



\$102,472,294
Virginia Housing Development Authority
Commonwealth Mortgage Bonds,
Pass-Through Certificates,
2002 Series E

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

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

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

The Offered Certificates

We, the Authority, will issue the Offered Certificates listed in the chart on this page. The Offered Certificates will be indebtedness of the Authority.

Payments

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

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

Guaranty and Security

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

<i>Original Principal Amount</i>	<i>Interest Rate</i>	<i>Dealer Purchase Price</i>	<i>CUSIP Number</i>	<i>Final Scheduled Payment Date</i>
\$102,472,294	5.0%	\$100,582,961.08	92812TW31	December 25, 2032

The Dealer will offer the Offered Certificates from time to time in negotiated transactions at varying prices. We expect the Closing Date to be December 17, 2002. See "Sale" herein.

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

Merrill Lynch & Co.

December 10, 2002

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

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

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REFERENCE SHEET

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

The Offered Certificates

The Virginia Housing Development Authority Commonwealth Mortgage Bonds, Pass-Through Certificates, 2002 Series E.

Guarantor

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

Our Guaranty

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

Parity Debt and Assets

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

MBIA Insurance

It is expected that the payment of interest and Principal Payment Amounts on the Offered Certificates will be insured by an insurance policy issued by MBIA Insurance Company ("MBIA").

Information

Additional information about the Offered Certificates and the Allocated Mortgage Loans may be obtained, upon request, by contacting us. Our telephone number is (804)782-1986.

Cut-Off Date

The Cut-Off Date is December 1, 2002.

Closing Date

The Offered Certificates will be delivered on the Closing Date, which is expected to be on or about December 17, 2002.

Record Dates

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

Payment Dates

Payments on the Offered Certificates will be made on the 25th day of each month or, if such day is not a Business Day, on the first Business Day after the 25th day, beginning in January 2003.

Book-Entry Certificates

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

The Allocated Mortgage Loans

Principal payments on the Offered Certificates will be based on 80% of (i) the principal payments made or scheduled to be made on the Allocated Mortgage Loans and (ii) the payments made to either repurchase or remove such Allocated Mortgage Loans. The Allocated Mortgage Loans are Mortgage Loans that (i) as of the Cut-Off Date are owned by the Authority, (ii) are identified in the Resolutions creating the Offered Certificates and (iii) are described in this Offering Circular. The Allocated Mortgage Loans were originated pursuant to our single family mortgage loan program and were made to persons and households of low and moderate income for the financing or refinancing of the acquisition, rehabilitation or ownership of single family residential housing, including condominium units. The program includes mortgage loan underwriting criteria and processing procedures established by us. The Allocated Mortgage Loans constitute part of the Mortgage Loans securing on a parity basis all outstanding Commonwealth Mortgage Bonds.

Interest Payments

On each Payment Date beginning in January 2003, you will be entitled to receive one month's interest on

your Offered Certificate at the annual rate of 5.0%. Interest will be computed on the basis of a year consisting of 12 months containing 30 days each.

Principal Payments

On each Payment Date, the total amount of principal to be paid on the Offered Certificates will equal 80% of the sum of the below amounts.

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

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

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

80% of the sum of the amounts described in clauses (a), (b) and (c) above is referred to as the "Principal Payment Amount." The Principal Payment Amount will be paid pro rata on the Offered Certificates until the outstanding principal amount and interest on the Offered Certificates have been paid in full.

Final Scheduled Payment Date

The Final Scheduled Payment Date for the Offered Certificates is December 25, 2032.

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

Class Factors

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

Yield, Maturity and Prepayment Considerations

The anticipated maturity and yield to maturity of your Offered Certificates will be affected by (i) the rates of principal payments on, and liquidations of, the Allocated Mortgage Loans and (ii) the cash payments made with regard to the repurchase of Allocated

Mortgage Loans. A variety of factors influence the rate at which borrowers repay their mortgage loans.

Certain Allocated Mortgage Loan Information

Information concerning the Allocated Mortgage Loans is set forth under "Allocated Mortgage Loans".

Servicing Fees

We directly service some of the Allocated Mortgage Loans on which we do not pay any servicing fees. The remaining Allocated Mortgage Loans are serviced by Serving Agents to whom we pay a monthly fee of 1/12 of .375% of the outstanding balance of such loans.

Repurchase and Removal of Allocated Mortgage Loans

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

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

Tax Matters

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

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

Legal Investment Matters and Investment by Regulated Institutions; ERISA

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

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

Optional Redemption

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

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

THE OFFERED CERTIFICATES

<u>Term</u>	<u>Meaning</u>
“Allocated Mortgage Loans”	The Mortgage Loans which are allocated to the Offered Certificates
“Authority”, “us”, “we” or “ours”	The Virginia Housing Development Authority
“Bonds”	Currently Outstanding Bonds, the Offered Certificates, and any Commonwealth Mortgage Bonds hereafter issued
“Business Day”	A day that is not a Saturday or Sunday or a legal holiday on which banking institutions in the Commonwealth of Virginia or State of New York or in any state in which the principal corporate trust office of the Trustee is located is authorized to remain closed
“Closing Date”	The date of issuance of the Offered Certificates
“Code”	Internal Revenue Code of 1986, as amended, including temporary, proposed and permanent regulations, revenue rulings and revenue procedures
“Currently Outstanding Bonds”	Previously issued Commonwealth Mortgage Bonds outstanding as of the date of this Offering Circular
“Cut-Off Date”	December 1, 2002, the date after which Principal Payment Amounts and interest on the Offered Certificates will accrue and be payable to the Owners of the Offered Certificates
“Investor”, “you” or “yours”	The Beneficial Owner of an Offered Certificate
“Offered Certificates”	The Commonwealth Mortgage Bonds, Pass-Through Certificates, 2002 Series E
“Payment Date”	The 25 th day of each month or, if such day is not a Business Day, the first Business Day thereafter
“Principal Payment Amount”	The monthly principal payment amount for the Certificates
“Record Date”	The last Business Day of the calendar month immediately preceding any Payment Date
“Tax Exempt Bonds”	Bonds on which interest is not included in gross income for federal income tax purposes pursuant to Section 103 of the Code
“Taxable Bonds”	Bonds, including the Offered Certificates, on which interest is included in gross income for federal income tax purposes

We are distributing this Offering Circular to furnish pertinent information in connection with the initial offering of the Offered Certificates. The Offered Certificates are being offered hereby pursuant to the Virginia Housing Development Authority Act, being Chapter 1.2 of Title 36 of the Code of Virginia, 1950, as amended (the “Act”), the General Bond Resolution adopted by the Authority on July 15, 1986, as amended and supplemented (the “General Bond Resolution”), the Series Resolution adopted by the Authority on April 16, 2002 (the “Series Resolution”), and the Written Determinations as to the terms of the Offered Certificates (the General Bond Resolution, the Series Resolution and such Written Determinations are collectively referred to herein as the “Resolutions”).

We adopted the Resolutions to issue Bonds, including the Offered Certificates, for the principal purpose of funding our single family housing program, including the General Program described below. The Resolutions permit the issuance of additional parity Bonds, and we anticipate that additional parity Bonds will be issued in the future.

SunTrust Bank, Atlanta, Georgia, is the Trustee under the General Bond Resolution.

The summaries of and references herein to the Act and the Resolutions 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 Resolutions and such other documents and materials for the complete provisions thereof.

RISK FACTORS

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

Suitability

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

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

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

Yield Considerations

Your effective yield on your Offered Certificates will depend upon:

- the price you paid for your Offered Certificates;
- how quickly or slowly borrowers prepay the Allocated Mortgage Loans;

- if and when the Allocated Mortgage Loans are liquidated due to borrower defaults, casualties or condemnations;
- if and when we require any of the Allocated Mortgage Loans to be repurchased by financial institutions that underwrote the Allocated Mortgage Loans;
- if and when any of the Allocated Mortgage Loans which are delinquent are removed and replaced by cash;
- whether we exercise our option to redeem your Offered Certificates;
- the actual characteristics of the Allocated Mortgage Loans; and
- the price you receive upon any resale of your Offered Certificates.

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

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

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

Even if the Allocated Mortgage Loans are prepaid at a rate that on average is consistent with your expectations, variations over time in the prepayment rate of your related Allocated Mortgage Loans can affect your yield. Generally, the earlier the payment of principal, the greater the effect on the yield to maturity. As a result, if the rate of principal prepayments on the Allocated Mortgage Loans during any period is faster or lower than you expect, a

corresponding reduction or increase in the prepayment rate during a later period may not fully offset the impact of the earlier prepayment rate on your yield.

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

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

Prepayment Considerations

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

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

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

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

- the interest rates on newly originated mortgage loans relative to the interest rates on the Allocated Mortgage Loans;

- homeowner mobility;
- the creditworthiness of the borrowers;
- borrower sophistication regarding the benefits of refinancing;
- solicitation for refinancing by mortgage loan originators; and
- general economic conditions.

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

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

Repurchase Due to Breach of Representations and Warranties

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

Removals Due to Delinquency

We will remove any Allocated Mortgage Loan which is delinquent by at least four consecutive monthly payments and will substitute cash in an amount equal to 80% of the outstanding principal balance of such Allocated Mortgage Loan. Our removal of any Allocated Mortgage Loan will have the same effect on the Offered Certificates as a borrower prepayment.

Reinvestment Risk

Generally, a borrower may prepay an Allocated Mortgage Loan at any time. As a result, we cannot predict the rate of principal payments on the Offered Certificates. The Offered Certificates may not be an appropriate investment for you if you require a specific amount of principal on a regular basis or on a specific date. Because interest rates fluctuate, you may not be able to reinvest the principal payments on the

Offered Certificates at a rate of return that is as high as your rate of return on the Offered Certificates. You may have to reinvest those funds at a much lower rate of return. You should consider this risk in light of other investments that may be available to you.

Market and Liquidity Considerations

We cannot be sure that a market for resale of the Offered Certificates will develop. Further, if a market develops, it may not continue or be sufficiently liquid to allow you to sell your Offered Certificates. Even if you are able to sell your Offered Certificates, the sale price may not be comparable to similar investments that have a developed market. Moreover, you may not be able to sell small or large amounts of Offered Certificates at prices comparable to those available to other potential Investors. You should purchase Offered Certificates only if you understand and can tolerate the risk that the value of your Offered Certificates will vary over time and that your Offered Certificates may not be easily sold.

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

- the characteristics of the Allocated Mortgage Loans;
- expected prepayment levels of the Allocated Mortgage Loans and comparable loans;
- the outstanding principal amount of the Offered Certificates;
- the amount of the Offered Certificates offered for resale from time to time;
- any legal restrictions, regulatory requirements or tax treatment limiting demand for the Offered Certificates;

- the availability of comparable securities;
- the level, direction and volatility of interest rates generally; and
- general economic conditions.

Guaranty Considerations

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

Parity Bonds

Bonds, including the Offered Certificates, are equally secured, to the extent and as provided in the Resolutions, by Mortgage Loans, including Allocated Mortgage Loans, Revenues, and moneys and assets in the Funds and Accounts pledged under the Resolutions. Upon the occurrence of any Event of Default under the Resolutions, the Revenues, money and assets in the Funds and Accounts may not be sufficient to pay principal and interest due and payable on the Bonds. As a result, the principal repayments and interest on the Allocated Mortgage Loans may be applied, in whole or in part, to payment of principal and interest on other Bonds and, to the extent so applied, will not be available for the repayment of principal and interest of the Offered Certificates related to the Allocated Mortgage Loans. In the event any proceeds of the Allocated Mortgage Loans are used to make payments on Bonds other than the Offered Certificates, we are obligated to make interest payments and Principal Payment Amounts on the Offered Certificates as if such other payments had not been made and as if such proceeds of the Allocated Mortgage Loans are still available in full for payment on the Offered Certificates.

DESCRIPTION OF THE OFFERED CERTIFICATES

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

Certain existing Mortgage Loans will be designated as Allocated Mortgage Loans. Summary information concerning the Allocated Mortgage Loans is set forth below. The total of 80% of the outstanding principal balances of the Allocated Mortgage Loans (as reduced by scheduled monthly payments of principal due and payable on December 1, 2002) is equal to the original principal amount of the Offered Certificates.

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

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

Interest Payments

Interest on the Offered Certificates will accrue at the applicable rate of interest set forth on the cover hereof from the Cut-Off Date and shall be payable on each Payment Date, commencing in January 2003, calculated on the basis of a 30-day year consisting of twelve 30-day months. The amount of the interest payment payable on each Payment Date will be the amount of interest accrued on the Offered Certificates for the calendar month immediately preceding the month of such Payment Date. Each interest payment shall be paid to the Owners of the Offered Certificates as of the applicable Record Date.

Principal Payments

Principal on the Offered Certificates shall be payable on each Payment Date, commencing in January 2003, until the earlier of the applicable Final Scheduled Payment Date or payment in full of principal on the Offered Certificates. Each principal payment shall be paid to the Owners of the Offered Certificates as of the applicable Record Date. The principal amount to be repaid on the Offered Certificates shall be prorated among the Offered Certificates. Such principal payments shall be composed of 80% of the following amounts as determined by us: (i) the principal portion of scheduled monthly Mortgage Loan payments due on the first day of the month of the Payment Date, (ii) full or partial principal prepayments (including proceeds of hazard insurance, title insurance, or condemnation) received in the calendar month immediately preceding the month of the Payment Date, (iii) principal due upon liquidations by foreclosures or deeds in lieu of foreclosure occurring or delivered in the calendar month immediately preceding the month of the Payment Date, (iv) the principal balance of delinquent Allocated Mortgage Loans removed by us during the calendar month immediately preceding the month of the Payment Date, as described below, and (v) the principal balance of Allocated Mortgage Loans that are repurchased during the calendar month immediately preceding the month of the Payment Date by the financial institutions that underwrote such Allocated Mortgage Loans, as described below. 80% of the sum of the amounts described in (i) through (v) is referred to as the "Principal Payment Amount". For any Allocated Mortgage Loan which is liquidated by foreclosure or deed in lieu of foreclosure, 80% of the full outstanding principal amount due on the Allocated Mortgage Loan will be used in determining the principal amount of the Offered Certificates to be repaid. This principal amount to be repaid will be determined without regard to the amount or timing of the receipt of the amounts received by us from the sale of the single family residences acquired by us by foreclosure or deed in lieu of foreclosure. The Principal Payment Amounts of Offered Certificates to be repaid as described in (ii) through (v) above are mandatory sinking fund installments under the Resolutions.

Any Allocated Mortgage Loan which is delinquent by four consecutive monthly payments or is being restructured by having delinquent payments added to its outstanding principal balance will be deallocated by us from the Offered Certificates, and we will substitute cash for such Allocated Mortgage Loan in an amount equal to its

outstanding principal balance. Any such deallocation of an Allocated Mortgage Loan will have the same effect on the Offered Certificates as a full prepayment of such Allocated Mortgage Loan.

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

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

The Owners of the Offered Certificates waive notice of sinking fund redemption or optional redemption that would otherwise be required by the Resolutions.

Class Factors

We will calculate for the Offered Certificates, the Class Factor (“Class Factor”) (carried to eight decimal places) that may be multiplied by the original principal amount to determine the outstanding principal balance after giving effect to the distribution of principal to be made on the Certificates on the following Payment Date. For example, the January 2003 Class Factor for the Offered Certificates will reflect their remaining principal amount, after giving effect to any Principal Payment Amount to be made on January 25, 2003. The December 2002 Class Factor is 1.00000000. Class Factors will be calculated and made available on or about the 10th day of each month (or the next succeeding Business Day).

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

For example, the amount of principal to be paid on the Offered Certificates in January 2003 will reflect the difference between their December 2002 and January 2003 Class Factors. The amount of interest to be paid on the Offered Certificates in January 2003 will equal 30 days’ interest accrued during the month of December 2002 on the principal amount determined by reference to their December 2002 Class Factor.

Allocated Mortgage Loans

The Offered Certificates are being issued in a principal amount equal to 80% of the outstanding principal amount of the Allocated Mortgage Loans. The Allocated Mortgage Loans bear interest at a blended rate based on 20% of the outstanding principal of those loans being financed on a tax-exempt basis. As a consequence, the Allocated Mortgage Loans bear interest at a rate that is lower than the rate that would apply if 100% of the outstanding principal amount of the Allocated Mortgage Loans were financed on a taxable basis.

All of the Allocated Mortgage Loans are fully amortizing with original terms of thirty years secured by first liens on single family real estate in the Commonwealth of Virginia. The Allocated Mortgage Loans are insured or guaranteed by the Federal Housing Administration (“FHA”), Veterans Administration (“VA”), federal Rural Development (“RD”), private mortgage insurance (“PMI”), or have a loan to value ratio (“LTV”) of 80% or less. The maximum LTV of Allocated Mortgage Loans insured by the FHA is 97.75%, and the maximum LTV of Allocated Mortgage Loans insured or guaranteed by the VA, RD, or PMI is 100%. Some of the Allocated Mortgage Loans insured by the FHA were made in conjunction with second lien Mortgage Loans for the financing of down payment and closing costs, which second lien Loans are not insured and are not Allocated Mortgage Loans. The maximum income limits for the program used to make the Allocated Mortgage Loans currently range from \$56,800 to \$100,600 and the maximum sales prices range from \$95,400 to \$306,600. Such limits were lower at the times when some of the Allocated Mortgage Loans were made. We service directly some of the Allocated Mortgage Loans and the others are serviced by Servicing Agents.

For further information regarding the origination and servicing of the Allocated Mortgage Loans, see “Security” and “The General Program” under “General Matters” below. The Allocated Mortgage Loans are assumable

provided that the new mortgagor meets our underwriting standards and income limits. The Allocated Mortgage Loans do not provide for prepayment penalties. We are not precluded from participating in any refinancing of the Allocated Mortgage Loans. No Mortgage Loans which are more than 30 days delinquent as of the Cut-Off Date will be allocated to the Offered Certificates. Information on the individual Mortgage Loans allocated to the Offered Certificates will be made available upon request.

