Private Placement Memorandum

EXPECTED RATINGS:	Moody's	S&P
	Aaa	*AAA*

(See "Ratings" herein)

$7,585,891
Virginia Housing Development Authority
Commonwealth Mortgage Bonds
Pass-Through Certificates
2006 Series B

Consider carefully the risk factors starting on page 5 of this Private Placement Memorandum. 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 described herein. The Offered Certificates will be indebtedness of the Authority.

Payments

You, the Institutional Investor, will receive monthly payments of principal and interest on the outstanding balance of your Offered Certificates, as described in this Private Placement Memorandum.

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 Private Placement Memorandum.

Guaranty and Security

We will guarantee that the payments of monthly interest and principal described in this Private Placement Memorandum 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.

Original Principal Amount	*Interest Rate*	*Placement Agent Purchase Price*	*CUSIP Number*	*Final Scheduled Payment Date*
$7,585,891	6.0%	$7,548,826.34	92812ULS5	March 25, 2036

We expect the Closing Date to be April 27, 2006. 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.

Davenport & Company LLC

April 20, 2006

This Private Placement Memorandum is intended for use only by institutional and other accredited investors, as those terms are defined in the rules promulgated under the Securities Act of 1933, as amended, who are able to evaluate investment in the Offered Certificates. No dealer, broker, salesman or other person has been authorized by us or the Placement Agent 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 Placement Agent.

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 Private Placement Memorandum 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.

TABLE OF CONTENTS

Page

REFERENCE SHEET *1*

THE OFFERED CERTIFICATES *4*
- *RISK FACTORS* *5*
- *DESCRIPTION OF THE OFFERED CERTIFICATES* *8*
  - *Interest Payments* *8*
  - *Principal Payments* *8*
  - *Optional Redemption* *9*
  - *Class Factors* *9*
  - *Allocated Mortgage Loans* *10*
  - *Acceleration* *12*
- *RATINGS* *12*
- *TAX MATTERS* *12*
- *LEGAL MATTERS AND CONTINUING DISCLOSURE* *13*
- *SALE* *13*
- *LITIGATION* *13*
- *LEGAL INVESTMENT* *13*

GENERAL MATTERS *14*
- *SECURITY* *14*
- *THE GENERAL PROGRAM* *20*
- *THE AUTHORITY* *24*
- *THE RESOLUTIONS* *29*
- *INDEX OF PRINCIPAL DEFINITIONS* *37*
- *MISCELLANEOUS* *37*

Appendices:

A – Mortgage Insurance Policies

B – DTC

C – Our Financial Statements

D – Continuing Disclosure Agreement

E – Restated Bond Resolution

F – Opinion of Hunton & Williams LLP

REFERENCE SHEET

This Reference Sheet is not a summary of the transaction and does not contain complete information about the Offered Certificates or the Authority. You should purchase the Offered Certificates only after reading the entire Private Placement Memorandum and requiring such additional information as you deem necessary to be capable of evaluating the merits and risks of investing in the Offered Certificates.

The Offered Certificates

The Virginia Housing Development Authority Commonwealth Mortgage Bonds, Pass-Through Certificates, 2006 Series B.

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 Certificates and the 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.

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 April 1, 2006.

Closing Date

The Offered Certificates will be delivered on the Closing Date, which is expected to be on or about April 27, 2006.

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 May 2006.

Book-Entry Certificates

The Offered Certificates will be issued and maintained in book-entry form through the facilities of The Depository Trust Company or its agent ("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

The Allocated Mortgage Loans were made to mortgagors with annual incomes below the amounts and in the jurisdictions shown on the chart herein under "Allocated Mortgage Loans."

Principal payments on the Offered Certificates will be based on (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 us, (ii) are identified in the Resolutions creating the Offered Certificates and (iii) are described in this Private Placement Memorandum. 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 May 2006, you will be entitled to receive one month's interest on your Offered Certificate at the annual rate of 6.0%. 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 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; and

(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.

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 March 25, 2036.

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 expect to directly service most of the Allocated Mortgage Loans and have the balance serviced by the Servicing Agents. Accordingly, we expect to pay servicing fees to third parties on some of the Allocated Mortgage 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 us, 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 $1,000,000 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

Term	Meaning
"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 Private Placement Memorandum
"Cut-Off Date"	April 1, 2006, 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
"Institutional Investor", "Investor", "you" or "yours"	The Beneficial Owner of an Offered Certificate
"Offered Certificates"	The Commonwealth Mortgage Bonds, Pass-Through Certificates, 2006 Series B
"Payment Date"	The 25th day of each month or, if such day is not a Business Day, the first Business Day thereafter, beginning in May 2006 and ending no later than the Final Scheduled Payment Date
"Principal Payment Amount"	The monthly principal payment amount for the Offered 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 Private Placement Memorandum to furnish certain limited 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 March 21, 2006 (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.

On September 21, 2004, our Board of Commissioners adopted a supplemental bond resolution (the "Restated Bond Resolution") to the General Bond Resolution that amends, supplements and restates the General Bond Resolution in its entirety. The General Bond Resolution permits us to adopt the Restated Bond Resolution but provides that no such resolution shall be effective unless (1) no Bond which we delivered prior to the adoption of such resolution remains Outstanding at the time it becomes effective or (2) such resolution is consented to by or on behalf of the Owners of at least sixty per centum (60%) of the Bond Obligation at the time such consent is given.

The Restated Bond Resolution and a summary of the provisions of the Restated Bond Resolution are included herein as Appendix E. As a condition of our obligation to deliver the Offered Certificates, the Placement Agent shall, on the Closing Date, consent to the Restated Bond Resolution, and the receipt for the Offered Certificates to be executed by the Placement Agent shall include such consent which shall be effective upon our delivery of the Offered Certificates. We have obtained the consent of the purchasers of all $1,370,770,000 Bonds issued since September 21, 2004, and we expect to require the consent of the purchasers of all Bonds issued on the Closing Date and in the future until such time as the Owners of at least sixty per centum (60%) of the Bond Obligation shall have consented to the Restated Bond Resolution, at which time the Restated Bond Resolution shall become effective as described above and shall apply to the Offered Certificates. Consents are binding on the dealers, institutional investors, underwriters and any private purchasers giving the consent for the Offered Certificates at initial issuance and on subsequent Owners of the Offered Certificates, but the General Bond Resolution permits such subsequent Owners of the Offered Certificates to revoke the consent prior to the effective date of the Restated Bond Resolution.

The provisions of the Restated Bond Resolution are significantly different from those of the General Bond Resolution and provide for increased flexibility for us to remove assets as security for the Bonds, make amendments to the Restated Bond Resolution and issue additional Bonds. The covenants we made in the Restated Bond Resolution for the benefit of the Owners are generally not as restrictive as those in 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 Private Placement Memorandum.
- You should thoroughly understand the terms of the Offered Certificates.
- You should thoroughly understand the summary information provided in this Private Placement Memorandum relating to the Offered Certificates and the Allocated Mortgage Loans, and you should request such additional information as you deem necessary to be capable of evaluating the merits and risks of investing in the Offered Certificates.
- 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, in part, 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 the 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 Private Placement Memorandum. 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 and may conduct marketing activities, including the solicitation of Mortgagors, that will offer and encourage such refinancing by us of Allocated Mortgage Loans.

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 $1,000,000. If we exercise this option, it will have the same effect as a prepayment in full of the then 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 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 Private Placement Memorandum 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 the outstanding principal balances of the Allocated Mortgage Loans (as reduced by scheduled monthly payments of principal due and payable on April 1, 2006) 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 or its agent ("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 May 2006, calculated on the basis of a 360-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 May 2006, 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 (the "Principal Payment Amount") shall be composed of the sum of the following amounts as determined by us: (i) the principal portion of scheduled monthly payments due on the Allocated Mortgage Loans 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 on the Allocated Mortgage Loans 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 on the Allocated Mortgage Loans 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. For any Allocated Mortgage Loan which is liquidated by foreclosure or deed in lieu of foreclosure, 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 in such a 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.

Optional Redemption

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 $1,000,000. 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

Prior to a Payment Date, we will calculate for the Offered Certificates, a class factor ("Class Factor") expressed as a number 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 Offered Certificates on the following Payment Date. For example, the May 2006 Class Factor for the Offered Certificates will reflect their remaining principal amount, after giving effect to any Principal Payment Amount to be made on May 25, 2006. The April 2006 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 May 2006 will reflect the difference between their April 2006 and May 2006 Class Factors. The amount of interest to be paid on the Offered Certificates in May 2006 will equal 30 days' interest accrued during the month of April 2006 on the principal amount determined by reference to their April 2006 Class Factor.

Allocated Mortgage Loans

The Allocated Mortgage Loans in the following aggregate original principal amounts were made to finance single family residential housing in the following jurisdictions and to mortgagors with the following maximum annual gross incomes.

INCOME LIMITS

	Maximum Gross Income For Loans Made In Year				
	2001	2002	2003	2004	2005
Fairfax County	$68,480	$73,200	$67,840	$65,840	$68,960
Fairfax City	68,480	73,200	67,840	65,840	68,960
Falls Church City	68,480	73,200	67,840	65,840	68,960
Fauquier County	68,480	73,200	67,840	65,840	68,960
Loundon County	68,480	73,200	67,840	65,840	68,960
Richmond City	$49,440	$52,720	$51,040	$50,480	$52,840
Henrico County	49,440	52,720	51,040	50,480	52,840
Chesterfield County	49,440	52,720	51,040	50,480	52,840
Hanover County	49,440	52,720	51,040	50,480	52,840
Colonial Heights City	49,440	52,720	51,040	50,480	52,840
Prince George County	49,440	52,720	51,040	50,480	52,840
Dinwiddie County	49,440	52,720	51,040	50,480	52,840
Goochland County	49,440	52,720	51,040	50,480	52,840

CENSUS TRACTS

Fairfax County

4151.00	4152.00	4153.00	4154.00	4155.00	4156.00	4157.00	4158.00	4159.00
4160.00	4161.00	4162.00	4163.00	4201.00	4202.00	4203.00	4204.00	4205.00
4206.00	4207.00	4208.00	4210.00	4211.00	4212.00	4213.00	4214.00	4215.00
4216.00	4217.00	4218.00	4219.00	4220.00	4221.00	4222.00	4223.00	4224.00
4301.00	4302.00	4303.00	4304.00	4305.00	4306.00	4307.00	4308.00	4309.00
4310.00	4313.00	4314.00	4315.00	4316.00	4318.00	4319.00	4320.00	4321.00
4322.00	4323.00	4324.00	4325.00	4326.00	4327.00	4328.00	4401.00	4402.00
4403.00	4405.00	4406.00	4407.00	4408.00	4501.00	4502.00	4503.00	4504.00
4505.00	4506.00	4507.00	4508.00	4509.00	4510.00	4511.00	4512.00	4513.00
4514.00	4515.00	4516.00	4518.00	4519.00	4520.00	4521.00	4522.00	4523.00
4524.00	4525.00	4526.00	4527.00	4528.00	4601.00	4602.00	4603.00	4604.00
4605.00	4606.00	4607.00	4608.00	4609.00	4610.00	4611.00	4612.00	4615.00
4616.00	4617.00	4618.00	4619.00	4701.00	4702.00	4703.00	4704.00	4705.00
4706.00	4707.00	4708.00	4709.00	4710.00	4711.00	4712.00	4713.00	4714.00
4801.00	4802.00	4803.00	4804.00	4805.00	4808.00	4809.00	4810.00	4811.00
4812.00	4814.00	4815.00	4816.00	4817.00	4819.00	4820.00	4821.00	4822.00
4823.00	4824.00	4825.00	4826.00	4901.00	4905.00	4909.00	4910.00	4911.00
4912.00	4913.00	4914.00	4915.00	4916.00	4917.00	4918.00	4919.00	4920.00
4921.00	4922.00	4923.00	4924.00					

Fairfax City

3001.00	3002.00	3003.00	3004.00	3005.00	9999.99

Falls Church City

5001.00	5002.00	5003.00	9999.99

Fauquier County

9901.00	9902.01	9902.02	9903.01	9903.02	9904.01	9904.02	9904.03	9907.01
9907.02								

Loudoun County

6101.00	6102.00	6103.00	6104.00	6105.01	6105.02	6106.01	6106.02	6107.00
6108.00	6109.00	6110.01	6110.02	6110.03	6110.04	6110.05	6110.06	6110.07
6110.08	6111.01	6111.02	6112.01	6112.02	6112.03	6112.04	6112.05	6113.00
6114.00	6115.00	6116.00	6117.00	6118.00				

Richmond City

0102.00	0103.00	0104.00	0105.00	0106.00	0107.00	0108.00	0109.00	0110.00
0111.00	0201.00	0202.00	0203.00	0204.00	0205.00	0206.00	0207.00	0208.00
0209.00	0210.00	0211.00	0212.00	0301.00	0302.00	0305.00	0402.00	0403.00
0404.00	0405.00	0406.00	0407.00	0408.00	0409.00	0410.00	0411.00	0412.00
0413.00	0414.00	0416.00	0501.00	0502.00	0503.00	0504.00	0505.00	0506.00
0601.00	0602.00	0603.00	0604.00	0605.00	0606.00	0607.00	0608.00	0609.00
0701.00	0703.00	0704.00	0706.00	0707.00	0708.01	0708.02	0709.00	0710.01
0710.02	0711.00							

Henrico County

2001.04	2001.05	2001.06	2001.07	2001.08	2001.09	2001.12	2001.15	2001.16
2001.18	2001.19	2001.20	2001.21	2001.22	2001.23	2001.24	2001.25	2001.26
2002.01	2002.02	2003.01	2003.02	2003.03	2003.05	2004.04	2004.05	2004.06
2004.07	2004.09	2004.10	2004.11	2004.12	2005.01	2005.02	2005.03	2006.00
2007.00	2008.01	2008.02	2008.04	2008.05	2009.01	2009.03	2009.04	2010.01
2010.02	2010.03	2011.01	2011.02	2012.01	2012.02	2013.00	2014.01	2014.03
2014.04	2014.05	2015.01	2015.02	2016.01	2016.02			

Chesterfield County

1001.06	1001.70	1002.05	1002.06	1002.07	1002.08	1003.00	1004.03	1004.04
1004.05	1004.06	1004.07	1004.08	1005.01	1005.04	1005.05	1005.06	1006.00
1007.01	1007.02	1007.03	1008.04	1008.05	1008.06	1008.07	1008.09	1008.11
1008.12	1008.13	1008.14	1008.15	1008.16	1008.17	1009.02	1009.07	1009.10
1009.12	1009.13	1009.15	1009.19	1009.20	1009.21	1009.22	1009.23	1009.24
1009.25	1009.26	1009.27	1009.28	1009.29	1009.30	1009.31	1009.32	1010.03
1010.04	1010.05	1010.06	1010.07	1010.08				

Hanover County

3201.00	3202.00	3203.00	3204.00	3205.00	3206.01	3206.02	3207.00	3208.01
3208.02	3209.00	3210.01	3210.02	3211.00	3212.01	3212.02	3213.00	3214.00

Colonial Heights City

8301.00	8302.00	8303.00	8304.00	8305.00	9999.99

Prince George County

8501.00	8502.00	8503.00	8504.00	8505.00

Dinwiddie County

8401.00	8402.00	8403.00	8404.00	8405.00	8406.00	9999.99

Goochland County

4001.00	4002.00	4003.00	4004.00	4005.00	9999.99

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. All of the Allocated Mortgage Loans are level payment, fixed rate Mortgage Loans, although some of such loans had payment and rate changes prior to becoming Allocated Mortgage Loans. Some of the Allocated Mortgage Loans are insured by governmental or private mortgage insurance. The maximum loan-to-value ratio required by us for the financing of the Allocated Mortgage Loans was 104%. Most of the Allocated Mortgage Loans will be serviced directly by us, and the balance will be serviced by our 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 and may conduct marketing activities, including the solicitation of Mortgagors, that will offer and encourage such refinancing by us of 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. Only certain summary information is included herein concerning the Allocated Mortgage Loans. Information on the individual Mortgage Loans allocated to the Offered Certificates will be made available upon request.

Unpaid principal balance	$7,585,891.04
Number of loans	56
Median principal balance	$132,923.88
Weighted average coupon	6.500%
Weighted average original term	360 months
Weighted average maturity	342 months
Median loan to value ratio	100%
Earliest initial scheduled payment date	May 1, 2001
Latest initial scheduled payment date	April 1, 2006

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.

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 Ratings Services (Standard & Poor's or S&P).

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: "Obligations rated Aaa are judged to be of the highest quality, with minimal credit risk."

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 and 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 LLP, 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 Private Placement Memorandum 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 an Amended and Restated 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 Davenport & Company LLC (the "Placement Agent"), which has agreed to purchase all of the Offered Certificates, at the purchase price set forth on the front cover for placement with the Institutional Investors. We have no obligation to deliver any portion of the Offered Certificates if all of the Offered Certificates are not purchased by the Placement Agent. It will be the responsibitity of the Placement Agent to provide to you certain required information regarding your purchase of the Offered Certificates.

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. See "Other Programs", "Summary of Revenues, Expenses, and Net Assets" and "General Fund and Other Net Assets" under "The Authority" herein.

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.

For certain Bonds that are subject to mandatory tender and bear interest at short term rates prior to the remarketing thereof at fixed long-term rates upon such mandatory tender, we have assumed or expect to assume that, if such Bonds are not remarketed on their applicable mandatory tender date, such unremarketed Bonds will be redeemed, and the redemption price will be payable from the proceeds of such Bonds and the investment earnings thereon that are held by us in an account under the General Bond Resolution pending such remarketing.

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 the SPA Rate. For this purpose, revenues received by us as a result of defaults on Mortgage Loans are treated as prepayments. The SPA Rate is a model that utilizes an assumed rate of prepayment each month relative to the then outstanding principal balance of a pool of mortgage loans. The SPA Rate assumes constant prepayment rates of 0.2% per annum of the then outstanding principal balance of such mortgage loans in the first month of the life of the mortgage loan and an additional 0.2% per annum in each month thereafter until the thirtieth month. Beginning in the thirtieth month and in each month thereafter during the life of the mortgage loans, the SPA Rate assumes a constant prepayment rate of 6% per annum. The SPA Rate does not purport to be a historical description of prepayment experience or a prediction of the anticipated rate of prepayment of any pool of mortgage loans, including the Mortgage Loans financed by the Bonds.

The maturities and Sinking Fund Installments for the Offered Certificates and the other Currently Outstanding Bonds (other than the 2005 Series FG Bonds as noted below) were established or will be established on the assumption that prepayments of the corresponding Mortgage Loans will be received in accordance with the below percentages (if applicable) of the SPA rates. The Series of Bonds marked "pass-through" have principal retirements on such Series corresponding to the assumed receipt of scheduled principal payments on the allocated Mortgage Loans, prepayments received on such allocated Mortgage Loans and certain other payments relating to allocated Mortgage Loans.

	Pass-through or Percentage of SPA Rate Assumed
2001 Series A-Taxable	pass-through*
2001 Series B-Taxable	pass-through*
2001 Series C-AMT and D	50%
2001 Series F-Taxable	pass-through*
2001 Series G-Taxable	pass-through*
2001 Series H, I-AMT and J	100%
2002 Series A-Taxable	pass-through*
2002 Series B-Taxable	pass-through*
2002 Series C-Taxable	pass-through*
2002 Series D-Taxable	pass-through*
2002 Series E-Taxable	pass-through*
2002 Series F-Taxable	pass-through*
2002 Series G-Taxable	pass-through*
2003 Series A-AMT and B	100%
2003 Series C	pass-through*
2004 Series A-AMT	100%
2004 Series A-AMT	100%
2004 Series B	pass-through
2004 Series C-AMT	100%
2005 Series A-AMT and B	64%
2005 Series C-AMT, D-AMT and E	100%
2005 Series F-AMT and G	Not applicable**
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 2005 Series FG Bonds were issued to refund outstanding notes and bonds of the Authority and are expected to be refunded by future issues of Bonds; therefore, the principal payments on the 2005 Series FG Bonds are not based on any assumptions with respect to the prepayments of Mortgage Loans.

The past events represented by the SPA Rate are not necessarily indicative of future events. As a result, there can be no assurance that our prepayment experience will substantially parallel those of the SPA Rate. Our exercise of our rights to redeem some of the Bonds may change the percentage of 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 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 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, 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 and Other Net Assets" 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. No assumptions have been made with respect to the use of any excess Revenues to purchase any tendered 2005 Series FG Bonds which are subject to mandatory tender and optional redemption prior to maturity.

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, in the case of Mortgage Loans to finance the acquisition of single family homes and related closing costs, 104% 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. We may also finance certain Second Mortgage Loans (as defined and described below) in excess of the amount permitted by FHA. Effective July 1, 2005, we discontinued financing mortgage loans for the rehabilitation of single family homes under the FHA Title I Home Improvement Program ("Title I Mortgage Loans"). No Title I Mortgage Loans have been financed by the Bonds.

