2022	2,650	—	2,650	—
1993 Series G/H, dated November 1, 1993, 5.30% effective interest rate, final due date July 1, 2027	71,120	—	—	71,120
1993 Series I/J, dated November 5, 1993, 5.91% effective interest rate, final due date July 1, 2020	1,650	—	1,650	—
1994 Series C/D, dated April 5, 1994, 5.81% effective interest rate, final due date January 1, 2024	7,815	—	7,815	—
1994 Series G/H, dated August 9, 1994, 6.57% effective interest rate, final due date July 1, 2022	43,675	—	43,675	—
1994 Series I/J, dated November 8, 1994, 6.59% effective interest rate, final due date July 1, 2022	23,870	—	23,870	—
1995 Series A/B, dated February 14, 1995, February 28, 1995, March 14, 1995 and March 28, 1995, 6.68% effective interest rate, final due date July 1, 2028	10,340	—	10,340	—
1995 Series C/D, dated June 22, 1995, 6.01% effective interest rate, final due date January 1, 2030	263,855	—	189,850	74,005

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**

Notes to Financial Statements

June 30, 2003 and 2002

Description	Balance at June 30, 2002	Issued	Retired	Balance at June 30, 2003
		(Amounts shown in thousands)		
1996 Series A, dated May 23, 1996, 8.00% effective interest rate, final due date July 1, 2029	\$ 1,940	—	1,940	—
1996 Series B/C, dated June 20, 1996, 6.08% effective interest rate, final due date July 1, 2026	133,470	—	81,870	51,600
1996 Series D, dated October 1, 1996, 7.58% effective interest rate, final due date January 1, 2016	7,500	—	7,500	—
1996 Series E/F, dated December 18, 1996, 5.21% effective interest rate, final due date January 1, 2046	140,000	—	—	140,000
1996 Series G/H, dated December 19, 1996, 5.00% effective interest rate, final due date January 1, 2022	59,555	—	21,830	37,725
1997 Series A, dated June 12, 1997, 7.28% effective interest rate, final due date January 1, 2046	102,120	—	92,660	9,460
1997 Series B/C, dated June 12, 1997, 5.13% effective interest rate, final due date January 1, 2022	82,415	—	32,330	50,085
1998 Series A/B/C, dated January 15, 1998, 5.23% effective interest rate, final due date January 1, 2047	496,380	—	482,825	13,555
1998 Series D/E, dated July 28, 1998, 5.19% effective interest rate, final due date July 1, 2021	164,105	—	55,605	108,500
1998 Series F, dated October 27, 1998, 6.39% effective interest rate, final due date April 1, 2020	287,425	—	91,190	196,235
1999 Series A/B, dated June 29, 1999, 7.38% effective interest rate, final due date October 1, 2020	122,455	—	77,365	45,090
2000 Series A/B, dated March 31, 2000, 5.64% effective rate, final due date July 1, 2018	220,050	—	70,260	149,790
2000 Series C, dated March 31, 2000, 7.59% effective interest rate, final due date July 1, 2021	2,450	—	55	2,395

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**

Notes to Financial Statements

June 30, 2003 and 2002

Description	Balance at June 30, 2002	Issued	Retired	Balance at June 30, 2003
		(Amounts shown in thousands)		
2001 Series A, dated January 30, 2001, 6.50% effective interest rate, final due date February 25, 2030	\$ 123,877	—	76,424	47,453
2001 Series B, dated May 4, 2001, 6.50% effective interest rate, final due date May 25, 2031	95,390	—	46,389	49,001
2001 Series C/D, dated June 13, 2001, 5.19% effective interest rate, final due date July 1, 2027	150,240	—	9,285	140,955
2001 Series E, dated August 30, 2001, 5.88% effective interest rate, final due date July 1, 2023	5,000	—	100	4,900
2001 Series F, dated July 31, 2001, 6.50% effective interest rate, final due date September 25, 2031	112,151	—	48,354	63,797
2001 Series G, dated October 17, 2001, 6.00% effective interest rate, final due date December 25, 2031	121,864	—	48,115	73,749
2001 Series H, dated October 18, 2001, 5.36% effective interest rate, final due date July 1, 2036	223,000	—	—	223,000
2001 Series I/J, dated October 18, 2001, 5.09% effective interest rate, final due date July 1, 2023	443,600	—	111,930	331,670
2002 Series A, dated January 14, 2002, 6.50% effective interest rate, final due date February 25, 2032	101,070	—	26,016	75,054
2002 Series B, dated March 20, 2002, 6.00% effective interest rate, final due date August 25, 2030	200,022	—	51,534	148,488
2002 Series C, dated June 27, 2002, 6.00% effective interest rate, final due date June 25, 2032	114,627	—	30,316	84,311
2002 Series D, dated June 27, 2002, 6.50% effective interest rate, final due date June 25, 2032	20,000	—	5,373	14,627
2002 Series E/F/G, dated December 17, 2002 5.00% effective interest rate, final due date December 25, 2032	—	123,189	6,065	117,124

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**

Notes to Financial Statements

June 30, 2003 and 2002

Description	Balance at June 30, 2002	Issued	Retired	Balance at June 30, 2003
		(Amounts shown in thousands)		
2003 Series A/B, dated April 3, 2003, 2.36% effective interest rate, final due date April 1, 2027	\$ —	173,420	—	173,420
	3,962,696	296,609	1,762,196	2,497,109
Unamortized discount	(10,557)			(7,793)
Total Commonwealth Mortgage Bonds	3,952,139			2,489,316
Total	\$ 6,063,482			\$ 4,759,188
	<b>June 30, 2002</b>			<b>June 30, 2003</b>
Notes and bonds payable – current	\$ 441,759			445,194
Bonds payable – noncurrent	5,621,723			4,313,994
Totals	\$ 6,063,482			4,759,188

Compounded interest payable in the Multi-Family Housing Bonds represents interest which is compounded and paid to bond holders at redemption rather than being paid currently.