Unpaid principal balance	\$128,090,368
Times percentage allocated	<u>x 80%</u>
Allocated to Offered Certificates	\$102,472,294
Number of loans	1434
Median principal balance	\$86,080
Weighted average coupon	6.100%
Weighted average original term	360 months
Weighted average maturity	350 months
Median loan to value ratio	98%
Earliest initial scheduled payment date	February 1, 1997
Latest initial scheduled payment date	January 1, 2003
Number of zip codes represented	271
Largest percentage of loans in one zip code	4%

Acceleration

Pursuant to the Act, in the event that we default in the payment of principal of or interest on any issue of the Bonds, including the Offered Certificates, and such default shall continue for 30 days or in the event that we shall otherwise fail to comply with the provisions of the Resolutions, 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. Any payment of principal on the Offered Certificates following such acceleration will have the same effect on the Owners of the Offered Certificates as the prepayment of all or a portion of the Allocated Mortgage Loans. As described below, the municipal bond insurance policy expected to be issued by MBIA does not guarantee payment of the outstanding principal amount of the Offered Certificates upon acceleration.

MBIA

It is expected that interest and Principal Payment Amounts on the Offered Certificates will be insured by an insurance policy issued by MBIA Insurance Corporation (the "Insurer").

The following description of the Insurer and the policy that it expects to issue have been furnished by the Insurer, and neither we nor the Dealer guarantees its accuracy or completeness or that there has been no material change in the Insurer since the date of the information provided. See Appendix E for a specimen of the Insurer's policy.

The Insurer's policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on our behalf to the Trustee or its successor of an amount equal to (i) the principal of (either at the stated maturity or by an advancement of maturity pursuant to a mandatory sinking fund payment, including the Principal Payment Amounts) and interest on, the Offered Certificates as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed by the Insurer's policy shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any Owner of the Offered Certificates pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such Owner within the meaning of any applicable bankruptcy law (a "Preference").

The Insurer's policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Offered Certificates. The Insurer's policy does not, under any circumstance, insure against loss relating to: (i) optional or mandatory redemptions (other than mandatory sinking fund redemptions); (ii) any payments to be made on an accelerated basis; (iii) payments of the purchase price of Offered Certificates upon tender by an Owner thereof; or (iv) any Preference relating to (i) through (iii) above. The Insurer's policy also does not insure

against nonpayment of principal of or interest on the Offered Certificates resulting from the insolvency, negligence or any other act or omission of the Trustee or any other paying agent for the Bonds.

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Trustee or from any Owner of an Offered Certificate the payment of an insured amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with State Street Bank and Trust Company, N.A., in New York, New York, or its successor, sufficient for the payment of any such insured amounts which are then due. Upon presentment and surrender of such Offered Certificates or presentment of such other proof of ownership of the Offered Certificates, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the Offered Certificates as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such Owners of the Offered Certificates in any legal proceeding related to payment of insured amounts on the Offered Certificates, such instruments being in a form satisfactory to State Street Bank and Trust Company, N.A., State Street Bank and Trust Company, N.A. shall disburse to such owners or the Trustee payment of the insured amounts due on such Offered Certificates, less any amount held by the Trustee for the payment of such insured amounts and legally available therefor.

The Insurer is the principal operating subsidiary of MBIA Inc., a New York Stock Exchange listed company (the "Company"). The Company is not obligated to pay the debts of or claims against the Insurer. The Insurer is domiciled in the State of New York and licensed to do business in and subject to regulation under the laws of all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, the Virgin Islands of the United States and the Territory of Guam. The Insurer has three branches, one in the Republic of France, one in the Republic of Singapore and one in the Kingdom of Spain. New York has laws prescribing minimum capital requirements, limiting classes and concentrations of investments and requiring the approval of policy rates and forms. State laws also regulate the amount of both the aggregate and individual risks that may be insured, the payment of dividends by the Insurer, changes in control and transactions among affiliates. Additionally, the Insurer is required to maintain contingency reserves on its liabilities in certain amounts and for certain periods of time.

The Insurer does not accept any responsibility for the accuracy or completeness of this Offering Circular or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the policy and the Insurer set forth under this heading. Additionally, the Insurer makes no representation regarding the Offered Certificates or the advisability of investing in the Offered Certificates.

The Insurer's policy is not covered by the Property/Casualty Insurance Fund specified in Article 76 of the New York Insurance Law.

The Company's Annual Report on Form 10-K for the year ended December 31, 2001 is filed by the Company with the Securities and Exchange Commission (the "SEC") and is incorporated herein by reference:

Any documents filed by the Company pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act of 1934, as amended, after the date of this Offering Circular and prior to the termination of the offering of the Offered Certificates shall be deemed to be incorporated by reference in this Offering Circular and to be a part hereof. Any statement contained in a document incorporated or deemed to be incorporated by reference herein, or contained in this Offering Circular shall be deemed to be modified or superseded for purposes of this Offering Circular to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Offering Circular.

The Company files annual, quarterly and special reports, information statements and other information with the SEC under File No. 1-9583. Copies of the SEC filings (including the Company's Annual Report on Form 10-K for the year ended December 31, 2001,) are available (i) over the internet at the SEC's web site at <http://www.sec.gov>; (ii) at the SEC's public reference room in Washington D.C.; (iii) over the Internet at the Company's web site at <http://www.mbia.com>; and (iv) at no cost, upon request to MBIA Insurance Corporation, 113 King Street, Armonk, New York 10504. The telephone number of the Insurer is (914) 273-4545.

As of December 31, 2001, the Insurer had admitted assets of \$8.5 billion (unaudited), total liabilities of \$5.6 billion (unaudited), and total capital and surplus of \$2.9 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of December 31, 2000, the Insurer had admitted assets of \$7.6 (audited), total liabilities of \$5.2 billion (audited), and total capital and surplus

of \$2.4 billion (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

Moody's Investors Service, Inc. rates the financial strength of the Insurer "Aaa".

Standard & Poor's, a division of The McGraw-Hill Companies, Inc., rates the financial strength of the Insurer "AAA".

Each rating of the Insurer should be evaluated independently. The ratings reflect the respective rating agency's current assessment of the creditworthiness of the Insurer and its ability to pay claims on its policies of insurance. Any further explanation as to the significance of the above ratings may be obtained only from the applicable rating agency.

The above ratings are not recommendations to buy, sell or hold the Offered Certificates, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the Offered Certificates. The Insurer does not guarantee the market price of the Offered Certificates nor does it guarantee that the ratings on the Offered Certificates will not be revised or withdrawn.

RATINGS

As noted on the front cover, the Offered Certificates are expected to be rated "Aaa" by Moody's Investors Service (Moody's) and "AAA" by Standard & Poor's Rating Services (Standard & Poor's) based on the bond insurance being provided by MBIA.

Moody's issues ratings from "Aaa" to "C" to designate the relative investment qualities of debt securities. The "Aaa" rating is the highest of the nine such ratings. Moody's describes its "Aaa" rating as follows: "Bonds which are rated "Aaa" are judged to be of the best quality. They carry the smallest degree of investment risk and are generally referred to as "gilt edge." Interest payments are protected by a large or by an exceptionally stable margin and principal is secure. While the various protective elements are likely to change, such changes as can be visualized are most unlikely to impair the fundamentally strong position of such issues."

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

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

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

TAX MATTERS

The interest on the Offered Certificates is included in gross income for federal income tax purposes under the Code.

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

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

LEGAL MATTERS AND CONTINUING DISCLOSURE

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

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

SALE

The Offered Certificates are being purchased by Merrill Lynch & Co. (the "Dealer"), which has agreed to purchase all of the Offered Certificates, at the purchase price set forth on the front cover. The purchase price for the Offered Certificates was set pursuant to bids we received on December 10, 2002, with each bid price being the purchase price offered for the Offered Certificates at the interest rate set forth on the cover of this Offering Circular. We have no obligation to deliver any portion of the Offered Certificates if all of the Offered Certificates are not purchased by the Dealer. It will be the responsibility of the Dealer to provide to you certain required information regarding your purchase of the Offered Certificates.

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

LITIGATION

No litigation of any nature as of the date hereof, to our knowledge, is pending or threatened against us (a) to restrain or enjoin the issuance or delivery of any of the Offered Certificates or the collection and application of funds and assets pledged under the Resolutions, (b) in any way contesting or affecting any authority for the issuance or validity of the Offered Certificates or the validity of the Resolutions, (c) in any material way contesting our existence or powers, or (d) in any material way contesting or affecting the assets or funds pledged or intended to be pledged for the payment of the Offered Certificates.

LEGAL INVESTMENT

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

The Offered Certificates are general obligations of a political subdivision of the Commonwealth of Virginia. In addition, the Offered Certificates will constitute "mortgage related securities" for purposes of the Secondary Mortgage Market Enhancement Act of 1984 ("SMMEA") so long as they are rated in one of the two highest rating

categories by a nationally recognized statistical rating organization and, as such, will be legal investments for certain entities to the extent provided in SMMEA, subject to state laws overriding SMMEA.

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

GENERAL MATTERS

SECURITY

The Bonds, including the Offered Certificates, are equally secured, to the extent and as provided in the Resolutions, by Mortgage Loans, Revenues and moneys and assets in Funds and Accounts pledged under the Resolutions, including the Debt Service Reserve Fund.

The Bonds are also our general obligations payable out of any of our revenues, moneys or assets, subject to agreements heretofore or hereafter made with owners of our obligations other than the Owners pledging particular revenues, moneys or assets for the payment thereof. The security provided the Offered Certificates by our general obligation should be evaluated in connection with the performance of our other mortgage loan programs and the related pledging of particular revenues, moneys or assets.

A substantial portion of the assets that are pledged under the Resolutions are Investment Obligations. Revenues and other moneys in the Funds and Accounts pledged under the Resolutions may be invested in Investment Obligations. Eligible Investment Obligations are set forth in the “The Resolutions-Investment Obligations” and include any investment (debt or other contractual obligation) which will not result in a lowering of the rating on the Bonds by any rating agency which has rated the Bonds at our request.

The Resolutions provide authorization, subject to certain certifications as to cash flow and parity, for us to release moneys from the lien or pledge created by the Resolutions (see “The Resolutions-Revenue Fund”). The Resolutions also provide authorization for amendments to certain provisions therein by our supplemental resolution without the consent of Owners (see “The Resolutions-Amendments”).

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

Pursuant to the Act, we may purchase or otherwise acquire the actual or constructive ownership of Bonds prior to the maturity or redemption thereof with the intent that such Bonds remain Outstanding and that any such Bonds so purchased or acquired shall, if not surrendered to the Trustee for cancellation, remain Outstanding, subject to any terms and conditions determined by us. Any Bonds so owned by us would be entitled to vote or give consents under the Resolutions, including upon an event of default under the Resolutions, except with respect to amendments to the Resolutions.

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

Revenues

Revenues pledged to the Bonds include all payments, proceeds, charges, rents and all other income (except Escrow Payments, moneys retained by a servicer as servicing fees and moneys, if any, required to be paid as rebate to the federal government) derived in cash by or for our account as mortgagee or owner from or related to the Program including, without limitation, payments of principal of and interest on Mortgage Loans.

Revenues are to be used to accumulate funds for the payment of any rebate as required by the Code, to pay the debt service on the Bonds, to maintain the Debt Service Reserve Fund at the Debt Service Reserve Fund Requirement, to pay fees and expenses of the Trustee, and to make or purchase additional Mortgage Loans or to purchase or redeem Bonds. Any remaining excess may, subject to certain certifications as to cash flow and parity, be transferred to the our General Fund and used for any purpose of ours.

The scheduled payments on the Currently Outstanding Bonds have been or will be based upon certain assumptions, including (i) scheduled payments on Mortgage Loans, (ii) assumed levels of prepayments of Mortgage Loans and (iii) receipt of investment income and other moneys held in the Funds and Accounts under the General Bond Resolution. We have also assumed that the purchase price of any unremarketed Commonwealth Mortgage Bonds, 1998 Series A-Taxable, 1998 Series B-Taxable and 1998 Series C-Taxable (collectively, the “1998 Series ABC Bonds”) upon optional or mandatory tender will be payable from the proceeds thereof and investment earnings thereon.

In establishing the principal amounts and dates of the maturities and sinking fund installments for the Currently Outstanding Bonds, we will assume or have assumed certain levels of prepayments of Mortgage Loans, a substantial portion of which will be used to pay such principal amounts and sinking fund installments. Such assumed levels have been or will be a percentage (0% or higher) of either the then-available FHA Rate or the SPA Rate. For this purpose, revenues received by us as a result of defaults on Mortgage Loans are treated as prepayments. The FHA Rate is based upon the rate of prepayment of certain types of single-family mortgages insured by the Federal Housing Administration (“FHA”) based on FHA calculations in 1991. The SPA Rate is a model that utilizes an assumed rate of prepayment each month relative to the then outstanding principal balance of a pool of mortgage loans. The SPA Rate assumes constant prepayment rates of 0.2% per annum of the then outstanding principal balance of such mortgage loans in the first month of the life of the mortgage loan and an additional 0.2% per annum in each month thereafter until the thirtieth month. Beginning in the thirtieth month and in each month thereafter during the life of the mortgage loans, the SPA Rate assumes a constant prepayment rate of 6% per annum. The SPA Rate does not purport to be a historical description of prepayment experience or a prediction of the anticipated rate of prepayment of any pool of mortgage loans, including the Mortgage Loans financed by the Bonds.

The maturities and sinking fund installments for the Currently Outstanding Bonds were established or will be established on the assumption that prepayments of the corresponding Mortgage Loans will be received in accordance with the following percentages of the FHA or SPA rates:

	<u>Percentage of FHA Rate or SPA Rate Assumed</u>
1994 Series G-AMT and H	50% FHA
1994 Series I-AMT and J	50% FHA
1996 Series D-Taxable	100% SPA
1996 Series G-AMT and H	25% SPA
1997 Series A	100% SPA
1997 Series B-AMT and C	75% SPA
1998 Series A-Taxable, B-Taxable and C-Taxable	100% SPA
1998 Series D-AMT and E	100% SPA
1998 Series F-Taxable	100% SPA
1999 Series A-Taxable	100% SPA
2000 Series A-AMT and B Bonds	100% SPA
2000 Series C-Taxable	100% SPA
2001 Series A-Taxable	pass-through*
2001 Series B-Taxable	pass-through*
2001 Series CD Bonds	50% SPA
2001 Series E-Taxable	100% SPA
2001 Series F (taxable)	pass-through*
2001 Series G (taxable)	pass-through*
2001 Series H, I-AMT and J	100% SPA
2002 Series A (taxable)	pass-through*
2002 Series B (taxable)	pass-through*
2002 Series C (taxable)	pass-through*
2002 Series D (taxable)	pass-through*
All other series of Currently Outstanding Bonds	0%

* Principal retirements correspond to the assumed receipt of scheduled principal payments on the allocated Mortgage Loans and any prepayments received on such allocated Mortgage Loans.

The FHA Rate is based entirely on single-family mortgage loans insured by FHA, while our single-family mortgage loan portfolio also contains Mortgage Loans which are guaranteed by VA (as hereinafter defined), insured by private mortgage loan insurers or are not insured or guaranteed. Furthermore, the past events represented by the FHA Rate or the SPA Rate are not necessarily indicative of future events. As a result, there can be no assurance that the prepayment experience of our will substantially parallel those of the FHA Rate or the SPA Rate. Our exercise of our rights to redeem some of the Bonds may change the percentage of the FHA Rate or the SPA Rate required to meet scheduled debt service on the Bonds on or after the redemption dates of such Bonds.

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

On the basis of the foregoing facts and assumptions, the Revenues and other income to be received with respect to the Currently Outstanding Bonds are expected by us to be in excess of the scheduled debt service thereon. Any excess Revenues may be used to purchase or redeem Bonds. In reaching such expectation in the second preceding sentence, we have not considered the issuance of additional Bonds or the application or investment of the proceeds thereof. We believe our assumptions regarding the Currently Outstanding Bonds to be reasonable, but we can give no assurance that the actual receipt of Revenues (including principal prepayments) will correspond with our estimates of available money to pay debt service on the Currently Outstanding Bonds.

Our ability to pay principal and interest on the Bonds when due, including the Offered Certificates, may be adversely affected by several factors including (i) failure to receive principal and interest or other payments or income when due or any time thereafter with respect to Mortgage Loans, Investment Obligations and any other asset pledged thereto, (ii) terminations and prepayments of Mortgage Loans at times and at rates not anticipated by us, (iii) Mortgage Loans, Investment Obligations and other assets not being made, financed or acquired at the times, interest rates or prices, as applicable, contemplated by us or not being made, financed or acquired at all, and (iv) receipt of net proceeds from the sale or other disposition of Mortgage Loans and other assets pledged thereto in amounts less than expected by us. A portion of the Mortgage Loan terminations included in (i) the FHA Rate and SPA Rate assumed for certain series of the Currently Outstanding Bonds and (ii) the determination of the principal amounts of the Offered Certificates to be repaid by principal repayments on the Allocated Mortgage Loans are terminations due to foreclosure, deed in lieu of foreclosure, and assignment to mortgage loan companies. We do not necessarily receive cash upon the

occurrence of such terminations. The receipt of cash for such terminations may occur at a later time and may be for an amount less than the amount which was due under the Mortgage Loan.

If, on any day that debt service on the Bonds (including the Redemption Price or purchase price of the 1998 Series ABC Bonds on any tender date, unless a liquidity facility is provided to pay the redemption or purchase price of the 1998 Series ABC Bonds on such date) is payable, there shall be a deficiency for such payment in the Bond Payment Fund, the Trustee is required to transfer the amount of such deficiency from the Debt Service Reserve Fund as defined below or such other source as we may direct as provided in the Resolutions.

No assumptions have been made with respect to the use of any excess Revenues to purchase any tendered, but not remarketed, 1998 Series ABC Bonds or Commonwealth Mortgage Bonds, 1996 Series E-Taxable Bonds (the "1996 Series E Bonds") which are subject to optional and mandatory tender prior to maturity upon certain adjustments in the interest rates thereon. See "The Authority - General Fund" for a description of the payment of the purchase price of such Bonds upon the tender thereof and the revolving credit agreement available as a source of payment for such purchase price.