In the case of a Mortgage Loan to refinance a single family home, the loan amount (plus all subordinate debt to be secured by the property after closing of the Mortgage Loan) may not exceed the lesser of the current appraised value of the property or the sum of (i) the payoff (if any) of the applicant's existing first mortgage loan; (ii) the payoff (if any) of applicant's or applicants' subordinate mortgage loans (provided such loans do not permit periodic advancement of loan proceeds) closed for not less than 12 months preceding the date of the closing of the Mortgage Loan and the payoff (if any) of applicant's or applicants' home equity line of credit loan (i.e. loan which permits periodic advancement of proceeds) with no more than $2,000 in advances within the 12 months preceding the date of the closing of the Mortgage Loan, excluding funds used for the purpose of documented improvements to the residence; (iii) improvements to be to be performed to the property after the closing of the Mortgage Loan and for which loan proceeds will be escrowed at closing; (iv) closing costs, discount points, fees and escrows payable in connection with the origination and closing of the Mortgage Loan; and (v) up to $500 to be payable to applicant or applicants at closing. In addition, if the applicant or applicants request to receive loan proceeds at closing in excess of the limit set forth in (v) above, the loan amount (plus all subordinate debt to be secured by the property after closing of the Mortgage Loan) may be increased to finance such excess cash up to a loan amount not in excess of 95% of the current appraised value. If the applicant's or applicants' existing mortgage loan to be refinanced is a Mortgage Loan, the applicant or applicants may request a streamlined refinance of such existing Mortgage Loan in which we may require less underwriting documentation (e.g. verification of employment) and may charge reduced points and fees. For such streamlined refinances, the loan amount (plus all subordinate debt to be secured by the property after closing of the new Mortgage Loan) is limited to (i) the payoff of the existing Mortgage Loan and (ii) required closing costs, discount points, fees and escrows payable in connection with the origination and closing of the new Mortgage Loan ; provided, however, that the loan amount (plus all subordinate debt to be secured by the property after closing of the new Mortgage Loan) may not exceed 100% of the greatest of original appraised value, current real estate tax assessment, current appraised value or other alternative valuation method approved by us.

In the case of any Mortgage Loan that finances the acquisition of a single family home or that refinances a single family home, we will also finance (a) costs of rehabilitation and improvements to be completed subsequent to the closing of such Mortgage Loan, subject to a maximum loan-to-value ratio of 105% of the lesser of the sales price (in the case of Mortgage Loans that finances the acquisition of a single family home) 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 that finances the acquisition of a single family home) or the appraised value. Any Mortgage Loan that finances the acquisition of a single family home or that refinances a single family home 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 that finances the acquisition of a single family home, 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 that refinances a single family home, the lesser of the sum of the outstanding principal balance thereof plus the rehabilitation costs or the as-completed appraised value.

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. 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 also permit the cancellation of mortgage insurance if the balance of the mortgage loan is equal to or less than 80%, or such lesser percentage determined by us, of the current property value, subject to the satisfaction of such criteria, requirements and conditions as we may impose for such cancellation. 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 or of the cancellation of mortgage insurance described in the preceding sentence.

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%. Our regulations authorize the financing of an additional 5% of closing costs and fees (but we do not currently provide such financing 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 currently use proceeds of Bonds and other funds available under the General Bond Resolution 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.

In September 2004, we implemented a program under which some of the Mortgage Loans have only interest payable for seven years and which will thereafter be fully amortized over the remainder of their thirty year terms. The interest rates on such Mortgage Loans are fixed. Such Mortgage Loans are Self-Insured Loans. No such Mortgage Loans are Allocated Mortgage Loans.

Prior to September of 2004, we required the applicant to pay, at the time of closing, between 1 and 3.5 points, with each point being equal to 1% of the principal amount of the Mortgage Loan. The number of points depended on the Mortgage Loan program. Since September of 2004, we have has offered applicants in certain Mortgage Loan programs the option of paying between 0 and 4.5 points in exchange for having a higher or lower interest rate on the Mortgage Loan. The yield that we realize on Mortgage Loans is affected by the amount of points paid and the rate of prepayments of such Mortgage Loans. If the Mortgage Loan is originated by an Originating Agent or Mortgage Broker and the applicant pays less than 1 point, we will pay the difference between

1 point and the amount paid by the applicant to the Originating Agent or Mortgage Broker so that such Originating Agent or Mortgage Broker receives the equivalent of 1 point.

The average interest rate on the Mortgage Loans financed or to be financed in whole by Taxable Bonds or Tax Exempt Bonds is expected to be equal to or in excess of the average interest cost of the Taxable Bonds or Tax Exempt Bonds, respectively. The average interest rate on the Mortgage Loans financed or to be financed by Tax Exempt Bonds in participation with Taxable Bonds is expected to be a blend of (1) an interest rate on the portion of the Mortgage Loans financed by Taxable Bonds equal to or in excess of the average interest cost of the corresponding Taxable Bonds and (2) an interest rate on the portion of the Mortgage Loans financed by the Tax-Exempt Bonds which would be expected to produce an aggregate Mortgage Loan yield equal to or in excess of the average interest cost of the corresponding Tax Exempt Bonds but not greater than the Mortgage Loan yield permitted under the Code (see "The Authority — General Fund and Other Net Assets" for discussion of Subsidized Mortgage Loans financed or supported by our net assets).

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) 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.

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.

Security Under Restated Bond Resolution

In the event that the Restated Bond Resolution becomes effective, the above described requirements with respect to security under the General Bond Resolution shall be superceded by the requirements of the Restated Bond Resolution. In particular, the Restated Bond Resolution includes a revenue test for the release of moneys or assets from the lien and pledge of the Resolutions based solely on determinations made by us, contains no requirements for mortgage insurance or guarantees, does not require any deposits in connection with the making or purchasing of Self-Insured Mortgage Loans, and will not continue the Debt Service Reserve Fund. See Appendix E for further description of the Restated Bond Resolution.

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 and Other Net Assets".

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 our own employees 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 our employees, 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. Furthermore, we expect to service directly Self-Insured Mortgage Loans and also service directly certain of our other Mortgage Loans. 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 82% 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 two external servicers.

Prior Experience

The outstanding Mortgage Loan balance, delinquency, foreclosure and insurance statistics for mortgage loans financed under our single family mortgage loan program, including the General Program, have been as set forth below. As of March 31, 2006, we held title to 14 properties which had been foreclosed upon, but not yet sold.

	Outstanding Balance of Mortgage Loans	Outstanding Balance of Delinquent* Mortgage Loans	Percentage of Delinquent* Mortgage Loans	Outstanding Balance of Mortgage Loans in Foreclosure	Percentage of Mortgage Loans in Foreclosure
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

	Outstanding Balance of Mortgage Loans	Outstanding Balance of Delinquent* Mortgage Loans	Percentage of Delinquent* Mortgage Loans	Outstanding Balance of Mortgage Loans in Foreclosure	Percentage of Mortgage Loans in Foreclosure
June 2003	2,895,005,283	63,273,245	2.19	8,853,846	.31
June 2004	2,443,450,255	52,166,695	2.13	6,244,039	.26
June 2005	2,606,208,240	44,245,729	1.70	5,234,535	.20
March 2006	3,024,478,321	36,013,392	1.19	3,438,314	.11

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

Insurance or Guaranty Provider	Percentage of Outstanding Principal Balance of Mortgage Loans as of March 31, 2006
First Lien Mortgage Loans	
FHA	32%
VA	7
Rural Development	5
Private mortgage insurance companies	8
Self-Insured or 80% LTV or less	48
	100%

Origination System

Under the origination system, a prospective mortgagor submits his Mortgage Loan application to an Originating Agent, Mortgage Broker or our employee. 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, Mortgage Broker or our employee indicates that the prospective mortgagor and Mortgage Loan will qualify under our underwriting criteria and the Code, if applicable, we 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. 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 $225,100 to $408,100, and the maximum annual gross incomes for eligibility for Mortgage Loans to be financed by Tax-Exempt Bonds presently range from $63,000 to $100,000. In certain targeted areas designated pursuant to the Code, the Authority has established maximum sales prices of $498,800 and maximum annual gross incomes that range from $76,300 to $121,900. 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 150% of the applicable median family incomes (presently ranging from $79,600 to $135,400), have eliminated the maximum sales prices, and have established a maximum principal amount (presently $417,000) equal to the maximum loan amount permitted by the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation. 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. In the case of Mortgage Loans on which interest only will be payable during the initial seven (7) years, we underwrite the proposed Mortgagor on the basis of his ability to make the interest only payment. 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. For each such Mortgage Loan, the Originating Agent or Mortgage Broker receives 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.

Servicing Agents

Each Allocated Mortgage Loan is serviced directly by us, or by a Servicing Agent of ours. Our servicing of Mortgage Loans is performed in substantially the same manner as described below for Mortgage Loans serviced by Servicing Agents.

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) reinstitution 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 address is www.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, excess revenues and Net Assets. 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 and Other Net Assets".

The bond resolution which authorizes the issuance of Multi-Family Housing Bonds requires 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. All of the mortgage loans currently financed by Rental Housing Bonds are first liens. Most, but not all, of the liens securing mortgage loans financed by VHDA General Purpose Bonds are first liens. Mortgage loans hereafter financed by Rental Housing Bonds and VHDA General Purpose Bonds may be, but are not required to be, secured by 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 pledge the mortgage loans and other assets attributable to such bonds as security for the payment of such bonds. The bond resolutions for the Multi-Family Housing Bonds and Rental Housing Bonds have requirements which must be satisfied prior to the withdrawal of such mortgage loans and other assets from the pledge and lien of such resolutions. All of such bonds are our general obligations.

The 2004 Session of the Virginia General Assembly enacted legislation that authorizes us to finance "economically mixed" developments in which a portion (not to exceed 80% of the units) will not be subject to our income limits. Such legislation also authorizes us to finance in such developments non-housing buildings or portions thereof for manufacturing, industrial, commercial, governmental, educational, entertainment, community development, healthcare or nonprofit enterprises or undertakings. Pursuant to such legislation, we have initiated a pilot program for such financings and, based on the results of such program, expects to develop regulations and guidelines that will govern the financing of such developments.

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 March 31, 2006, all mortgagors in our multi-family bond financed program were current in their payments, except seven mortgagors owning developments financed by mortgage loans having an aggregate principal balance of approximately $10.3 million. We have commenced foreclosure proceedings on one of such developments. In addition, we are in the process of foreclosing on one development that is in non-monetary default and are in the process of acquiring one development by deed in lieu of foreclosure. Since the inception of the programs utilizing the proceeds of such bonds, we have acquired by foreclosure or deed in lieu of foreclosure and currently own six developments and have assigned four FHA-insured mortgage loans to the U.S. Department of Housing and Urban Development ("HUD"). For developments experiencing financial difficulties, we may also restructure the timing of the receipt of the principal and interest payments on the mortgage loan or reduce the interest rate on a temporary or permanent basis.

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 and Other Net Assets".

Miscellaneous Programs

We make certain mortgage loans supported or financed by our net assets (see "General Fund and Other Net Assets" for a description of mortgage loan programs effected with our net assets). We also administer the federal low income housing tax credit program under Section 42 of the Code and federal grant and subsidy programs and assist the Commonwealth's Department of Housing and Community Development in the administration of the federal HOME loan and grant program. Mortgage loans and other assets financed or acquired by money from the 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 2001 and at December 31, 2004 and 2005. With respect to December 31, 2004 and 2005, and the six month periods then ended, the summary includes all adjustments, consisting of normal recurring accruals, necessary for a fair presentation of combined revenues, expenses and changes in our net assets. Operations for the six month period ended December 31, 2005 are not necessarily indicative of operations expected for the fiscal year. The net assets of certain funds are restricted and are subject to varying valuation methodologies pursuant to contracts with bond owners. The totaling of the accounts does not indicate that the combined net assets are available for the payment of principal of or interest on the Bonds, for the payment of 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 (in millions)					Six Months Ended December 31	
	2001	2002	2003	2004	2005	2004	2005
	(Not included in independent accountants' report)						
Memorandum Only – Combined totals							
Revenues:							
Interest on mortgage loans	$405	$439	$421	$372	$363	$181	$189
Investment income	96	58	31	9	27	10	22
Other	12	10	13	16	17	9	9
Total revenues	513	507	465	397	407	200	220
Expenses:							
Interest	344	337	306	245	232	113	128
Total administrative expenses, etc	52	53	59	52	48	23	28
Total expenses	396	390	385	297	280	136	156
Excess of revenues over expenses	116	117	99	100	126	63	64
Net Assets at beginning of period	1,111	1,227	1,344	1,443	1,543	1,543	1,669
Net Assets at end of period	$1,227	$1,344	$1,443	$1,543	$1,669	$1,606	$1,733
Net Assets of the General Fund at end of period	$230	$245	$266	$248	$246	$253	$223

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 (in millions)					Six Months Ended December 31	
	2001	2002	2003	2004	2005	2004	2005
	(Not included in independent accountants' report)						
Memorandum Only – Combined totals							
Excess of revenues over expenses excluding GASB 31 adjustments	$105	$111	$97	$109	$127	$63	$66
Net Assets at end of period excluding GASB 31 adjustments	$1,218	$1,330	$1,427	$1,536	$1,662	$1,599	$1,728
Net Assets of the General Fund at end of period excluding GASB 31 adjustments	$226	$240	$259	$244	$242	$249	$219

Prior and Anticipated Financings

As of December 31, 2005, we had approximately $5.4 billion of notes and bonds outstanding (see Appendix C). Subsequent to such date, we issued or expect to issue the following notes and bonds:

Issue	Par Amount	Issuance Date
Commonwealth Mortgage Bonds, Draw Down Program, 2005 Series F-AMT and G	$5,050,000*	March 28, 2006
Commonwealth Mortgage Bonds, 2006 Series A	$5,650,630	April 27, 2006

*Such bonds were issued in a $800,000,000 principal amount, and the Authority has drawn $239,560,000, all of which is outstanding.

Prepayments

A decline in mortgage interest rates will generally result in an increase in prepayments on single family mortgage loans, including the Mortgage Loans. Such prepayments on the Mortgage Loans may have the effect of reducing the outstanding principal balance of our single family portfolio and thereby adversely affecting our revenues. Because of recent high levels of prepayments on the Mortgage Loans, the outstanding principal balance of our single family portfolio has declined by approximately 25%. No assurances can be given as to future changes in mortgage interest rates or prepayments or the financial impact of such prepayments on our revenues.

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 Services 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 and Other Net Assets

The General Fund is used to pay our operating expenses of 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 lawful purposes of ours. 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 have conducted various subsidized mortgage loan programs financed or supported by our net assets, including the net assets of the General Fund. The mortgage loans so financed or supported are herein referred to as "Subsidized Mortgage Loans". A mortgage loan is a Subsidized Mortgage Loan if the effective interest rate thereon is at or below our effective cost of the capital (debt or net asset) so financing such mortgage loan. For a Subsidized Mortgage Loan financed with net assets, the effective cost of such net assets is assumed to be the effective cost that we would have paid (at the time of the issuance of our commitment to finance such Subsidized Mortgage Loan) to finance such Subsidized Mortgage Loan with debt capital on which interest is not excluded from gross income for federal income tax purposes.

For Subsidized Mortgage Loans, we have made available, on a revolving basis, the amount of $275.7 million as of the date hereof designated as the Virginia Housing Fund ("VHF") for the implementation of additional lending programs, principally for the elderly, disabled, homeless and other low income persons. Amounts disbursed for Subsidized Mortgage Loans under the VHF may not be available for the payment of debt service on any of our obligations of, including the Offered Certificates. As of March 31, 2006, all Subsidized Mortgage Loans with

respect to VHF multi-family developments were current in their payments, except two mortgagors with respect to two Subsidized Mortgage Loans having an aggregate principal balance of approximately $1.4 million that were delinquent. We have commenced foreclosure proceedings on one such VHF multi-family developments (such development is also currently financed under the multi-family bond financed program and is referred to in "Other Programs of the Authority—Multi-Family Program" above). We have acquired by foreclosure and currently own two VHF multi-family developments that were financed by Subsidized Mortgage Loans having principal balances of approximately $745,000 and $140,000.

In fiscal year 2006, we implemented a new methodology for determining the amount of our net assets that will be used to provide reduced interest rates for Subsidized Mortgage Loans and otherwise subsidize our programs. Such new methodology replaces the above-described determination of a specific dollar amount of mortgage loan funds to be made available under the VHF program, which has been discontinued. Under this new methodology, the annual amount of our net assets to be dedicated, on a present value basis as determined by us, to provide reduced interest rates or other support for Subsidized Mortgage Loans or to otherwise provide housing subsidies under our programs, including bond financed programs, shall be equal to 15% of the average of our excess revenue (as unadjusted for the effect of GASB 31) for the preceding three fiscal years. For example, the present value of the interest rate reductions or other support or subsidies being made available for fiscal year 2006 programs is $15.9 million which is equal to 15% of the average unadjusted excess revenues for fiscal years 2002, 2003 and 2004. Such annual amounts will, in effect, represent the present values of the costs to us to finance (at interest rates below our capital costs as described above) or otherwise support the Subsidized Mortgage Loans or to provide other housing subsidies. This use of net assets is expected to reduce the amount available to us for payment of the Bonds or other purposes permitted by the Act. The principal amount of Subsidized Mortgage Loans that will be available at reduced interest rates under this new methodology will vary depending on such factors as the amount of the interest rate reductions and the expected lives of the Subsidized Mortgage Loans. Furthermore, we may decide to use such annual subsidy amount for purposes other than Subsidized Mortgage Loans, and such uses may affect such principal amount of the Subsidized Mortgage Loans. The amounts to be made available under this new methodology in the future will be subject to our review of the impact thereof on our financial position. We have financed and expects to finance some, but not all, of such Subsidized Mortgage Loans, in whole or in part, with funds under our various bond resolutions.

Pursuant to legislation enacted by the 2003 Session of the General Assembly, we purchased from the Commonwealth's Department of Housing and Community Development ("DHCD") on June 30, 2003, the portfolio of outstanding loans and other assets comprising the Commonwealth's Virginia Housing Partnership Revolving Fund (the "Partnership Fund") that was created by the Virginia General Assembly for the purpose of funding low and moderate income housing. Such outstanding loans, which had total outstanding principal balances of approximately $71 million, bear below market interest rates, generally have loan to value ratios in excess of 95%, and serve lower income persons and families than our programs serve generally. We also purchased approximately $16 million of investments which have been and will be used to fund an approximately equal amount of similar loans pursuant to outstanding commitments and allocations. The purchase price for the loans and investments was approximately $60 million. We issued bonds in the amount of $52,440,000 to finance the purchase of the loans and assets in the Partnership Fund, with the balance of the purchase price paid from our other funds. Pursuant to such legislation $40,822,000 of the approximately $60 million in proceeds from the sale were transferred to the Commonwealth's General Fund, and the residual balances of approximately $19 million were transferred to us to be used in conjunction with existing resources to provide financing for affordable housing not otherwise eligible through other programs. We executed a Memorandum of Understanding with DHCD that provides for administration of the residual balances as a revolving loan fund for single family and multi-family housing programs. In certain cases, DHCD may approve the use of such residual balances for grants to fund single family or multifamily housing. This Memorandum also requires us to contribute to the VHF, in addition to the amounts set forth above, $1,000,000 annually for three years beginning in the fiscal year that commenced on July 1, 2003. This Memorandum provides that, with respect to such revolving loan fund, DHCD will (i) make policy decisions regarding the loan programs, (ii) develop the loan programs, (iii) determine eligibility criteria, (iv) initiate agreements with local program administrators, (v) select the applicants for mortgage loans for multi-family developments, (vi) establish or approve loan terms, and (vii) decide on the exercise of rights and remedies under the loan documents. This Memorandum also provides that we will (i) provide advice to DHCD concerning development of the programs, (ii) be responsible for the financial management and investment of the funds, and (iii) provide advice, assistance and services in the following areas: program planning; legal and accounting matters; loan origination underwriting; loan closing and servicing; monitoring of multi-family developments; programmatic reporting; and public relations assistance in conformity with the policies established by DHCD. Pursuant to legislation enacted by of the General Assembly, $7,500,000 of such residual balances was transferred to a Community Development Bank formed by the Commonwealth.

We have outstanding $140 million of our 1996 Series E Bonds which are multi-modal bonds that bear variable interest rates and are subject to periodic remarketings at the end of interest rate periods and to optional

and mandatory tender by the beneficial owners thereof. The obligation to pay the purchase price of such Bonds in the event that such Bonds are not remarketed following any optional or mandatory tender is a general obligation of ours.

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 of the payment of the purchase price of bonds which are tendered but are not remarketed. 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) our failure 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) our failure 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 accrelating 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 Agreement was effective on 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.

INDEX OF PRINCIPAL DEFINITIONS

Term	Page
Act	4
Allocated Mortgage Loans	4
Approving Opinion	13
Authority	4
Bond Obligation	29
Bonds	4
Class Factor	9
Code	4
Counsel's Opinion	29
Currently Outstanding Bonds	4
Cut-Off Date	4
Defaulted Mortgage Loan	29
DTC	8
Escrow Payment	29
General Bond Resolution	4
Guaranty	1
Interest Payment	8
Investor	4
Loan to Value Ratio	30
Mortgage	30
Mortgage Brokers	21
Mortgage Loan	30
Mortgagor	30
Offered Certificates	4
Officer's Certificate	30
Originating Agents	21
Originating Agreements	21
Originating Broker Agreements	21
Outstanding	30
Payment Date	4
Placement Agent	13
Principal Payment Amount	9
Program	31
Record Date	4
Resolutions	4
Revenues	31
Self-Insured Mortgage Loan	31
Servicing Agents	21

MISCELLANEOUS

We have furnished all information in this Private Placement Memorandum relating to us. Our financial statements in Appendix C as of June 30, 2005 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. Also included in Appendix C are our unaudited financial statements as of December 31, 2005 and for the six month period then ended.