The Multi-Family Mortgage Purchase Bonds are special obligations of the Authority; all other bonds issued to date are general obligation bonds. The bonds are secured to the extent and as provided in the various resolutions. Security generally includes the mortgage loans made or purchased under the resolution, the revenues, prepayment and recovery payments received, derived, or recovered by the Authority from or related to mortgage loans, and all monies and investments in these groups pledged under the various resolutions. Bonds payable are generally comprised of both serial and term bonds and are due at various dates through the final due date.

The Authority has the option to redeem the various bonds at premiums ranging up to 3% with the exception of the term bonds due November 1, 2017 within the Multi-Family Housing Bonds, 1982 Series A. These zero coupon interest rate bonds are redeemable at the “Optional Redemption Price” set forth in detail within the series resolution. The redemptions generally cannot be exercised until the bonds have been outstanding for ten to fifteen years, as fully described in the various bond resolutions. All issues generally have term bonds, which will be subject to redemption, without premium, from mandatory sinking fund installments. Special redemption accounts are also utilized when certain conditions exist as described in the applicable bond resolutions.

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**

Notes to Financial Statements

June 30, 2003 and 2002

The principal payment obligations and associated interest related to all note and bond indebtedness (excluding the effect of unamortized discounts and premiums and including special and optional redemptions that occurred subsequent to year end) commencing July 1, 2003 and thereafter are as follows:

<u>Period ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Compound Interest/ Zero Coupon Accretion</u>	<u>Total Debt Service</u>
2004	\$ 445,193,661	\$ 246,301,636	\$ 695,665	\$ 692,190,962
2005	295,405,227	232,355,767	—	527,760,994
2006	266,781,518	217,242,309	—	484,023,827
2007	247,666,179	203,393,068	—	451,059,247
2008	232,056,407	190,491,229	—	422,547,636
2009 – 2013	990,015,451	780,317,951	—	1,770,333,402
2014 – 2018	944,004,348	504,487,209	—	1,448,491,557
2019 – 2023	536,216,741	279,760,304	—	815,977,045
2024 – 2028	378,036,787	144,940,572	—	522,977,359
2029 – 2033	122,711,642	77,113,453	—	199,825,095
2034 – 2038	155,710,000	40,917,765	—	196,627,765
2039 – 2043	115,420,000	15,325,262	—	130,745,262
2044 – 2048	44,700,000	1,232,615	—	45,932,615
	<u>\$ 4,773,917,961</u>	<u>\$ 2,933,879,140</u>	<u>\$ 695,665</u>	<u>\$ 7,708,492,766</u>

**(8) Escrows and Project Reserves**

Escrows and project reserves represent amounts held by the Authority as escrows for insurance, real estate taxes and completion assurance, and as reserves for replacement and operations (see note 13). The Authority invests these funds and, for project reserves, allows earnings to accrue to the benefit of the mortgagor. At June 30, 2003 and 2002, these project reserves amounted to \$145,728,513 and \$144,978,650.

**(9) Investment Income**

The amount of investment income the Authority may earn in the Commonwealth Mortgage Bond Group and certain bond issues in the Multi-Family Housing and Rental Housing Bond Group is limited by certain Federal legislation. Earnings in excess of the allowable amount must be rebated to either the mortgagor or the U.S. Department of the Treasury depending upon the specific bond series in which the rebate occurs. These excess earnings are recorded in accounts payable and other liabilities and amounted to \$5,332,322 and \$5,328,582 at June 30, 2003 and 2002, respectively.

**(10) Risk Management**

The Authority manages its interest risk on single and multi-family loan commitments through short sales of investment securities. These transactions meet the requirements for hedge accounting as all hedged items are specifically identified, probable of occurring, and highly correlated to the hedging instrument. The gain or loss from hedging transactions is recorded as an unamortized premium or discount and recognized as an

# VIRGINIA HOUSING DEVELOPMENT AUTHORITY

## Notes to Financial Statements

June 30, 2003 and 2002

adjustment to yield over the remaining life of the loan. The Authority periodically assesses correlation in order to determine the ongoing appropriateness of hedge accounting.

During the years ended June 30, 2003 and 2002, the Authority experienced net losses of \$2,432,599 and \$5,680,604, respectively, from hedging transactions settled during the year. At June 30, 2003, \$66,890,012 of short sales were outstanding which had an unrealized gain of \$2,699,070. The Authority's policy is to make adjustments to interest rates of loans related to such hedging transactions to reflect the losses or gains on such hedging transactions.