Mortgage Loans

The Bonds are secured by a pledge of and lien upon the Mortgage Loans made and purchased with the proceeds of the Bonds. We currently finance Mortgage Loans in amounts not to exceed (i) in the case of Mortgage Loans to finance the acquisition of single family homes, 100% of the lesser of (a) the sales price or (b) the appraised value of the single family homes or, in the case of Mortgage Loans insured or guaranteed by the FHA, Veterans Administration or Department of Veterans' Affairs ("VA") or Rural Development (formerly known as the Farmers Home Administration and later as the Rural Economic and Community Development Service), the Mortgage Loan may be in such other amounts as is permitted by FHA, VA or Rural Development, (ii) in the case of Mortgage Loans to refinance single family homes, 100% of the appraised value of the single family homes and (iii) in the case of Mortgage Loans to finance rehabilitation of single family homes under the FHA Title I Home Improvement Program ("Title I 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 Mortgage Loans described in (i) and (ii) above, we will finance (a) closing costs and fees and costs of rehabilitation and improvements to be completed subsequent to the closing of such Mortgage loan up to 5% of the lesser of the sales price (in the case of 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 Mortgage Loans described in (i) above) or the appraised value. Any 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 Mortgage Loan does not exceed 100% of (a) in the case of a 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 Mortgage Loan described in (ii) above, the lesser of the sum of the outstanding principal balance thereof plus the rehabilitation costs or the as-completed appraised value. We may also finance certain Second Mortgage Loans (as defined and described below) in excess of the amount permitted by FHA.

The General Bond Resolution requires that Mortgage Loans which are initially financed pursuant to the General Bond Resolution having a loan to value ratio in excess of 80% (i) be subject to private mortgage insurance, or (ii) be insured or guaranteed by the VA, FHA or other entity of the federal government, or (iii) be Self-Insured Mortgage Loans (as defined in "Certain Defined Terms" under "The Resolutions"). However, we may finance certain Second Mortgage Loans (as defined and described below) which are not insured or guaranteed Mortgage Loans or Self-Insured Mortgage Loans. See Appendix A for additional information concerning mortgage insurance and guaranty policies and coverage.

The Homeowners Protection Act of 1998 permits a borrower to cancel private mortgage insurance (for which the borrower pays the premium) on the date on which the principal balance of the mortgage loan is scheduled to reach 80% of the original value of the residence or on the date on which the principal balance actually reaches 80% of the original value of the residence. The original value is the lesser of the sales price or the appraised value at the time the mortgage loan transaction was consummated. In order to effect such cancellation, the borrower must request in writing that the cancellation be initiated, must have a good payment history with respect to the mortgage loan (i.e., no mortgage payment was, during the year beginning two years prior to cancellation, 60 or more days delinquent, and no mortgage payment was, during the year beginning one year prior to cancellation, 30 or more days delinquent), and must satisfy any requirements of the lender for evidence that the value of the residence has not declined below its original value and for certification that the borrower's equity in the residence is not encumbered by a subordinate loan. This Act further provides for automatic termination of mortgage insurance on the date on which the principal

balance of the mortgage loan is scheduled to reach 78% of the original value of the residence, or if the borrower is not then current on his mortgage loan payments, on the date on which the borrower subsequently becomes current on such payments. These termination and cancellation provisions do not apply to Mortgage Loans characterized as high risk loans as determined in accordance with guidelines to be published by the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation. 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 we provide the same right to borrowers whose Mortgage Loans closed prior to such effective date and have provided the same rights to borrowers of FHA-insured Mortgage Loans. We cannot currently predict what will be the effect, if any, on future losses incurred on Mortgage Loans as a result of this Act or as a result of our application of such Act to Mortgage Loans closed prior to July 29, 1999 or to FHA-insured Mortgage Loans.

Since March 1994, we have been using a portion of the proceeds of Bonds to make Mortgage Loans, in conjunction with the financing of certain Mortgage Loans insured by FHA, to finance part of the Mortgagors' down payment and closing costs not financed by the related FHA insured Mortgage Loans. Each such Mortgage Loan (a "Second Mortgage Loan") may, when combined with the related FHA insured 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 Mortgage Loan, and is not insured or guaranteed by FHA, VA, Rural Development or private mortgage insurance. However, in accordance with the requirement of the Resolutions, we have, prior to making any such Second Mortgage Loan, deposited moneys (other than proceeds of Bonds or other moneys then subject to the pledge of the Resolutions, except that certain moneys eligible under the Resolutions for transfer to the General Fund may be so deposited) into the Mortgage Loan Account in an amount equal to the principal amount of such Second Mortgage Loan and have applied or will apply such moneys to the making of Mortgage Loans (other than Second Mortgage Loans) and to other purposes required or permitted by the Resolutions. We expect that a portion of the proceeds of Bonds (excluding the Offered Certificates) will be used or continued to be used for the financing of Second Mortgage Loans and that it will deposit moneys into the Mortgage Loan Account as so required by the Resolutions.

The Resolutions require that, prior to making or purchasing any Self-Insured Mortgage Loan with a Loan to Value Ratio in excess of 97%, we make an additional deposit to the Mortgage Loan Account in an amount at least equal to the portion of the principal amount of such Self-Insured Mortgage Loan which is in excess of such 97%. Such deposit cannot be made from Bond proceeds or other moneys then subject to the pledge of the Resolutions, except moneys otherwise eligible for transfer to the General Fund. On March 1, 2000, we commenced the financing of Self-Insured Mortgage Loans with Loan to Value Ratios of more than 97% but not in excess of 100%. We will finance an additional 5% of closing costs and fees and for rehabilitation and improvements to be completed after the closing of the Mortgage Loan, as described above and an additional 5% may be financed for costs of retrofitting or adding accessibility features to accommodate the needs of a disabled occupant as described above. We use proceeds of Taxable Bonds for the financing of such Self-Insured Mortgage Loans.

The Mortgage Loans, including the Allocated Mortgage Loans, have, or are expected to have original terms of approximately 30 years and bear or are expected to bear, interest at fixed rates. Some of the Mortgage Loans, other than the Allocated Mortgage Loans, 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 Mortgage Loan and by another percentage point at the end of the second year of the Mortgage Loan and remain at that rate for the remaining life of the Mortgage Loan.

The interest rate or rates on the Mortgage Loans financed or to be financed in whole by Taxable Bonds are expected to be equal to or in excess of the interest cost of the Taxable Bonds, and the interest rate on the Mortgage Loans financed or to be financed by Tax Exempt Bonds alone or in participation with Taxable Bonds are expected to be a blend of (1) an interest rate on the portion (if any) of the 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 Mortgage Loans financed by the Tax-Exempt Bonds which would be expected to produce a Mortgage Loan yield not greater than the Mortgage Loan yield permitted under the Code.

In addition to the requirements with regard to the Loan to Value Ratio and Mortgage Loan insurance or guarantees, we rely upon the following security elements in the making and purchasing of Mortgage Loans: (i) Mortgage Loan underwriting and servicing procedures (see "Mortgage Loan Underwriting Criteria and Processing Procedures" and "Servicing Agents"), (ii) an equity buildup through Mortgage Loan principal repayments and

appreciation, if any, in the value of the properties securing the Mortgage Loans and (iii) geographical diversification of the Mortgage Loan portfolio within the Commonwealth.

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

Debt Service Reserve Fund

The General Bond Resolution establishes a debt service reserve fund (the "Debt Service Reserve Fund") and specifies a debt service reserve fund requirement (the "Debt Service Reserve Fund Requirement"). The Debt Service Reserve Fund Requirement is an amount equal to the aggregate of the amounts specified in each of the series resolutions to be deposited in the Debt Service Reserve Fund with respect to all series of Bonds.

No Debt Service Reserve Fund Requirement has been established with respect to the Offered Certificates. We have not established and do not expect to establish a Debt Service Reserve Fund Requirement with respect to Bonds issued on or after June 29, 1999. As of the date hereof the Debt Service Reserve Fund is fully funded in accordance with the General Bond Resolution.

The Debt Service Reserve Fund Requirement with respect to Bonds issued prior to June 29, 1999 is at least equal to the aggregate sum of the amounts determined by the application of the percentages set forth below to the principal balances of the applicable Mortgage Loans or portions thereof financed by such Bonds or by moneys required to be deposited into the Mortgage Loan Account in connection with the financing of Second Mortgage Loans. For the purposes of the following formula, the amount of private mortgage insurance is expressed as a percentage of the purchase price (in the case of a Mortgage Loan financing the acquisition of a single family home) or the appraised value (in the case of a Mortgage Loan to refinance a single family home) of the real property and improvements thereon.

- 1) 4% for Mortgage Loans insured by a private mortgage insurance company for which the Loan to Value Ratio or LTV (as defined in "Certain Defined Terms" under "Summary of Certain Provisions of the Resolutions") less the amount of the private mortgage insurance exceeds 70%,
- 2) 3% for Mortgage Loans insured by a private mortgage insurance company for which the LTV less the amount of the private mortgage insurance does not exceed 70% but exceeds 65%,
- 3) 2% for Mortgage Loans insured by a private mortgage insurance company for which the LTV less the amount of the private mortgage insurance does not exceed 65% but exceeds 50%,
- 4) 2% of the sum of the amounts by which the aggregate principal balance of Mortgage Loans guaranteed by the VA or portions thereof exceeds 20% of the aggregate outstanding principal balances of all Mortgage Loans (including such VA guaranteed Mortgage Loans) or portions thereof,
- 5) 100% of those portions (if any) of the principal balances of Self-Insured Mortgage Loans which are in excess of principal amounts determined by application of Loan to Value Ratios of 97% and 8.25% for the remaining portions of such Self-Insured Mortgage Loans,
- 6) 8.25% for Self-Insured Mortgage Loans with an LTV not greater than 97% but greater than 95%,
- 7) 8% for Self-Insured Mortgage Loans with an LTV not greater than 95% but greater than 92%,
- 8) 7.5% for Self-Insured Mortgage Loans with an LTV not greater than 92% but greater than 90%,
- 9) 6% for Self-Insured Mortgage Loans with an LTV not greater than 90% but greater than 85%,
- 10) 5.25% for Self-Insured Mortgage Loans with an LTV not greater than 85% but greater than 80%,
- 11) 5% for Title I Mortgage Loans, and
- 12) 100% for Mortgage Loans with respect to which the mortgage deeds, deeds of trust or other security instruments constitute a second lien except if such Mortgage Loans are Title I Mortgage Loans.

The Debt Service Reserve Fund Requirement does not require the inclusion of any amounts for FHA insured Mortgage Loans (other than Title I Mortgage Loans), Rural Development guaranteed Mortgage Loans, or Mortgage Loans having a LTV of 80% or less.

For the 1996 Series E Bonds and the 1998 Series ABC Bonds subject to tender and remarketing, the we expect to determine, upon the tender and remarketing of such Bonds with interest rates fixed to maturity, that a Debt Service Reserve Fund Requirement is not necessary.

In the event that the moneys available to the Trustee in the Bond Payment Fund for the payment of debt service on the Bonds in any year are not sufficient, the Trustee shall withdraw an amount equal to such deficiency from the Debt Service Reserve Fund (or such other Fund or Account as we may direct) to make such payment. The General Bond Resolution requires us to deposit, from Revenues, our General Fund or any of our other revenues, any amount necessary to maintain the Debt Service Reserve Fund at the level of the Debt Service Reserve Fund Requirement.

Moneys in the Debt Service Reserve Fund are not available for the payment of debt service on any of our obligations other than the Bonds.

THE GENERAL PROGRAM

The following is a summary of our current program (the “General Program”) of making or purchasing Mortgage Loans with proceeds of Bonds pursuant to the Resolutions. This summary outlines the procedure which we have used in the financing of the Allocated Mortgage Loans. There may be variations in particular cases, and we may modify our policies and procedures from time to time. Our General Program of making or purchasing Mortgage Loans financed with the proceeds of the Currently Outstanding Bonds has been substantially similar to that described with respect to the Program, subject to variations and modifications as aforesaid.

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

General

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

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 us to act as our originating agents (“Originating Agents”) and our 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 Mortgage Loan will be serviced by another Servicing Agent or by us. In addition, we utilize mortgage brokers (“Mortgage Brokers”) to originate Mortgage Loans on our behalf, pursuant to originating broker agreements (“Originating Broker Agreements”), and we utilize financial institutions and other eligible private firms and individuals and governmental entities (“Field Originators”) to receive applications for Mortgage Loans in certain areas of the Commonwealth in which we desire to increase lending activity under the General Program. In the case of these applications received by Field Originators, we process, originate and service the Mortgage Loans and retain all fees which would have otherwise been available to Originating Agents with respect to such Mortgage Loans, less a fixed fee payable to the Field Originators for each closed Mortgage Loan. Title I Mortgage Loans are originated by us or Field Originators and are serviced directly by us. Furthermore, we expect to service directly Self-Insured Mortgage Loans and also service directly certain of our other Mortgage Loans in instances in which Servicing Agents will not do so on terms and conditions acceptable to us. The servicing of the Mortgage Loans which are serviced directly by us is performed in substantially the same manner as described under “Servicing Agents” below.

We currently service approximately 78% of our existing single family mortgage loan portfolio and are currently retaining the servicing on approximately 75% of all newly originated single family mortgage loans. The balance of the single family portfolio is serviced by three external servicers.

Prior Experience

The outstanding Mortgage Loan balance, delinquency, foreclosure and insurance statistics for the Authority's single family bond financed mortgage loan program, including the General Program, have been as set forth below. As of September 30, 2002, we held title to 30 properties which had been foreclosed upon, but not yet sold.

	<u>Outstanding Balance of Mortgage Loans</u>	<u>Outstanding Balance of Delinquent* Mortgage Loans</u>	<u>Percentage of Delinquent* Mortgage Loans</u>	<u>Outstanding Balance of Mortgage Loans in Foreclosure</u>	<u>Percentage of 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
October 2002	3,492,479,465	67,981,956	1.94	9,669,953	.28

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

<u>Insurance or Guaranty Provider</u>	<u>Percentage of Outstanding Principal Balance of Mortgage Loans as of September 30, 2002</u>
First Lien Mortgage Loans	
FHA	43.3%
VA	14.7
Rural Development	6.4
Private mortgage insurance companies	4.4
Self-Insured or 80% LTV or less	31.0
Second Lien Mortgage Loans (uninsured)	<u>0.2</u>
	100.0%

Origination System

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

Mortgage Loan Underwriting Criteria and Processing Procedures

We make Mortgage Loans under the General Program to persons and households of low and moderate income for financing or refinancing the rehabilitation or ownership, or both under certain circumstances, of single family residential housing, including condominium units. We establish maximum sales prices and maximum annual gross incomes which vary depending principally upon location within the Commonwealth. The maximum sales prices which we will approve for Mortgage Loans financed by Tax Exempt Bonds presently range from \$95,400 to \$306,600, and the maximum annual gross incomes for eligibility for Mortgage Loans to be financed by Tax-Exempt Bonds presently range from \$56,800 to \$100,600. All of our current maximum sales prices and maximum annual gross incomes applicable to Mortgage Loans financed in whole or in part, by Tax Exempt Bonds comply with the limits currently established pursuant to the Code. For Mortgage Loans financed, in whole, by Taxable Bonds, we have established maximum annual gross incomes equal to 120% of the applicable median family incomes (presently ranging from \$71,700 to \$109,800), have eliminated the maximum sales prices, and have established a maximum principal amount (presently \$300,700) 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 Mortgage Loans, the maximum annual gross income established by us is 120% of the applicable median family incomes, and the maximum principal amount of Title I Mortgage Loans permitted by FHA is \$25,000. We may waive or change such maximum sales prices and maximum annual gross incomes, subject to compliance with the applicable limits established by the Code.

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

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

We have delegated to certain of its Originating Agents the loan underwriting, commitment and closing functions described above. We may also agree to purchase Mortgage Loans originated by such Originating Agents. In

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

On January 23, 1996 our Board of Commissioners adopted amendments to our regulations which require, effective February 5, 1996, that joint loan applicants be related by blood, marriage or adoption or by legal custodial relationship, except that waivers from this requirement may be granted in the case of personal or financial hardship if at least one of the applicants is elderly or disabled. Rural Development and FHA have advised us that this requirement is being reviewed by their respective agencies for compliance with the federal Equal Credit Opportunity Act ("ECOA"), fair housing laws and agency policies and that, if such requirement is determined not to be in compliance with such federal laws or agency policies, the agencies may take action under their administrative procedures to suspend or terminate our participation in their programs. Any such suspension or termination would adversely affect our ability to fully use proceeds of the Bonds to finance mortgage loans in a timely manner and may result in the redemption of Bonds from any unused proceeds thereof (see "Special Redemption"). However, after a thorough review by our counsel, we believe that the requirement complies with all federal laws; and in the event of any actual or threatened action by Rural Development or FHA to implement any such suspension or termination, we intend to take appropriate action in order to continue its participation in these programs. On April 14, 2000, a suit was filed in federal district court by two mortgage loan applicants who claimed to have been denied a mortgage loan from us because of the requirement. The suit alleged that the requirement violates ECOA and sought (1) an order enjoining the enforcement of the requirement, (2) an order requiring us to offer a mortgage loan to the mortgage loan applicants with the same interest rate and on the same terms as would have been offered to them if their mortgage loan application had not been denied because of the requirement, (3) actual damages, costs, attorney fees and other appropriate relief and (4) punitive damages of \$40,000. On June 12, 2000, the federal district court held that the requirement does not violate ECOA and dismissed the plaintiffs' claims alleging such violation. The plaintiffs did not appeal the decision of the federal district court. We are aware that certain organizations which object to the requirement may encourage or assist other similar mortgage loan applicants in the filing of similar suits challenging compliance of the requirement with ECOA and seeking actual and punitive damages.

Servicing Agents

Some of the Allocated Mortgage Loans are serviced directly by us and the remainder are serviced by Servicing Agents as described in "General" above. Our servicing of Mortgage Loans, including the Allocated Mortgage Loans, is performed in substantially the same manner as described below.