Any statements in the Private Placement Memorandum involving matters of opinion or estimates, whether or not expressly so stated, are intended as such and not as representations of fact. The Private Placement Memorandum 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 Private Placement Memorandum has been duly authorized by us.

[THIS PAGE INTENTIONALLY LEFT BLANK]

MORTGAGE INSURANCE POLICIES

Federal Housing Administration Mortgage Insurance

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.

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).

DTC

The information in this Appendix concerning The Depository Trust Company ("DTC") and DTC's book-entry system has been obtained from sources that we believe 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 are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of Offered Certificates with DTC and their registration in the name of Cede & Co. effect 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.

Neither DTC nor Cede & Co. will consent or vote with respect to Offered Certificates. Under its usual procedures, DTC mails an omnibus proxy ("Omnibus Proxy") to us 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 ours 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 us 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.

APPENDIX C

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

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

June 30, 2005 and 2004

(With Independent Auditors' Report Thereon)

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

Table of Contents

	Page
Management's Discussion and Analysis	1
Independent Auditors' Report	7
Basic Financial Statements:	
Statements of Net Assets	9
Statements of Revenues, Expenses, and Changes in Net Assets	10
Statements of Cash Flows	11
Notes to Financial Statements	13
Supplementary Information	
1 Combining Schedule of Net Assets – June 30, 2005	37
2 Combining Schedule of Revenues, Expenses, and Changes in Net Assets – June 30, 2005	39
3 Combining Schedule of Net Assets – June 30, 2004	40
4 Combining Schedule of Revenues, Expenses, and Changes in Net Assets – June 30, 2004	42
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*	43

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

Management's Discussion and Analysis

June 30, 2005 and 2004

This section of the Virginia Housing Development Authority's (the Authority) annual financial report presents management's discussion and analysis of the Authority's financial performance during the fiscal years that ended June 30, 2005 and 2004. Please read it in conjunction with the Authority's financial statements, which follow this section. The annual financial report consists of four parts, management's discussion and analysis (this section), the basic financial statements, the accompanying footnotes, and supplementary information.

INTRODUCTION – THE VIRGINIA HOUSING DEVELOPMENT AUTHORITY

The Virginia Housing Development Authority (the Authority) is a political subdivision of the Commonwealth of Virginia. The Authority is entirely self-supporting and does not draw upon the general taxing authority of the Commonwealth. It sells tax-exempt and taxable notes and bonds, primarily to finance the making of (a) single family mortgage loans to lower and moderate income persons and (b) multi-family mortgage loans for developments to be occupied by lower and moderate income persons. The Authority's net assets are also a source of funding for such loans. Interest rates on Authority loans are generally below market rate.

The principal determinates of the Authority's net revenues (Change in net assets) are (a) the interest received on mortgage loans and investments less, (b) interest on notes and bonds, and (c) operating expenses.

The Authority administers the Housing Choice Voucher program, which provides rental subsidies from federal funds, on a fee basis. In addition to its regular programs, the Authority's Virginia Housing Fund programs offer lower rate and higher risk loans, principally for the elderly, disabled, homeless, and other low income persons. The Authority conducts numerous other programs related to its lending activities.

FINANCIAL STATEMENTS

The *Statements of Net Assets* answers the question, "How is our financial health at the end of the year?" This statement includes all assets and liabilities, both financial and capital, and short-term and long term, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. Over time, changes in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

All of the current year's revenues and expenses are accounted for in the *Statements of Revenues, Expenses, and Changes in Net Assets*. This statement measures the success of the Authority's operations over the past year and can be used to determine whether the Authority has successfully recovered all of its costs through mortgages and loans, externally funded programs and other revenue sources. This statement also helps answer the question "Is the Authority as a whole better off or worse off as a result of the year's activities?"

The primary purpose of the *Statements of Cash Flows* is to provide information about the Authority's cash receipts and cash payments during the accounting period. This statement reports cash transactions, including receipts, payments, and net changes resulting from operations, noncapital financing, capital financing, and investing activities. It provides answers to such questions as "Where did the cash come from?"; "What was the cash used for?"; and "What was the change in cash balance during the reporting period?"

The *Notes to Financial Statements* provide additional information that is essential to a full understanding of the data provided in the entity-wide financial statements.

FINANCIAL HIGHLIGHTS

Fiscal Year 2005

The following information represents a comparative analysis of key financial aspects of the Authority's operations between the years ended June 30, 2005 and June 30, 2004:

- Total assets increased $755.40 million (or 12.17%)
- Total liabilities increased $629.12 million (or 13.49%)
- Total net assets increased $126.28 million (or 8.18%)
- Investments increased $257.77 million (or 31.67%)
- Investment income increased $18.13 million (or 201.63%)
- Mortgage and other loans net receivable - increased $333.80 million (or 6.76%)
- Interest on mortgage and other loans receivable decreased $9.44 million (or 2.54%)
- Notes and bonds payable increased $602.31 million (or 13.84%)
- Interest on notes and bonds payable decreased $12.54 million (or 5.12%)

Primary factors that contributed to these changes were as follows:

- Total assets increased primarily due to growth in the mortgage loan portfolios. Following a sluggish start to the fiscal year, characterized by record repayments in the single family programs, both the single family and multi-family portfolios finished the year with moderate growth over 2004 levels.
- Cash and investment balances were also higher, as were total liabilities (principally notes and bonds payable), in support of increased mortgage lending activity.
- Lower interest rates and single family repayment rates early in the year resulted in decreased mortgage loan income; however, lower note and bond interest expense more than offset it, resulting in record growth in net assets of more than $126 million.

Fiscal Year 2004

The following information represents a comparative analysis of key financial aspects of the Authority's operations between the years ended June 30, 2004 and 2003:

- Total assets decreased $379.90 million (or 5.77%)
- Total liabilities decreased $479.96 million (or 9.33%)
- Total net assets increased $100.06 million (or 6.94%)
- Investments increased $118.07 million (or 16.97%)
- Investment income decreased $22.27 million (or 71.24%)
- Mortgage and other loans receivable-net decreased $267.83 million (or 5.15%)

(Continued)

- Interest on mortgage and other loans receivable decreased $48.43 million (or 11.52%)
- Notes and bonds payable decreased $407.72 million (or 8.57%)
- Interest on notes and bonds payable decreased $61.60 million (or 20.10%)

Primary factors that contributed to these changes were as follows:

- Total assets decreased for the second straight year; however, the decline was considerably less than fiscal year 2003, with a decrease of approximately 5.77%. The beginning of fiscal year 2004 continued the trend of fiscal year 2003 with unusually high levels of single family loan repayments, as interest rates remained low. Though the multi-family loan portfolios grew, the overall mortgage loan balance declined. During the second half of the fiscal year that trend began to slow and the total mortgage loan portfolio began increasing again, finishing the year with a small decline over fiscal year 2003 of approximately 5.15%.
- Total liabilities decreased as such excess loan repayments required the redemption of associated bonds. Such decline was approximately 9.33%.
- Total net assets increased $100.06 million or approximately 6.94%, despite slight decreases over fiscal year 2003 in both interest on mortgage loans and investment income. Such increase was due principally to debt refinancings, which lowered the Authority's interest expense and continued emphasis on reducing operating expenses.

FINANCIAL ANALYSIS OF THE AUTHORITY

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

	June 30,		June 30, 2005 vs. June 30, 2004 % increase (decrease)
	2005	2004	
Cash and cash equivalents	$ 539,878,391	374,519,341	44.15%
Investments	1,071,652,485	813,887,094	31.67
Mortgage and other loans receivable-net	5,270,637,072	4,936,832,143	6.76
Other assets	78,230,583	79,761,154	(1.92)
Total assets	6,960,398,531	6,204,999,732	12.17
Notes and bonds payable-net	4,953,781,728	4,351,467,612	13.84
Other liabilities	337,462,361	310,656,659	8.63
Total liabilities	5,291,244,089	4,662,124,271	13.49
Net assets	$ 1,669,154,442	1,542,875,461	8.18

	June 30, 2004	June 30, 2003	June 30, 2004 vs. June 30, 2003 % increase (decrease)
Cash and cash equivalents	$ 374,519,341	603,070,533	(37.90)%
Investments	813,887,094	695,815,220	16.97
Mortgage and other loans receivable-net	4,936,832,143	5,204,660,158	(5.15)
Other assets	79,761,154	81,358,381	(1.96)
Total assets	6,204,999,732	6,584,904,292	(5.77)
Notes and bonds payable – net	4,351,467,612	4,759,188,310	(8.57)
Other liabilities	310,656,659	382,900,853	(18.87)
Total liabilities	4,662,124,271	5,142,089,163	(9.33)
Net assets	$ 1,542,875,461	1,442,815,129	6.94

Description of Net Asset. The Authority's net assets are reported on the statement of net assets in the following three categories:

1. Invested in capital assets, net of related debt – which represents an office building and land, furniture and equipment, as well as an investment in rental property, less the current outstanding applicable debt.

2. Restricted by bond indentures – which reflects those net assets held in trust accounts for the benefit of the respective bond owners, subject to the resolution requirements of the various bond indentures.

3. Unrestricted – those portions of the total net assets, which while not restricted, have been designated for a broad range of housing initiatives such as the capitalization of the Virginia Housing Fund.

Net assets as of June 30, 2005 and 2004:

	2005	2004
Invested in capital assets, net of related debt	$ (10,932,357)	(9,599,720)
Restricted by bond indentures	1,437,187,542	1,307,882,678
Unrestricted	242,899,257	244,592,503
Total net assets	$ 1,669,154,442	1,542,875,461

(Continued)

Results of Operations for the Years Ended June 30, 2005 and 2004. Despite a slow start to the year due to continued low investment rates and above average single family loan repayment levels, the Authority enjoyed record earnings for the year ended June 30, 2005 with operating revenues in excess of operating expenses plus nonoperating revenues totaling $126.28 million, an increase of 26.20% over 2004. The following table summarizes the key sources of revenues and expenses for the years ended June 30, 2005 and 2004 (in millions):

	June 30,	
	2005	**2004**
Operating revenues:		
Interest on mortgage and other loans receivable	$ 362.6	372.1
Pass-through grants received	122.9	120.3
Other operating revenues	16.9	15.7
Total operating revenues	502.4	508.1
Operating expenses:		
Interest on notes and bonds payable	232.3	244.8
Pass-through grants disbursed	122.9	120.3
Other operating expenses	48.2	52.0
Total operating expenses	403.4	417.1
Net operating income	99.0	91.0
Non-operating revenues:		
Investment income*	27.1	9.0
Other non-operating revenue	0.2	0.1
Total non-operating revenue	27.3	9.1
Change in net assets	$ 126.3	100.1

* Investment income is decreased by a fair market value adjustment totaling $477 thousand and $8.8 million for the years ended June 30, 2005 and 2004, respectively.

Long-Term Debt. As of June 30, 2005 and 2004, the Authority had net outstanding notes and bonds payable totaling $4.95 and $4.35 billion, respectively, and has maintained its strong long-term bond ratings of Aa1 from Moody's Investors Services and AA+ from Standard & Poor's Rating Services. (Ratings on the Authority's Commonwealth Mortgage Bonds are Aaa and AAA, from Moody's and Standard & Poor's respectively).

(Continued)

ECONOMIC FACTORS

The Authority's mortgage financing activities are sensitive to changes in interest rates, the spread between the rate available on the Authority's loans and those available in the conventional mortgage markets, and the availability of affordable housing in the Commonwealth. The availability of long-term tax-exempt financing on favorable terms is a key element in providing the funding necessary for the Authority to continue its mortgage financing activities.

The Authority's main sources of revenues include mortgage loan activity and investment interest income. Interest rates in the United States during fiscal year 2003 dropped to historically low levels and have remained at historical low levels throughout fiscal years 2004 and 2005. If interest rates continue at current levels, the Authority expects mortgage and investment income to be stable. If interest rates rise, mortgage, and investment income should increase as new loans are originated and new investments are purchased at higher rates. If interest rates fall further, mortgage, and investment income will decrease as new loans are originated and new investments are purchased at the lower rates. Any decrease in interest rates could also cause another increase in prepayments on higher rate mortgage loans.

ADDITIONAL INFORMATION

If you have questions about this report or need additional information, please visit the Authority's web site, www.vhda.com, or contact Susan F. Dewey, Executive Director.

KPMG LLP
Suite 2000
1021 East Cary Street
Richmond, VA 23219-4023

Independent Auditors' Report

Commissioners
Virginia Housing Development Authority:

We have audited the accompanying statements of net assets of the Virginia Housing Development Authority (the Authority), a component unit of the Commonwealth of Virginia, as of June 30, 2005 and 2004, and the related statements of revenues, expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Virginia Housing Development Authority as of June 30, 2005 and 2004, and the respective changes in financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 23, 2005 on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 1 through 6 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP, a U.S. limited liability partnership, is the U.S. member firm of KPMG International, a Swiss cooperative.

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

KPMG LLP

September 23, 2005

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

Statements of Net Assets

June 30, 2005 and 2004

Assets	2005	2004
Current assets:		
Cash and cash equivalents (note 5)	$ 539,878,391	374,519,341
Investments (note 5)	625,079,943	301,672,646
Interest receivable – investments	3,525,839	2,109,429
Mortgage and other loans receivable (note 4)	94,282,402	88,626,370
Interest receivable – mortgage and other loans	24,327,265	25,994,885
Other real estate owned	3,552,467	2,368,724
Housing Choice Voucher contributions receivable	—	1,079,267
Other assets	4,484,812	3,171,532
Total current assets	1,295,131,119	799,542,194
Noncurrent assets:		
Investments (note 5)	446,572,542	512,214,448
Mortgage and other loans receivable (note 4):	5,256,662,830	4,934,825,798
Less allowance for loan loss	32,540,225	32,569,790
Less net deferred loan fees	47,767,935	54,050,235
Mortgage and other loans receivable, net	5,176,354,670	4,848,205,773
Investment in rental property, net	19,720,416	20,462,633
Property, furniture, and equipment, less accumulated depreciation and amortization of $23,366,740 and $22,895,119 (note 6)	12,193,260	13,146,365
Unamortized bond issuance expenses	5,890,663	5,791,289
Other assets	4,535,861	5,637,030
Total noncurrent assets	5,665,267,412	5,405,457,538
Total assets	$ 6,960,398,531	6,204,999,732
Liabilities and Net Assets		
Current liabilities:		
Notes and bonds payable (note 7)	$ 522,980,000	406,433,453
Accrued interest payable on notes and bonds	64,399,972	63,256,461
Housing Choice Voucher contributions payable	3,207,898	—
Escrows (note 8)	26,255,514	25,185,432
Accounts payable and other liabilities (notes 5, 9, and 12)	46,856,087	28,105,012
Total current liabilities	663,699,471	522,980,358
Noncurrent liabilities:		
Bonds payable, net (note 7)	4,430,801,728	3,945,034,159
Project reserves (notes 8 and 13)	159,409,620	157,372,369
Other liabilities (notes 5, 9, 12, and 13)	37,333,270	36,737,385
Total noncurrent liabilities	4,627,544,618	4,139,143,913
Total liabilities	5,291,244,089	4,662,124,271
Net assets (note 11):		
Invested in capital assets, net of related debt	(10,932,357)	(9,599,720)
Restricted by bond indentures	1,437,187,542	1,307,882,678
Unrestricted	242,899,257	244,592,503
Total net assets	1,669,154,442	1,542,875,461
Total liabilities and net assets	$ 6,960,398,531	6,204,999,732

See accompanying notes to financial statements.

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

Statements of Revenues, Expenses, and Changes in Net Assets

Years ended June 30, 2005 and 2004

	2005	2004
Operating revenues:		
Interest on mortgage and other loans	$ 362,637,474	372,077,409
Pass-through grants received	122,856,397	120,332,874
Housing Choice Voucher fee income	7,520,382	6,490,654
Gains and recoveries on sale of other real estate owned	227,057	442,808
Other	9,186,841	8,743,549
Total operating revenues	502,428,151	508,087,294
Operating expenses:		
Interest on notes and bonds	232,280,943	244,816,894
Salaries and related employee benefits (note 12)	25,696,975	25,128,206
General operating expenses	12,233,190	12,067,321
Note and bond expenses	465,915	419,610
Amortization of bond issuance expenses	734,118	1,139,616
Pass-through grants disbursed	122,856,397	120,332,874
Housing Choice Voucher program expenses	5,582,860	5,005,872
External mortgage servicing expenses	2,833,828	3,604,106
Losses and expenses on other real estate owned	745,500	791,948
Provision for loan losses	—	3,793,078
Total operating expenses	403,429,726	417,099,525
Operating income	98,998,425	90,987,769
Nonoperating revenues:		
Investment income (note 9)	27,117,078	8,990,280
Other, net	163,478	82,283
Total nonoperating revenues	27,280,556	9,072,563
Change in net assets	126,278,981	100,060,332
Total net assets, beginning of year	1,542,875,461	1,442,815,129
Total net assets, end of year	$ 1,669,154,442	1,542,875,461

See accompanying notes to financial statements.

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

Statements of Cash Flows

Years ended June 30, 2005 and 2004

	2005	2004
Cash flows from operating activities:		
Cash payments for mortgage and other loans	$ (1,021,247,650)	(837,891,116)
Principal repayments on mortgage and other loans	702,983,006	1,096,996,637
Interest received on mortgage and other loans	356,945,456	363,946,599
Housing Choice Voucher contributions and pass-through grants received	135,743,250	125,336,788
Housing Choice Voucher contributions and pass-through grants disbursed	(130,319,280)	(130,919,830)
Escrow and project reserve payments received	163,805,073	157,937,121
Escrow and project reserve payments disbursed	(160,377,951)	(146,401,745)
Other operating revenues	7,691,367	6,738,318
Cash received for loan origination fees	8,182,888	10,695,851
Cash paid for loan origination fees	(8,415,351)	(5,137,695)
Cash payments for salaries and related benefits	(24,723,397)	(23,851,911)
Cash payments for general operating expenses	(2,773,310)	(8,955,258)
Cash payments for mortgage servicing expenses	(1,501,005)	(1,894,887)
Proceeds from sale of other real estate owned	2,446,464	5,150,837
Net cash provided by operating activities	28,439,560	611,749,709
Cash flows from noncapital financing activities:		
Proceeds from sale of notes and bonds	1,199,865,000	857,175,255
Principal payments on notes and bonds	(602,391,744)	(1,249,026,188)
Interest payments on notes and bonds	(219,983,322)	(243,775,342)
Cash payments for bond issuance expenses	(5,750,140)	(1,473,635)
Redemption premium paid on bond calls	(1,396,600)	(2,561,200)
Net cash provided by (used in) noncapital financing activities	370,343,194	(639,661,110)
Cash flows from capital and related financing activities:		
Principal payments on building bonds	—	(25,035,000)
Interest payments on building bonds	—	(1,174,834)
Redemption premium paid on bond calls	—	(480,700)
Purchases of property, furniture and equipment	(464,031)	(781,277)
Proceeds from disposal of furniture and equipment	63,712	—
Net cash used in capital and related financing activities	(400,319)	(27,471,811)
Cash flows from investing activities:		
Purchases of investments	(1,374,862,291)	(1,282,703,251)
Proceeds from sales or maturities of investments	1,116,313,636	1,094,062,312
Interest received on investments	25,525,270	15,472,959
Net cash used in investing activities	(233,023,385)	(173,167,980)
Net increase (decrease) in cash and cash equivalents	165,359,050	(228,551,192)
Cash and cash equivalents, at beginning of year	374,519,341	603,070,533
Cash and cash equivalents, at end of year	$ 539,878,391	374,519,341

(Continued)

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

Statements of Cash Flows

Years ended June 30, 2005 and 2004

		2005	2004
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	$	98,998,425	90,987,769
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation of property, furniture and equipment		1,415,461	1,844,500
Other depreciation and amortization		2,809,158	1,839,622
Interest on notes and bonds		232,280,943	244,816,894
Investment in rental property		—	(4,179,297)
(Increase) decrease in mortgage and other loans receivable		(324,868,158)	263,098,902
Decrease in interest receivable – mortgage and other loans		1,667,620	2,331,277
Increase in other real estate owned		(1,183,743)	(630,331)
(Increase) decrease in other assets		(1,443,492)	7,374,079
Increase (decrease) in accounts payable and other liabilities		19,956,266	(3,697,523)
Increase (decrease) in Housing Choice Voucher contribution payable		4,287,165	(6,961,822)
Increase in escrows and project reserves		3,427,122	11,535,376
Increase (decrease) in net deferred loan fees		(8,907,207)	3,390,263
Net cash provided by operating activities	$	28,439,560	611,749,709
Supplemental disclosure of noncash investing activity – increase in other real estate owned as a result of loan foreclosures	$	3,873,554	9,962,915

See accompanying notes to financial statements.

(1) Organization and Summary of Significant Account Policies

(a) Organization

The Virginia Housing Development Authority (the 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 Government 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) 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.

(d) 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.