### **(11) Net Assets**

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

Restricted net assets represent those portions of the total net assets in trust accounts established by the various bond resolutions for the benefit of the respective bond owners. Restricted net assets are generally required reserve funds, mortgage loans and funds held for placement into mortgage loans, investments and funds held for scheduled debt service.

Unrestricted net assets represent those portions of the total net assets set aside to reflect current utilization and tentative plans for future utilization of such net assets. As of June 30, 2003 and 2002, such designations included funding for the Virginia Housing Fund, funds to be available for other loans and loan commitments; overcommitments and overallocations in the various bond issues; for support funds and contributions to bond issues; and for working capital and future operating and capital expenditures. Additional unrestricted net assets commitments include contractual obligations for additional contributions to bond reserve funds; maintenance of the Authority's obligation with regard to the general obligation pledge on its bonds; contributions to future bond issues other than those scheduled during the next year; self-insurance on the uninsured, unsubsidized multi-family conventional loan program and any unanticipated losses in connection with the uninsured portions of the balance of the single family and multi-family loans; self-insurance on the liability exposure of Commissioners and officers; the cost of holding foreclosed property prior to resale; costs incurred with the redemption of bonds; single family loan prepayment shortfalls and other risks and contingencies.

### **(12) Employee Benefit Plans**

The Authority incurs employment retirement savings expense equal to eight percent of full-time employees' compensation. Total retirement savings expense for the years ended June 30, 2003 and 2002 was \$1,329,292 and \$1,295,450, respectively.

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

As of June 30, 2003 and 2002, included in accounts payable and other liabilities is an employee compensated absences accrual of \$2,791,220 and \$2,675,330, respectively (see note 13).

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**

Notes to Financial Statements

June 30, 2003 and 2002

Funding amounts for the postretirement health care benefits offered are approved annually by the Board of Commissioners. Included in accounts payable and other liabilities is a postretirement health care benefit liability of \$4,367,496 and \$3,603,734 as of June 30, 2003 and 2002, respectively (see note 13). Total expense incurred for these benefits for the years ended June 30, 2003 and 2002 was \$589,862 and \$422,245, respectively.

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

Activity in the Authority's noncurrent liability accounts, other than bonds payable, for fiscal year 2003, was as follows:

	<b>Balance at June 30, 2002</b>	<b>Additions</b>	<b>Decreases</b>	<b>Balance at June 30, 2003</b>
Project reserves	\$ 144,978,650	26,464,414	25,714,551	145,728,513
Virginia Housing Partnership Fund liability	86,586,662	3,114,807	89,701,469	—
Commonwealth Priority Housing Fund liability	—	19,284,152	—	19,284,152
Other liabilities	24,141,996	5,049,475	2,220,784	26,970,687
Compensated absences payable	2,675,330	1,556,501	1,440,611	2,791,220
Retiree healthcare	3,603,734	930,636	166,874	4,367,496
Total	<u>\$ 261,986,372</u>	<u>56,399,985</u>	<u>119,244,289</u>	<u>199,142,068</u>

Activity in the Authority's noncurrent liability accounts, other than bonds payable, for fiscal year 2002, was as follows:

	<b>Balance at June 30, 2001</b>	<b>Additions</b>	<b>Decreases</b>	<b>Balance at June 30, 2002</b>
Project reserves	\$ 137,481,202	27,837,202	20,339,754	144,978,650
Virginia Housing Partnership Fund liability	84,069,367	3,124,832	607,537	86,586,662
Other liabilities	30,511,898	9,254,492	15,624,394	24,141,996
Compensated absences payable	2,381,562	1,056,920	763,152	2,675,330
Retiree healthcare	3,078,882	590,938	66,086	3,603,734
Total	<u>\$ 257,522,911</u>	<u>41,864,384</u>	<u>37,400,923</u>	<u>261,986,372</u>

**(14) Contingencies and Other Matters**

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

The Authority participates in several Federal financial assistance programs, principal of which is the Lower Income Housing Assistance Program. Although the Authority's administration of Federal grant programs has been audited in accordance with the provisions of the United States Office of Management and Budget Circular A-133 through June 30, 2003, these programs are still subject to financial and

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**

Notes to Financial Statements

June 30, 2003 and 2002

compliance audits. The amount, if any, of expenses which may be disallowed by the granting agencies cannot be determined at this time, although the Authority expects such amounts, if any, to be immaterial in relation to its financial statements.

**(15) Subsequent Events**

In addition to scheduled redemptions, the Authority made special and optional redemptions of certain bonds payable subsequent to June 30, 2003 and through September 12, 2003, as follows:

<b>Bond group</b>	<b>Redemption date</b>	<b>Aggregate principal amount redeemed</b>
Multi-Family Housing Bonds	July 1, 2003	\$ 3,384,170
Commonwealth Mortgage Bonds	July 1, 2003	48,740,000
Commonwealth Mortgage Bonds	September 1, 2003	148,675,000

On August 5, 2003, the Authority sold \$147,450,000 of Rental Housing Bonds, 2003 Series C/D/E.