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

All funds received on account of Mortgage Loans are to be deposited in segregated trust or custodial accounts or other accounts approved by us in state or national banks or savings and loan associations, the deposits in which are insured by the Federal Deposit Insurance Corporation. From the funds so deposited the Servicing Agent 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 shall keep complete and accurate accounts of and properly apply all sums collected by it on account of each Mortgage Loan and furnish us with evidence of all expenditures of taxes, assessments, and other public charges, hazard insurance premiums, and mortgage insurance premiums. The Servicing Agent shall furnish us annual reports of its assets and liabilities with statements of income and expenses in form satisfactory to us.

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

In the case of default under any Mortgage Loan, the Servicing Agent shall promptly give notice to us, shall take all actions necessary to obtain the full benefits of any mortgage insurance or guarantee and shall keep us fully informed of such actions. If foreclosure proceedings are instituted, the Servicing Agent shall 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 us of such reports as we 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 Mortgage Loan serviced and a monthly delinquency status report. We reconcile these reports to ensure properly allocated and complete remittances; to confirm and update the our books, records and financial statements; and to monitor delinquency rate trends. When delinquency rates on Mortgage Loans serviced by a particular Servicing Agent increase, it is our policy to promptly contact the Servicing Agent to determine the cause. Such monitoring is intended to effect (a) reinstatement of scheduled payments by mortgagors who have been temporarily unemployed, (b) adjusted collection procedures by the Servicing Agent, (c) change or increase in the Servicing Agent's servicing personnel, and (d) more aggressive or rapid foreclosure proceedings. Each Servicing Agent is examined by us 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, we have instituted remedial actions which have included termination of the Servicing Agreements and transfer of the servicing of the Mortgage Loans to us or other Servicing Agents.

THE AUTHORITY

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

Other Programs

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

Multi-Family Program

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

The bond resolutions which authorize the issuance of Multi-Family Housing Bonds require that the mortgage loans financed thereby be secured by first liens on the multi-family developments. The mortgage loans financed by the VHDA General Purpose Bonds and the Rental Housing Bonds are required by the respective bond resolutions authorizing such bonds to be secured by liens on the multi-family developments, which liens are and are expected, but are not required by such bond resolution, to be first liens. The bond resolutions generally do not require that the mortgage loans be insured by the federal government or private mortgage insurance companies or that developments financed thereby be entitled to or eligible for federal assistance; however, substantially all of such developments are assisted under one or more of the federal housing programs. In addition, substantially all of the developments financed thereby were underwritten by us in accordance with our criteria and procedures, are required to be managed in accordance with our standards and requirements, and are subject to various use and occupancy restrictions imposed by us. Developments originally financed by tax exempt bonds issued after April 24, 1979 are subject to the applicable restrictions under the Code. Such bond resolutions (i) pledge the mortgage loans and other assets attributable to such

bonds as security for the payment of such bonds, and (ii) restrict the withdrawal of such mortgage loans and other assets from the pledge and lien of such resolutions. Substantially all of such bonds are our general obligations.

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

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

As of October 31, 2002, all mortgagors in our multi-family program were current in their payments, except five mortgagors with respect to mortgage loans having an aggregate principal balance of approximately \$12.3 million were delinquent in the payment of approximately \$170,000 in monthly payments on such mortgage loans. Since the inception of the programs utilizing the proceeds of such bonds, we have acquired by deed in lieu of foreclosure one development, has acquired by foreclosure another development, and have assigned three FHA-insured mortgage loans to the U.S. Department of Housing and Urban Development (“HUD”). For developments experiencing financial difficulties, we have also restructured the timing of the receipt of the principal and interest payments due with respect to the applicable mortgage loan.

Single Family Program

Existing mortgage loans under our single family program are financed principally by Currently Outstanding Bonds. New mortgage loans to be originated under our single family program, including Mortgage Loans, are expected to be financed principally with the proceeds of Bonds as set forth herein. In addition, we expect to use certain funds and Mortgage Loan repayments attributable to the VHDA General Purpose Bonds to finance new single family mortgage loans. We also have utilized and expects to utilize other of our moneys to finance new mortgage loans under our single family program as set forth herein under “Miscellaneous Programs” and the “General Fund”.

Miscellaneous Programs

We make certain mortgage loans, including mortgage loans bearing below market interest rates, with a portion of the funds in our General Fund (see “General Fund” for a description of mortgage loan programs effected with assets in the General Fund). We administer, in conjunction with the Commonwealth’s Department of Housing and Community Development, the Commonwealth’s Virginia Housing Partnership Revolving Fund (the “Partnership Fund”), a fund that was created and funded by the General Assembly for the purpose of funding low and moderate income housing. We also administer the federal low income housing tax credit program under Section 42 of the Code and federal grant or subsidy programs. Mortgage loans and other assets financed or acquired by money from the Partnership Fund or from federal grant or subsidy programs are not pledged or available for the payment of any of our bonds or other obligations.

Summary of Revenues, Expenses, and Net Assets

The following is a summary of our revenues, expenses and net assets at year end for each of the fiscal years since 1998. 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 or interest on the Bonds, for the payment of our operating expenses or for any other purpose. The summary should be read in conjunction with the financial statements and notes appearing in Appendix C. The amounts in the summary for each year ended June 30 are derived from the audited financial statements for each such year.

	Year ended June 30				
	(000's Omitted)				
	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
<i>(Not included in independent accountants' report)</i>					
Memorandum Only – Combined totals					
Revenues:					
Interest on mortgage loans	\$350,642	\$360,556	\$378,095	\$404,508	\$438,702
Investment income	84,921	84,773	89,812	96,080	58,012
Other	10,395	10,259	10,197	12,283	10,390
Total revenues	<u>445,958</u>	<u>455,588</u>	<u>478,104</u>	<u>512,871</u>	<u>507,104</u>
Expenses:					
Interest	308,027	326,359	336,995	344,208	336,611
Total administrative expenses, etc	<u>42,244</u>	<u>45,681</u>	<u>49,214</u>	<u>52,431</u>	<u>53,410</u>
Total expenses	<u>350,271</u>	<u>372,040</u>	<u>386,209</u>	<u>396,639</u>	<u>390,021</u>
Excess of revenues over expenses . .	95,687	83,548	91,895	116,232	115,083
Net Assets at beginning of period . .	<u>839,564</u>	<u>935,251</u>	<u>1,018,799</u>	<u>1,110,694</u>	<u>1,226,926</u>
Net Assets at end 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 of the General					
Fund at end of period	<u>\$214,514</u>	<u>\$216,965</u>	<u>\$221,238</u>	<u>\$229,873</u>	<u>\$244,543</u>

Selected Figures Excluding Effects of GASB 31

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

	Year ended June 30				
	(000's Omitted)				
	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
<i>(Not included in independent accountants' report)</i>					
Memorandum Only – Combined totals					
Excess of revenues over expenses					
excluding GASB 31 adjustments . .	\$88,761	\$95,602	\$99,129	\$104,960	\$111,442
Net Assets at end of period					
excluding GASB 31 adjustments . .	\$918,715	\$1,014,317	\$1,113,446	\$1,218,406	\$1,329,848
Net Assets of the General Fund					
at end of period excluding					
GASB 31 adjustments	\$207,257	\$213,666	\$219,913	\$226,363	\$240,372

Prior and Anticipated Financings of the Authority

As of June 30, 2002, we had approximately \$6.1 billion of notes and bonds outstanding (see Appendix C). Subsequent to such date, we have issued or expect to issue in addition to the Offered Certificates the following bonds:

<u>Issue</u>	<u>Par Amount</u>	<u>Issuance Date</u>
VHDA General Purpose Bonds, 2002 Series W-Taxable, X-AMT, Y and Z	\$352,370,000	October 31, 2002
Commonwealth Mortgage Bonds, Pass-Through Certificates, 2002 Series F	\$11,450,004*	December 17, 2002
Commonwealth Mortgage Bonds, Pass-Through Certificates, 2002 Series G	\$9,266,756*	December 17, 2002
Rental Housing Bonds, 2002 Series E-Taxable, F-AMT, and G	\$77,435,000*	December 19, 2002

* Approximate amount

Investments

Moneys in our General Fund may be invested by us in (i) obligations or securities which are lawful investments for fiduciaries as set forth in Section 26-40 of the Code of Virginia, 1950, as amended, (ii) any investments and deposits

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

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

General Fund

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

We conduct various mortgage loan programs financed or supported by the General Fund through direct mortgage loans, deposits into funds and accounts under our bond resolutions for financing mortgage loans or establishment of reserves for below market rate mortgage loans. For such programs, we have made available, on a revolving basis, the amount of \$274.9 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 of our obligations, including the Offered Certificates. Pursuant to a financial study by a consultant, we currently intend 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 us of the impact of such contributions on our 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 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. We may elect to finance all or any portion of the VHF mortgage loans with funds under our various bond resolutions.

We have agreed to make available a line of credit from the General Fund to the Partnership Fund 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 of our obligations, including the Offered Certificates. The repayment of amounts drawn under such line of credit is expected to be secured by mortgage loans made from the Partnership Fund to finance housing for low income persons and families. Such loans generally bear below market interest rates and are based upon loan-to-value ratios in excess of 95%.

We have outstanding \$140 million of our 1996 Series E Bonds and \$475 million of our 1998 Series ABC 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 our general obligation. The purchase price of the 1998 Series ABC Bonds, in the event that such 1998 Series ABC Bonds are not remarketed following any optional or mandatory tender, is payable from sources of payment pledged under the General Bond Resolution, which sources include our general obligation.

We have a \$200 million revolving credit agreement (the "Agreement") with Bank of America, (the "Bank") to provide a source of immediately available funds for our general corporate purposes including, at our option, the payment of the purchase price of bonds which are tendered but are not remarketed. Upon submission of a completed and duly executed request for advance, we may draw funds under the Agreement up to the maximum outstanding amount of \$200

million, provided that no default by us under the Agreement shall have occurred and be continuing. Defaults include (1) failure by us to pay any amounts due under the Agreement; (2) any representation or warranty made by us 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 us to comply with certain of our covenants in the Agreement requiring us (a) to submit financial records and information, including our official statements, to the Bank, (b) to provide notice to the Bank of any default by us under the Agreement or any default or other event under any instrument evidencing our debt that may result in the accreling of the maturity of such debt and could have a material adverse effect on us, (c) to provide notice to the Bank of any material litigation pending or threatened against us or of any initiative, referendum, or similar events reasonably expected to have any material adverse effect on us, (d) to maintain adequate and proper books and records, (e) to use best efforts to maintain our existence and our rights and privileges material to our ability to repay obligations under the Agreement, and (f) to comply with laws and regulations of the Commonwealth of Virginia and the United States; and (4) merger, consolidation or disposition of all or a substantial part of our property reasonably expected to result in any material adverse effect on us. The initial term of the 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 us. Any notice of termination by the Bank must be given 364 days prior to the termination date of the Agreement. All amounts due by us are due and payable on the termination date.

THE RESOLUTIONS

The following statements contain definitions and brief summaries of certain provisions of the Resolutions. Such statements are qualified in each case by reference to the Resolutions for a complete text thereof.

Certain Defined Terms

“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 next prior Interest Payment Date if otherwise and (ii) all unpaid principal (including, for such purpose, the accreted amount if so determined in the applicable series resolution) on all Outstanding Bonds.

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

“Compounded Amount” means, with respect to a Capital Appreciation Bond, a Delayed Interest Bond or any other Bond so determined in or pursuant to the applicable Written Determinations, 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.

“Counsel’s Opinion” means an opinion signed by any attorney or firm of attorneys (who may be counsel or of counsel to us or an attorney or firm of attorneys retained by it in other connections) licensed to practice in the state in which he or it maintains an office, selected or employed by us.

“Debt Service Reserve Fund Requirement” means, as of any particular date of calculation, an amount equal to the aggregate of the amounts specified in each and every series resolution to be deposited in the Debt Service Reserve Fund with respect to all such series of Bonds.

“Defaulted Mortgage Loan” means any Mortgage Loan described in an Officer’s Certificate and stated to be in default in accordance with its terms or any Mortgage Loan not so described in an Officer’s Certificate on which payments are sixty days in arrears.

“Escrow Payment” means all payments made in order to obtain or maintain mortgage insurance and hazard insurance and to provide for taxes or other governmental charges or other similar charges to a mortgagor customarily required to be escrowed.

“Loan to Value Ratio” or “LTV” means the ratio of the current principal balance of the Mortgage Loan: i) for Mortgage Loans being made for the acquisition of single family residential housing, to the purchase price of the real property and improvements thereon which secure such Mortgage Loan, or ii) for Mortgage Loans being made to refinance single family residential housing, to the appraised value of the real property and improvements thereon which secure such Mortgage Loan.

“Mortgage” means a mortgage deed, deed of trust, or other security instrument which shall

(A) constitute a first lien (subject to liens for taxes and assessments not yet due and payable) in the Commonwealth on (a) real property and improvements thereon or an ownership share in a cooperative housing association or on a leasehold under a lease having a remaining term, which at the time such mortgage is acquired does not expire for at least that number of years beyond the maturity date of the interest bearing obligation secured by such mortgage as is equal to the number of years remaining until the maturity date of such obligation and (b) personal property acquired with proceeds of the Mortgage Loan and attached to or used in connection with any of the foregoing; provided, however, that the Mortgage may also be a participation by the Authority with another party or parties in a Mortgage Loan so long as our interest shall have at least equal priority as to lien in proportion to the amount of the loan secured, but need not be equal as to interest rate, time or rate of amortization or otherwise;

(B) constitute a second lien on the property described in (a) and (b) above if the following conditions are satisfied:

(1) Moneys in an amount at least equal to the principal amount of the subject Mortgage Loan (each herein referred to as a "Second Mortgage Loan") shall have been deposited in the same Mortgage Loan Account or special trust account, as applicable, which provided the moneys to make or purchase the Second Mortgage Loan, provided that such deposit shall be made from sources other than Bond proceeds or other moneys then subject to the pledge of the Resolutions, except that amounts in the Revenue Fund which represent moneys eligible under the General Bond Resolution for transfer to the General Fund may be so deposited; and

(2) If moneys representing deposits made pursuant to (1) above are withdrawn to make or purchase a Mortgage Loan, the mortgage deed, deed of trust or other security instrument with respect to such Mortgage Loan must constitute a first lien on the single family residential housing to be financed by such Mortgage Loan and must otherwise comply with the terms and conditions of the General Bond Resolution; or

(C) secure a Mortgage Loan insured under the FHA Title I Home Improvement Program.

"Mortgage Loan" means a loan evidenced by an interest-bearing obligation secured by a Mortgage 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 single family residential housing (including condominiums and, if hereafter permitted by applicable law, ownership shares in a cooperative housing association which will allow the shareholder to occupy a housing unit in such cooperative) consisting of not more than four units and intended for ownership or occupancy by persons and families of low and moderate income as authorized by the Act, as from time to time amended.

"Mortgagor" means a payor under a Mortgage Loan.

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

"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 canceled by the Trustee, or proven to the satisfaction of the Trustee to have been canceled by the Authority or by any other Fiduciary, at or before said date, (b) any Bond for the payment or 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) Investment Obligations or monies, in the amounts, of the maturities and otherwise as described and required under the provisions of Paragraph (C) of Section 1201 of the General Bond Resolution, shall have theretofore been deposited with one or more of the Fiduciaries in trust therefor (whether upon or prior to maturity or the redemption date of such Bond) and, except in the case of a Bond to be paid at maturity, for which notice of redemption shall have been given or provided for in accordance with Article VII of the General Bond Resolution, and (c) any Bond in lieu of or in substitution for which another Bond shall have been delivered.

"Program" means our program of making or purchasing Mortgage Loans.

"Rating" means with respect to Investment Obligations a rating assigned by each agency which has rated the Bonds at our request, which rating shall be either:

(1) a short term rating of each agency or its corporate successor which means a rating at least equal to the following or its equivalent successor rating classification:

(a) for Moody's Investors' Service, Inc. a rating within its P-1 classification;

(b) for Standard & Poor's a rating within it's A-1+ or A-1 classifications; and

(c) for Fitch Investor Service, Inc. a rating within its F-1 or F-2 classifications, or

(2) and intermediate term or long term rating, which means for each agency or its corporate successor a rating equivalent to or higher than the rating assigned to the Bonds by such agency or its corporate successor, except that if Moody's Investors' Service, Inc. has rated the Bonds at our request both the short term rating and the long term rating of such agency shall be required in the case of investment contracts with a duration in excess of one year with non-financial institutions.

"Revenues" means all payments, proceeds, charges, rents and all other income (which may be net of any expenses related to the foreclosure, ownership, sale or transfer of single family residential housing financed by Mortgage Loans pledged under the General Bond Resolution) derived in cash by or for the account of the Authority as mortgagee or owner from or related to the Program including, without limiting the generality of the foregoing, scheduled amortization payments of principal of and interest on Mortgage Loans but shall not include moneys required to be deposited into the Rebate Fund, Escrow Payments, financing and commitment fees charged by us or moneys retained by a servicer as servicing fees pursuant to a servicing agreement.

"Self-Insured Mortgage Loan" means any Mortgage Loan which has a Loan to Value Ratio greater than 80% and is not insured or guaranteed by the Federal Housing Administration, the Veterans Administration, or any entity of the United States or any private mortgage insurance company and for which funds are required by the applicable series resolution to be included in the Debt Service Reserve Fund Requirement in an amount necessary to prevent any adverse effect on the then existing rating or ratings by the rating agencies which shall have rated the Bonds at the request of the Authority.

Establishment and Application of Funds and Accounts

We have established the following Funds and Accounts which are to be held by the Trustee:

- Program Fund
 - Cost of Issuance Accounts
 - Mortgage Loan Purchase Accounts
 - Mortgage Loan Accounts
- Revenue Fund
 - Buydown Accounts
 - Bond Payment Fund
 - Debt Service Reserve Fund
 - Rebate Fund

We have may establish other funds and accounts.

Program Fund

Each series resolution may establish a Cost of Issuance Account and moneys deposited therein may be used to pay the costs of issuance of Bonds issued pursuant to such series resolution.