(e) Investment in Rental Property

Investment in rental property represents several 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 $4,913,652 as of June 30, 2005 and $4,171,435 as of June 30, 2004.

(f) 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.

(g) 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. For the year ended June 30, 2005 there was no provision for loan losses. The provision for the year ended June 30, 2004 totaled $3,793,078.

(h) 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.

(i) 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.

(j) 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.

(k) 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.

(l) ***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 the 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.

(m) ***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.

(n) ***Housing Choice Voucher Contributions***

As the Commonwealth of Virginia's administrator for the Department of Housing and Urban Development's Section 8 "Lower Income Housing Assistance" program, the Authority requisitions Section 8 funds, makes disbursements to eligible landlords and tenants, and recognizes fee income. Upon receipt of Section 8 funds, a liability is recorded for the Authority's obligation to disburse funds to Section 8 participants. The Authority received and disbursed pass-through grants totaling $122,856,397 and $120,332,874 during the years ended June 30, 2005 and 2004, respectively.

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

The Virginia Housing Partnership Revolving Fund, established by the 1988 Session of the Virginia General Assembly, and the Commonwealth Priority Housing Fund use funds provided by the state to provide loans and grants for a wide variety of housing initiatives. The Department of Housing and Community Development develop the program guidelines and the Authority acts as administrator for the Funds.

(p) ***Cash Equivalents***

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

(q) ***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.

(r) ***Reclassifications***

Certain reclassifications have been made in the June 30, 2004 financial statements to conform to the June 30, 2005 presentation.

(2) Description of Account Groups

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

The General Operating Accounts consist of a group of accounts used to record the receipt of income not directly pledged to the repayment of specific notes and 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 the Multi-Family Housing and Rental Housing Bonds are used to finance construction and permanent loans on multi-family projects.

(c) ***General Purpose Bond Group***

The proceeds of these bonds are used to finance construction and permanent loans on multi-family projects, loans on single family dwellings, as well as, permanent financing for owned rental property and the Authority's office facilities.

(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) Nonrestricted Assets

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

	June 30, 2005	June 30, 2004
Nonrestricted assets:		
Current assets:		
Cash and cash equivalents	$ 72,476,172	36,784,482
Investments	359,879,268	161,665,616
Interest receivable – investments	1,099,005	1,108,783
Mortgage and other loans receivable	2,928,030	2,781,799
Interest receivable – mortgage and other loans	958,980	995,929
Other real estate owned	359,431	208,950
Other assets	1,895,300	1,597,830
Total nonrestricted current assets	439,596,186	205,143,389
Noncurrent assets:		
Investments	252,468,133	294,071,156
Mortgage and other loans receivable – net	118,540,469	109,797,131
Property, furniture and equipment, less accumulated depreciation and amortization of $13,543,381 and $13,738,597	2,909,630	3,196,494
Other assets	3,339,446	4,104,087
Total nonrestricted noncurrent assets	377,257,678	411,168,868
Total nonrestricted assets	$ 816,853,864	616,312,257

All other assets of the Authority are restricted in nature, either by the requirements of the relevant bond indenture or other agreements or resolutions.

(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:

Loan Program/Bond Group	Interest rates	Initial loan terms
Multi-Family Housing Bond Group	3.50% to 13.11%	Thirty to forty years
Rental Housing Bond Group	1.29% to 13.13%	Thirty to forty years
General Purpose Bond Group	0% to 13.97%	Thirty to forty years
Commonwealth Mortgage Bond Group	0.50% to13.85%	Thirty years

Commitments to fund new loans and monies available to provide future loans were as follows at June 30, 2005:

Multi-Family Housing, Rental Housing, and General Purpose Bond Groups	$ 158,268,000
Commonwealth Mortgage Bond Group	330,472,000
Total	$ 488,740,000

Through June 30, 2005 the Authority conducted various mortgage loan programs financed or supported by unrestricted programs 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 $332.7 million as of June 30, 2005 and 2004 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 (VHF) may not be available for the payment of debt service on any obligations of the Authority. Such loans from unrestricted programs 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.

Beginning in fiscal year 2006, the Authority will implement a new methodology for determining the amount of its net assets that will be used to provide reduced interest rates for Subsidized Mortgage Loans and otherwise subsidize its programs. Such new methodology replaces the above-described determination of a specific dollar amount of mortgage loan funds to be made available under the VHF program, which will not be continued. Under this new methodology, the annual amount of the Authority's net assets to be dedicated, on a present value basis as determined by the Authority, to provide reduced interest rates or other support for Subsidized Mortgage Loans or to otherwise provide housing subsidies under its programs, including bond financed programs, shall be equal to 15% of the average of the Authority's excess revenue (as unadjusted for the effect of GASB 31) for the preceding three fiscal years. The amounts to be made available under this new methodology in the future are subject to review by the Authority of the impact thereof on its financial position. The Authority has financed and expects to finance some, but not all, of such Subsidized Mortgage Loans, in whole or in part, with funds under its various bond resolutions.

(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, 2005 and, 2004, the carrying amount of the Authority's deposits were $18,570,226 and $19,953,775 and checks drawn in excess of bank balances, included in accounts payable and other liabilities, were $30,565,841 and $18,312,385. The associated bank balance of the Authority's deposits were $31,663,773 and $23,185,516 at June 30, 2005 and 2004. The difference between the carrying amount and the bank balance is due to outstanding checks, deposits in transit and other reconciling items.

Cash equivalents include investments with original maturities of three months or less. Investments consist of U.S. Government and agency securities, municipal tax-exempt securities, corporate notes and various other investments for which there are no securities as evidence of the investment. Investments in the bond funds consist of those permitted by the various resolutions adopted by the Authority. Certain bond

indentures include reserve fund requirements, and investments in these reserve funds are generally not available for mortgage loans. The Authority's cash equivalents and investments are categorized to give an indication of the level of credit risk assumed by the Authority at June 30, 2005 and 2004.

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, 2005, were as follows:

	Category 1	Category 2	Fair value
Repurchase agreements	$ 397,985,039	12,316,968	410,302,007
Municipal tax-exempt securities	375,000	—	375,000
Total	$ 398,360,039	12,316,968	410,677,007
Add amounts not categorized because securities are not used as evidence of the investments:			
Federal Home Loan Bank Note			1,586,786
AIG Funding Commercial Paper			29,045,393
Transamerica Life Insurance Investment Agreement			40,000,000
Citigroup Financial Products Investment Agreement			39,998,979
Total cash equivalents			$ 521,308,165

This credit risk categorization and fair value of the Authority's cash equivalents at June 30, 2004 were as follows:

	Category 1	Category 2	Fair value
Repurchase agreements	$ 346,455,834	6,900,049	353,355,883
Municipal tax-exempt securities	150,000	—	150,000
Interest bearing checking	23,138	—	23,138
Total	$ 346,628,972	6,900,049	353,529,021
Add amounts not categorized because securities are not used as evidence of the investments:			
Federal Home Loan Bank Note			1,036,545
Total cash equivalents			$ 354,565,566

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, 2005 and 2004 (all of which were classified Category 1) were as follows:

	2005	2004
U.S. Government and agency securities	$ 65,966,698	88,417,121
Corporate notes	117,164,748	87,743,694
Municipal tax-exempt securities	28,778,263	30,331,918
Asset backed securities	237,465,415	286,758,280
Agency mortgage backed	55,682,361	100,966,081
Totals	505,057,485	594,217,094
Add amounts not categorized because securities are not used as evidence of the investments:		
Citigroup Financial Products Investment Agreement	120,000,000	—
Federal Home Loan Bank Note	326,595,000	139,670,000
Transamerica Occidental Life Investment Agreement	120,000,000	80,000,000
Total investments	$ 1,071,652,485	813,887,094

	June 30, 2005	June 30, 2004
Current investments	$ 625,079,943	301,672,646
Noncurrent investments	446,572,542	512,214,448
Total investments	$ 1,071,652,485	813,887,094

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.

As a means of limiting its exposure to fair value losses arising from rising interest rates, the Authority's investment policy is to hold all investments to maturity and to limit the length of an investment at purchase, to coincide with expected timing of its use.

No more than 5% of the Authority's total assets will be invested in any one entity, exclusive of overnight repurchase agreements.

As of June 30, 2005, the Authority had the following investments and maturities:

Investment type	Less than 1 year	1-5 years	6-10 years	Over 10 years	Fair value
Corporate notes	$ 36,093,982	4,989,850	880,916	75,200,000	117,164,748
Municipal securities	6,871,699	21,906,564	—	—	28,778,263
Asset-backed securities	—	237,465,415	—	—	237,465,415
Agency mortgage-backed	—	33,608,363	—	22,073,998	55,682,361
Guaranteed investment contracts	240,000,000	—	—	—	240,000,000
U.S. Government and agency securities	15,519,262	49,360,612	—	1,086,824	65,966,698
Other FHLB interest bearing	326,595,000	—	—	—	326,595,000
Total investments	$ 625,079,943	347,330,804	880,916	98,360,822	1,071,652,485

(6) Property, Furniture and Equipment

Activity in the property, furniture, and equipment accounts for the fiscal year 2005 was as follows:

	Balance June 30, 2004	Additions	Deletions	Balance June 30, 2005
Land	$ 1,945,095	—	—	1,945,095
Building	19,106,393	—	—	19,106,393
Furniture and equipment	14,644,401	448,643	(945,515)	14,147,529
Motor vehicles	345,595	15,388	—	360,983
	$ 36,041,484	464,031	(945,515)	35,560,000

Activity in the related accumulated depreciation accounts during fiscal year 2005 was as follows:

	Balance June 30, 2004	Additions	Deletions	Balance June 30, 2005
Building	$ (9,156,523)	(666,836)	—	(9,823,359)
Furniture and equipment	(13,473,622)	(715,003)	943,840	(13,244,785)
Motor vehicles	(264,974)	(33,622)	—	(298,596)
	$ (22,895,119)	(1,415,461)	943,840	(23,366,740)

Activity in the property, furniture, and equipment accounts for the fiscal year 2004 was as follows:

	Balance June 30, 2003	Additions	Deletions	Balance June 30, 2004
Land	$ 1,945,095	—	—	1,945,095
Building	19,106,393	—	—	19,106,393
Furniture and equipment	14,411,496	748,676	(515,771)	14,644,401
Motor vehicles	312,993	32,602	—	345,595
	$ 35,775,977	781,278	(515,771)	36,041,484

Activity in the related accumulated depreciation accounts during fiscal year 2004 was as follows:

	Balance June 30, 2003	Additions	Deletions	Balance June 30, 2004
Building	$ (8,489,684)	(666,839)	—	(9,156,523)
Furniture and equipment	(12,854,424)	(1,134,848)	515,650	(13,473,622)
Motor vehicles	(222,161)	(42,813)	—	(264,974)
	$ (21,566,269)	(1,844,500)	515,650	(22,895,119)

(7) Notes and Bonds Payable

Notes and bonds payable at June 30, 2005 and 2004, and changes for the period were as follows:

Description	Balance at June 30, 2004	Issued	Retired	Balance at June 30, 2005
		(Amounts shown in thousands)		
General operating accounts:				
Notes:				
Federal Home Loan Bank, floating rate (weighted average rate of 3.35% at June 30, 2005), no fixed maturity	$ 139,670	200,050	13,125	326,595
Total general operating accounts	139,670			326,595
Multi-Family Housing Bond Group:				
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	13,865	—	2,990	10,875
1993 Series H, dated November 1, 1993, 5.09% effective interest rate, final due date May 1, 2013	2,790	—	2,790	—
1994 Series B/C, dated April 1, 1994, 5.99% effective interest rate, final due date May 1, 2015	3,675	—	2,500	1,175
1994 Series H, dated September 1, 1994, 6.30% effective interest rate, final due date November 1, 2015	7,540	—	7,540	—
1995 Series A/B/C, dated February 2, 1995, 7.51% effective interest rate, final due date November 1, 2015	16,290	—	16,035	255
1995 Series D, dated April 26, 1995, 8.13% effective interest rate, final due date November 1, 2015	9,825	—	9,825	—
1995 Series E/F, dated June 29, 1995, 6.18% effective interest rate, final due date May 1, 2014	3,415	—	1,305	2,110

(Continued)

Description	Balance at June 30, 2004	Issued	Retired	Balance at June 30, 2005
		(Amounts shown in thousands)		
1995 Series G, dated October 3, 1995, 7.61% effective interest rate, final due date November 1, 2014	$ 12,070	—	12,070	—
1995 Series H/I, dated October 3, 1995, 6.01% effective interest rate, final due date November 1, 2015	44,740	—	27,375	17,365
1995 Series J, dated October 26, 1995, 7.10% effective interest rate, final due date November 1, 2014	5,740	—	365	5,375
1995 Series K/L, dated October 26, 1995, 5.88% effective interest rate, final due date November 1, 2015	21,300	—	1,325	19,975
1996 Series A/B/C, dated January 11, 1996, 6.43% effective interest rate, final due date May 1, 2016	46,965	—	2,725	44,240
1996 Series D/E/F, dated March 28, 1996, 6.70% effective interest rate, final due date May 1, 2016	25,295	—	1,460	23,835
1996 Series G, dated April 25, 1996, 7.76% effective interest rate, final due date May 1, 2016	4,450	—	245	4,205
1996 Series H/I, dated April 25, 1996, 5.94% effective interest rate, final due date May 1, 2016	26,020	—	1,620	24,400
1996 Series J, dated August 8, 1996, 6.15% effective interest rate, final due date May 1, 2017	16,610	—	885	15,725
1996 Series K/L/M, dated October 1, 1996, 6.36% effective interest rate, final due date November 1, 2017	14,880	—	685	14,195
1996 Series N/O, dated December 19, 1996, 6.55% effective interest rate, final due date November 1, 2017	19,500	—	925	18,575

(Continued)

Description	Balance at June 30, 2004	Issued	Retired	Balance at June 30, 2005
		(Amounts shown in thousands)		
1997 Series A/B, dated May 15, 1997, 6.90% effective interest rate, final due date November 1, 2019	$ 42,475	—	1,905	40,570
1997 Series C/D/E, dated September 11, 1997, 6.20% effective interest rate, final due date November 1, 2019	47,335	—	1,790	45,545
1997 Series F, dated October 16, 1997, 5.34% effective interest rate, final due date November 1, 2017	6,395	—	320	6,075
1997 Series G/H/I, dated December 18, 1997, 6.24% effective interest rate, final due date May 1, 2019	48,255	—	2,150	46,105
1998 Series A, dated April 23, 1998, 6.79% effective interest rate, final due date November 1, 2019	45,340	—	1,730	43,610
1998 Series B/C/E, dated April 23, 1998 and September 23, 1998, rate, final due date November 1, 2018	48,935	—	2,305	46,630
1998 Series F, dated July 29, 1998, 6.50% effective interest rate, final due date May 1, 2019	28,600	—	1,195	27,405
1998 Series G, dated July 29, 1998, 5.10% effective interest rate, final due date November 1, 2018	41,975	—	2,050	39,925
1998 Series H, dated October 27, 1998, 6.31% effective interest rate, final due date May 1, 2019	32,080	—	1,335	30,745
1998 Series I, dated October 27, 1998, 4.94% effective interest rate, final due date November 1, 2019	31,255	—	1,385	29,870

Description	Balance at June 30, 2004	Issued	Retired	Balance at June 30, 2005
		(Amounts shown in thousands)		
1999 Series A/B, dated January 28, 1999, 5.74% effective interest rate, final due date May 1, 2019	$ 67,985	—	2,980	65,005
	735,600	—	111,810	623,790
Unamortized premium	2,625			2,634
Total Multi-Family Housing Bonds	738,225			626,424
Rental Housing Bond Group:				
1999 Series C/D/E/F, dated May 20, 1999, 5.89% effective interest rate, final due date May 1, 2022	43,990	—	1,505	42,485
1999 Series G/H, dated August 19, 1999, 6.70% effective interest rate, final due date May 1, 2022	52,490	—	1,495	50,995
1999 Series I/J, dated November 4, 1999, 6.83% effective interest rate, final due date February 1, 2023	35,195	—	1,010	34,185
1999 Series K/L, dated December 16, 1999, 6.21% effective interest rate, final due date February 1, 2023	34,215	—	1,020	33,195
2000 Series A/B, dated May 10, 2000, 7.14% effective interest rate, final due date August 1, 2024	60,775	—	1,405	59,370
2000 Series C, dated August 3, 2000, 8.18% effective interest rate, final due date April 1, 2024	16,555	—	395	16,160
2000 Series D/E, dated August 3, 2000, 5.98% effective interest rate, final due date April 1, 2024	43,885	—	1,295	42,590
2000 Series F/G/H, dated October 12, 2000, 6.90% effective interest rate, final due date October 1, 2024	62,545	—	1,520	61,025
2001 Series A/B, dated January 9, 2001, 7.02% effective interest rate, final due date March 1, 2025	60,485	—	1,385	59,100

Description	Balance at June 30, 2004	Issued	Retired	Balance at June 30, 2005
		(Amounts shown in thousands)		
2001 Series C/D, dated March 22, 2001, 5.87% effective interest rate, final due date June 1, 2024	$ 14,020	—	430	13,590
2001 Series E/F/G, dated April 26, 2001, 5.94% effective interest rate, final due date June 1, 2025	20,535	—	645	19,890
2001 Series H/I, dated July 31, 2001, 6.56% effective interest rate, final due date July 1, 2025	48,900	—	1,180	47,720
2001 Series J/K/L, dated October 23, 2001, 6.06% effective interest rate, final due date December 1, 2025	62,750	—	1,660	61,090
2001 Series M, dated December 18, 2001, 6.78% effective interest rate, final due date January 1, 2027	42,465	—	895	41,570
2001 Series N/O, dated December 18, 2001, 5.40% effective interest rate, final due date January 1, 2027	37,130	—	955	36,175
2002 Series A, dated April 11, 2002, 6.70% effective interest rate, final due date April 1, 2027	24,105	—	580	23,525
2002 Series B, dated April 11, 2002, 5.30% effective interest rate, final due date April 1, 2027	44,200	—	1,170	43,030
2002 Series C/D, dated June 27, 2002, 6.45% effective interest rate, final due date September 1, 2027	63,385	—	660	62,725
2002 Series E/F/G, dated December 19, 2002, 5.45% effective interest rate, final due date January 1, 2028	77,315	—	1,315	76,000
2003 Series A/B, dated April 24, 2003, 5.04% effective interest rate, final due date June 1, 2028	57,750	—	1,655	56,095
2003 Series C/D, dated August 5, 2003, 3.87% effective interest rate, final due date November 1, 2028	63,675	—	1,010	62,665
2003 Series E, dated August 5, 2003, 4.84% effective interest rate, final due date November 1, 2028	83,775	—	2,030	81,745

(Continued)

Description	Balance at June 30, 2004	Issued	Retired	Balance at June 30, 2005
		(Amounts shown in thousands)		
2003 Series F/G, dated December 23, 2003, 5.42% effective interest rate, final due date April 1, 2030	$ 52,110	—	250	51,860
2004 Series A/B, dated March 17, 2003, 5.25% effective interest rate, final due date March 1, 2030	17,205	—	—	17,205
2004 Series C, dated April 29, 2004, 5.53% effective interest rate, final due date May 1, 2029	75,895	—	1,000	74,895
2004 Series D/E, dated April 29, 2004, 4.72% effective interest rate, final due date May 1, 2029	54,295	—	640	53,655
2004 Series F/G, dated September 2, 2004, 5.78% effective interest rate, final due date September 1, 2030	—	56,230	—	56,230
2004 Series H/I/J, dated December 16, 2004, 5.10% effective interest rate, final due date December 1, 2029	—	39,355	—	39,355
2005 Series A, dated April 26, 2005, 5.37% effective interest rate, final due date May 1, 2030	—	41,680	—	41,680
2005 Series BC, dated April 26, 2005, 4.58% effective interest rate, final due date May 1, 2031	—	65,245	—	65,245
2005 Series D, dated June 14, 2005, 5.52% effective interest rate, final due date September 1, 2033	—	42,065	—	42,065
2005 Series EF, dated June 14, 2005, 3.90% effective interest rate, final due date September 1, 2039	—	74,120	—	74,120
	1,249,645	318,695	27,105	1,541,235
Unamortized premium	751			379
Total Rental Housing Bonds	1,250,396			1,541,614
VHDA General Purpose Bonds:				
2002 Series W, dated October 31, 2002, 5.91% effective interest rate, final due date January 1, 2028	87,060	—	3,245	83,815

(Continued)