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**

Combining Schedule of Net Assets

June 30, 2003

Assets	General Operating Accounts	Multi-Family Lending Programs			Single Family Lending Progr:
		Multi-Family Housing Bond Group	Rental Housing Bond Group	Other Multi-Family Lending Programs	
Current assets:					
Cash and cash equivalents	\$ 164,483,944	27,637,222	30,747,516	—	380,201,85
Investments	42,704,808	4,569,130	9,195,425	—	106,505,08
Interest receivable – investments	1,416,801	709,816	49,243	—	437,45
Mortgage and other loans receivable	13,975,689	21,971,763	8,299,782	—	43,582,68
Interest receivable – mortgage and other loans	3,447,656	6,765,657	5,664,429	—	12,456,69
Other real estate owned	139,641	—	—	—	1,687,32
Other assets	2,154,215	—	—	—	452,75
Total current assets	228,322,754	61,653,588	53,956,395	—	545,323,84
Noncurrent assets:					
Investments	321,543,489	103,797,819	53,100,847	—	54,398,61
Mortgage and other loans receivable	466,325,756	1,071,288,812	849,791,086	—	2,807,033,23
Less allowance for loan loss	10,195,790	3,703,325	5,250,314	—	10,108,08
Less net deferred loan fees	2,681,183	15,183,858	15,152,675	—	7,496,80
Mortgage and other loans receivable – net	453,448,783	1,052,401,629	829,388,097	—	2,789,428,34
Investment in rental property – net	2,729,508	10,488,000	3,680,000	—	—
Property, furniture and equipment, less accumulated depreciation and amortization of \$21,566,270	14,209,708	—	—	—	—
Unamortized bond issuance expenses	1,988,908	1,922,882	1,282,411	—	1,026,24
Interfund receivable	(19,061,723)	3,703,325	5,250,314	—	10,108,08
Other assets	4,274,092	—	—	—	4,374,94
Total noncurrent assets	779,132,765	1,172,313,655	892,701,669	—	2,859,336,23
Total assets	\$ 1,007,455,519	1,233,967,243	946,658,064	—	3,404,660,07

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**

Combining Schedule of Net Assets

June 30, 2003

	General Operating Accounts	Multi-Family Lending Programs			Single Family Lending Progr.
		Multi-Family Housing Bond Group	Rental Housing Bond Group	Other Multi-Family Lending Programs	
<b>Liabilities and Net Assets</b>					
Current liabilities:					
Notes and bonds payable	\$ 13,265,000	52,064,170	17,460,000	—	362,404,49
Accrued interest payable on notes and bonds	9,068,753	9,368,968	17,594,950	—	40,327,38
Housing Choice Voucher contributions payable	5,882,555	—	—	—	—
Eserows and project reserves	26,869,102	—	—	—	—
Accounts payable	74,270,913	—	—	—	8,212,77
Total current liabilities	129,356,323	61,433,138	35,054,950	—	410,944,64
Noncurrent liabilities:					
Bonds payable – net	421,365,806	866,627,970	899,088,985	—	2,126,911,88
Eserows and project reserves	145,728,513	—	—	—	—
Other liabilities	35,578,121	9,138,392	860,430	—	7,836,61
Total noncurrent liabilities	602,672,440	875,766,362	899,949,415	—	2,134,748,50
Total liabilities	732,028,763	937,199,500	935,004,365	—	2,545,693,14
Net Assets:					
Invested in capital assets, net of related debt	(5,616,628)	3,894,619	—	—	—
Restricted by bond indentures	9,465,374	292,873,124	11,653,699	—	858,966,93
Unrestricted	271,578,010	—	—	—	—
Total net assets	275,426,756	296,767,743	11,653,699	—	858,966,93
Total liabilities and net assets	\$ 1,007,455,519	1,233,967,243	946,658,064	—	3,404,660,07

See accompanying auditors' report.

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**

Combining Schedule of Net Assets

June 30, 2002

Assets	General Operating Accounts	Multi-Family Lending Programs			Single Family Lending Progr:
		Multi-Family Housing Bond Group	Rental Housing Bond Group	Other Multi-Family Lending Programs	
Current assets:					
Cash and cash equivalents	\$ 92,567,660	31,893,630	60,002,600	8,256,005	621,441,32
Investments	15,358,998	—	—	—	490,226,33
Interest receivable – investments	1,319,745	983,396	67,366	381,805	390,71
Mortgage and other loans receivable	3,678,153	20,055,373	3,885,020	3,932,046	54,628,40
Interest receivable – mortgage and other loans	1,442,450	8,042,205	4,268,151	738,813	16,511,81
Other real estate owned	52,209	—	—	—	2,966,25
Other assets	1,316,086	—	—	—	1,163,19
Total current assets	115,735,301	60,974,604	68,223,137	13,308,669	1,187,328,03
Noncurrent assets:					
Investments	255,134,961	137,324,651	111,159,991	21,778,888	35,921,41
Mortgage and other loans receivable	198,500,838	1,249,689,784	637,820,682	115,445,334	3,633,507,54
Less allowance for loan loss	7,817,935	5,227,827	2,326,527	309,303	6,306,09
Less net deferred loan fees	617,820	16,861,792	11,821,092	312,204	10,315,92
Mortgage and other loans receivable – net	190,065,083	1,227,600,165	623,673,063	114,823,827	3,616,885,53
Investment in rental property – net	2,886,245	14,630,000	—	—	—
Property, furniture and equipment, less accumulated depreciation and amortization of \$20,126,864	16,084,130	—	—	—	—
Unamortized bond issuance expenses	130,272	2,462,437	1,142,203	108,308	1,890,97
Interfund receivable	(14,169,748)	5,227,827	2,326,527	309,303	6,306,09
Other assets	3,437,610	—	—	—	7,149,01
Total noncurrent assets	453,568,553	1,387,245,080	738,301,784	137,020,326	3,668,153,03
Total assets	\$ 569,303,854	1,448,219,684	806,524,921	150,328,995	4,855,481,07