The Series Resolution authorizes the establishment of one or more accounts, each designated Mortgage Loan Purchase Account, in which proceeds of Bonds are to be deposited and held until withdrawn for the purpose of acquiring Mortgage Loans which were originally financed by bonds previously issued under other general bond resolutions of the Authority.

Each series resolution or, pursuant to an Officer's Certificate, an Authorized Officer of us may establish one or more Mortgage Loan Accounts. Moneys in the Mortgage Loan Accounts, except as summarized below, shall be used for the making or purchasing of Mortgage Loans. In the case of any Bonds bearing short-term interest rates to be converted to long-term interest rates, moneys in the Mortgage Loan Accounts are held therein pending such conversion.

As we determine to make or purchase Mortgage Loans, the Trustee shall, upon receipt of our requisition, transfer from such Mortgage Loan Account to the designated Depository the amount set forth in such requisition. Moneys so held by a Depository shall be held in a special trust account and shall be deemed a part of the Mortgage Loan Account from which the disbursement to the Depository shall have been made and subject to the lien of the General Bond Resolution and, except as otherwise provided in the General Bond Resolution, shall be withdrawn solely for the making or purchasing of Mortgage Loans (less financing fees payable to us and any sums to be applied to the payment of interest

on the Mortgage Loan, mortgage insurance or guaranty premiums or fees, escrow payments for taxes and hazard insurance premiums, and closing costs) either by us or by a Mortgage Lender designated by us as our agent for disbursements. Pending disbursement for such purpose, such moneys may be invested by the Depository at our direction in Investment Obligations.

Except for Title I Mortgage Loans, neither we nor any Mortgage Lender shall withdraw moneys from the Mortgage Loan Account to make or purchase a Mortgage Loan unless there is (i) a current mortgagee policy of title insurance (or commitment to provide such insurance) issued to us, in such amount as shall be required by us, by a title insurance company qualified to do business in the Commonwealth and acceptable to an Authorized Officer or other evidence of title satisfactory to an Authorized Officer and (ii) evidence or assurance acceptable to an Authorized Officer that there has been or will be duly executed and delivered for recordation a Mortgage on the premises. The requirement in (i) shall not apply to a Second Mortgage Loan which shall be subordinate to the lien of a Mortgage Loan to be secured by a first lien.

Amounts remaining in any Mortgage Loan Account may be transferred, upon receipt by the Trustee of an Officer's Certificate determining that such proceeds are no longer to be used for the making or purchasing of Mortgage Loans, to the Bond Payment Fund for the redemption of Bonds (other than the repayment of principal on the Offered Certificates by sinking fund installments).

Notwithstanding any of the foregoing, the Trustee shall, if directed to by us, transfer from any Mortgage Loan Account for deposit in the Bond Payment Fund any amounts necessary for the payment, when due, of Principal Installments of or interest on the Bonds, if and to the extent other moneys referred to below are not sufficient therefor.

The interest earned and other income derived from the investment or deposit of the Program Fund Accounts shall be transferred by the Trustee to the Revenue Fund or the Rebate Fund, as the case may be.

Revenue Fund

Upon receipt, Revenues shall be deposited to the Revenue Fund. The Trustee shall withdraw moneys or securities from the Revenue Fund and transfer them:

First: Into the Rebate Fund, on any date and to the extent, if any, we determine to satisfy the applicable provisions of the Code;

Second: On each Interest Payment Date and Principal Installment Date into the Bond Payment Fund, the aggregate of the Principal Installments of, and interest due and payable on the Bonds;

Third: On each Interest Payment Date, Principal Installment Date, date on which Bonds are to be purchased or redeemed, and any other date to be determined by us, into the Debt Service Reserve Fund, the amount, if any, needed to increase the amount in the Debt Service Reserve Fund so that it equals the Debt Service Reserve Fund Requirement;

Fourth: On each Interest Payment Date, Principal Installment Date, date on which Bonds are to be purchased or redeemed, or any other date determined by us, to the Trustee, the amount of the Trustee's compensation and expenses which are due and unpaid; and

Fifth: On each Interest Payment Date, Principal Installment Date, date on which Bonds are to be purchased or redeemed, subject to the following provisions, into the Bond Payment Fund for the purposes of redemption or purchase, the remainder.

Rather than make the deposit of moneys to the Bond Payment Fund provided for under Fifth above, we may retain such moneys in the Revenue Fund or transfer moneys otherwise available for deposit in the Bond Payment Fund (i) to the General Fund, provided an Officer's Certificate is filed with the Trustee setting forth (a) a schedule of anticipated Revenues to be derived from all Mortgage Loans outstanding after giving effect to any estimated prepayments of principal on Mortgage Loans, as adjusted from time to time, together with any other amounts held and to be retained in the Program Fund, the Revenue Fund, the Debt Service Reserve Fund and any other Fund or Account permitted by the applicable Series Resolution and showing that such Revenues and moneys in such Funds are at least sufficient to pay as and when due by anticipated redemption or otherwise all Principal Installments of and interest on the Bonds Outstanding and (b) a schedule showing that the assets, including Mortgage Loans and Investment Obligations held in the Funds and Accounts (other than the Rebate Fund, the Debt Service Reserve Fund, Investment Obligations made pursuant to clause (j) under the section entitled "Investment of Funds" herein and any other Fund, Account or subaccount so determined in the applicable Series Resolution) are at least equal to 101% of the outstanding Bond

Obligation or (ii) to a Mortgage Loan Account. For purposes of (b), the Mortgage Loans shall not include any Second Mortgage Loans unless an amount equal to the principal balances of such Mortgage Loans shall be included in the Debt Service Reserve Fund Requirement pursuant to the applicable series resolution.

Bond Payment Fund

The Trustee shall apply moneys in the Bond Payment Fund to the payment of Principal Installments of and interest on the Bonds and to the purchase and redemption of Bonds.

Principal and interest on the Offered Certificates shall be payable to the Owners thereof by check, draft, wire transfer or other manner requested by the Owner and acceptable to the Trustee, unless we object, payable 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 interest earned or other income derived from the investment or deposit of moneys in the Bond Payment Fund shall be transferred by the Trustee upon receipt thereof to the Revenue Fund or the Rebate Fund, as the case may be.

We have the right to designate interest payment dates on various dates in the year.

Debt Service Reserve Fund

If at any time there shall not be a sufficient amount in the Bond Payment Fund to make payment of Principal Installments of or interest on the Bonds when due, the Trustee shall withdraw from the Debt Service Reserve Fund (or such other Fund or Account as we may direct) and pay into the Bond Payment Fund the amount of the deficiency then remaining. We covenant in the General Bond Resolution that we will pay to the Trustee for deposit in the Debt Service Reserve Fund the amount of any deficiency in the Debt Service Reserve Fund Requirement from the General Fund or any of our other revenues, moneys or assets, subject only to any agreements heretofore and hereafter made with owners of our obligations other than the Owners.

If on any date all withdrawals or payments from the Debt Service Reserve Fund required by any other provision of the Resolutions with respect to the same and every prior date shall have sooner been made, the Trustee shall, if we direct, withdraw from the Debt Service Reserve Fund the amount of any excess therein over the Debt Service Reserve Fund Requirement and deposit the same in the Revenue Fund or the Rebate Fund as the case may be.

Rebate Fund

Pursuant to the requirements of the Code, we must rebate to the U.S. Treasury the amount or amounts of certain excess earnings on non-mortgage investments acquired with proceeds of Bonds on which the interest is not included in gross income tax for federal income tax purposes. The amount of such rebate is computed in accordance with the Code. The General Bond Resolution establishes a separate fund, the Rebate Fund, for the purpose of depositing moneys in such amounts to assure payment of the required rebate (see "Requirements Related to Arbitrage" in Appendix D). The Rebate Fund and amounts therein are not subject to the pledge or lien of the Resolutions and are not, therefore, security for the Bonds.

Buydown Account

Amounts we receive for the purpose of lowering the interest rate on Mortgage Loans are deposited in this Account; provided, however, that if the interest rate is lowered for the entire term of a Mortgage Loan, the Authority may deposit such amount in the Revenue Fund or applicable Mortgage Loan Account. Amounts in the Buydown Account are to be transferred to the Revenue Fund as we direct. Interest on moneys held in this Account are to be transferred to the Revenue Fund or the Rebate Fund as the case may be. For Bonds issued on or after June 29, 1999, this Account and the aforesaid application of moneys have not been and are not expected to be applicable.

General Fund

All amounts paid to us for deposit in the General Fund shall be free and clear of any lien or pledge created by the Resolutions.

Investment Obligations

Moneys in each of the Funds may be deposited in time or other accounts or invested in any of the following investments (“Investment Obligations”):

- (a) direct general obligations of the United States of America;
- (b) direct obligations of the Commonwealth bearing a Rating;
- (c) obligations the payments of the principal of and interest on which, in the opinion of the Attorney General of the United States in office at the time such obligations were issued, are unconditionally guaranteed by the United States of America;
- (d) obligations bearing a Rating and, according to a Counsel’s Opinion, the payment of which are unconditionally guaranteed by the Commonwealth;
- (e) bonds, debentures, participation certificates or notes issued by any one or any combination of the following: Federal Financing Bank, Federal Farm Credit Bank, Federal Land Banks, Federal Home Loan Banks, Federal National Mortgage Association, Export-Import Bank of United States, Student Loan Marketing Association, Farmer’s Home Administration, Federal Home Loan Mortgage Corporation or Government National Mortgage Association, 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 of which are unconditionally guaranteed by the United States of America;
- (f) certificates of deposit, banker’s acceptances, investment contracts, and any interest-bearing time deposits which are issued by the Trustee or a bank or trust company appointed pursuant to the General Bond Resolution to act as a depository, and each successor or successors and any other bank or trust company at any time substituted in its place pursuant to the General Bond Resolution, or 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 bear a Rating and, if Moody’s Investors Service, Inc. has rated the Bonds at the request of the Authority, a sovereign rating for bank deposits equivalent to or higher than the rating assigned to the Bonds by such Agency;
- (h) obligations, including investment contracts, of corporations which have obligations which bear a Rating;
- (i) any other investments which bear a Rating and which at the time are legal investments for fiduciaries or for public funds of the Commonwealth and/or its political subdivisions;
- (j) any investment or related agreement provided that we have transferred to the Revenue Fund from its General Fund an amount equal to the maximum cost thereof;
- (k) repurchase agreements with respect to any of the Investment Obligations described under this heading except the Investment Obligations described above in clause (j) of this paragraph; and
- (l) any other investment obligations which will not result in a lowering of the rating on the Bonds by any rating agency which has rated the Bonds at our request.

Program Covenants

We shall take all steps, actions and proceedings reasonably necessary to recover the balance due and to become due on a Defaulted Mortgage Loan including the curing of the default by the mortgagor under the terms of the Defaulted Mortgage Loan, the sale of the Defaulted Mortgage Loan, foreclosure, the renting or selling of the applicable premises, and the collection of any insurance or guarantees applicable to the Defaulted Mortgage Loan.

We shall not make or purchase a Mortgage Loan the principal amount of which exceeds eighty per centum (80%) of the purchase price of the real property and improvements thereon securing such Mortgage Loan, unless (a) the repayment of the principal amount thereof is guaranteed or insured to the extent permitted by law by the FHA, the VA or another entity of the United States of America or (b) such Mortgage Loan is insured by a private mortgage insurer or (c) such Mortgage Loan is a Self-Insured Mortgage Loan. If permitted by future amendments to the Act, we may also make or purchase Mortgage Loans which finance ownership shares in cooperative housing associations which are subject to mortgage insurance in an amount equal to at least 95% of the outstanding principal balance of the Mortgage Loan.

Each policy of private mortgage insurance shall be issued by an insurance company (i) which at the time is qualified to do business and issue mortgage insurance in the Commonwealth, (ii) which at the time is qualified to provide insurance on mortgage loans purchased by the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation and (iii) if required to by any agency rating the Bonds at our request, the claims paying ability of which is rated at least "A" by any rating agency which has rated the Bonds at our request or are of sufficient quality to maintain the rating on the Bonds. The repayment of the principal amount of any Second Mortgage Loans are not required to be insured or guaranteed as described above.

We may sell a Mortgage Loan, provided that the sales price for a Mortgage Loan that is not a Defaulted Mortgage Loan shall not be less than the principal balance outstanding on the Mortgage Loan plus accrued interest unless we shall file with the Trustee an Officer's Certificate stating that a sale at a certain lesser amount is prudent and reasonable in consideration of the particular circumstances of such Mortgage Loan. Proceeds from the sale of Mortgage Loans shall be deposited into the Revenue Fund.

Tax Covenant

We at all times do and perform all acts and things permitted by law and necessary or desirable in order to assure that interest paid by us on Tax Exempt Bonds shall, for the purposes of the federal income tax, not be included in gross income under any valid provision of law.

Issuance of Additional Obligations

No obligation of ours, other than additional Bonds under the General Bond Resolution, shall be issued by us having a charge and lien on the Revenues or any Funds or Accounts created by the Resolutions.

No additional Series of Bonds shall be issued under the Resolutions unless:

(a) In the opinion of counsel to us, we will not thereby exceed any limitation imposed by law;

(b) As evidenced by an Officer's Certificate, upon the issuance and delivery of the additional Series of Bonds and the application of the proceeds thereof, the Debt Service Reserve Fund shall not be less than the Debt Service Reserve Fund Requirement; and

(c) As evidenced by an Officer's Certificate, after such issuance, there shall be no adverse material effect on our ability to pay the Principal Installments of and interest on the Bonds then Outstanding.

We expressly reserve the right to adopt one or more other general bond resolutions and reserve the right to issue other obligations so long as the same do not constitute a charge or lien prohibited by the first paragraph of this summarized section.

Amendments

Amendments of the General Bond 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 us, adding covenants by us, surrendering privileges of ours, adding to the rights or privileges of the Owner, authorizing additional Bonds and modifying the General Bond Resolution in any aspect not materially adverse to the Owners of the then Outstanding Bonds.

We may adopt a Supplemental Resolution, which will become effective upon filing with the Trustee, changing the form or amount of insurance or security with regard to the Mortgage Loans, provided that any such change does not adversely affect any then existing ratings on the Bonds by a rating agency which has rated the Bonds at our request.

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 Bonds 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 all Outstanding Bonds.

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

Notice of any proposed modification or amendment of the General Bond Resolution by means of a Supplemental Bond Resolution to be effective with consent of Owners is to be mailed to the Owner of any Bond then Outstanding at his last address appearing upon the registry books of the Authority kept by the Trustee.

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 us, in (i) direct general obligations of the United States of America or (ii) obligations of the Commonwealth bearing a Rating, 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 (“Event of Default”) under the Resolutions: (1) interest on any of the Bonds of a particular Series 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 of a particular Series 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 Resolutions and such default shall continue for a period of ninety days after written notice to us from a Bondowner or from the Trustee specifying such default and requiring the same to be remedied (a default pursuant to the terms of the Liquidity Facility is not an Event of Default under the Resolutions); or (3) Bonds subject to redemption by operation of Sinking Fund Installments shall not have been redeemed and paid as required in the Resolutions; or (4) there shall be filed by us or on our behalf 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 Owners under the laws of the Commonwealth or under the Resolutions. 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 Resolutions 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 Resolutions 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.

Pursuant to the Act, in the event that we shall default in the payment of principal of or interest on any issue of the Bonds and such default shall otherwise continue for 30 days or in the event that we shall fail to comply with the provisions of the 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 if Bonds shall, in its name declare all such issue of Bonds due and payable.

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MISCELLANEOUS

We have furnished all information in this Offering Circular relating to us. Our financial statements in Appendix C as of June 30, 2002 and for the year then ended have been examined by KPMG LLP, independent certified public accountants, to the extent set forth in their report, without further review to the date hereof.

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

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

MORTGAGE INSURANCE POLICIES

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 us (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. We 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 us 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.

We expect to finance Title I Mortgage Loans solely from proceeds of Taxable Bonds. Therefore, we expect that the Title I 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 Program, a VA Mortgage Loan would be guaranteed in any amount which, together with the down payment by the Mortgagor, will at least equal 25% of the lesser of the sales price or the appraised value of the single-family dwelling.

Rural Development Mortgage Guarantee

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

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

Private Mortgage Insurance

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

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DTC

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

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

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

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

To facilitate subsequent transfers, all Offered Certificates deposited by Participants with DTC. The deposit of Offered Certificates with DTC effects no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Offered Certificates; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Offered Certificates are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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

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

DTC will not consent nor vote with respect to Offered Certificates. 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 the consenting or voting rights to those Direct Participants to whose accounts the Offered Certificates are credited on the record date (identified in a listing attached to the Omnibus Proxy).

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

accounts of customers in bearer form or registered in “street name,” and will be the responsibility of such Participant and not of DTC, the Trustee, or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of 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, printed certificates for the Offered Certificates will be delivered if necessary.

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

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

Financial Statements and Accompanying Schedules

June 30, 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, 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 year that ended June 30, 2002. Please read it in conjunction with the Authority's financial statements, which follow this section. The overall financial statements consist of four parts, management's discussion and analysis (this section), the basic financial statements, the accompanying footnotes and supplemental information.

Basic Financial Statements

Effective, July 1, 2001, the Authority adopted Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. In order to conform to the requirements of GASB 34, the following changes have been made to the Authority's financial statements:

- Net assets have been reclassified into the following categories:
 - Invested in capital assets, net of related debt
 - Restricted by bond indentures
 - Unrestricted
- The Statement of Net Assets has been modified to report a classified statement
- The Statement of Revenues, Expenses and Changes in Net Assets has been formatted to report operating and non-operating revenues and expenses
- The Statement of Cash Flows has been presented using the direct method

Financial Highlights

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%)

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

Management's Discussion and Analysis

June 30, 2002

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

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:

		June 30, 2002	June 30, 2001	% Increase (Decrease)
Cash and cash equivalents	\$	814,161,221	570,008,604	42.83%
Investments		1,066,905,240	1,144,680,125	(6.79%)
Mortgage and other loans receivable		5,921,143,180	5,632,689,955	5.12%
Other assets		27,648,883	40,552,451	(31.82%)
Total assets		<u>7,829,858,524</u>	<u>7,387,931,135</u>	<u>5.98%</u>
Notes and bonds payable		6,063,481,967	5,710,287,753	6.19%
Other liabilities		422,366,774	450,716,717	(6.29%)
Total liabilities		<u>6,485,848,741</u>	<u>6,161,004,470</u>	<u>5.27%</u>
Net assets	\$	<u><u>1,344,009,783</u></u>	<u><u>1,226,926,665</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 \$218.6 million Virginia Housing Fund.