Description	Balance at June 30, 2004	Issued	Retired	Balance at June 30, 2005
		(Amounts shown in thousands)		
2002 Series X/Y/Z, dated October 31, 2002, 4.82% effective interest rate, final due date January 1, 2043	$ 261,580	—	2,330	259,250
2003 Series Q, dated October 30, 2003, 5.65% effective interest rate, final due date October 1, 2028	29,085	—	—	29,085
2003 Series R/S/T/U, dated October 30, 2003, 4.62% effective interest rate, final due date October 1, 2038	88,160	—	1,200	86,960
2003 Series V, dated June 26, 2003, 4.52% effective interest rate, final due date October 1, 2029	52,440	—	2,520	49,920
	518,325	—	9,295	509,030
Unamortized discount	(3,555)			(2,066)
Total General Purpose Bonds	514,770			506,964
Commonwealth Mortgage Bonds:				
1993 Series G/H, dated November 1, 1993, 5.30% effective interest rate, final due date July 1, 2027	69,845	—	23,725	46,120
1996 Series E/F, dated December 18, 1996, 5.21% effective interest rate, final due date January 1, 2046	140,000	—	—	140,000
1996 Series G/H, dated December 19, 1996, 5.00% effective interest rate, 1996, date January 1, 2022	22,985	—	22,985	—
1997 Series B/C, dated June 12, 1997, 5.13% effective interest rate, final due date January 1, 2022	33,425	—	33,425	—
1998 Series D/E, dated July 28, 1998, 5.19% effective interest rate, final due date July 1, 2021	63,850	—	63,850	—
2000 Series A/B, dated March 31, 2000, 5.64% effective rate, final due date July 1, 2018	55,145	—	55,145	—
2001 Series A, dated January 30, 2001, 6.50% effective interest rate, final due date February 25, 2030	18,625	—	7,933	10,692

Description	Balance at June 30, 2004	Issued	Retired	Balance at June 30, 2005
		(Amounts shown in thousands)		
2001 Series B, dated May 4, 2001, 6.50% effective interest rate, final due date May 25, 2031	$ 19,909	—	8,126	11,783
2001 Series C/D, dated June 13, 2001, 5.19% effective interest rate, final due date July 1, 2027	98,170	—	10,255	87,915
2001 Series F, dated July 31, 2001, 6.50% effective interest rate, final due date September 25, 2031	26,675	—	10,126	16,549
2001 Series G, dated October 17, 2001, 6.00% effective interest rate, final due date December 25, 2031	30,852	—	12,929	17,923
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	254,620	—	90,935	163,685
2002 Series A, dated January 14, 2002, 6.50% effective interest rate, final due date February 25, 2032	37,234	—	12,835	24,399
2002 Series B, dated March 20, 2002, 6.00% effective interest rate, final due date August 25, 2030	94,149	—	27,705	66,444
2002 Series C, dated June 27, 2002, 6.00% effective interest rate, final due date June 25, 2032	42,103	—	17,332	24,771
2002 Series D, dated June 27, 2002, 6.50% effective interest rate, final due date June 25, 2032	6,495	—	3,874	2,621
2002 Series E/F/G, dated December 17, 2002, 5.00% effective interest rate, final due date December 25, 2032	93,713	—	24,235	69,478
2003 Series A/B, dated April 3, 2003, 4.28% effective interest rate, final due date April 1, 2027	172,920	—	7,780	165,140

Description	Balance at June 30, 2004	Issued	Retired	Balance at June 30, 2005
		(Amounts shown in thousands)		
2003 Series C, dated October 1, 2003, 5.00% effective interest rate, final due date August 25, 2033	$ 7,186	—	2,404	4,782
2004 Series A, dated March 18, 2004, 4.30% effective interest rate, final due date October 1, 2035	180,000	—	720	179,280
2004 Series B, dated June 10, 2004, 5.5% effective interest rate, final due date June 25, 2034	20,588	—	4,738	15,850
2004 Series C, dated November 2, 2004, 4.21% effective interest rate, final due date January 1, 2031	—	170,000	—	170,000
2005 Series AB, dated April 21, 2005, 3.59% effective interest rate, final due date July 1, 2042	—	511,120	—	511,120
	1,711,489	681,120	441,057	1,951,552
Unamortized (discount) premium	(3,083)			632
Total Commonwealth Mortgage Bonds	1,708,406			1,952,184
Total	$ 4,351,467			4,953,781

Notes and bonds payable at June 30, 2004 and 2003, and changes for the period were as follows (amounts in thousands):

	June 30, 2003	Issued	Retired	Change in unamortized premium discount and compound interest payable	June 30, 2004
General operating accounts	$ 8,535	182,206	51,071	—	139,670
Multi-Family Housing Bonds	918,692	—	182,679	2,212	738,225
Rental Housing Bonds	916,549	346,955	17,460	4,352	1,250,396
General Purpose Bonds	426,096	117,370	28,890	194	514,770
Commonwealth Mortgage Bonds	2,489,316	210,644	996,264	4,710	1,708,406
Total	$ 4,759,188	857,175	1,276,364	11,468	4,351,467

	June 30, 2005	June 30, 2004
	(amounts shown in thousands)	
Notes and bonds payable – current	$ 522,980	406,433
Bonds payable – noncurrent	4,430,801	3,945,034
Total	$ 4,953,781	4,351,467

The Authority has the option to redeem the various bonds at premiums ranging up to 3%. 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 premium and including special and optional redemptions that occurred subsequent to year end) commencing July 1, 2005 and thereafter are as follows:

	Original principal	Current interest	Total debt service
Period ending June 30:			
2006	$ 522,980,000	231,319,302	754,299,302
2007	144,745,000	226,821,042	371,566,042
2008	172,490,000	219,461,791	391,951,791
2009	189,640,000	211,891,184	401,531,184
2010	195,445,000	203,440,518	398,885,518
2011 – 2015	957,245,000	876,953,378	1,834,198,378
2016 – 2020	860,955,000	634,453,758	1,495,408,758
2021 – 2025	671,830,000	423,740,052	1,095,570,052
2026 – 2030	490,737,264	253,054,212	743,791,476
2031 – 2035	455,885,098	114,749,040	570,634,138
2036 – 2040	164,790,000	43,085,335	207,875,335
2041 – 2045	109,660,000	12,788,305	122,448,305
2046 – 2050	15,800,000	199,931	15,999,931
	$ 4,952,202,362	3,451,957,848	8,404,160,210

(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, 2005 and 2004, these escrows and project reserves were presented in the Authority's Statement of Net Assets as follows:

	June 30, 2005	June 30, 2004
Escrows – current	$ 26,255,514	25,185,432
Project reserves – noncurrent	159,409,620	157,372,369
Totals	$ 185,665,134	182,557,801

(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 legislations. 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 $1,860,897 and $2,513,073 at June 30, 2005 and 2004, respectively.

(10) Risk Management

The Authority manages its interest rate 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 years ended June 30, 2005 and 2004, the authority experienced a net loss of $2,142,074 and a net gain of $2,463,723, respectively, from hedging transactions settled during the year. At June 30, 2005, $12,316,968 of short sales was outstanding which had an unrealized loss of $102,610. 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, 2005 and 2004, such designations included funding for the Virginia Housing Fund, funds to be available for other loans and loan commitments; over commitments and over allocations in the various bond issues; for support funds and contributions to bond issues; and for working capital and future operating and capital expenditures. Additional unrestricted net assets commitments include contractual obligations for additional contributions to bond reserve funds; maintenance of the Authority's obligation with regard to the general obligation pledge on its bonds; contributions to future bond issues other than those scheduled during the next year; self-insurance on the uninsured, unsubsidized multi-family conventional loan program and any unanticipated losses in connection with the uninsured portions of the balance of the single family and multi-family loans; self-insurance on the liability exposure of Commissioners and officers; the cost of holding foreclosed property prior to resale; costs incurred with the redemption of bonds; single family loan prepayment shortfalls and other risks and contingencies.

(12) Employee Benefits Plans

The Authority incurs employment retirement savings expense equal to eight percent of full-time employees' compensation. Total retirement savings expense for the years ended June 30, 2005 and 2004 was $1,453,215 and $1,391,207, respectively

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

As of June 30, 2005 and 2004, included in accounts payable and other liabilities is an employee compensated absences accrual of $2,796,921 and $2,866,993, respectively (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 $6,003,160 and $5,141,028 as of June 30, 2005 and 2004 respectively, (see note 13). Total expense incurred for these benefits for the years ended June 30, 2005 and 2004 was $603,138, and $593,629, respectively.

(13) Other Long-Term Liabilities

Activity in the Authority's noncurrent liability accounts, other than bonds payable, for the period ending June 30, 2005 was as follows:

	Balance at June 30, 2004	Additions	Decreases	Balance at June 30, 2005
Project reserves	$ 157,372,369	45,210,555	43,173,304	159,409,620
Commonwealth Priority Housing Fund liability	18,931,818	525,915	1,472,101	17,985,632
Other liabilities	9,797,546	2,062,124	1,312,113	10,547,557
Compensated absences payable	2,866,993	1,527,436	1,597,508	2,796,921
Retiree healthcare	5,141,028	1,091,736	229,604	6,003,160
Total	$ 194,109,754	50,417,766	47,784,630	196,742,890

Activity in the Authority's noncurrent liability accounts, other than bonds payable, for period ending June 30, 2004, was as follows:

	Balance at June 30, 2003	Additions	Decreases	Balance at June 30, 2004
Project reserves	$ 148,968,456	37,874,445	29,470,532	157,372,369
Commonwealth Priority Housing Fund liability	19,284,152	453,802	806,136	18,931,818
Other liabilities	19,134,075	1,716,897	11,053,426	9,797,546
Compensated absences payable	2,791,220	1,429,785	1,354,012	2,866,993
Retiree healthcare	4,367,496	1,048,984	275,452	5,141,028
Total	$ 194,545,399	42,523,913	42,959,558	194,109,754

(14) Contingencies and Other Matters

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

The Authority participates in several Federal financial assistance programs, principal of which is the Lower Income Housing Assistance Program. Although the Authority's administration of Federal grant programs has been audited in accordance with the provisions of the United States Office of Management and Budget Circular A-133 through June 30, 2005, 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.

(Continued)

(15) Subsequent Events

In addition to scheduled redemptions, the Authority made special and optional redemptions of certain bonds payable subsequent to June 30, 2005 as follows:

Multi-Family Housing Bonds	July 1, 2005	$ 6,130,000
Commonwealth Mortgage Bonds	July 1, 2005	46,120,000
Commonwealth Mortgage Bonds	September 1, 2005	90,365,000
Rental Housing Bonds	September 1, 2005	29,000,000

Schedule 1

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

Combining Schedule of Net Assets

June 30, 2005

Assets	General Operating Accounts	Multi-Family Housing Bond Group	Rental Housing Bond Group	General Purpose Bond Group	Commonwealth Mortgage Bond Group	Total
Current assets:						
Cash and cash equivalents	$ 85,398,063	52,113,321	96,345,975	24,791,099	281,229,933	539,878,391
Investments	359,879,268	6,426,875	18,773,800	—	240,000,000	625,079,943
Interest receivable – investments	1,109,643	672,928	210,511	22,371	1,510,386	3,525,839
Mortgage and other loans receivable	2,928,030	16,045,390	20,001,829	17,541,232	37,765,921	94,282,402
Interest receivable – mortgage and other loans	980,882	4,784,671	8,081,117	2,959,008	7,521,587	24,327,265
Other real estate owned	359,431	—	2,238,754	170,562	783,720	3,552,467
Other assets	2,385,374	—	—	2,001,039	98,399	4,484,812
Total current assets	453,040,691	80,043,185	145,651,986	47,485,311	568,909,946	1,295,131,119
Noncurrent assets:						
Investments	265,679,131	69,380,872	102,830,946	6,742,516	1,939,077	446,572,542
Mortgage and other loans receivable	126,192,888	766,507,647	1,384,793,229	510,693,698	2,468,475,368	5,256,662,830
Less allowance for loan loss	1,879,482	4,171,220	10,212,268	4,331,115	11,946,140	32,540,225
Less net deferred loan fees	206,769	11,199,863	21,803,550	6,451,396	8,106,357	47,767,935
Mortgage and other loans receivable – net	124,106,637	751,136,564	1,352,777,411	499,911,187	2,448,422,871	5,176,354,670
Investment in rental property – net	—	—	16,505,724	3,214,692	—	19,720,416
Property, furniture, and equipment, less accumulated depreciation and amortization of $23,366,740	2,910,227	—	—	9,283,033	—	12,193,260
Unamortized bond issuance expenses	—	1,213,869	1,898,779	1,947,773	830,242	5,890,663
Interfund receivable	(30,690,308)	4,171,220	10,212,268	4,360,680	11,946,140	—
Other assets	3,190,624	—	—	—	1,345,237	4,535,861
Total noncurrent assets	365,196,311	825,902,525	1,484,225,128	525,459,881	2,464,483,567	5,665,267,412
Total assets	$ 818,237,002	905,945,710	1,629,877,114	572,945,192	3,033,393,513	6,960,398,531

(Continued)

Schedule 1

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

Combining Schedule of Net Assets

June 30, 2005

Liabilities and Net Assets	General Operating Accounts	Multi-Family Housing Bond Group	Rental Housing Bond Group	General Purpose Bond Group	Commonwealth Mortgage Bond Group	Total
Current liabilities:						
Notes and bonds payable	$ 326,595,000	45,215,000	62,610,000	10,130,000	78,430,000	522,980,000
Accrued interest payable on notes and bonds	821,659	6,346,482	22,015,696	10,063,593	25,152,542	64,399,972
Housing Choice Voucher contributions payable	3,207,898	—	—	—	—	3,207,898
Escrows	26,255,514	—	—	—	—	26,255,514
Accounts payable and other liabilities	20,537,018	144,085	540,149	3,465,243	22,169,592	46,856,087
Total current liabilities	377,417,089	51,705,567	85,165,845	23,658,836	125,752,134	663,699,471
Noncurrent liabilities:						
Bonds payable – net	—	581,208,910	1,479,003,887	496,834,497	1,873,754,434	4,430,801,728
Project reserves	159,409,620	—	—	—	—	159,409,620
Other liabilities	35,600,809	1,558,883	115,761	57,817	—	37,333,270
Total noncurrent liabilities	195,010,429	582,767,793	1,479,119,648	496,892,314	1,873,754,434	4,627,544,618
Total liabilities	572,427,518	634,473,360	1,564,285,493	520,551,150	1,999,506,568	5,291,244,089
Net assets:						
Invested in capital assets, net of related debt	2,910,227	—	(3,909,934)	(9,932,650)	—	(10,932,357)
Restricted by bond indentures	—	271,472,350	69,501,555	62,326,692	1,033,886,945	1,437,187,542
Unrestricted	242,899,257	—	—	—	—	242,899,257
Total net assets	245,809,484	271,472,350	65,591,621	52,394,042	1,033,886,945	1,669,154,442
Total liabilities and net assets	$ 818,237,002	905,945,710	1,629,877,114	572,945,192	3,033,393,513	6,960,398,531

See accompanying independent auditors' report.

Schedule 2

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

Combining Schedule of Revenues, Expenses, and Changes in Net Assets

Year ended June 30, 2005

	General Operating Accounts	Multi-Family Housing Bond Group	Rental Housing Bond Group	General Purpose Bond Group	Commonwealth Mortgage Bond Group	Total
Operating revenues:						
Interest on mortgage and other loans	$ 5,960,776	68,151,453	92,219,573	38,589,987	157,715,685	362,637,474
Pass-through grants received	122,856,397	—	—	—	—	122,856,397
Housing Choice Voucher fee income	7,520,382	—	—	—	—	7,520,382
Gains and recoveries on sale of other real estate owned	10,986	—	—	22,491	193,580	227,057
Other	5,307,250	—	1,760,528	2,119,063	—	9,186,841
Total operating revenues	141,655,791	68,151,453	93,980,101	40,731,541	157,909,265	502,428,151
Operating expenses:						
Interest on notes and bonds	5,988,894	44,285,263	77,868,876	25,350,090	78,787,820	232,280,943
Salaries and related employee benefits	25,696,975	—	—	—	—	25,696,975
General operating expenses	9,862,148	5,807	890,942	1,474,293	—	12,233,190
Note and bond expenses	465,915	—	—	—	—	465,915
Amortization of bond issuance expenses	—	319,065	80,035	55,541	279,477	734,118
Pass-through grants disbursed	122,856,397	—	—	—	—	122,856,397
Housing Choice Voucher program expenses	5,582,860	—	—	—	—	5,582,860
External mortgage servicing expenses	27,683	—	—	9,099	2,797,046	2,833,828
Losses and expenses on other real estate owned	79,444	—	—	38,618	627,438	745,500
Total operating expenses	170,560,316	44,610,135	78,839,853	26,927,641	82,491,781	403,429,726
Operating income (expense)	(28,904,525)	23,541,318	15,140,248	13,803,900	75,417,484	98,998,425
Nonoperating revenues:						
Investment income	11,183,771	4,535,355	3,779,402	1,225,891	6,392,659	27,117,078
Other, net	163,478	—	—	—	—	163,478
Total nonoperating revenues	11,347,249	4,535,355	3,779,402	1,225,891	6,392,659	27,280,556
Income (loss) before transfers	(17,557,276)	28,076,673	18,919,650	15,029,791	81,810,143	126,278,981
Transfers between funds	15,577,763	(40,662,792)	15,827,865	734,966	8,522,198	—
Change in net assets	(1,979,513)	(12,586,119)	34,747,515	15,764,757	90,332,341	126,278,981
Total net assets, beginning of year	247,788,997	284,058,469	30,844,106	36,629,285	943,554,604	1,542,875,461
Total net assets, end of year	$ 245,809,484	271,472,350	65,591,621	52,394,042	1,033,886,945	1,669,154,442

See accompanying independent auditors' report.

Schedule 3

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

Combining Schedule of Net Assets

June 30, 2004

Assets	General Operating Accounts	Multi-Family Housing Bond Group	Rental Housing Bond Group	General Purpose Bond Group	Commonwealth Mortgage Bond Group	Total
Current assets:						
Cash and cash equivalents	$ 45,478,818	38,806,001	42,758,074	33,242,841	214,233,607	374,519,341
Investments	161,665,616	39,096,666	20,910,364	—	80,000,000	301,672,646
Interest receivable – investments	1,122,329	439,773	181,723	54,618	310,986	2,109,429
Mortgage and other loans receivable	2,781,799	17,638,279	14,765,741	15,685,442	37,755,109	88,626,370
Interest receivable – mortgage and other loans	1,014,151	5,766,510	7,944,228	2,841,879	8,428,117	25,994,885
Other real estate owned	208,950	—	—	81,255	2,078,519	2,368,724
Housing Choice Voucher contributions receivable	1,079,267	—	—	—	—	1,079,267
Other assets	2,158,376	—	—	801,865	211,291	3,171,532
Total current assets	215,509,306	101,747,229	86,560,130	52,707,900	343,017,629	799,542,194
Noncurrent assets:						
Investments	306,505,732	66,899,142	86,398,696	35,170,606	17,240,272	512,214,448
Mortgage and other loans receivable	121,538,716	873,943,989	1,131,751,790	466,598,673	2,340,992,630	4,934,825,798
Less allowance for loan loss	6,293,391	5,945,578	6,960,134	3,699,474	9,671,213	32,569,790
Less net deferred loan fees	282,334	12,818,684	20,909,124	6,558,923	13,481,170	54,050,235
Mortgage and other loans receivable, net	114,962,991	855,179,727	1,103,882,532	456,340,276	2,317,840,247	4,848,205,773
Investment in rental property, net	—	363,811	16,706,000	3,392,822	—	20,462,633
Property, furniture, and equipment, less accumulated depreciation and amortization of $22,895,119	3,196,494	—	—	9,949,871	—	13,146,365
Unamortized bond issuance expenses	—	1,532,934	1,499,746	1,953,925	804,684	5,791,289
Interfund receivable	(26,276,399)	5,945,578	6,960,134	3,699,474	9,671,213	—
Other assets	2,965,137	—	—	—	2,671,893	5,637,030
Total noncurrent assets	401,353,955	929,921,192	1,215,447,108	510,506,974	2,348,228,309	5,405,457,538
Total assets	$ 616,863,261	1,031,668,421	1,302,007,238	563,214,874	2,691,245,938	6,204,999,732

(Continued)

Schedule 3

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

Combining Schedule of Net Assets

June 30, 2004

Liabilities and Net Assets	General Operating Accounts	Multi-Family Housing Bond Group	Rental Housing Bond Group	General Purpose Bond Group	Commonwealth Mortgage Bond Group	Total
Current liabilities:						
Notes and bonds payable	$ 139,670,000	41,095,000	27,105,000	9,295,000	189,268,453	406,433,453
Accrued interest payable on notes and bonds	112,143	7,551,718	19,999,465	10,135,173	25,457,962	63,256,461
Escrows	25,185,432	—	—	—	—	25,185,432
Accounts payable and other liabilities	12,004,571	115,036	525,149	1,633,511	13,826,745	28,105,012
Total current liabilities	176,972,146	48,761,754	47,629,614	21,063,684	228,553,160	522,980,358
Noncurrent liabilities:						
Bonds payable, net	—	697,129,651	1,223,291,529	505,474,805	1,519,138,174	3,945,034,159
Project reserves	157,372,369	—	—	—	—	157,372,369
Other liabilities	34,729,749	1,718,547	241,989	47,100	—	36,737,385
Total noncurrent liabilities	192,102,118	698,848,198	1,223,533,518	505,521,905	1,519,138,174	4,139,143,913
Total liabilities	369,074,264	747,609,952	1,271,163,132	526,585,589	1,747,691,334	4,662,124,271
Net assets:						
Invested in capital assets, net of related debt	3,196,494	226,077	(3,319,478)	(9,702,813)	—	(9,599,720)
Restricted by bond indentures	—	283,832,392	34,163,584	46,332,098	943,554,604	1,307,882,678
Unrestricted	244,592,503	—	—	—		244,592,503
Total net assets	247,788,997	284,058,469	30,844,106	36,629,285	943,554,604	1,542,875,461
Total liabilities and net assets	$ 616,863,261	1,031,668,421	1,302,007,238	563,214,874	2,691,245,938	6,204,999,732

See accompanying independent auditors' report.