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**

Combining Schedule of Net Assets

June 30, 2002

	General Operating Accounts	Multi-Family Lending Programs		Other Multi-Family Lending Programs	Single Family Lending Progr:
		Multi-Family Housing Bond Group	Rental Housing Bond Group		
<b>Liabilities and Net Assets</b>					
Current liabilities:					
Notes and bonds payable	\$ 7,940,000	57,523,600	11,095,000	3,505,000	361,694,89
Accrued interest payable on notes and bonds	750,520	11,747,939	13,948,619	1,427,561	67,450,90
Section 8 contributions payable	5,032,036	—	—	—	—
Eserows and project reserves	31,556,999	—	—	—	—
Accounts payable	8,912,037	1,393,716	—	—	18,160,07
Total current liabilities	54,191,592	70,665,255	25,043,619	4,932,561	447,305,86
Noncurrent liabilities:					
Bonds payable – net	25,037,627	1,082,079,327	779,913,813	144,248,309	3,590,444,39
Eserows and project reserves	144,978,650	—	—	—	—
Virginia Housing Partnership Revolving Fund liability	86,586,662	—	—	—	—
Other liabilities	13,966,209	6,912,611	834,496	—	8,707,74
Total noncurrent liabilities	270,569,148	1,088,991,938	780,748,309	144,248,309	3,599,152,14
Total liabilities	324,760,740	1,159,657,193	805,791,928	149,180,870	4,046,458,01
Net Assets:					
Invested in capital assets, net of related debt	(4,583,601)	2,645,479	—	—	—
Restricted by bond indentures	2,481,024	285,917,012	732,993	1,148,125	809,023,06
Unrestricted	246,645,691	—	—	—	—
Total net assets	244,543,114	288,562,491	732,993	1,148,125	809,023,06
Total liabilities and net assets	\$ 569,303,854	1,448,219,684	806,524,921	150,328,995	4,855,481,07

See accompanying auditors' report.

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**

Combining Schedule of Revenues, Expenses and Changes in Net Assets

Year ended June 30, 2003

	General Operating Accounts	Multi-Family Lending Programs			Single Family Lending Programs
		Multi-Family Housing and Bond Group	Rental Housing Bond Group	Other Multi-Family Lending Programs	
Operating revenues:					
Interest on mortgages and other loans	\$ 22,038,856	94,841,428	57,131,156	3,039,501	243,453,288
Pass-through grants received	113,980,467	—	—	—	—
Housing Choice Voucher fee income earned	1,706,291	—	—	—	—
Gains and recoveries on sale of other real estate owned	—	—	—	—	1,005,160
Other	5,105,501	1,750,048	46,408	—	—
Total operating revenues	142,831,115	96,591,476	57,177,564	3,039,501	244,458,448
Operating expenses:					
Interest on notes and bonds	13,812,830	65,969,454	53,528,704	3,359,234	169,746,658
Salaries and related employee benefits	24,445,932	—	—	—	—
General operating expenses	13,171,959	442,000	20,000	—	—
Amortization and bond issuance expenses	39,015	587,416	55,259	108,308	917,597
Pass-through grants disbursed	113,980,467	—	—	—	—
Housing Choice Voucher program expenses	2,715,720	—	—	—	—
External mortgage servicing expenses	31,965	—	—	6,224	5,446,876
Losses and expenses on other real estate owned	9,697	—	—	—	1,294,789
Provision for loan losses	7,269,830	—	—	—	—
Total operating expenses	175,477,415	66,998,870	53,603,963	3,473,766	177,405,920
Operating income (expense)	(32,646,300)	29,592,606	3,573,601	(434,265)	67,052,528
Non-operating revenues:					
Investment income	9,036,641	7,276,610	2,383,695	(59,458)	12,617,941
Other, net	411,747	—	—	—	—
Total non-operating revenues	9,448,388	7,276,610	2,383,695	(59,458)	12,617,941
Income (loss) before transfers	(23,197,912)	36,869,216	5,957,296	(493,723)	79,670,469
Transfers between funds	54,081,554	(28,663,964)	4,963,410	(654,402)	(29,726,598)
Change in net assets	30,883,642	8,205,252	10,920,706	(1,148,125)	49,943,871
Total net assets, beginning of year	244,543,114	288,562,491	732,993	1,148,125	809,023,060
Total net assets, end of year	\$ 275,426,756	296,767,743	11,653,699	—	858,966,931

See accompanying auditors' report.