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

Management's Discussion and Analysis

June 30, 2002

Net Assets as of June 30, 2002:

Invested in capital assets, net of related debt	\$ (1,938,122)
Restricted by bond indentures	1,099,302,214
Unrestricted	<u>246,645,691</u>
Total net assets	<u><u>\$ 1,344,009,783</u></u>

Results of Operations for the Year Ended June 30, 2002. The Authority had another strong year with operating revenues in excess of operating expenses plus non-operating revenues totaling \$117.1 million. The following table summarizes the key sources of revenues and expenses for the year (in millions):

Operating revenues:	
Interest on mortgage and other loans receivable	\$ 438.7
Pass-through grants received	122.1
Other operating revenues	<u>9.9</u>
Total operating revenues	<u>570.7</u>
Operating expenses:	
Interest on notes and bonds payable	336.6
Pass-through grants disbursed	122.1
Other operating expenses	<u>53.4</u>
Total operating expenses	<u>512.1</u>
Net operating income	<u>58.6</u>
Non-operating revenues:	
Investment income *	58.0
Other non-operating revenue	<u>0.5</u>
Total non-operating revenue	<u>58.5</u>
Change in net assets	<u><u>\$ 117.1</u></u>

* Investment income includes fair market value adjustment totaling \$5.6 million for the year ended June 30, 2002

Long-Term Debt. As of June 30, 2002, the Authority had net outstanding notes and bonds payable totaling \$6.06 billion. This represented a net increase (additional new debt in excess of retirements for the year) of \$353.2 million over June 30, 2001. During the same time period, the Authority also experienced a decrease in interest on notes and bonds payable of \$7.6 million due to more favorable interest rates on new debt. The Authority has maintained its strong long-term bond ratings of Aa1 from Moody's Investors Services and AA+ from Standard & Poor's Rating Services.

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

Management's Discussion and Analysis

June 30, 2002

Future Management's Discussion and Analysis

As the Authority did not elect early implementation of GASB 34, only limited information was available for comparative purposes this year. In future years, it is anticipated that additional comparative analysis will be provided.

Independent Auditors' Report

Commissioners
Virginia Housing Development Authority:

We have audited the accompanying statement of net assets of the Virginia Housing Development Authority (the Authority), a component unit of the Commonwealth of Virginia, as of June 30, 2002, and the related statements of revenues, expenses and changes in net assets, and cash flows for the year 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 audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2002, and its changes in financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 1, the Authority implemented Governmental Accounting Standards Board Statements No. 34 and 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* effective July 1, 2001. In addition, the Authority adopted Statement No. 38, *Certain Financial Statement Note Disclosures*, effective July 1, 2001.

The Management's Discussion and Analysis on page 1 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. 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 – 3 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 audit 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 13, 2002 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 audit.

KPMG LLP

September 13, 2002

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

Statement of Net Assets

June 30, 2002

Assets

Current assets:	
Cash and cash equivalents (note 5)	\$ 814,161,221
Investments (note 5)	505,585,335
Interest receivable – investments	3,143,022
Mortgage and other loans receivable (note 4)	86,178,995
Interest receivable – mortgage and other loans	31,003,432
Other real estate owned	3,018,465
Other assets	2,479,280
Total current assets	<u>1,445,569,750</u>
Noncurrent assets:	
Investments (note 5)	561,319,905
Mortgage and other loans receivable (note 4)	5,834,964,185
Less allowance for loan loss	21,987,683
Less net deferred loan fees	39,928,834
Mortgage and other loans receivable – net	<u>5,773,047,668</u>
Investment in rental property – net	17,516,245
Property, furniture and equipment, less accumulated depreciation and amortization of \$20,126,864 (note 6)	16,084,130
Unamortized bond issuance expenses	5,734,197
Other assets	10,586,629
Total noncurrent assets	<u>6,384,288,774</u>
Total assets	<u>\$ 7,829,858,524</u>

Liabilities and Net Assets

Current liabilities:	
Notes and bonds payable (note 7)	\$ 441,758,494
Accrued interest payable on notes and bonds	95,325,540
Section 8 contributions payable	5,032,036
Escrows and project reserves (note 8)	31,556,999
Accounts payable (notes 5, 9 and 12)	28,465,827
Total current liabilities	<u>602,138,896</u>
Noncurrent liabilities:	
Bonds payable – net (note 7)	5,621,723,473
Escrows and project reserves (note 8 and 13)	144,978,650
Virginia Housing Partnership Revolving Fund liability (note 13)	86,586,662
Other liabilities (notes 5, 9, 12 and 13)	30,421,060
Total noncurrent liabilities	<u>5,883,709,845</u>
Total liabilities	<u>6,485,848,741</u>
Net Assets (note 11):	
Invested in capital assets, net of related debt	(1,938,122)
Restricted by bond indentures	1,099,302,214
Unrestricted	246,645,691
Total net assets	<u>1,344,009,783</u>
Total liabilities and net assets	<u>\$ 7,829,858,524</u>

See accompanying notes to financial statements.

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

Statement of Revenues, Expenses and Changes in Net Assets

Year ended June 30, 2002

Operating revenues:	
Interest on mortgage and other loans	\$ 438,702,240
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	1,648,013
Other	6,305,727
	<hr/>
Total operating revenues	570,749,271
Operating expenses:	
Interest on notes and bonds	336,611,252
Salaries and related employee benefits (note 12)	21,881,744
General operating expenses	15,536,982
Amortization and bond issuance expenses	1,057,177
Pass-through grants disbursed	122,156,521
Section 8 program expenses	3,367,583
External mortgage servicing expenses	4,735,371
Losses and expenses on other real estate owned and provision for loan losses	6,830,937
	<hr/>
Total operating expenses	512,177,567
Operating income	58,571,704
Non-operating revenues:	
Investment income (note 9)	58,011,473
Other	499,941
	<hr/>
Total non-operating revenues	58,511,414
Change in net assets	117,083,118
Total net assets, beginning of year	1,226,926,665
Total net assets, end of year	\$ <u>1,344,009,783</u>

See accompanying notes to financial statements.

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

Statement of Cash Flows

For the year ended June 30, 2002

Cash flows from operating activities:	
Cash payments for mortgage and other loans	\$ (1,089,170,530)
Principal repayments on mortgage and other loans	762,992,034
Interest received on mortgage and other loans	433,871,339
Section 8 contributions and pass-through grants received	125,273,666
Section 8 contributions and pass-through grants disbursed	(139,634,027)
Cash received for Virginia Housing Partnership Fund program	3,064,097
Grants and cash payments made from Virginia Housing Partnership Fund program	(517,105)
Escrow payments received	150,303,459
Escrow payments disbursed	(140,189,883)
Other operating revenues	5,018,195
Cash received from loan origination fees	13,114,740
Cash payments for salaries and related benefits	(23,558,098)
Cash payments general operating expenses	(20,010,094)
Cash payments for mortgage servicing expenses	(3,464,999)
Proceeds from sale of other real estate owned	26,759,761
Net cash provided by operating activities	103,852,555
Cash flows from noncapital financing activities:	
Proceeds from sale of notes and bonds	1,693,151,061
Principal payments on notes and bonds	(1,313,064,227)
Interest payments on notes and bonds	(337,260,711)
Cash payments for bond issuance expenses	(21,132,722)
Redemption premium paid on bond calls	(11,142,195)
Net cash provided by noncapital financing activities	10,551,206
Cash flows from capital and related financing activities:	
Principal payments on building bonds	(800,000)
Interest payments on building bonds	(1,504,300)
Purchases of furniture and fixtures	(1,736,809)
Net cash used in capital and related financing activities	(4,041,109)
Cash flows from investing activities:	
Purchase of investments	(1,144,291,194)
Proceeds from sales or maturities of investments	1,228,711,446
Interest received on investments	49,369,713
Net cash provided by investing activities	133,789,965
Net increase in cash and cash equivalents	244,152,617
Cash and cash equivalents, at beginning of year	570,008,604
Cash and cash equivalents, at end of year	\$ 814,161,221

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

Statement of Cash Flows

For the year ended June 30, 2002

Reconciliation of excess of operating income to net cash provided by operating activities:	
Operating income	\$ 58,571,704
Adjustments to reconcile operating income to net cash provided by operating activities:	
Gain on sale of furniture and fixtures	12,978
Depreciation of property, furniture and equipment	2,813,567
Other depreciation and amortization	2,839,460
Interest on notes and bonds	336,611,252
Increase in mortgage and other loans receivable	(288,373,678)
Increase in interest receivable – mortgage and other loans	(1,083,355)
Decrease in other real estate owned	3,109,209
Decrease in other assets	1,337,344
Decrease in accounts payable and other liabilities	(27,831,595)
Decrease in Section 8 contributions payable	(6,416,242)
Increase in escrows and project reserves	10,113,576
Increase in Virginia Housing Partnership Fund liability	2,456,560
Increase in net deferred loan fees	<u>9,691,775</u>
Net cash provided by operating activities	\$ <u>103,852,555</u>
Supplemental disclosure of noncash investing activity – increase in other real estate owned as a result of loan foreclosures	\$ <u>21,776,908</u>

See accompanying notes to financial statements.

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

Notes to Financial Statements

June 30, 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

The Authority has 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 is 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.

Additionally, during 2002, the Authority determined that it would be more appropriate to reflect all of their activities as one enterprise fund for external reporting purposes.

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

Notes to Financial Statements

June 30, 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 \$2,168,527.

(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 \$4,902,722 for the year ended June 30, 2002.

(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, 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) Pass-through Grants

As required by Statement No. 24 of the Governmental Accounting Standards Board, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, governmental entities that receive grants or other financial assistance that are transferred to a secondary recipient must report such pass-through grants as revenues and expenses. The Authority received and disbursed pass-through grants totaling \$122,156,521 during the year ended June 30, 2002.

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

Notes to Financial Statements

June 30, 2002

(p) Section 8 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.

(q) Virginia Housing Partnership Revolving Fund

The Virginia Housing Partnership Revolving Fund, established by the 1988 Session of the Virginia General Assembly, uses funds provided by the state to provide loans and grants for a wide variety of housing initiatives. The Authority acts as administrator under guidelines developed by the Virginia Department of Housing and Community Development. These related balances are presented as assets consisting of cash, investments, mortgage loans and other assets with a corresponding liability in noncurrent liabilities (see note 13). Administration of these balances is consistent with the overall mission of the Authority and thus these balances are included in the Authority's enterprise fund.

In October 1990, the Authority extended a revolving line of credit up to \$38,000,000 to the Virginia Housing Partnership Revolving Fund for a period not to exceed fifteen years at a rate of not less than 2.95 percent. It has agreed to pledge its assets to secure this line of credit and repayment is to be made over the 15-year term. As of June 30, 2002, there were no amounts outstanding under the line of credit.

(r) Statement of Cash Flows

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

(s) 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 are 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.

(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.

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

Notes to Financial Statements

June 30, 2002

(c) Other Multi-Family Lending Programs

Other Multi-Family Lending Programs include the Multi-Family Mortgage Purchase Bond Group and the Multi-Family Mortgage Bond Group. Proceeds of Multi-Family Mortgage Purchase Bonds recorded in this group were used to purchase long-term Federal Housing Administration (FHA)-insured multi-family mortgage loans on rental housing. The proceeds of Multi-Family Mortgage Bonds are used to finance construction and permanent loans on multi-family projects.

(d) 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.

(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.

Current assets:

Cash and cash equivalents	\$ 76,399,117
Investments	8,418,998
Interest receivable – investments	1,319,745
Mortgage and other loans receivable	2,459,631
Interest receivable – mortgage and other loans	1,442,450
Other real estate owned	52,209
Other assets	<u>1,316,086</u>
Total non-restricted current assets	91,408,236

Noncurrent assets:

Investments	244,679,324
Mortgage and other loans receivable – net	115,230,484
Investment in rental property – net	2,886,245
Property, furniture and equipment, less accumulated depreciation and amortization of \$20,126,864	16,084,130
Unamortized bond issuance expenses	130,272
Other assets	<u>3,437,610</u>
Total non-restricted noncurrent assets	<u>382,448,065</u>
Total non-restricted assets	<u>\$ 473,856,301</u>

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.

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

Notes to Financial Statements

June 30, 2002

(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

Commitments to fund new loans and monies available to provide future loans were as follows at June 30, 2002:

Multi-Family Housing and Rental Housing Bond Groups	\$ 164,441,000
Commonwealth Mortgage Bond Group	<u>387,387,000</u>
	<u>\$ 551,828,000</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 \$218.6 million as of June 30, 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, 2002, the carrying amount of the Authority's deposits was \$16,353,029 and checks drawn in excess of bank balances, included in accounts payable and other liabilities, was \$21,861,155. The associated bank balance of the Authority's deposits was \$22,245,748. The difference between the carrying amount and the bank balance is due to outstanding checks, deposits in transit and other reconciling items.

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Notes to Financial Statements

June 30, 2002

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, 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.

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

	Category		Fair value
	1	2	
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

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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, 2002 (all of which were classified Category 1) were as follows:

	<u>Fair value</u>
U.S. Government and agency securities	\$ 86,697,668
Corporate notes	9,730,020
Municipal tax-exempt securities	29,339,343
Asset backed securities	324,398,134
Agency mortgage backed	<u>134,800,075</u>
Totals	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	<u>6,940,000</u>
Total investments	\$ <u><u>1,066,905,240</u></u>
Current investments	\$ 505,585,335
Noncurrent investments	<u>561,319,905</u>
Total investments	\$ <u><u>1,066,905,240</u></u>

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 2002 was as follows:

	<u>Balance June 30, 2001</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2002</u>
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	<u>212,047</u>	<u>100,946</u>	<u>—</u>	<u>312,993</u>
	\$ <u><u>38,967,790</u></u>	<u><u>1,736,809</u></u>	<u><u>(4,493,605)</u></u>	<u><u>36,210,994</u></u>

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

	<u>Balance June 30, 2001</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2002</u>
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	<u>(168,937)</u>	<u>(17,358)</u>	<u>—</u>	<u>(186,295)</u>
	\$ <u><u>(21,793,924)</u></u>	<u><u>(2,813,567)</u></u>	<u><u>4,480,627</u></u>	<u><u>(20,126,864)</u></u>

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Notes to Financial Statements

June 30, 2002

(7) Notes and Bonds Payable

Notes and bonds payable at June 30, 2002 were as follows:

<u>Description</u>	<u>Balance at June 30, 2001</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance at June 30, 2002</u>
		(Amounts shown in thousands)		
<u>General Operating Accounts</u>				
<u>Notes</u>				
Federal Home Loan Bank, floating rate (weighted average rate of 1.92% at June 30, 2002), no fixed maturity	\$ 28,340	6,940	28,340	6,940
<u>VHDA General Purpose Bonds</u>				
1993 Bonds dated June 16, 1993, 5.79% adjustable interest rate, final due date July 1, 2019	26,835	—	800	26,035
Unamortized premium (discount)	(19)			3
	<u>26,816</u>			<u>26,038</u>
Total General Operating Accounts	<u>55,156</u>			<u>32,978</u>
<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	48,155	—	23,045	25,110
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	703	—	600	103
1989 Series D, dated September 15, 1989 and October 11, 1989, 7.37% effective interest rate, final due date November 1, 2014	3,968	—	3,527	441
1990 Series A, dated December 1, 1989, 7.45% effective interest rate, final due date May 1, 2010	735	—	205	530
1991 Series A, dated January 15, 1991, 9.60% effective interest rate, final due date May 1, 2011	1,035	—	1,035	—
1991 Series B/C, dated April 15, 1991, 6.90% effective interest rate, final due date May 1, 2014	1,550	—	180	1,370

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Notes to Financial Statements

June 30, 2002

Description	Balance at June 30, 2001	Issued	Retired	Balance at June 30, 2002
		(Amounts shown in thousands)		
1991 Series F, dated August 15, 1991, 7.05% effective interest rate, final due date May 1, 2013	\$ 26,610	—	3,090	23,520
1992 Series A, dated January 15, 1992, 7.98% effective interest rate, final due date May 1, 2013	3,160	—	160	3,000
1992 Series B, dated March 1, 1992, 7.86% effective interest rate, final due date May 1, 2008	1,960	—	220	1,740
1992 Series C/D, dated March 15, 1992, 6.88% effective interest rate, final due date May 1, 2018	64,360	—	7,195	57,165
1992 Series E, dated June 9, 1992, 6.68% effective interest rate, final due date May 1, 2015	4,160	—	170	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	15,045	—	430	14,615
1992 Series H, dated October 14, 1992, 7.86% effective interest rate, final due date May 1, 2018	15,800	—	685	15,115
1993 Series A, dated February 10, 1993, 7.79% effective interest rate, final due date November 1, 2015	13,860	—	510	13,350
1993 Series B, dated April 1, 1993, 6.42% effective interest rate, final due date May 1, 2016	6,520	—	2,655	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	130,000	—	4,555	125,445
1993 Series G, dated August 1, 1993, 7.00% effective interest rate, final due date November 1, 2015	5,565	—	230	5,335
1993 Series H, dated November 1, 1993, 5.09% effective interest rate, final due date May 1, 2013	6,840	—	445	6,395

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Notes to Financial Statements