Schedule 4

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

Combining Schedule of Revenues, Expenses, and Changes in Net Assets

Year ended June 30, 2004

	General Operating Accounts	Multi-Family Housing Bond Group	Rental Housing Bond Group	General Purpose Bond Group	Commonwealth Mortgage Bond Group	Total
Operating revenues:						
Interest on mortgage and other loans	$ 6,509,081	79,180,992	75,495,456	35,019,262	175,872,618	372,077,409
Pass-through grants received	120,332,874	—	—	—	—	120,332,874
Housing Choice Voucher fee income earned	6,490,654	—	—	—	—	6,490,654
Gains and recoveries on sale of other real estate owned	1,703	—	—	218	440,887	442,808
Other	4,679,898	1,310,767	532,595	2,220,289	—	8,743,549
Total operating revenues	138,014,210	80,491,759	76,028,051	37,239,769	176,313,505	508,087,294
Operating expenses:						
Interest on notes and bonds	1,391,539	53,961,900	65,958,787	23,770,360	99,734,308	244,816,894
Salaries and related employee benefits	25,128,206	—	—	—	—	25,128,206
General operating expenses	10,580,747	313,500	234,726	938,348	—	12,067,321
Note and bond expenses	419,610	—	—	—	—	419,610
Amortization and bond issuance expenses	122,834	389,948	65,818	52,753	508,263	1,139,616
Pass-through grants disbursed	120,332,874	—	—	—	—	120,332,874
Housing Choice Voucher program expenses	5,005,872	—	—	—	—	5,005,872
External mortgage servicing expenses	25,428	—	—	10,233	3,568,445	3,604,106
Losses and expenses on other real estate owned	22,637	—	—	90,964	678,347	791,948
Provision for loan losses	3,793,078	—	—	—	—	3,793,078
Total operating expenses	166,822,825	54,665,348	66,259,331	24,862,658	104,489,363	417,099,525
Operating income (expense)	(28,808,615)	25,826,411	9,768,720	12,377,111	71,824,142	90,987,769
Nonoperating revenues:						
Investment income	1,688,758	856,032	1,655,295	722,187	4,068,008	8,990,280
Other, net	82,283	—	—	—	—	82,283
Total nonoperating revenues	1,771,041	856,032	1,655,295	722,187	4,068,008	9,072,563
Income (loss) before transfers	(27,037,574)	26,682,443	11,424,015	13,099,298	75,892,150	100,060,332
Transfers between funds	6,386,033	(39,391,717)	7,766,392	16,543,769	8,695,523	—
Change in net assets	(20,651,541)	(12,709,274)	19,190,407	29,643,067	84,587,673	100,060,332
Total net assets, beginning of year	268,440,538	296,767,743	11,653,699	6,986,218	858,966,931	1,442,815,129
Total net assets, end of year	$ 247,788,997	284,058,469	30,844,106	36,629,285	943,554,604	1,542,875,461

See accompanying independent auditors' report.

KPMG LLP
Suite 2000
1021 East Cary Street
Richmond, VA 23219-4023

Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters 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, 2005, and have issued our report thereon dated September 23, 2005. 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.

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 reportable 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 caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether 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 grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards*.

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 specified parties.

KPMG LLP

September 23, 2005

KPMG LLP, a U.S. limited liability partnership, is the U.S. member firm of KPMG International, a Swiss cooperative.

[THIS PAGE INTENTIONALLY LEFT BLANK]

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

Table of Contents

		Page
Management's Discussion and Analysis		45
Basic Financial Statements:		
	Statements of Net Assets	51
	Statements of Revenues, Expenses and Changes in Net Assets	52
	Statements of Cash Flows	53
	Notes to Financial Statements	55
Supplementary Information:		
1	Combining Schedule of Net Assets —December 31, 2005	83
2	Combining Schedule of Revenues, Expenses and Changes in Net Assets — Six Months Ended December 31, 2005	85

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

Management's Discussion and Analysis

December 31, 2005, and the Six Month Period Then Ended

This section of the Virginia Housing Development Authority's (the Authority) financial report presents management's discussion and analysis of the Authority's financial performance during the six month period that ended December 31, 2005. Please read it in conjunction with the Authority's financial statements, which follow this section. The overall financial report consists of four parts, management's discussion and analysis (this section), the basic financial statements, the accompanying footnotes, and supplementary information.

FINANCIAL HIGHLIGHTS

Six Months Ended December 31, 2005

The following information represents a comparative analysis of key financial aspects of the Authority's operations for the six month period between June 30, 2005 and December 31, 2005:

- Total assets increased $513.9 million (or 7.38%)
- Total liabilities increased $449.9 million (or 8.50%)
- Total net assets increased $63.99 million (or 3.83%)
- Cash and cash equivalents increased $205.92 million (or 38.14%)
- Investments decreased $49.65 million (or 4.63%)
- Mortgage and other loans net receivable - increased $343.89 million (or 6.52%)
- Notes and bonds payable increased $470.36 million (or 9.50%)

Primary factors that contributed to these changes were as follows:

- The mortgage loan portfolios continued to grow at a brisk pace.
- Notes and bonds payable increased to fund said Lending activity, and investments were shifted to shorter terms.
- Similar to the first quarter of the year, net assets posted strong growth for the second quarter.

FINANCIAL HIGHLIGHTS

Six Months Ended December 31, 2004

The following information represents a comparative analysis of key financial aspects of the Authority's operations for the six month period between June 30, 2004 and December 31, 2004:

- Total assets increased $157.65 million (or 2.54%)
- Total liabilities increased $94.41 million (or 2.03%)
- Total net assets increased $63.24 million (or 4.10%)
- Investments increased $84.30 million (or 10.36%)
- Mortgage and other loans receivable-net increased $36.45 million (or 0.74%)
- Notes and bonds payable increased $117.18 million (or 2.69%)

Primary factors that contributed to these changes were as follows:

- Total assets increased primarily due to two factors. Mortgage loans balances increased due to moderate growth in the multi-family and other portfolios, though the single family portfolio declined slightly. Increased lending activity was supported by new debt, which increased cash and investment balances.
- Total liabilities increased primarily due to new debt, which exceeded redemptions necessitated by single family repayments.
- Total net assets continued to show moderate growth, owing to low interest costs and other cost containment efforts for the six month period ended December 31, 2004.

FINANCIAL ANALYSIS OF THE AUTHORITY

The following tables summarize selected financial information regarding the Authority's operations as of the dates and periods indicated:

		June 30, 2005	December 31, 2005	December 31, 2005 vs June 30, 2005 % Increase (Decrease)
Cash and cash equivalents	$	539,878,391	745,798,964	38.14%
Investments		1,071,652,485	1,022,004,438	(4.63%)
Mortgage and other loans receivable-net		5,270,637,072	5,614,530,327	6.52%
Other assets		78,230,583	91,922,496	17.50%
Total assets		6,960,398,531	7,474,256,225	7.38%
Notes and bonds payable - net		4,953,781,728	5,424,145,097	9.50%
Other liabilities		337,462,361	316,970,511	(6.07%)
Total liabilities		5,291,244,089	5,741,115,608	8.50%
Net assets	$	1,669,154,442	1,733,140,617	3.83%

FINANCIAL ANALYSIS OF THE AUTHORITY

		June 30, 2004	December 31, 2004	December 31, 2004 vs June 30, 2004 % Increase (Decrease)
Cash and cash equivalents	$	374,519,341	412,397,351	1.01%
Investments		813,887,094	898,184,675	10.36%
Mortgage and other loans receivable-net		4,936,832,143	4,973,283,226	0.74%
Other assets		79,761,154	78,780,666	(1.23%)
Total assets		6,204,999,732	6,362,645,918	2.54%
Notes and bonds payable - net		4,351,467,612	4,468,643,254	2.69%
Other liabilities		310,656,659	287,889,653	(7.33%)
Total liabilities		4,662,124,271	4,756,532,907	2.03%
Net assets	$	1,542,875,461	1,606,113,011	4.10%

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 REACH initiative.

Net Assets as of December 31, 2005 and June 2005	December 31, 2005	June 30, 2005
Invested in capital assets, net of related debt	$ (6,499,584)	(10,932,357)
Restricted by bond indentures	1,523,950,093	1,437,187,542
Unrestricted	215,690,108	242,899,257
Total net assets	$ 1,733,140,617	1,669,154,442

Results of Operations for the Six Months Ended December 31, 2005. During the first half of the fiscal year, the Authority has enjoyed net growth in the total mortgage loan portfolios of approximately $344 million and growth in net assets of $63.99 million. The following table summarizes the key sources of revenues and expenses for the six months ended December 31, 2005 (in millions):

	Dec. 31, 2005
Operating revenues:	
Interest on mortgage and other loans receivable	$ 189.5
Pass-through grants received	59.8
Other operating revenues	8.3
Total operating revenues	257.6
Operating expenses:	
Interest on notes and bonds payable	127.9
Pass-through grants disbursed	59.8
Other operating expenses	28.1
Total operating expenses	215.8
Net operating income	41.8
Non-operating revenues:	
Investment income*	22.1
Other non-operating revenue	0.1
Total non-operating revenue	22.2
Change in net assets	$ 64.0

*Investment income is decreased by a fair market value adjustment totaling $2.4 million for the six month period ended December 31, 2005.

VIRGINIA HOUSING DEVELOPMENT AUTHORITY
Statement of Net Assets
December 31, 2005 and 2004
(Unaudited)

Assets		**2005**	**2004**
Current assets:			
Cash and cash equivalents (note 5)	$	745,798,964	412,397,351
Investments (note 5)		682,279,939	412,629,025
Interest receivable - investments		4,675,865	2,560,170
Mortgage and other loans receivable (note 4)		97,624,893	91,112,897
Interest receivable - mortgage and other loans		25,276,167	26,394,568
Other real estate owned		8,554,326	1,195,046
Housing Choice Voucher contributions receivable		-	1,262,949
Other assets		5,704,451	3,634,264
Total current assets		1,569,914,605	951,186,270
Noncurrent assets:			
Investments (note 5)		339,724,499	485,555,650
Mortgage and other loans receivable (note 4)		5,593,978,513	4,967,214,593
Less allowance for loan loss		36,509,021	32,540,225
Less net deferred loan fees		40,564,058	52,504,039
Mortgage & other loans receivable, net		5,516,905,434	4,882,170,329
Investment in rental property, net		21,541,151	20,092,327
Property, furniture and equipment, less accumulated depreciation and amortization of $23,115,425 and $22,782,827 (note 6)		16,214,341	12,691,841
Unamortized bond issuance expenses		5,817,108	5,897,174
Other assets		4,139,087	5,052,327
Total noncurrent assets		5,904,341,620	5,411,459,648
Total assets	$	7,474,256,225	6,362,645,918
Liabilities and Net Assets			
Current liabilities:			
Notes and bonds payable (note 7)	$	430,075,000	618,605,000
Accrued interest payable on notes and bonds		70,123,196	62,779,641
Housing Choice Voucher contributions payable		6,334,136	-
Escrows (note 8)		25,393,297	23,162,363
Accounts payable and other liabilities (notes 5, 9 and 12)		28,316,757	10,389,557
Total current liabilities		560,242,386	714,936,561
Noncurrent liabilities :			
Bonds payable, net (note 7)		4,994,070,097	3,850,038,254
Project reserves (notes 8 and 13)		159,793,712	154,433,105
Other liabilities (notes 5, 9, 12 and 13)		27,009,413	37,124,987
Total noncurrent liabilities		5,180,873,222	4,041,596,346
Total liabilities		5,741,115,608	4,756,532,907
Net Assets (note 11):			
Invested in capital assets, net of related debt		(6,499,584)	(9,694,414)
Restricted by bond indentures		1,523,950,093	1,365,668,348
Unrestricted		215,690,108	250,139,077
Total net assets		1,733,140,617	1,606,113,011
Total liabilities and net assets	$	7,474,256,225	6,362,645,918

See accompanying notes to financial statements.

VIRGINIA HOUSING DEVELOPMENT AUTHORITY
Statement of Revenues, Expenses and Changes in Net Assets
Six months ended December 31, 2005 and 2004
(Unaudited)

		2005	2004
Operating revenues:			
Interest on mortgage and other loans	$	189,459,472	180,842,904
Pass-through grants received		59,768,732	61,685,067
Housing Choice Voucher fee income		3,835,655	3,816,225
Gains and recoveries on sale of other real estate owned		50,775	138,927
Other		4,437,375	4,325,428
Total operating revenues		257,552,009	250,808,551
Operating expenses:			
Interest on notes and bonds		127,948,036	113,503,543
Salaries and related employee benefits (note 12)		13,173,008	12,345,759
General operating expenses		6,399,815	5,772,362
Note and bond expenses		66,260	66,274
Amortization of bond issuance expenses		301,239	289,878
Pass-through grants disbursed		59,768,732	61,685,067
Housing Choice Voucher program expenses		2,727,966	2,558,978
External mortgage servicing expenses		1,360,701	1,437,456
Losses and expenses on other real estate owned		83,648	459,123
Provision for loan losses		3,968,796	-
Total operating expenses		215,798,201	198,118,440
Operating income		41,753,808	52,690,111
Nonoperating revenues:			
Investment income (note 9)		22,212,697	10,461,485
Other, net		19,670	85,954
Total nonoperating revenues		22,232,367	10,547,439
Change in net assets		63,986,175	63,237,550
Total net assets, beginning of period		1,669,154,442	1,542,875,461
Total net assets, end of period	$	1,733,140,617	1,606,113,011

See accompanying notes to financial statements.

VIRGINIA HOUSING DEVELOPMENT AUTHORITY
Statement of Cash Flows
Six months ended December 31, 2005 and 2004
(Unaudited)

		2005	2004
Cash flows from operating activities:			
Cash payments for mortgage and other loans	$	(703,332,264)	(397,154,858)
Principal repayments on mortgage and other loans		341,893,718	363,669,313
Interest received on mortgage and other loans		182,750,796	176,949,660
Housing Choice Voucher contributions and pass-through grants received		66,863,603	66,018,210
Housing Choice Voucher contributions and pass-through grants disbursed		(62,626,166)	(65,843,008)
Escrow and project reserve payments received		84,124,065	77,922,359
Escrow and project reserve payments disbursed		(84,408,718)	(82,810,520)
Other operating revenues		2,466,930	4,279,316
Cash received for loan origination fees		2,724,095	3,479,153
Cash paid for loan origination fees		(6,341,356)	(2,714,031)
Cash payments for salaries and related benefits		(13,747,488)	(12,522,044)
Cash payments for general operating expenses		(17,619,317)	(21,458,179)
Cash payments for mortgage servicing expenses		(694,289)	(771,045)
Proceeds from sale of other real estate owned		737,941	1,229,023
Net cash provided by (used in) operating activities		(207,208,450)	110,273,349
Cash flows from noncapital financing activities:			
Proceeds from sale of notes and bonds		929,695,000	388,600,000
Principal payments on notes and bonds		(462,359,801)	(274,683,626)
Interest payments on notes and bonds		(116,637,714)	(109,302,866)
Cash payments for bond issuance expenses		(2,426,611)	(1,813,991)
Redemption premium paid on bond calls		(360,000)	-
Net cash used in non-capital financing activities		347,910,874	2,799,517
Cash flows from capital and related financing activities:			
Purchases of property, furniture and equipment		(4,683,680)	(273,790)
Proceeds from disposal of furniture and equipment		264	57,612
Net cash used in capital and related financing activities		(4,683,416)	(216,178)
Cash flows from investing activities:			
# Purchases of investments	$	(1,085,184,749)	(783,044,664)
Proceeds from sales or maturities of investments		1,132,196,281	698,575,576
Interest received on investments		22,890,033	9,490,411
Net cash provided by investing activities		69,901,565	(74,978,677)
Net increase (decrease) in cash and cash equivalents		205,920,573	37,878,011
Cash and cash equivalents, at beginning of period		539,878,391	374,519,340
Cash and cash equivalents, at end of period	$	745,798,964	412,397,351

(Continued)

VIRGINIA HOUSING DEVELOPMENT AUTHORITY
Statement of Cash Flows
Six months ended December 31, 2005 and 2004
(Unaudited)

Reconciliation of operating income to net cash provided by operating activities:			
Operating income	$	41,753,808	52,690,111
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation of property, furniture and equipment		662,437	726,638
Other depreciation and amortization		1,349,070	1,326,596
Interest on notes and bonds		127,948,036	113,503,543
Investment in rental property		(2,202,155)	-
Increase in mortgage and other loans receivable		(339,415,908)	(33,476,672)
Increase in interest receivable - mortgage and other loans		(948,902)	(399,684)
(Increase) decrease in other real estate owned		(5,001,860)	1,173,678
Increase in other assets		(1,469,711)	(514,424)
Decrease in accounts payable and other liabilities		(24,278,710)	(16,739,747)
Increase (decrease) in Housing Choice Voucher contribution payable		3,126,238	(183,682)
Decrease in escrows and project reserves		(284,652)	(4,888,161)
Decrease in net deferred loan fees		(8,446,141)	(2,944,847)
Net cash provided by (used in) operating activities	$	(207,208,450)	110,273,349
Supplemental disclosure of non-cash investing activity - increase in other real estate owned as a result of loan foreclosures	$	7,941,955	371,315

See accompanying notes to financial statements.

(1) Organization and Summary of Significant Account Policies

(a) Organization

The Virginia Housing Development Authority (the 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 Government 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) 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.

(d) 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.

(e) Investment in Rental Property

Investment in rental property represents several 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 $5,295,071 as of December 31, 2005.

(f) 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.

(g) 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. For the six month period ended December 31, 2005 the provision totaled $3,968,796.

(h) 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.

(i) 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.

(j) 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.

(k) 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.

(l) 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 the 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.

(m) 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.

(n) Housing Choice Voucher Contributions

As the Commonwealth of Virginia's administrator for the Department of Housing and Urban Development's Section 8 "Lower Income Housing Assistance" program, the Authority requisitions Section 8 funds, makes disbursements to eligible landlords and tenants, and recognizes fee income. Upon receipt of Section 8 funds, a liability is recorded for the Authority's obligation to disburse funds to Section 8 participants. The Authority received and disbursed pass-through grants totaling $59,768,732 for six month period ended December 31, 2005.

(o) Virginia Housing Partnership Revolving Fund and the Commonwealth Priority Housing Fund

The Virginia Housing Partnership Revolving Fund, established by the 1988 Session of the Virginia General Assembly, and the Commonwealth Priority Housing Fund use funds provided by the state to provide loans and grants for a wide variety of housing initiatives. The Department of Housing and Community Development develop the program guidelines and the Authority acts as administrator for the Funds.

(p) Cash Equivalents

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

(q) Statement of Net Assets

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

(2) Description of Account Groups

(a) General Operating Accounts

The General Operating Accounts consist of a group of accounts used to record the receipt of income not directly pledged to the repayment of specific notes on 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 the Multi-Family Housing and Rental Housing Bonds are used to finance construction and permanent loans on multi-family projects.

(c) General Purpose Bond Group

The proceeds of these bonds are used to finance construction and permanent loans on multi-family projects, loans on single family dwellings, as well as, permanent financing for owned rental property and the Authority's office facilities.

(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.

	December 31, 2005	December 31, 2004
Non-restricted Assets		
Current assets:		
Cash and cash equivalents	$ 93,122,452	38,910,156
Investments	258,200,455	299,647,775
Interest receivable - investments	865,962	1,019,685
Mortgage and other loans receivable	3,007,534	2,963,786
Interest receivable - mortgage and other loans	868,818	985,082
Other real estate owned	257,190	213,905
Other assets	1,943,108	1,390,967
Total non-restricted current assets	358,265,519	345,131,356
Noncurrent assets:		
Investments	220,441,997	264,428,474
Mortgage and other loans receivable - net	111,700,995	115,995,777
Property, furniture and equipment, less accumulated depreciation and amortization of $12,955,150 and $13,195,026	7,199,691	3,075,389
Other assets	3,586,470	3,168,053
Total non-restricted noncurrent assets	342,929,153	386,667,693
Total non-restricted assets	$ 701,194,672	731,799,049

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

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

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

Loan Program/Bond Group	Interest rates	Initial loan terms
Multi-Family Housing Bond Group	3.50% to 13.11%	Thirty to forty years
Rental Housing Bond Group	1.29% to 13.13%	Thirty to forty years
General Purpose Bond Group	0% to 14.03%	Thirty to forty years
Commonwealth Mortgage Bond Group	0.50% to13.85%	Thirty years

Commitments to fund new loans and monies available to provide future loans were as follows at December 31, 2005:

Multi-Family Housing, Rental Housing, and General Purpose Bond Group	$	171,501,000
Commonwealth Mortgage Bond Group		640,459,000
Total	$	811,960,000

Beginning in fiscal year 2006, the Authority implemented a new methodology for determining the amount of its net assets to be used to provide reduced interest rates for Subsidized Mortgage Loans and otherwise subsidize its programs. Such methodology replaces the previous method of a specific dollar amount of mortgage loan funds to be made available under the VHF program, which will not be continued. Under this new methodology, the annual amount of the Authority's net assets to be dedicated, on a present value basis as determined by the Authority, to provide reduced interest rates or other support for Subsidized Mortgage Loans or to otherwise provide housing subsidies under its programs, including bond financed programs, shall be equal to 15% of the average of the Authority's excess revenue (as unadjusted for the effect of GASB 31) for the preceding three fiscal years. The amounts to be made available under this new methodology in the future are subject to review by the Authority of the impact thereof on its financial position. The Authority has financed and expects to finance some, but not all, of such Subsidized Mortgage Loans, in whole or in part, with funds under its various bond resolutions.