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**

Combining Schedule of Revenues, Expenses and Changes in Net Assets

Year ended June 30, 2002

	General Operating Accounts	Multi-Family Lending Programs			Single Fam Lending Prog
		Multi-Family Housing and Bond Group	Rental Housing Bond Group	Other Multi-Family Lending Programs	
Operating revenues:					
Interest on mortgage and other loans	\$ 6,134,824	105,972,579	39,990,163	9,436,792	277,167,88
Pass-through grants received	122,156,521	—	—	—	—
Section 8 fee income earned	1,936,770	—	—	—	—
Gains and recoveries on sale of other real estate owned	6,229	—	—	—	1,641,78
Other	4,495,263	1,810,464	—	—	—
Total operating revenues	134,729,607	107,783,043	39,990,163	9,436,792	278,809,66
Operating expenses:					
Interest on notes and bonds	1,840,536	74,277,947	40,742,062	9,441,480	210,309,22
Salaries and related employee benefits	21,881,744	—	—	—	—
General operating expenses	15,074,982	462,000	—	—	—
Amortization and bond issuance expenses	7,663	236,084	44,628	5,897	762,90
Pass-through grants disbursed	122,156,521	—	—	—	—
Section 8 program expenses	3,367,583	—	—	—	—
External mortgage servicing expenses	26,242	—	—	15,238	4,693,85
Losses and expenses on other real estate owned	20,434	—	—	—	1,907,78
Provision for loan losses	4,902,722	—	—	—	—
Total operating expenses	169,278,427	74,976,031	40,786,690	9,462,615	217,673,80
Operating income (expense)	(34,548,820)	32,807,012	(796,527)	(25,823)	61,135,86
Non-operating revenues:					
Investment income	7,241,249	14,830,644	3,936,161	1,886,240	30,117,17
Other, net	499,941	—	—	—	—
Total non-operating revenues	7,741,190	14,830,644	3,936,161	1,886,240	30,117,17
Income (loss) before transfers	(26,807,630)	47,637,656	3,139,634	1,860,417	91,253,04
Transfers between funds	41,478,223	(23,677,959)	(1,606,886)	(2,462,611)	(13,730,76
Change in net assets	14,670,593	23,959,697	1,532,748	(602,194)	77,522,27
Total net assets, beginning of year	229,872,521	264,602,794	(799,755)	1,750,319	731,500,78
Total net assets, end of year	\$ 244,543,114	288,562,491	732,993	1,148,125	809,023,06

See accompanying auditors' report.

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

Commissioners  
Virginia Housing Development Authority:

We have audited the financial statements of Virginia Housing Development Authority, a component unit of the Commonwealth of Virginia as of and for the year ended June 30, 2003, and have issued our report thereon dated September 12, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

**COMPLIANCE**

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

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

In planning and performing our audit, we considered Virginia Housing Development Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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

KPMG LLP

September 12, 2003

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**SUMMARY OF CERTAIN PROVISIONS OF THE  
CONTINUING DISCLOSURE AGREEMENT**

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

The Continuing Disclosure Agreement between the Authority and the Trustee was executed and delivered for the benefit of the Holders and Beneficial Owners of the Subject Bonds and in order to assist the Participating Underwriters in complying with SEC Rule 15c2-12(b)(5). The Offered Bonds are to be Subject Bonds.

**Certain Definitions**

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

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

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

“Bonds” means, at any time, all of the Authority’s then Outstanding VHDA General Purpose Bonds, collectively.

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

“Holders” means the Owners of the Subject Bonds.

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

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

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

“Participating Underwriter” means the original underwriters of the applicable Subject Bonds required to comply with the Rule in connection with the offering of such Subject Bonds.

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

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

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

“Subject Bonds” means those Bonds with respect to which the terms of the Continuing Disclosure Agreement are expressly incorporated into the Authority documents authorizing the issuance of such Bonds.

**Provision of Annual Financial Information**

The Authority will, not later than 180 days after the end of the Authority’s Fiscal Year, provide to each NRMSIR and the SID the Annual Financial Information.

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

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

The Authority's Annual Financial Information shall contain or include by reference the following:

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

(b) the balance of the Debt Service Reserve Account valued in accordance with the Resolution.

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

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

(e) delinquency status of Multi-Family Mortgage Loans and mortgage loans originated under the Authority's Multi-Family Housing Bond, Multi-Family Mortgage Bond, Multi-Family Mortgage Purchase Bond and Rental Housing Bond programs;

(f) the following information regarding each Development which is financed by Outstanding Bonds or for which the Authority has an outstanding Multi-Family Mortgage Loan commitment:

(1) Name of the Development;

(2) City or county in which the Development is located;

(3) Original principal amount of Multi-Family Mortgage Loan or outstanding commitment;

(4) Identification of any federal subsidy or mortgage insurance applicable to the Development;

(5) Type of occupancy; and

(6) Percentage of units completed or occupied, as applicable;

(g) delinquency and foreclosure status of Single Family Mortgage Loans originated under the Authority's bond financed Single Family Program;

(h) information on insurance or guaranty providers for the Authority's bond financed Single Family Program; and

(i) information on the portions of the Authority's bond financed Single Family Program serviced by the Authority and by its largest external servicers.

If the Authority's Annual Financial Information does not include its audited financial statements, when and if such audited financial statements become available the Authority shall provide them to each NRMSIR and the SID.

Any of the items above will not be provided separately if included in the Authority's financial statements. In addition, any or all of the items listed above may be included by specific reference to documents, including official statements of debt issues of the Authority or related public entities, previously provided either to (i) each NRMSIR and the SID, or (ii) filed with the SEC (if such document is an official statement, it must also be available from the MSRB). Annual Financial Information may be provided in one document or multiple documents, and at one time or in part from time to time.