June 30, 2002

Description	Balance at June 30, 2001	Issued	Retired	Balance at June 30, 2002
		(Amounts shown in thousands)		
1994 Series A, dated March 1, 1994, 6.94% effective interest rate, final due date November 1, 2015	\$ 15,380	—	660	14,720
1994 Series B/C, dated April 1, 1994, 5.99% effective interest rate, final due date May 1, 2015	25,210	—	1,900	23,310
1994 Series D, dated April 1, 1994, 7.78% effective interest rate, final due date May 1, 2015	23,850	—	2,400	21,450
1994 Series F/G, dated June 1, 1994, 6.34% effective interest rate, final due date May 1, 2015	11,660	—	590	11,070
1994 Series H, dated September 1, 1994, 6.30% effective interest rate, final due date November 1, 2015	8,715	—	370	8,345
1995 Series A/B/C, dated February 2, 1995, 7.51% effective interest rate, final due date November 1, 2015	19,255	—	1,380	17,875
1995 Series D, dated April 26, 1995, 8.13% effective interest rate, final due date November 1, 2015	11,165	—	415	10,750
1995 Series E/F, dated June 29, 1995, 6.18% effective interest rate, final due date May 1, 2014	4,100	—	215	3,885
1995 Series G, dated October 3, 1995, 7.61% effective interest rate, final due date November 1, 2014	14,085	—	630	13,455
1995 Series H/I, dated October 3, 1995, 6.01% effective interest rate, final due date November 1, 2015	52,505	—	2,460	50,045
1995 Series J, dated October 26, 1995, 7.10% effective interest rate, final due date November 1, 2014	6,700	—	300	6,400
1995 Series K/L, dated October 26, 1995, 5.88% effective interest rate, final due date November 1, 2015	24,885	—	1,135	23,750

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Notes to Financial Statements

June 30, 2002

Description	Balance at June 30, 2001	Issued	Retired	Balance at June 30, 2002
		(Amounts shown in thousands)		
1996 Series A/B/C, dated January 11, 1996, 6.43% effective interest rate, final due date May 1, 2016	\$ 54,440	—	2,385	52,055
1996 Series D/E/F, dated March 28, 1996, 6.70% effective interest rate, final due date May 1, 2016	29,205	—	1,230	27,975
1996 Series G, dated April 25, 1996, 7.76% effective interest rate, final due date May 1, 2016	5,095	—	200	4,895
1996 Series H/I, dated April 25, 1996, 5.94% effective interest rate, final due date May 1, 2016	30,400	—	1,385	29,015
1996 Series J, dated August 8, 1996, 6.15% effective interest rate, final due date May 1, 2017	19,000	—	755	18,245
1996 Series K/L/M, dated October 1, 1996, 6.36% effective interest rate, final due date November 1, 2017	16,720	—	580	16,140
1996 Series N/O, dated December 19, 1996, 6.55% effective interest rate, final due date November 1, 2017	21,990	—	785	21,205
1997 Series A/B, dated May 15, 1997, 6.90% effective interest rate, final due date November 1, 2019	47,570	—	1,605	45,965
1997 Series C/D/E, dated September 11, 1997, 6.20% effective interest rate, final due date November 1, 2019	52,140	—	1,515	50,625
1997 Series F, dated October 16, 1997, 5.34% effective interest rate, final due date November 1, 2017	7,270	—	280	6,990
1997 Series G/H/I, dated December 18, 1997, 6.24% effective interest rate, final due date May 1, 2019	54,040	—	1,825	52,215
1998 Series A, dated April 23, 1998, 6.79% effective interest rate, final due date November 1, 2019	49,975	—	1,460	48,515

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Notes to Financial Statements

June 30, 2002

Description	Balance at June 30, 2001	Issued	Retired	Balance at June 30, 2002
		(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	\$ 55,265	—	2,020	53,245
1998 Series F, dated July 29, 1998, 6.50% effective interest rate, final due date May 1, 2019	31,790	—	1,000	30,790
1998 Series G, dated July 29, 1998, 5.10% effective interest rate, final due date November 1, 2018	47,615	—	1,800	45,815
1998 Series H, dated October 27, 1998, 6.31% effective interest rate, final due date May 1, 2019	35,655	—	1,125	34,530
1998 Series I, dated October 27, 1998, 4.94% effective interest rate, final due date November 1, 2019	35,065	—	1,215	33,850
1999 Series A/B, dated January 28, 1999, 5.74% effective interest rate, final due date May 1, 2019	76,080	—	2,565	73,515
	<u>1,239,691</u>	<u>—</u>	<u>85,122</u>	<u>1,154,569</u>
Compound interest payable	2,845			671
	<u>1,242,536</u>			<u>1,155,240</u>
Unamortized discount	(35,273)			(15,637)
Total Multi-Family Housing Bonds	<u>1,207,263</u>			<u>1,139,603</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	48,125	—	1,305	46,820
1999 Series G/H, dated August 19, 1999, 6.70% effective interest rate, final due date May 1, 2022	56,515	—	1,270	55,245
1999 Series I/J, dated November 4, 1999, 6.83% effective interest rate, final due date February 1, 2023	37,810	—	755	37,055
1999 Series K/L, dated December 16, 1999, 6.21% effective interest rate, final due date February 1, 2023	36,910	—	795	36,115

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Notes to Financial Statements

June 30, 2002

Description	Balance at June 30, 2001	Issued	Retired	Balance at June 30, 2002
		(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	—	—	63,240
2000 Series C, dated August 3, 2000, 8.18% effective interest rate, final due date April 1, 2024	17,455	—	190	17,265
2000 Series D/E, dated August 3, 2000, 5.98% effective interest rate, final due date April 1, 2024	46,930	—	640	46,290
2000 Series F/G/H, dated October 12, 2000, 6.90% effective interest rate, final due date October 1, 2024	65,105	—	145	64,960
2001 Series A/B, dated January 9, 2001, 7.02% effective interest rate, final due date March 1, 2025	63,120	—	240	62,880
2001 Series C/D, dated March 22, 2001, 5.87% effective interest rate, final due date June 1, 2024	14,850	—	85	14,765
2001 Series E/F/G, dated April 26, 2001, 5.94% effective interest rate, final due date June 1, 2025	21,830	—	180	21,650
2001 Series H/I, dated July 31, 2001, 6.56% effective interest rate, final due date July 1, 2025	—	50,230	—	50,230
2001 Series J/K/L, dated October 23, 2001, 6.06% effective interest rate, final due date December 1, 2025	—	64,775	—	64,775
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	—	37,595
2002 Series A, dated April 11, 2002, 6.70% effective interest rate, final due date April 1, 2027	—	24,605	—	24,605

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Notes to Financial Statements

June 30, 2002

<u>Description</u>	<u>Balance at June 30, 2001</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance at June 30, 2002</u>
		(Amounts shown in thousands)		
2002 Series B, dated April 11, 2002, 5.30% effective interest rate, final due date April 1, 2027	\$ —	44,950	—	44,950
2002 Series C/D, dated June 27, 2002, 6.45% effective interest rate, final due date September 1, 2027	—	63,385	—	63,385
	471,890	328,705	5,605	794,990
Unamortized discount	(2,161)			(3,981)
Total Rental Housing Bonds	469,729			791,009
<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	34			31
	26,894			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	19,675	—	660	19,015
1977 Series B, dated November 1, 1977, 6.40% effective interest rate, final due date November 1, 2020	32,005	—	870	31,135
1978 Series A, dated April 1, 1978, 6.20% effective interest rate, final due date November 1, 2020	32,515	—	810	31,705
1978 Series B, dated October 1, 1978, 6.71% effective interest rate, final due date November 1, 2021	39,930	—	645	39,285
Unamortized discount	124,125 (305)	—	2,985	121,140 (278)
	123,820			120,862
Total Other Multi-Family Lending Programs	150,714			147,753

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Notes to Financial Statements

June 30, 2002

<u>Description</u>	<u>Balance at June 30, 2001</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance at June 30, 2002</u>
		(Amounts shown in thousands)		
<u>Commonwealth Mortgage Bonds</u>				
1986 Series A, dated July 29, 1986, 7.65% effective interest rate, final due date January 1, 2013	\$ 1,000	—	1,000	—
1986 Series B/C/D, dated November 3, 1986, 6.92% effective interest rate, final due date July 1, 2013	1,000	—	1,000	—
1987 Series A, dated July 15, 1987 and July 30, 1987, 8.37% effective interest rate, final due date July 1, 2017	1,040	—	1,040	—
1987 Series B/C, dated November 1, 1987 and December 4, 1987, 8.32% effective interest rate, final due date January 1, 2028	1,000	—	1,000	—
1988 Series A/B, dated July 21, 1988, 7.87% effective interest rate, final due date July 1, 2038	1,000	—	1,000	—
1988 Series C/D, dated December 14, 1988, 7.66% effective interest rate, final due date January 1, 2038	1,000	—	1,000	—
1992 Series A/B/C, dated March 15, 1992, April 28, 1992 and June 15, 1992, 6.28% effective interest rate, final due date January 1, 2033	592,310	—	592,310	—
1993 Series A/B, dated February 25, 1993, 5.67% effective interest rate, final due date July 1, 2022	10,825	—	3,810	7,015
1993 Series E/F, dated August 31, 1993, 5.94% effective interest rate, final due date July 1, 2022	4,200	—	1,550	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	4,325	—	2,675	1,650

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Notes to Financial Statements

June 30, 2002

<u>Description</u>	<u>Balance at June 30, 2001</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance at June 30, 2002</u>
		(Amounts shown in thousands)		
1994 Series C/D, dated April 5, 1994, 5.81% effective interest rate, final due date January 1, 2024	\$ 11,910	—	4,095	7,815
1994 Series G/H, dated August 9, 1994, 6.57% effective interest rate, final due date July 1, 2022	69,800	—	26,125	43,675
1994 Series I/J, dated November 8, 1994, 6.59% effective interest rate, final due date July 1, 2022	48,500	—	24,630	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	92,150	—	81,810	10,340
1995 Series C/D, dated June 22, 1995, 6.01% effective interest rate, final due date January 1, 2030	295,675	—	31,820	263,855
1996 Series A, dated May 23, 1996, 8.00% effective interest rate, final due date July 1, 2029	4,990	—	3,050	1,940
1996 Series B/C, dated June 20, 1996, 6.08% effective interest rate, final due date July 1, 2026	183,990	—	50,520	133,470
1996 Series D, dated October 1, 1996, 7.58% effective interest rate, final due date January 1, 2016	30,100	—	22,600	7,500
1996 Series E/F, dated December 18, 1996, 5.21% adjustable 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	69,705	—	10,150	59,555
1997 Series A, dated June 12, 1997, 7.28% effective interest rate, final due date January 1, 2046	174,490	—	72,370	102,120
1997 Series B/C, dated June 12, 1997, 5.13% effective interest rate, final due date January 1, 2022	92,775	—	10,360	82,415

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Notes to Financial Statements

June 30, 2002

Description	Balance at June 30, 2001	Issued	Retired	Balance at June 30, 2002
		(Amounts shown in thousands)		
1998 Series A/B/C, dated January 15, 1998, 5.23% adjustable interest rate, final due date January 1, 2047	\$ 498,160	—	1,780	496,380
1998 Series D/E, dated July 28, 1998, 5.19% effective interest rate, final due date July 1, 2021	183,825	—	19,720	164,105
1998 Series F, dated October 27, 1998, 6.39% effective interest rate, final due date April 1, 2020	311,435	—	24,010	287,425
1999 Series A/B, dated June 29, 1999, 7.38% effective interest rate, final due date October 1, 2020	221,975	—	99,520	122,455
2000 Series A/B, dated March 31, 2000, 5.64% effective rate, final due date July 1, 2018	235,245	—	15,195	220,050
2000 Series C, dated March 31, 2000, 7.59% effective interest rate, final due date July 1, 2021	2,500	—	50	2,450
2001 Series A, dated January 30, 2001, 6.50% effective interest rate, final due date February 25, 2030	173,134	—	49,257	123,877
2001 Series B, dated May 4, 2001, 6.50% effective interest rate, final due date May 25, 2031	103,043	—	7,653	95,390
2001 Series C/D, dated June 13, 2001, 5.19% effective interest rate, final due date July 1, 2027	179,740	—	29,500	150,240
2001 Series E, dated August 30, 2001, 5.88% effective interest rate, final due date July 1, 2023	—	5,000	—	5,000
2001 Series F, dated July 31, 2001, 6.50% effective interest rate, final due date September 25, 2031	—	118,034	5,883	112,151
2001 Series G, dated October 17, 2001, 6.00% effective interest rate, final due date December 25, 2031	—	124,551	2,687	121,864

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Notes to Financial Statements

June 30, 2002

Description	Balance at June 30, 2001	Issued	Retired	Balance at June 30, 2002
		(Amounts shown in thousands)		
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	—	443,600
2002 Series A, dated January 14, 2002, 6.50% effective interest rate, final due date February 25, 2032	—	101,840	770	101,070
2002 Series B, dated March 20, 2002, 6.00% effective interest rate, final due date August 25, 2030	—	206,853	6,831	200,022
2002 Series C, dated June 27, 2002, 6.00% effective interest rate, final due date June 25, 2032	—	114,627	—	114,627
2002 Series D, dated June 27, 2002, 6.50% effective interest rate, final due date June 25, 2032	—	20,000	—	20,000
	3,811,962	1,357,505	1,206,771	3,962,696
Unamortized premium (discount)	15,464			(10,557)
Total Commonwealth Mortgage Bonds	3,827,426			3,952,139
Total	\$ 5,710,288			6,063,482
Notes and bonds payable – current			\$ 441,759	
Bonds payable – noncurrent			5,621,723	
Totals			\$ 6,063,482	

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.

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

Notes to Financial Statements

June 30, 2002

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.

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, 2002 and thereafter are as follows:

<u>Period ending June 30,</u>	<u>Original Principal</u>	<u>Current Interest</u>	<u>Compound Interest/ Zero Coupon Accretion</u>	<u>Total Debt Service</u>
2003	\$ 228,828,494	\$ 331,733,381	\$ 4,317,131	\$ 564,879,006
2004	264,792,999	317,640,138	—	582,433,137
2005	281,545,087	302,780,641	—	584,325,728
2006	291,715,900	286,264,742	—	577,980,642
2007	292,447,259	269,341,606	—	561,788,865
2012	1,411,863,827	1,098,683,661	862,249	2,511,409,737
2017	1,311,230,497	685,668,228	—	1,996,898,725
2022	794,770,250	362,041,593	4,004,750	1,160,816,593
2027	364,885,000	184,198,246	—	549,083,246
2032	117,125,000	103,507,938	—	220,632,938
2037	121,195,000	73,807,172	—	195,002,172
2042	55,700,000	56,032,110	—	111,732,110
2047	532,900,000	45,785,728	—	578,685,728
	<u>\$ 6,068,999,313</u>	<u>\$ 4,117,485,184</u>	<u>\$ 9,184,130</u>	<u>\$ 10,195,668,627</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, 2002, these project reserves amounted to approximately \$142,224,000.

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

Notes to Financial Statements

June 30, 2002

(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 \$5,328,582 at June 30, 2002.

(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 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 year ended June 30, 2002, the Authority experienced a net loss of \$5,680,604 from hedging transactions settled during the year. At June 30, 2002, \$4,628,647 of short sales were outstanding which had an unrealized loss of \$8,938. 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, 2002, in addition to the \$218,642,052 designated for the Virginia Housing Fund, the Authority had additional designations in the amount of \$25,901,062 including a line of credit to the Virginia Housing Partnership 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.

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

Notes to Financial Statements

June 30, 2002

(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 year ended June 30, 2002 was \$1,295,450.

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, 2002, included in accounts payable and other liabilities is an employee compensated absences accrual of \$2,675,330 (see note 13).

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 \$3,603,734 as of June 30, 2002 (see note 13). Total expense incurred for these benefits for the year ended June 30, 2002 was \$422,245.

(13) Other Long-Term Liabilities

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

	Balance at June 30, 2001	Additions	Decreases	Balance at June 30, 2002
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 other liabilities	<u>\$ 35,972,342</u>	<u>10,902,350</u>	<u>16,453,632</u>	<u>30,421,060</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.

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

Notes to Financial Statements

June 30, 2002

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, 2002, these programs are still subject to financial and compliance audits. The amount, if any, of expenses which may be disallowed by the granting agencies cannot be determined at this time, although the Authority expects such amounts, if any, to be immaterial in relation to its financial statements.