(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 December 31, 2005 and 2004, the carrying amount of the Authority's deposits were $26,749,248 and $21,477,716 and checks drawn in excess of bank balances, included in accounts payable and other liabilities, were $11,999,011 and $7,640,492. The associated bank balance of the Authority's deposits were $25,753,840 and $15,715,026 at December 31, 2005 and 2004. The difference between the carrying amount and the bank balance is due to outstanding checks, deposits in transit and other reconciling items.

Cash equivalents include investments with original maturities of three months or less. Investments consist of U.S. Government and agency securities, municipal tax-exempt securities, corporate notes and various other investments for which there are no securities as evidence of the investment. Investments in the bond funds consist of those permitted by the various resolutions adopted by the Authority. Certain bond indentures include reserve fund requirements, and investments in these reserve funds are generally not available for mortgage loans. The Authority's cash equivalents and investments are categorized to give an indication of the level of credit risk assumed by the Authority at December 31, 2005 and 2004.

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 December 31, 2005, were as follows:

	Category 1	Category 2	Fair Value
Repurchase agreements	$ 361,847,210	11,871,846	373,719,056
U. S. Government and agency securities	33,897,386	-	33,897,386
Municipal tax-exempt securities	1,525,000	-	1,525,000
Total	397,269,596	11,871,846	409,141,442

Add amounts not categorized because securities are not used as evidence of the investments:	
Federal Home Loan Bank Note	1,653,943
Laguna Corp. Liquity Notes	9,989,088
Royal Bank of Scotland C/P	49,958,764
Citigroup Funding C/P	99,976,334
General Electric C/P	48,354,106
Master Funding C/P	99,976,040
Total cash equivalents	$ 719,049,717

This credit risk catergorization and fair value of the Authority's cash equivalents at December 31, 2004 were as follows:

	Category 1	Category 2	Fair Value
Repurchase agreements	$ 354,673,730	2,434,443	357,108,173
Municipal tax-exempt securities	150,000	-	150,000
Total	354,823,730	2,434,443	357,258,173

Add amounts not categorized because securities are not used as evidence of the investments:	
Federal Home Loan Bank Note	3,661,462
Security Life of Denver I/A	30,000,000
Total cash equivalents	$ 390,919,635

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 December 31, 2005 and 2004 (all of which were classified Category 1) were as follows:

	2005	2004
U.S. Government and agency securities	$ 76,639,247	73,722,469
Corporate notes	472,873,914	214,238,219
Muncipal tax-exempt securities	29,829,194	29,717,810
Asset backed securities	162,746,566	253,385,858
Agency mortgage backed	48,155,517	66,480,319
Totals	790,244,438	637,544,675
Add amounts not categorized because securities are not used as evidence of the investments:		
Federal Home Loan Bank Note	231,760,000	260,640,000
Total investments	$ 1,022,004,438	898,184,675

	Dec. 31, 2005	Dec. 31, 2004
Current investments	$ 682,279,939	412,629,025
Noncurrent investments	339,724,499	485,555,620
Total investments	$ 1,022,004,438	898,184,645

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 six month period ended December 31, 2005 was as follows:

	Balance June 30, 2005	Additions	Deletions	Balance Dec. 31, 2005
Land	$ 1,945,095	-	-	1,945,095
Building	19,106,393	4,119,185	-	23,225,578
Furniture and equipment	14,147,529	564,495	(913,914)	13,798,110
Motor vehicles	360,983	-	-	360,983
	$ 35,560,000	4,683,680	(913,914)	39,329,766

Activity in the related accumulated depreciation accounts during six month period ended December 31, 2005 was as follows:

	Balance June 30, 2005	Additions	Deletions	Balance Dec. 31, 2005
Building	$ (9,823,359)	(333,419)	-	(10,156,778)
Furniture and equipment	(13,244,785)	(310,925)	913,752	(12,641,958)
Motor vehicles	(298,596)	(18,093)	-	(316,689)
	$ (23,366,740)	(662,437)	913,752	(23,115,425)

Activity in the property, furniture and equipment accounts for the six month period ended December 31, 2004 was as follows:

	Balance June 30, 2004	Additions	Deletions	Balance Dec. 31, 2004
Land	$ 1,945,095	-	-	1,945,095
Building	19,106,393	-	-	19,106,393
Furniture and equipment	14,644,401	273,790	(938,466)	13,979,725
Motor vehicles	345,595	-	-	345,595
	$ 36,041,484	273,790	(938,466)	35,376,808

Activity in the related accumulated depreciation accounts during six month period ended December 31, 2004 was as follows:

	Balance June 30, 2004	Additions	Deletions	Balance Dec. 31, 2004
Building	$ (9,156,523)	(333,417)	-	(9,489,940)
Furniture and equipment	(13,473,622)	(377,691)	936,790	(12,914,523)
Motor vehicles	(264,974)	(15,530)	-	(280,504)
	$ (22,895,119)	(726,638)	936,790	(22,684,967)

(7) Notes and Bonds Payable

Notes and bonds payable at December 31, 2005 were as follows:

Description	Balance at June 30, 2005	Issued	Retired	Balance at Dec. 31, 2005
		(Amounts shown in thousands)		
General Operating Accounts				
Notes				
Federal Home Loan Bank, floating rate (weighted average rate of 4.16% at Dec. 31, 2005), no fixed maturity	$ 326,595	70,590	165,425	231,760
Total General Operating Accounts	326,595			231,760
Multi-Family Housing Bond Group				
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 11, 2017	10,875	—	10,875	—
1994 Series B/C, dated April 1, 1994, 5.99% effective interest rate, final due date May 1, 2015	1,175	—	—	1,175
1995 Series A/B/C, dated February 2, 1995, 7.51% effective interest rate, final due date November 1, 2015	255	—	255	—
1995 Series E/F, dated June 29, 1995, 6.18% effective interest rate, final due date May 1, 2014	2,110	—	—	2,110
1995 Series H/I, dated October 3, 1995, 6.01% effective interest rate, final due date November 1, 2015	17,365	—	1,490	15,875
1995 Series J, dated October 26, 1995, 7.10% effective interest rate, final due date November 1, 2014	5,375	—	5,375	—

Description	Balance at June 30, 2005	Issued	Retired	Balance at Dec. 31, 2005
		(Amounts shown in thousands)		
1995 Series K/L, dated October 26, 1995, 5.88% effective interest rate, final due date November 1, 2015	19,975	—	13,705	6,270
1996 Series A/B/C, dated January 11, 1996, 6.43% effective interest rate, final due date May 1, 2016	44,240	—	1,420	42,820
1996 Series D/E/F, dated March 28, 1996, 6.70% effective interest rate, final due date May 1, 2016	23,835	—	—	23,835
1996 Series G, dated April 25, 1996, 7.76% effective interest rate, final due date May 1, 2016	4,205	—	—	4,205
1996 Series H/I, dated April 25, 1996, 5.94% effective interest rate, final due date May 1, 2016	24,400	—	—	24,400
1996 Series J, dated August 8, 1996, 6.15% effective interest rate, final due date May 1, 2017	15,725	—	—	15,725
1996 Series K/L/M, dated October 1, 1996, 6.36% effective interest rate, final due date November 1, 2017	14,195	—	720	13,475
1996 Series N/O, dated December 19, 1996, 6.55% effective interest rate, final due date November 1, 2017	18,575	—	975	17,600
1997 Series A/B, dated May 15, 1997, 6.90% effective interest rate, final due date November 1, 2019	40,570	—	1,065	39,505
1997 Series C/D/E, dated September 11, 1997, 6.20% effective interest rate, final due date November 1, 2019	45,545	—	1,900	43,645
1997 Series F, dated October 16, 1997, 5.34% effective interest rate, final due date November 1, 2017	6,075	—	335	5,740

Description	Balance at June 30, 2005	Issued	Retired	Balance at Dec. 31, 2005
		(Amounts shown in thousands)		
1997 Series G/H/I, dated December 18, 1997, 6.24% effective interest rate, final due date May 1, 2019	46,105	—	—	46,105
1998 Series A, dated April 23, 1998, 6.79% effective interest rate, final due date November 1, 2019	43,610	—	1,830	41,780
1998 Series B/C/E, dated April 23, 1998 and September 23, 1998, 5.29% effective interest rate, final due date November 1, 2018	46,630	—	2,405	44,225
1998 Series F, dated July 29, 1998, 6.50% effective interest rate, final due date May 1, 2019	27,405	—	—	27,405
1998 Series G, dated July 29, 1998, 5.10% effective interest rate, final due date November 1, 2018	39,925	—	1,060	38,865
1998 Series H, dated October 27, 1998, 6.31% effective interest rate, final due date May 1, 2019	30,745	—	—	30,745
1998 Series I, dated October 27, 1998, 4.94% effective interest rate, final due date November 1, 2019	29,870	—	715	29,155
1999 Series A/B, dated January 28, 1999, 5.74% effective interest rate, final due date May 1, 2019	65,005	—	—	65,005
	623,790	—	44,125	579,665
Unamortized premium	2,634			2,613
Total Multi-Family Housing Bonds	626,424			582,278

Description	Balance at June 30, 2005	Issued	Retired	Balance at Dec. 31, 2005
		(Amounts shown in thousands)		
Rental Housing Bond Group				
1999 Series C/D/E/F, dated May 20, 1999, 5.89% effective interest rate, final due date May 1, 2022	42,485	—	—	42,485
1999 Series G/H, dated August 19, 1999, 6.70% effective interest rate, final due date May 1, 2022	50,995	—	1,580	49,415
1999 Series I/J, dated November 4, 1999, 6.83% effective interest rate, final due date February 1, 2023	34,185	—	—	34,185
1999 Series K/L, dated December 16, 1999, 6.21% effective interest rate, final due date February 1, 2023	33,195	—	—	33,195
2000 Series A/B, dated May 10, 2000, 7.14% effective interest rate, final due date August 1, 2024	59,370	—	1,490	57,880
2000 Series C, dated August 3, 2000, 8.18% effective interest rate, final due date April 1, 2024	16,160	—	—	16,160
2000 Series D/E, dated August 3, 2000, 5.98% effective interest rate, final due date April 1, 2024	42,590	—	—	42,590
2000 Series F/G/H, dated October 12, 2000, 6.90% effective interest rate, final due date October 1, 2024	61,025	—	1,615	59,410
2001 Series A/B, dated January 9, 2001, 7.02% effective interest rate, final due date March 1, 2025	59,100	—	—	59,100
2001 Series C/D, dated March 22, 2001, 5.87% effective interest rate, final due date June 1, 2024	13,590	—	—	13,590

Description	Balance at June 30, 2005	Issued	Retired	Balance at Dec. 31, 2005
		(Amounts shown in thousands)		
2001 Series E/F/G, dated April 26, 2001, 5.94% effective interest rate, final due date June 1, 2025	19,890	—	—	19,890
2001 Series H/I, dated July 31, 2001, 6.56% effective interest rate, final due date July 1, 2025	47,720	—	1,240	46,480
2001 Series J/K/L, dated October 23, 2001, 6.06% effective interest rate, final due date December 1, 2025	61,090	—	1,725	59,365
2001 Series M, dated December 18, 2001, 6.78% effective interest rate, final due date January 1, 2027	41,570	—	—	41,570
2001 Series N/O, dated December 18, 2001, 5.40% effective interest rate, final due date January 1, 2027	36,175	—	—	36,175
2002 Series A, dated April 11, 2002, 6.70% effective interest rate, final due date April 1, 2027	23,525	—	—	23,525
2002 Series B, dated April 11, 2002, 5.30% effective interest rate, final due date April 1, 2027	43,030	—	—	43,030
2002 Series C/D, dated June 27, 2002, 6.45% effective interest rate, final due date September 1, 2027	62,725	—	995	61,730
2002 Series E/F/G, dated December 19, 2002, 5.45% effective interest rate, final due date January 1, 2028	76,000	—	—	76,000
2003 Series A/B, dated April 24, 2003, 5.04% effective interest rate, final due date June 1, 2028	56,095	—	—	56,095
2003 Series C/D, dated August 5, 2003, 3.87% effective interest rate, final due date November 1, 2028	62,665	—	2,165	60,500

Description	Balance at June 30, 2005	Issued	Retired	Balance at Dec. 31, 2005
		(Amounts shown in thousands)		
2003 Series E, dated Agust 5, 2003, 4.84% effective interest rate, final due date November 1, 2028	81,745	—	2,520	79,225
2003 Series F/G, dated December 23, 2003, 5.42% effective interest rate, final due date April 1, 2030	51,860	—	—	51,860
2004 Series A/B, dated March 17, 2003, 5.25% effective interest rate, final due date March 1, 2030	17,205	—	—	17,205
2004 Series C, dated April 29, 2004, 5.53% effective interest rate, final due date May 1, 2029	74,895	—	—	74,895
2004 Series D/E, dated April 29, 2004, 4.72% effective interest rate, final due date May 1, 2029	53,655	—	—	53,655
2004 Series F/G, dated September 2, 2004, 5.78% effective interest rate, final due date September 1, 2030	56,230	—	—	56,230
2004 Series H/I/J, dated December 16, 2004, 5.10% effective interest rate, final due date December 1, 2029	39,355	—	240	39,115

Description	Balance at June 30, 2005	Issued	Retired	Balance at Dec. 31, 2005
		(Amounts shown in thousands)		
2005 Series A, dated April 26, 2005, 5.37% effective interest rate, final due date May 1, 2030	41,680	—	—	41,680
2005 Series B/C, dated April 26, 2005, 4.58% effective interest rate, final due date May 1, 2031	65,245	—	—	65,245
2005 Series D, dated June 14, 2005, 5.52% effective interest rate, final due date September 1, 2033	42,065	—	—	42,065
2005 Series E/F, dated June 14, 2005, 4.60% effective interest rate, final due date September 1, 2039	74,120	—	29,000	45,120
2005 Series G, dated October 20, 2005, 5.30% effective interest rate, final due date December 1, 2030	—	93,465	—	93,465
2005 Series H/I, dated October 20, 2005, 4.45% effective interest rate, final due date December 1, 2030	—	40,540	—	40,540
2005 Series J/K, dated December 14, 2005, 5.30% effective interest rate, final due date February 1, 2035	—	40,500	—	40,500
	1,541,235	174,505	42,570	1,673,170
Unamortized premium	379			1,589
Total Rental Housing Bonds	1,541,614			1,674,759
VHDA General Purpose Bonds				
2002 Series W, dated October 31, 2002, 5.91% effective interest rate, final due date January 1, 2028	83,815	—	1,730	82,085

Description	Balance at June 30, 2005	Issued	Retired	Balance at Dec. 31, 2005
		(Amounts shown in thousands)		
2002 Series X/Y/Z, dated October 31, 2002, 4.82% effective interest rate, final due date January 1, 2043	259,250	—	1,330	257,920
2003 Series Q, dated October 30, 2003, 5.65% effective interest rate, final due date October 1, 2028	29,085	—	500	28,585
2003 Series R/S/T/U, dated October 30, 2003 4.62% effective interest rate, final due date October 1, 2038	86,960	—	530	86,430
2003 Series V, dated June 26, 2003 4.52% effective interest rate, final due date October 1, 2029	49,920	—	1,270	48,650
	509,030	—	5,360	503,670
Unamortized discount	(2,066)			(1,411)
Total General Purpose Bonds	506,964			502,259
Commonwealth Mortgage Bonds				
1993 Series G/H, dated November 1, 1993, 5.30% effective interest rate, final due date July 1, 2027	46,120	—	46,120	—
1996 Series E/F, dated December 18, 1996, 5.21% effective interest rate, final due date January 1, 2046	140,000	—	—	140,000
2001 Series A, dated January 30, 2001, 6.50% effective interest rate, final due date February 25, 2030	10,692	—	1,804	8,888

Description	Balance at June 30, 2005	Issued	Retired	Balance at Dec. 31, 2005
		(Amounts shown in thousands)		
2001 Series B, dated May 4, 2001, 6.50% effective interest rate, final due date May 25, 2031	11,784	—	2,406	9,378
2001 Series C/D, dated June 13, 2001, 5.19% effective interest rate, final due date July 1, 2027	87,915	—	54,100	33,815
2001 Series F, dated July 31, 2001, 6.50% effective interest rate, final due date September 25, 2031	16,549	—	4,282	12,267
2001 Series G, dated October 17, 2001, 6.00% effective interest rate, final due date December 25, 2031	17,923	—	3,343	14,580
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	163,685	—	45,760	117,925
2002 Series A, dated January 14, 2002, 6.50% effective interest rate, final due date February 25, 2032	24,399	—	6,013	18,386
2002 Series B, dated March 20, 2002, 6.00% effective interest rate, final due date August 25, 2030	66,444	—	11,215	55,229
2002 Series C, dated June 27, 2002, 6.00% effective interest rate, final due date June 25, 2032	24,771	—	6,610	18,161
2002 Series D, dated June 27, 2002, 6.50% effective interest rate, final due date June 25, 2032	2,621	—	—	2,621

Description	Balance at June 30, 2005	Issued	Retired	Balance at Dec. 31, 2005
		(Amounts shown in thousands)		
2002 Series E/F/G, dated December 17, 2002, 5.00% effective interest rate, final due date December 25, 2032	69,477	—	11,713	57,764
2003 Series A/B, dated April 3, 2003, 4.28% effective interest rate, final due date April 1, 2027	165,140	—	7,300	157,840
2003 Series C, dated October 1, 2003, 5.00% effective interest rate, final due date August 25, 2033	4,782	—	1,518	3,264
2004 Series A, dated March 18, 2004, 4.30% effective interest rate, final due date October 1, 2035	179,280	—	810	178,470
2004 Series B, dated June 10, 2004, 5.50% effective interest rate, final due date June 25, 2034	15,850	—	1,885	13,965
2004 Series C, dated November 2, 2004, 4.21% effective interest rate, final due date January 1, 2031	170,000	—	—	170,000
2005 Series A, dated April 21, 2005, 4.31% effective interest rate, final due date October 1, 2031	465,000	—	—	465,000
2005 Series B, dated April 21, 2005, 4.92% effective interest rate, final due date July 1, 2042	46,120	—	—	46,120
2005 Series C/D/E, dated November 3, 2005, 3.23% effective interest rate, final due date April 1, 2028	—	450,090	—	450,090

Description	Balance at June 30, 2005	Issued	Retired	Balance at Dec. 31, 2005
		(Amounts shown in thousands)		
2005 Series F/G, dated December 15, 2005, 4.00% effective interest rate, final due date December 1, 2010	—	234,510	—	234,510
	1,951,552	684,600	204,879	2,431,273
Unamortized discount	632			1,816
Total Commonwealth Mortgage Bonds	1,952,184			2,433,089
Total	$ 4,953,781			5,424,145

Notes and bonds payable at June 30, 2004 and December 31, 2004 and changes for the period were as follows:
(Amounts in thousands)

	June 30, 2004	Issued	Retired	Change in unamortized premium/discount and compound interest payable	Dec. 31, 2004
General Operating Accounts	$ 139,670	123,015	2,045	-	260,640
Multi-Family Housing Bonds	738,225	-	19,520	182	718,887
Rental Housing Bonds	1,250,396	95,585	10,960	(149)	1,334,872
General Purpose Bonds	514,770	-	4,515	773	511,028
Commonwealth Mortgage Bonds	1,708,406	170,000	237,643	2,453	1,643,216
Total	$ 4,351,467	388,600	274,683	3,259	4,468,643

	Dec. 31, 2004	Dec. 31, 2005
Notes and bonds payable - current	$ 618,605	430,075
Bonds payable - noncurrent	3,850,038	4,994,070
Total	$ 4,468,643	5,424,145

The Authority has the option to redeem the various bonds at premiums ranging up to 3%. 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 premium and including special and optional redemptions that occurred subsequent to year end) commencing July 1, 2005 and thereafter are as follows:

Period ending June 30,	Original Principal	Current Interest	Total Debt Service
2006	$ 522,980,000	$ 231,319,302	$ 754,299,302
2007	144,745,000	226,821,042	371,566,042
2008	172,490,000	219,461,791	391,951,791
2009	189,640,000	211,891,184	401,531,184
2010	195,445,000	203,440,518	398,885,518
2011 - 2015	957,245,000	876,953,378	1,834,198,378
2016 - 2020	860,955,000	634,453,758	1,495,408,758
2021 - 2025	671,830,000	423,740,052	1,095,570,052
2026 - 2030	490,737,264	253,054,212	743,791,476
2031 - 2035	455,885,098	114,749,040	570,634,138
2036 - 2040	164,790,000	43,085,335	207,875,335
2041 - 2045	109,660,000	12,788,305	122,448,305
2046 - 2050	15,800,000	199,931	15,999,931
	$ 4,952,202,362	$ 3,451,957,848	$ 8,404,160,210

(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 December 31, 2005 and 2004, these escrows and project reserves were presented in the Authority's Statement of Net Assets as follows:

	Dec. 31, 2005	Dec. 31, 2004
Escrows - current	$ 25,393,297	23,162,363
Project reserves - noncurrent	159,793,712	154,433,105
Totals	$ 185,187,009	177,595,468

(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 legislations. 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 $1,244,530 and $1,886,589 at December 31, 2005 and 2004, respectively.