In addition to items above, the Authority's Annual Financial Information shall include information regarding amendments to the Continuing Disclosure Agreement as described below in the last two paragraphs under the heading "Amendment of Continuing Disclosure Agreement."

### **Reporting of Significant Events**

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

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

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

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

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

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

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

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

If an amendment is made to the basis on which financial statements are prepared, the Annual Financial Information for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. Such comparison shall include a qualitative and, to the extent reasonably feasible, quantitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information.

### **Enforcement**

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

### **Termination**

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

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

### **Governing Law**

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

**Set forth below is the proposed form of the Approving Opinion of Hunton & Williams, Bond Counsel for the Offered Bonds. Such opinion is subject to change prior to the delivery of the Offered Bonds.**

Virginia Housing Development Authority  
Richmond, Virginia

Commissioners:

We have examined a record of proceedings relating to the issuance of (a) \$29,085,000 VHDA General Purpose Bonds, 2003 Series Q-Taxable, (b) \$5,700,000 VHDA General Purpose Bonds, 2003 Series R-AMT, (c) \$9,900,000 VHDA General Purpose Bonds, 2003 Series S, (d) \$50,760,000 VHDA General Purpose Bonds, 2003 Series T and (e) \$21,925,000 VHDA General Purpose Bonds, 2002 Series U (with all five series of Bonds referred to herein as the "Bonds"), by the Virginia Housing Development Authority (the "Authority"), a political subdivision of the Commonwealth of Virginia (the "Commonwealth"), created by the Virginia Housing Development Authority Act, being Chapter 1.2 of Title 36 of the Code of Virginia, 1950, as amended (the "Act"), and organized and existing under the Act and other laws of the Commonwealth.

The Bonds are authorized to be issued pursuant to the Act and a resolution of the Authority adopted April 20, 1993 entitled "A Resolution Providing for the Issuance of VHDA General Purpose Bonds of the Virginia Housing Development Authority and for the Rights of the Holders Thereof" (the "Resolution"); a resolution of the Authority adopted May 20, 2003, entitled "Supplemental Resolution Authorizing the Issuance and Sale of VHDA General Purpose Bonds" (the "Supplemental Resolution"); and the Written Determinations of an Authorized Officer of the Authority dated October 1, 2003 and executed and delivered in accordance therewith. Such Written Determinations, the Supplemental Resolution and the Resolution are collectively herein referred to as the "Bond Resolution". The Bonds are authorized to be issued pursuant to the Bond Resolution for the purpose of providing funds to carry out the Authority's Programs of making Mortgage Loans. All capitalized terms used herein and not otherwise defined have the meanings set forth in the Bond Resolution.

Based upon the foregoing, we are of the opinion that:

1. Under the Constitution and laws of the Commonwealth, the Act is valid and the Authority has been duly created and validly exists as a political subdivision with such political and corporate powers as set forth in the Act with lawful authority, among other things, to carry out the Programs of making Mortgage Loans, to provide funds therefor and to perform its obligations under the terms and conditions of the Bond Resolution.
2. The Bond Resolution has been duly adopted by the Authority and is valid and binding upon the Authority and is enforceable in accordance with its terms.
3. The Bonds are valid and legally binding general obligations of the Authority secured by a pledge in the manner and to the extent set forth in the Bond Resolution and are entitled to the equal benefit, protection and security of the provisions, covenants and agreements of the Bond Resolution. The Bond Resolution creates a valid pledge of, and the lien that it purports to create upon, the Assets held or set aside or to be held and set aside pursuant to the Bond Resolution, subject only to the provisions of the Bond Resolution permitting the use and payment thereof for or to the purposes and on the terms and conditions set forth in the Bond Resolution.

The foregoing opinion is qualified to the extent that the enforceability of the Bonds and the Bond Resolution may be limited by bankruptcy, moratorium or insolvency or other laws affecting creditors' rights or remedies generally and is subject to general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

Our services as bond counsel to the Authority have been limited to delivery of the foregoing opinion based upon our review of such proceedings and documents as we deem necessary to approve the validity of the Bonds and the Bond Resolution. We express no opinion herein as to the financial resources of the Authority, the adequacy of the Assets pledged to payment of the Bonds, the ability of the Authority to provide for the payment of the Bonds or the accuracy or completeness of any information that may have been relied on by anyone in making a decision to purchase the Bonds, including the Authority's Preliminary Official Statement for the Bonds dated September 24, 2003, and its Official Statement for the Bonds dated October 1, 2003.