(15) Subsequent Events

In addition to scheduled redemptions, the Authority made special and optional redemptions of certain bonds payable subsequent to June 30, 2002 and through September 13, 2002, as follows:

<u>Bond Group</u>	<u>Redemption Date</u>		<u>Agregate Principal Amount Redeemed</u>
Multi-Family Housing Bonds	July 1, 2002	\$	4,070,000
Commonwealth Mortgage Bonds	July 1, 2002		103,995,000
Commonwealth Mortgage Bonds	September 1, 2002		104,865,000

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

Combining Schedule of Net Assets

June 30, 2002

Assets	Multi-Family Lending Programs			Single Family Lending Programs	Total	
	General Operating Accounts	Multi-Family Housing Bond Group	Rental Housing Bond Group	Other Multi-Family Lending Programs		Commonwealth Mortgage Bond Group
Current assets:						
Cash and cash equivalents	\$ 92,567,660	31,893,630	60,002,600	8,256,005	621,441,326	814,161,221
Investments	15,358,998	—	—	—	490,226,337	505,585,335
Interest receivable – investments	1,319,745	983,396	67,366	381,805	390,710	3,143,022
Mortgage and other loans receivable	3,678,153	20,055,373	3,885,020	3,932,046	54,628,403	86,178,995
Interest receivable – mortgage and other loans	1,442,450	8,042,205	4,268,151	738,813	16,511,813	31,003,432
Other real estate owned	52,209	—	—	—	2,966,256	3,018,465
Other assets	1,316,086	—	—	—	1,163,194	2,479,280
Total current assets	<u>115,735,301</u>	<u>60,974,604</u>	<u>68,223,137</u>	<u>13,308,669</u>	<u>1,187,328,039</u>	<u>1,445,569,750</u>
Noncurrent assets:						
Investments	255,134,961	137,324,651	111,159,991	21,778,888	35,921,414	561,319,905
Mortgage and other loans receivable	198,500,838	1,249,689,784	637,820,682	115,445,334	3,633,507,547	5,834,964,185
Less allowance for loan loss	7,817,935	5,227,827	2,326,527	309,303	6,306,091	21,987,683
Less net deferred loan fees	617,820	16,861,792	11,821,092	312,204	10,315,926	39,928,834
Mortgage and other loans receivable – net	<u>190,065,083</u>	<u>1,227,600,165</u>	<u>623,673,063</u>	<u>114,823,827</u>	<u>3,616,885,530</u>	<u>5,773,047,668</u>
Investment in rental property – net	2,886,245	14,630,000	—	—	—	17,516,245
Property, furniture and equipment, less accumulated depreciation and amortization of \$20,126,864	16,084,130	—	—	—	—	16,084,130
Unamortized bond issuance expenses	130,272	2,462,437	1,142,203	108,308	1,890,977	5,734,197
Interfund receivable	(14,169,748)	5,227,827	2,326,527	309,303	6,306,091	—
Other assets	3,437,610	—	—	—	7,149,019	10,586,629
Total noncurrent assets	<u>453,568,553</u>	<u>1,387,245,080</u>	<u>738,301,784</u>	<u>137,020,326</u>	<u>3,668,153,031</u>	<u>6,384,288,774</u>
Total assets	<u>\$ 569,303,854</u>	<u>1,448,219,684</u>	<u>806,524,921</u>	<u>150,328,995</u>	<u>4,855,481,070</u>	<u>7,829,858,524</u>

(Continued)

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

Combining Schedule of Net Assets

June 30, 2002

Liabilities and Net Assets	Multi-Family Lending Programs			Single Family Lending Programs	Total	
	General Operating Accounts	Multi-Family Housing Bond Group	Rental Housing Bond Group	Other Multi-Family Lending Programs		
Current liabilities:						
Notes and bonds payable	\$ 7,940,000	57,523,600	11,095,000	3,505,000	361,694,894	441,758,494
Accrued interest payable on notes and bonds	750,520	11,747,939	13,948,619	1,427,561	67,450,901	95,325,540
Section 8 contributions payable	5,032,036	—	—	—	—	5,032,036
Escrows and project reserves	31,556,999	—	—	—	—	31,556,999
Accounts payable and other liabilities	8,912,037	1,393,716	—	—	18,160,074	28,465,827
Total current liabilities	54,191,592	70,665,255	25,043,619	4,932,561	447,305,869	602,138,896
Noncurrent liabilities:						
Bonds payable – net	25,037,627	1,082,079,327	779,913,813	144,248,309	3,590,444,397	5,621,723,473
Escrows and project reserves	144,978,650	—	—	—	—	144,978,650
Virginia Housing Partnership Revolving Fund liability	86,586,662	—	—	—	—	86,586,662
Other liabilities	13,966,209	6,912,611	834,496	—	8,707,744	30,421,060
Total noncurrent liabilities	270,569,148	1,088,991,938	780,748,309	144,248,309	3,599,152,141	5,883,709,845
Total liabilities	324,760,740	1,159,657,193	805,791,928	149,180,870	4,046,458,010	6,485,848,741
Net Assets:						
Invested in capital assets, net of related debt	(4,583,601)	2,645,479	—	—	—	(1,938,122)
Restricted by bond indentures	2,481,024	285,917,012	732,993	1,148,125	809,023,060	1,099,302,214
Unrestricted	246,645,691	—	—	—	—	246,645,691
Total net assets	244,543,114	288,562,491	732,993	1,148,125	809,023,060	1,344,009,783
Total liabilities and net assets	\$ 569,303,854	1,448,219,684	806,524,921	150,328,995	4,855,481,070	7,829,858,524

See accompanying auditors' report.

VIRGINIA HOUSING DEVELOPMENT AUTHORITY
Combining Schedule of Revenues, Expenses and Changes in Net Assets
Year ended June 30, 2002

	Multi-Family Lending Programs			Single Family Lending Programs		Total
	General Operating Accounts	Multi-Family Housing and Bond Group	Rental Housing Bond Group	Other Multi-Family Lending Programs	Commonwealth Mortgage Bond Group	
Operating revenues:						
Interest on mortgage and other loans	\$ 6,134,824	105,972,579	39,990,163	9,436,792	277,167,882	438,702,240
Pass-through grants received	122,156,521	—	—	—	—	122,156,521
Section 8 fee income earned	1,936,770	—	—	—	—	1,936,770
Gains and recoveries on sale of other real estate owned	6,229	—	—	—	1,641,784	1,648,013
Other	4,495,263	1,810,464	—	—	—	6,305,727
Total operating revenues	<u>134,729,607</u>	<u>107,783,043</u>	<u>39,990,163</u>	<u>9,436,792</u>	<u>278,809,666</u>	<u>570,749,271</u>
Operating expenses:						
Interest on notes and bonds	1,840,536	74,277,947	40,742,062	9,441,480	210,309,227	336,611,252
Salaries and related employee benefits	21,881,744	—	—	—	—	21,881,744
General operating expenses	15,074,982	462,000	—	—	—	15,536,982
Amortization and bond issuance expenses	7,663	236,084	44,628	5,897	762,905	1,057,177
Pass-through grants disbursed	122,156,521	—	—	—	—	122,156,521
Section 8 program expenses	3,367,583	—	—	—	—	3,367,583
External mortgage servicing expenses	26,242	—	—	15,238	4,693,891	4,735,371
Losses and expenses on other real estate owned and provision for loan losses	4,923,156	—	—	—	1,907,781	6,830,937
Total operating expenses	<u>169,278,427</u>	<u>74,976,031</u>	<u>40,786,690</u>	<u>9,462,615</u>	<u>217,673,804</u>	<u>512,177,567</u>
Operating income (expense)	<u>(34,548,820)</u>	<u>32,807,012</u>	<u>(796,527)</u>	<u>(25,823)</u>	<u>61,135,862</u>	<u>58,571,704</u>
Non-operating revenues:						
Investment income	7,241,249	14,830,644	3,936,161	1,886,240	30,117,179	58,011,473
Other, net	499,941	—	—	—	—	499,941
Total non-operating revenues	7,741,190	14,830,644	3,936,161	1,886,240	30,117,179	58,511,414
Income (loss) before transfers	(26,807,630)	47,637,656	3,139,634	1,860,417	91,253,041	117,083,118
Transfers between funds	41,478,223	(23,677,959)	(1,606,886)	(2,462,611)	(13,730,767)	—
Change in net assets	14,670,593	23,959,697	1,532,748	(602,194)	77,522,274	117,083,118
Total net assets, beginning of year	<u>229,872,521</u>	<u>264,602,794</u>	<u>(799,755)</u>	<u>1,750,319</u>	<u>731,500,786</u>	<u>1,226,926,665</u>
Total net assets, end of year	<u>\$ 244,543,114</u>	<u>288,562,491</u>	<u>732,993</u>	<u>1,148,125</u>	<u>809,023,060</u>	<u>1,344,009,783</u>

See accompanying auditors' report.

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

Combining Schedule of Cash Flows

Year ended June 30, 2002

	Multi-Family Lending Programs			Single Family Lending Programs	Total	
	General Operating Accounts	Multi-Family Housing and Bond Group	Rental Housing Bond Group	Other Multi-Family Lending Programs		Commonwealth Mortgage Bond Group
Cash flows from operating activities:						
Cash payments for mortgage and other loans	\$ (46,067,427)	(829,324)	(315,169,811)	—	(727,103,968)	(1,089,170,530)
Principal repayments on mortgage and other loans	23,175,392	36,663,004	5,626,197	4,845,544	692,681,897	762,992,034
Interest received on mortgage and other loans	5,873,197	106,523,578	37,606,191	9,355,717	274,512,656	433,871,339
Section 8 contributions and pass-through grants received	125,273,666	—	—	—	—	125,273,666
Section 8 contributions and pass-through grants disbursed	(139,634,027)	—	—	—	—	(139,634,027)
Cash received for Virginia Housing Partnership Fund program	3,064,097	—	—	—	—	3,064,097
Grants and cash payments made from Virginia Housing Partnership Fund program	(517,105)	—	—	—	—	(517,105)
Escrow payments received	150,303,459	—	—	—	—	150,303,459
Escrow payments disbursed	(140,189,883)	—	—	—	—	(140,189,883)
Other operating revenues	3,194,843	1,823,352	—	—	—	5,018,195
Cash received from loan origination fees	5,027,896	—	—	—	8,086,844	13,114,740
Cash payments for salaries and related benefits	(23,558,098)	—	—	—	—	(23,558,098)
Cash payments general operating expenses	(20,010,094)	—	—	—	—	(20,010,094)
Cash payments for mortgage servicing expenses	(20,286)	—	—	(15,237)	(3,429,476)	(3,464,999)
Proceeds from sale of other real estate owned	266,742	—	—	—	26,493,019	26,759,761
Net cash provided by (used in) operating activities	(53,817,628)	144,180,610	(271,937,423)	14,186,024	271,240,972	103,852,555
Cash flows from noncapital financing activities:						
Proceeds from sale of notes and bonds	6,940,000	—	328,705,000	—	1,357,506,061	1,693,151,061
Principal payments on notes and bonds	(28,340,000)	(69,362,563)	(5,605,000)	(2,985,000)	(1,206,771,664)	(1,313,064,227)
Interest payments on notes and bonds	(424,801)	(73,339,959)	(34,843,270)	(9,432,556)	(219,220,125)	(337,260,711)
Cash payments for bond issuance expenses	(9,739,179)	—	—	—	(11,393,543)	(21,132,722)
Redemption premium paid on bond calls	—	(70,595)	—	—	(11,071,600)	(11,142,195)
Transfers (to) from other funds	51,384,992	(19,195,602)	289,137	(2,478,527)	(30,000,000)	—
Net cash provided by (used in) noncapital financing activities	19,821,012	(161,968,719)	288,545,867	(14,896,083)	(120,950,871)	10,551,206
Cash flows from capital and related financing activities:						
Principal payments on building bonds	(800,000)	—	—	—	—	(800,000)
Interest payments on building bonds	(1,504,300)	—	—	—	—	(1,504,300)
Purchases of furniture and fixtures	(1,736,809)	—	—	—	—	(1,736,809)
Net cash used in capital and related financing activities	(4,041,109)	—	—	—	—	(4,041,109)

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

Combining Schedule of Cash Flows

Year ended June 30, 2002

	Multi-Family Lending Programs			Single Family Lending Programs	Total	
	General Operating Accounts	Multi-Family Housing and Bond Group	Rental Housing Bond Group	Other Multi-Family Lending Programs		Commonwealth Mortgage Bond Group
Cash flows from investing activities:						
Purchases of investments	\$ (470,286,499)	(44,786,391)	(161,951,737)	(23,251,565)	(444,015,002)	(1,144,291,194)
Proceeds from sales or maturities of investments	495,732,048	47,981,036	147,193,526	24,284,470	513,520,366	1,228,711,446
Interest received on investments	7,283,298	9,922,926	4,708,742	1,590,787	25,863,960	49,369,713
Net cash provided by (used in) investing activities	32,728,847	13,117,571	(10,049,469)	2,623,692	95,369,324	133,789,965
Net increase (decrease) in cash and cash equivalents	(5,308,878)	(4,670,538)	6,558,975	1,913,633	245,659,425	244,152,617
Cash and cash equivalents, at beginning of year	97,876,538	36,564,168	53,443,625	6,342,372	375,781,901	570,008,604
Cash and cash equivalents, at end of year	\$ 92,567,660	31,893,630	60,002,600	8,256,005	621,441,326	814,161,221
Reconciliation of operating income (expense) to net cash provided by (used in) operating activities:						
Operating income (expense)	\$ (34,548,820)	32,807,012	(796,527)	(25,823)	61,135,862	58,571,704
Adjustments to reconcile operating income (expense) to net cash provided by (used in) operating activities:						
Loss on sale of furniture and fixtures	12,978	—	—	—	—	12,978
Depreciation of property, furniture and equipment	2,813,567	—	—	—	—	2,813,567
Other depreciation and amortization	176,888	698,082	44,628	(107,219)	2,027,081	2,839,460
Interest on notes and bonds	1,840,536	74,277,947	40,742,062	9,441,480	210,309,227	336,611,252
(Increase) decrease in mortgage and other loans receivable	(22,719,336)	35,708,980	(309,543,614)	4,845,544	3,334,748	(288,373,678)
(Increase) decrease in interest receivable – mortgage and other loans	(151,079)	581,360	(2,225,629)	32,042	679,951	(1,083,355)
Decrease in other real estate owned	186,441	—	—	—	2,922,768	3,109,209
(Increase) decrease in other assets	(672,134)	—	—	—	2,009,478	1,337,344
Increase (decrease) in accounts payable and other liabilities	(11,827,929)	12,888	—	—	(16,016,554)	(27,831,595)
Increase (decrease) in Section 8 contributions payable	(6,416,242)	—	—	—	—	(6,416,242)
Increase in escrows and project reserves	10,113,576	—	—	—	—	10,113,576
Increase in Virginia Housing Partnership Fund liability	2,456,560	—	—	—	—	2,456,560
Increase (decrease) in net deferred loan fees	4,917,366	94,341	(158,343)	—	4,838,411	9,691,775
Net cash provided by (used in) operating activities	\$ (53,817,628)	144,180,610	(271,937,423)	14,186,024	271,240,972	103,852,555
Supplemental disclosure of noncash investing activity – increase in other real estate owned as a result of loan foreclosures	\$ 115,835	—	—	—	21,661,073	21,776,908

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, 2002, and have issued our report thereon dated September 13, 2002. Our report noted that the Authority implemented Governmental Accounting Standards Board Statements No. 34 and 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* and No. 38, *Certain Financial Statement Note Disclosures*, effective July 1, 2001. 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. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the Authority in a separate letter dated September 13, 2002.

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 13, 2002

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CONTINUING DISCLOSURE AGREEMENT

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

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

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

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

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

Certain Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Provision of Annual Financial Information

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

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

Content of Annual Financial Information

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

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

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

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

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

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

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

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

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

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

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

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

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

Reporting of Significant Events

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

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

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

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

Amendment of Continuing Disclosure Agreement

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

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

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

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

Enforcement

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

Termination

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

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

Governing Law

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

FINANCIAL GUARANTY INSURANCE POLICY

**MBIA Insurance Corporation
Armonk, New York 10504**

Policy No. [NUMBER]

MBIA Insurance Corporation (the "Insurer"), in consideration of the payment of the premium and subject to the terms of this policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the Issuer to [PAYING AGENT/TRUSTEE] or its successor (the "Paying Agent") of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations" shall mean:

**[PAR]
[LEGAL NAME OF ISSUE]**

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of an Obligation the payment of an Insured Amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with State Street Bank and Trust Company, N.A., in New York, New York, or its successor, sufficient for the payment of any such Insured Amounts which are then due. Upon presentment and surrender of such Obligations or presentment of such other proof of ownership of the Obligations, together with any appropriate instruments of assignment to evidence the assignment of the Insured Amounts due on the Obligations as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Obligations in any legal proceeding related to payment of Insured Amounts on the Obligations, such instruments being in a form satisfactory to State Street Bank and Trust Company, N.A., State Street Bank and Trust Company, N.A. shall disburse to such owners, or the Paying Agent payment of the Insured Amounts due on such Obligations, less any amount held by the Paying Agent for the payment of such Insured Amounts and legally available therefor. This policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Obligation.

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Issuer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Issuer constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancellable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

IN WITNESS WHEREOF, the Insurer has caused this policy to be executed in facsimile on its behalf by its duly authorized officers, this [DAY] day of [MONTH, YEAR].

MBIA Insurance Corporation

President

Attest:

Assistant Secretary

SPECIMEN

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

Virginia Housing Development Authority
Richmond, Virginia

Commissioners:

We have examined a record of proceedings relating to the issuance of \$. . . of Commonwealth Mortgage Bond Pass-Through Certificates, 2002 Series E (the “Offered Certificates”), by the Virginia Housing Development Authority (the “Authority”), a political subdivision of the Commonwealth of Virginia (the “Commonwealth”) created by the Virginia Housing Development Authority Act, being Chapter 1.2 of Title 36 of the Code of Virginia, 1950, as amended (the “Act”), and organized and existing under the Act and other laws of the Commonwealth.

The Offered Certificates are authorized to be issued pursuant to the Act and a resolution of the Authority adopted July 15, 1986 entitled “A Resolution Providing for the Issuance of Commonwealth Mortgage Bonds of the Virginia Housing Development Authority and for the Rights of the Owners Thereof” (the “Resolution”); a resolution of the Authority adopted April 16, 2002 entitled, “Series Resolution Authorizing the Issuance and Sale of Commonwealth Mortgage Bonds,” (“the Series Resolution”); and the Written Determinations of an Authorized Officer of the Authority dated December 10, 2002, executed and delivered in accordance therewith. Such Written Determinations, the Series Resolution and the Resolution are collectively herein referred to as the “Bond Resolution.” The Offered Certificates are authorized to be issued pursuant to the Resolution for the purpose of providing funds to carry out the Authority’s Program of making Mortgage Loans. All capitalized terms used herein and not otherwise defined have the meanings set forth in the Bond Resolution.

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

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

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

Our services as bond counsel to the Authority have been limited to delivery of the foregoing opinion based upon our review of such proceedings and documents as we deem necessary to approve the validity of the Offered Certificates and the Bond Resolution. We express no opinion herein as to the financial resources of the Authority, the adequacy of the Assets pledged to payment of the Offered Certificates, the ability of the Authority to provide for the payment of the Offered Certificates, the yield to be realized by owners of the Offered Certificates, or the accuracy or completeness of any information that may have been relied on by anyone in making a decision to purchase the Offered Certificates, including the Authority’s Preliminary Offering Circular for the Offered Certificates dated November 25, 2002, and its Offering Circular for the Offered Certificates dated . . . , 2002.

Very truly yours,

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

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\$102,472,294

**Commonwealth Mortgage Bonds,
Pass-Through Certificates,
2002 Series E**

SunTrust Bank
Trustee

OFFERING CIRCULAR

**Virginia Housing
Development Authority**

Issuer

December 10, 2002