Very truly yours,

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**PROPOSED FORM OF TAX OPINION**  
**of**  
**Hawkins, Delafield & Wood**  
**for the Offered Bonds**

\_\_\_\_\_, 2003

Virginia Housing Development Authority  
 Richmond, Virginia

Commissioners:

We have acted as Special Tax Counsel in connection with the offering of \$29,085,000 VHDA General Purpose Bonds, 2003 Series Q-Taxable (herein called the “Offered Taxable Bonds”), \$5,700,000 VHDA General Purpose Bonds, 2003 Series R-AMT (herein called the “Offered Tax Exempt AMT Bonds”), \$9,900,000 VHDA General Purpose Bonds, 2003 Series S (herein called the “Series S Bonds”), \$50,760,000 VHDA General Purpose Bonds, 2003 Series T (herein called the “Series T Bonds”) and \$21,925,000 VHDA General Purpose Bonds, 2003 Series U (herein called the “Series U Bonds”; the Series S Bonds, the Series T Bonds and the Series U Bonds are collectively referred to herein as the “Offered Tax Exempt Non-AMT Bonds”; the Offered Tax Exempt AMT Bonds and the Offered Tax Exempt Non-AMT Bonds are collectively referred to herein as the “Offered Tax Exempt Bonds”, and the Offered Taxable Bonds and the Offered Tax Exempt Bonds are collectively referred to herein as the “Offered Bonds”) of the Virginia Housing Development Authority (herein called the “Authority”). In connection with rendering the opinion below, we have examined the provisions of Sections 103 and 141 through 150 of the Internal Revenue Code of 1986, as amended (the “Code”), and the regulations promulgated thereunder and have also examined the following:

- (1) the Resolution of the Authority adopted April 20, 1993 entitled “A Resolution Providing for the Issuance of VHDA General Purpose Bonds of the Virginia Housing Development Authority and for the Rights of the Holders Thereof” (herein called the “Resolution”), a resolution of the Authority adopted May 20, 2003 entitled “Supplemental Resolution Authorizing the Issuance and Sale of VHDA General Purpose Bonds” (herein called the “Supplemental Resolution”) and the Written Determinations of an Authorized Officer of the Authority executed and delivered in accordance therewith (such Written Determinations, the Supplemental Resolution and the Resolution are collectively herein called the “Bond Resolution”);
- (2) the opinion of even date herewith of Hunton & Williams, Bond Counsel, approving the legality of the Offered Bonds and other matters;
- (3) the Authority’s Tax Certification and Arbitrage Certificate, of even date herewith (the “Certificates”), of authorized officers of the Authority, to the effect that the Offered Tax Exempt Bonds are not “arbitrage bonds” within the meaning of the Code and as to other matters affecting the tax-exempt status of such Bonds; and
- (4) the relevant provisions of such other documents and such other matters of fact and law as we have deemed relevant to the rendering of this opinion.

In such examination, we have assumed the genuineness of all signatures, the authenticity of all documents submitted to us as originals and the conformity with originals of all documents submitted to us as copies thereof. We have relied, to the extent we deemed such reliance proper, on certificates and opinions provided to us. In rendering the opinions expressed below, we have relied, without independent investigation, upon the opinion of counsel referred to above that the Offered Bonds are valid and legally binding obligations of the Authority and other matters not related to federal income taxation.

The Code establishes certain ongoing requirements that must be met subsequent to the issuance and delivery of the Offered Tax Exempt Bonds in order that interest on the Offered Tax Exempt Bonds be and remain excluded from gross income under Section 103 of the Code. These requirements include, but are not limited to, requirements relating to use and expenditure of gross proceeds of the Offered Tax Exempt Bonds, yield and other restrictions on investments of gross proceeds, and the arbitrage rebate requirement that certain excess earnings on gross proceeds be rebated to the federal government. Noncompliance with such requirements may cause interest on the Offered Tax Exempt Bonds to become included in gross income for federal income tax purposes retroactive to their issue date, irrespective of the date on which such noncompliance occurs or is discovered.

Based upon the foregoing, we are of the opinion that:

- (1) Under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest on the Offered Tax Exempt Bonds is excluded from gross income for federal income tax purposes pursuant to Section 103 of the Code, except that no opinion is expressed as to such exclusion of interest on any Offered Tax Exempt AMT Bond, Series S Bond or Series T Bond for any period during which the Offered Tax Exempt AMT Bond, Series S Bond or Series T Bond is held by a person who, withing the meaning of Section 147(a) of the Code is a “substantial user” of the facilities financed with the proceeds of the Offered Tax Exempt AMT Bonds, Series S Bonds or Series T Bonds or a “related person”, and (ii) interest on the Offered Tax Exempt AMT Bonds is treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code, and (iii) interest on the Offered Tax Exempt Non-AMT Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. In rendering our opinion, we have relied on certain representations, certifications of fact, and statements of reasonable expectations made by the Authority in connection with the Offered Tax Exempt Bonds, and we have assumed compliance by the Authority with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the Offered Tax Exempt Bonds from gross income under Section 103 of the Code.
- (2) Interest on the Offered Taxable Bonds is included in gross income for federal income tax purposes pursuant to the Code.

Except as stated in paragraphs 1 and 2 above, we express no opinion as to any other matter with respect to the exemption of interest on the Offered Tax Exempt Bonds from federal income taxation or as to the treatment of any of such Bonds for tax purposes by any state, city, county or other jurisdiction. We render our opinion under existing statutes and court decisions as of the issue date, and assume no obligation to update our opinion after the issue date to reflect any future action, fact or circumstance, or change in law or interpretation, or otherwise. We express no opinion on the effect of any action hereafter taken or not taken in reliance upon an opinion of other counsel on the exclusion from gross income for federal income tax purposes of interest on the Offered Tax Exempt Bonds, or under state and local tax law.

As Special Tax Counsel we were not retained to pass on, and assume no responsibility for, matters other than those covered by the specific opinions above.

Very truly yours,

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