(10) Risk Management

The Authority manages its interest rate 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 six month periods ended December 31, 2005 and 2004, the authority experienced a net gain of $1,037,285 and a net loss of $2,166, respectively, from hedging transactions settled during the period. At December 31, 2005, $11,871,847 of short sales were outstanding which had an unrealized loss of $50,566. 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 December 31, 2005 and 2004, such designations included funds to be available for other loans and loan commitments; over commitments and over allocations 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 asset commitments include contractual obligations for additional contributions to bond reserve funds; maintenance of the Authority's obligation with regard to the general obligation pledge on its bonds; contributions to future bond issues other than those scheduled during the next year; self-insurance on the uninsured, unsubsidized multi-family conventional loan program and any unanticipated losses in connection with the uninsured portions of the balance of the single family and multi-family loans; self-insurance on the liability exposure of Commissioners and officers; the cost of holding foreclosed property prior to resale; costs incurred with the redemption of bonds; single family loan prepayment shortfalls and other risks and contingencies.

(12) Employee Benefits Plans

The Authority incurs employment retirement savings expense equal to eight percent of full-time employees' compensation. Total retirement savings expense for the six month periods ended December 31, 2005 and 2004 was $808,007 and $739,012, respectively

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

As of December 31, 2005 and 2004, included in accounts payable and other liabilities is an employee compensated absences accrual of $2,433,696 and $2,750,615, respectively (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 $6,778,521 and $5,879,476 as of December 31, 2005 and 2004 respectively, (see note 13). Total expense incurred for these benefits for the six month periods December 31, 2005 and 2004 was $639,308, and $603,410, respectively.

(13) Other Long-Term Liabilities

Activity in the Authority's noncurrent liability accounts, other than bonds payable, for the period ending December 31, 2005 was as follows:

	Balance at June 30, 2005	Additions	Decreases	Balance at December 31, 2005
Project reserves	$ 159,409,620	23,320,851	22,936,759	159,793,712
Commonwealth Priority Housing Fund liability	17,985,632	251,553	10,478,511	7,758,674
Other liabilities	10,547,557	833,049	1,342,084	10,038,522
Compensated absences payable	2,796,921	640,481	1,003,706	2,433,696
Retiree healthcare	6,003,160	899,888	124,527	6,778,521
Total	$ 196,742,890	25,945,822	35,885,587	186,803,125

Activity in the Authority's noncurrent liability accounts, other than bonds payable, for the six month period ended December 31, 2004 was as follows:

	Balance at June 30, 2004	Additions	Decreases	Balance at December 31, 2004
Project reserves	$ 151,249,096	23,820,493	20,636,484	154,433,105
Commonwealth Priority Housing Fund liability	18,931,818	193,642	960,716	18,164,744
Other liabilities	9,797,546	879,805	347,199	10,330,152
Compensated absences payable	2,866,993	790,782	907,160	2,750,615
Retiree healthcare	5,141,028	854,331	115,883	5,879,476
Total	$ 187,986,481	26,539,053	22,967,442	191,558,092

(14) Contingencies and Other Matters

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

The Authority participates in several Federal financial assistance programs, principal of which is the Lower Income Housing Assistance Program. Although the Authority's administration of Federal grant programs has been audited in accordance with the provisions of the United States Office of Management and Budget Circular A-133 through June 30, 2005, 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 December 31, 2005 as follows:

Multi-family Housing Bonds	January 1, 2006	$ 63,405,000
Commonwealth Mortgage Bonds	February 1, 2006	7,200,000
Rental Housing Bonds	April 1, 2006	285,000
Commonwealth Mortgage Bonds	April 1, 2006	4,895,000

VIRGINIA HOUSING DEVELOPMENT AUTHORITY
Combining Schedule of Net Assets
December 31, 2005
(Unaudited)

Assets	General Operating Accounts	Multi-Family Housing Bond Group	Rental Housing Bond Group	General Purpose Bond Group	Commonwealth Mortgage Bond Group	Total
Current assets:						
Cash and cash equivalents	$ 108,358,069	53,207,345	153,550,628	27,935,281	402,747,641	745,798,964
Investments	258,200,455	6,467,500	47,666,494	-	369,945,490	682,279,939
Interest receivable - investments	877,012	587,097	403,261	35,474	2,773,021	4,675,865
Mortgage and other loans receivable	3,007,534	15,928,377	22,130,652	18,395,890	38,162,440	97,624,893
Interest receivable - mortgage and other loans	889,560	4,496,452	9,460,197	2,998,634	7,431,324	25,276,167
Other real estate owned	257,190	-	6,421,946	783,405	1,091,785	8,554,326
Other assets	4,054,785	-	-	1,649,666	-	5,704,451
Total current assets	375,644,605	80,686,771	239,633,178	51,798,350	822,151,701	1,569,914,605
Noncurrent assets:						
Investments	223,895,442	62,712,116	45,207,845	1,442,651	6,466,445	339,724,499
Mortgage and other loans receivable	119,236,400	717,811,959	1,517,498,702	514,459,153	2,724,972,299	5,593,978,513
Less allowance for loan loss	1,205,072	4,481,941	11,808,795	2,134,396	16,878,817	36,509,021
Less net deferred loan fees	173,916	10,284,514	21,900,769	5,873,964	2,330,895	40,564,058
Mortgage & other loans receivable - net	117,857,412	703,045,504	1,483,789,138	506,450,793	2,705,762,587	5,516,905,434
Investment in rental property - net	-	-	18,414,720	3,126,431	-	21,541,151
Property, furniture and equipment, less accumulated depreciation and amortization of $23,115,425	7,264,727	-	-	8,949,614	-	16,214,341
Unamortized bond issuance expenses	-	1,105,791	1,972,115	1,919,985	819,217	5,817,108
Interfund receivable	(35,333,514)	4,481,941	11,808,795	2,163,961	16,878,817	-
Other assets	3,457,178	-	-	-	681,909	4,139,087
Total noncurrent assets	317,141,245	771,345,352	1,561,192,613	524,053,435	2,730,608,975	5,904,341,620
Total assets	$ 692,785,850	852,032,123	1,800,825,791	575,851,785	3,552,760,676	7,474,256,225

(Continued)

VIRGINIA HOUSING DEVELOPMENT AUTHORITY
Combining Schedule of Net Assets
December 31, 2005
(Unaudited)

Liabilities and Net Assets	General Operating Accounts	Multi-Family Housing Bond Group	Rental Housing Bond Group	General Purpose Bond Group	Commonwealth Mortgage Bond Group	Total
Current liabilities:						
Notes and bonds payable	$ 231,760,000	95,985,000	38,140,000	10,500,000	53,690,000	430,075,000
Accrued interest payable on notes and bonds	827,061	5,914,373	24,353,398	10,018,060	29,010,304	70,123,196
Housing Choice Voucher contributions payable	6,334,136	-	-	-	-	6,334,136
Escrows	25,393,297	-	-	-	-	25,393,297
Accounts payable and other liabilities	20,023,819	411,412	-	1,644,752	6,236,774	28,316,757
Total current liabilities	284,338,313	102,310,785	62,493,398	22,162,812	88,937,078	560,242,386
Noncurrent liabilities :						
Bonds payable - net	-	486,293,294	1,636,618,801	491,759,475	2,379,398,527	4,994,070,097
Project reserves	159,793,712	-	-	-	-	159,793,712
Other liabilities	26,003,477	833,120	115,286	57,530	-	27,009,413
Total noncurrent liabilities	185,797,189	487,126,414	1,636,734,087	491,817,005	2,379,398,527	5,180,873,222
Total liabilities	470,135,502	589,437,199	1,699,227,485	513,979,817	2,468,335,605	5,741,115,608
Net Assets:						
Invested in capital assets, net of related debt	7,264,727	-	(3,933,769)	(9,830,542)	-	(6,499,584)
Restricted by bond indentures	(304,487)	262,594,924	105,532,075	71,702,510	1,084,425,071	1,523,950,093
Unrestricted	215,690,108	-	-	-	-	215,690,108
Total net assets	222,650,348	262,594,924	101,598,306	61,871,968	1,084,425,071	1,733,140,617
Total liabilities and net assets	$ 692,785,850	852,032,123	1,800,825,791	575,851,785	3,552,760,676	7,474,256,225

VIRGINIA HOUSING DEVELOPMENT AUTHORITY
Combining Schedule of Revenues, Expenses and Changes in Net Assets
Six months ended December 31, 2005
(Unaudited)

	General Operating Accounts	Multi-Family Housing Bond Group	Rental Housing Bond Group	General Purpose Bond Group	Commonwealth Mortgage Bond Group	Total
Operating revenues:						
Interest on mortgage and other loans	$ 2,948,178	29,541,943	53,973,618	20,170,419	82,825,314	189,459,472
Pass-through grants received	59,768,732	-	-	-	-	59,768,732
Housing Choice Voucher fee income	3,835,655	-	-	-	-	3,835,655
Gains and recoveries on sale of other real estate owned	8,177	-	-	1,413	41,185	50,775
Other	2,398,850	-	1,011,602	1,026,923	-	4,437,375
Total operating revenues	68,959,592	29,541,943	54,985,220	21,198,755	82,866,499	257,552,009
Operating expenses:						
Interest on notes and bonds	5,982,574	18,833,294	44,850,425	12,510,897	45,770,846	127,948,036
Salaries and related employee benefits	13,173,008	-	-	-	-	13,173,008
General operating expenses	5,200,557	-	446,021	753,237	-	6,399,815
Note and bond expenses	66,260	-	-	-	-	66,260
Amortization of bond issuance expenses	-	108,079	51,265	27,787	114,108	301,239
Pass-through grants disbursed	59,768,732	-	-	-	-	59,768,732
Housing Choice Voucher program expenses	2,727,966	-	-	-	-	2,727,966
External mortgage servicing expenses	18,922	-	-	3,912	1,337,867	1,360,701
Losses and expenses on other real estate owned	17,834	-	-	9,358	56,456	83,648
Provision for loan losses	3,968,796	-	-	-	-	3,968,796
Total operating expenses	90,924,649	18,941,373	45,347,711	13,305,191	47,279,277	215,798,201
Operating income (expense)	(21,965,057)	10,600,570	9,637,509	7,893,564	35,587,222	41,753,808
Nonoperating revenues:						
Investment income	8,649,540	1,648,900	3,551,470	411,874	7,950,913	22,212,697
Other, net	19,670	-	-	-	-	19,670
Total nonoperating revenues	8,669,210	1,648,900	3,551,470	411,874	7,950,913	22,232,367
Income (loss) before transfers	(13,295,847)	12,249,470	13,188,979	8,305,438	43,538,135	63,986,175
Transfers between funds	(9,863,289)	(21,126,896)	22,817,706	1,172,488	6,999,991	-
Change in net assets	(23,159,136)	(8,877,426)	36,006,685	9,477,926	50,538,126	63,986,175
Total net assets, beginning of period	245,809,484	271,472,350	65,591,621	52,394,042	1,033,886,945	1,669,154,442
Total net assets, end of period	$ 222,650,348	262,594,924	101,598,306	61,871,968	1,084,425,071	1,733,140,617

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.

APPENDIX E

SUMMARY OF CERTAIN PROVISIONS OF THE RESTATED BOND RESOLUTION

The following statements are brief summaries of certain provisions of the Restated Bond Resolution. Such statements are qualified in each case by reference to the Restated Bond Resolution (the full text of the Restated Bond Resolution is set forth in this Appendix E). Capitalized items not previously defined in this Private Placement Memorandum or not defined in this Summary shall have the meanings set forth in the Restated Bond Resolution.

Assets and the Pledge Thereof

"Asset" means any Mortgage Loan, Property of ours, Investment Obligation, Revenue, and, to the extent subject to the pledge or lien of the Restated Bond Resolution or the 1986 Amended Resolution as of the effective date of the Restated Bond Resolution or thereafter, any cash, Exchange Agreement, Enhancement Agreement or Other Financial Agreement. Subject only to our right to withdraw, transfer, sell, exchange or otherwise apply Assets in accordance with the provisions of the Restated Bond Resolution, a pledge of Assets is made by the Restated Bond Resolution to secure the payment of our obligations with respect to the Restated Bond Resolution, including any and all Bond Amounts.

Funds and investments on deposit in any Payment Account and Defeasance Obligations in any Defeasance Account are not Assets; however, a pledge of funds and investments in any Payment Account and Defeasance Obligations in any Defeasance Account is made by the Restated Bond Resolution to secure the payment of our obligations (including any and all Bond Amounts as defined below) on the Bonds, any Enhancement Agreement, any Exchange Agreement and any Other Financial Agreement with respect to which such funds and investments and Defeasance Obligations are so deposited.

Subject only to our right to withdraw, transfer, sell, exchange or otherwise apply Assets in accordance with the provisions of the Restated Bond Resolution, the Assets, regardless of their location or method of identification, are and shall be held in trust for the purposes and under the terms and conditions of the Restated Bond Resolution.

Application of Assets for Payment of Bond Amounts

"Bond Amount" means the one or more payments of principal and interest, including any Compounded Amount, Purchase Price, Redemption Price or Sinking Fund Installment, if applicable, due and payable from time to time with respect to a Bond from its date of issuance to its maturity, tender or redemption date, or any payment required to be made by the Authority pursuant to an Exchange Agreement, Enhancement Agreement or Other Financial Agreement to the extent such payment thereunder is payable from Assets.

On any day on which a Bond Amount is due and payable (or, if such day is not a Business Day, the next Business Day thereafter), we shall pay such Bond Amount from Assets or other funds of ours to either, at our option, the Trustee or to the Owner of such Bond Amount. No such payment shall be made unless we shall pay, in full, all Bond Amounts due and payable on such date. Any such payment to the Trustee shall be in the form of cash or Investment Obligation which is a cash equivalent and the Trustee shall make payment of such Bond Amount to the Owner thereof in accordance with the immediately succeeding paragraph. Any such payment to the Trustee shall, pending disbursement thereof to the Owner thereof, be deposited into a Payment Account.

Funds and investments on deposit in any Payment Account shall not be Assets and shall be unavailable for payment to Owners other than the Owners of the Bond Amounts with respect to which such funds and investments were deposited by us or the Trustee in such Payment Account, and the Owners of any such Bond Amounts shall no longer have a lien on or the benefit of a pledge of the Assets with respect to such Bond Amounts but shall have a lien on, and the benefit of the pledge of, the funds and investments in such Payment Account and shall look only to such funds and investments for payment. No funds and investments shall be withdrawn from any Payment Account other than to pay the applicable Bond Amounts.

Withdrawal, Transfer, Sale, Exchange and Modification of Assets

On any date, we may either directly or by direction to the Trustee (i) apply Assets to make, purchase, finance or refinance Mortgage Loans, to acquire, rehabilitate, construct, finance or refinance Property of ours, to

purchase Investment Obligations and make any required payments associated therewith, to make payments pursuant to any agreement associated, related or entered into with respect to the Bonds, to make payments to any party to comply with the Tax Covenant, to purchase any Bond, to pay any Expense, or to make any other withdrawal, transfer, sale, exchange or other application of Assets required, permitted or contemplated by the Restated Bond Resolution, or (ii) subject to satisfaction of the Revenue Test described below, transfer all or any portion of any Asset to us. Assets so transferred to us shall not thereafter be subject to the lien or pledge created by the Restated Bond Resolution.

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

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

To the extent that pursuant to an Officer's Certificate we pledge any funds which are not then subject to the pledge of the Restated Bond Resolution and which are expected to be thereafter used to finance Mortgage Loans until the issuance of Bonds therefor, an amount of Assets equivalent to such funds, plus a reasonable charge for interest on such funds if and as determined by an Authorized Officer, may be subsequently withdrawn and transferred to us without regard to the satisfaction of the Revenue Test.

Revenue Test

The Revenue Test requires that, prior to effecting any proposed action which is subject thereto, an Authorized Officer shall, based on such assumptions as such Officer shall deem reasonable (but without taking into account any future issuances of Bonds and any Assets derived therefrom, or any future execution of Exchange Agreements, Enhancement Agreements or Other Financial Agreements payable from Assets), determine that, subsequent to the effecting of such action, the anticipated Revenues (including Revenues anticipated to be derived from any acquisition, sale, transfer, exchange, withdrawal or other application or prepayment of any Asset and taking into account any default in the payment of Revenues which such Authorized Officer reasonably expects) to be derived from all Assets which are to remain or anticipated to become subject to the lien or pledge of the Restated Bond Resolution shall be at least sufficient to pay all Bond Amounts as such Amounts are or are anticipated to become due and payable (by purchase, redemption, or otherwise).

Investment of Funds

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

Covenants

Except funds and investments in any Payment Account and Defeasance Obligations in any Defeasance Account, an asset or property may be acquired (by purchase or exchange) or financed pursuant to the Restated Bond Resolution only if such asset or property constitutes an Asset.

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

We shall at all times do and perform all acts required by the Code in order to assure that interest paid by us on a Tax Exempt Bond shall not be included in gross income of the Owner thereof pursuant to the Code.

Incurrence of Additional Bond Obligations

The Restated Bond Resolution permits the incurrence of additional Bond Obligations, including the issuance of additional Bonds and the execution of any Exchange Agreement, Enhancement Agreement or Other Financial Agreements payable from Assets. The Bonds and such additional Bond Obligations so incurred, regardless of the time or times of their issuance, execution or maturity, shall be of equal rank without preference, priority or distinction, except as otherwise expressly provided in or determined pursuant to a supplemental resolution to the Restated Bond Resolution in accordance with subparagraph (8) in "Amendments" below.

Amendments

Amendments to the Restated Bond Resolution may be made by a supplemental resolution. Supplemental resolutions which become effective upon filing with the Trustee may be adopted for any one or more of the following purposes:

(1) To cure any ambiguity, supply any omission, or cure or correct any defect or inconsistent provision in the Restated Bond Resolution;

(2) To include such provisions as are deemed by an Authorized Officer to be necessary or desirable and are not contrary to or inconsistent with the Restated Bond Resolution as theretofore in effect;

(3) To add other covenants, agreements, limitations, or restrictions to be observed by us which are not contrary to or inconsistent with the Restated Bond Resolution as theretofore in effect;

(4) To add to the rights or privileges of the Owners;

(5) To surrender any right, power or privilege reserved to or conferred upon us by the Restated Bond Resolution;

(6) To comply with any provision of the Code or federal or state law or regulation;

(7) To modify or amend the Restated Bond Resolution in any respect, subject to satisfaction of the Revenue Test; provided, however, that no such modification or amendment pursuant to this Subsection (7) shall modify or delete, or shall authorize or permit any deletion or modification of, any of the following: (i) any of the covenants, rights or remedies pursuant to the Tax Covenant or Article IX of the Restated Bond Resolution relating to remedies on default, (ii) the definition of Revenue Test, (iii) any requirement for satisfaction of the Revenue Test, (iv) the definition of Defeasance Obligation, (v) the provisions of Sections 103 through 106 of the Restated Bond Resolution relating to the constitution of the Restated Bond Resolution as a contract, our general obligation and the pledge of Assets, (vi) the provisions of Section 701 of the Restated Bond Resolution which set forth those provisions permitting amendments to the Restated Bond Resolution, (vii) the provisions of Section 1007 of the Restated Bond Resolution relating to the removal of the Trustee, (viii) the provisions of Section 1101 of the Restated Bond Resolution relating to defeasance, (ix) any requirement for notice to or consent, approval or direction of Owners, or (x) the terms of redemption or the due date or amount of payment of any Bond Amount without the consent of the Owner of such Bond Amount; or

(8) To set forth the amendments to the Restated Bond Resolution necessary or desirable to provide for the issuance of Bonds or the execution of Exchange Agreements, Enhancement Agreements or Other Financial Agreements payable from Assets, (i) on which the payment of the Bond Amounts may be subordinate to the payment of the Bond Amounts with respect to other Bonds or Exchange Agreements, Enhancement Agreements or Other Financial Agreements payable from Assets, (ii) which may have the payment of their Bond Amounts conditional upon the happening of certain events, (iii) which may not be general obligations of ours, (iv) which may not be secured by all or any of the Assets, or (v) whose Owners do not have all of the rights or benefits of the other Owners.

Other supplemental resolutions may become effective only if (1) on the date such resolution becomes effective, no Bond issued prior to the adoption of such resolution remains Outstanding and no Exchange Agreement, Enhancement Agreement or Other Financial Agreement in existence prior to the adoption of such resolution remains payable from Assets, or (2) with consent of the Owners of at least sixty percent (60%) of the Bond Obligation responding to the request for consent within the time period as shall be established (and as may be extended) by the Trustee. No such resolution shall permit a change in the terms of redemption or in the due date or amount of payment of any Bond amount without the consent of the Owner of such Bonds Amount or lower the percentage of percentage of the Owners required to effect any such amendment.

Defeasance

If (i) Defeasance Obligations shall have been deposited in a Defeasance Account, (ii) the principal of and interest on such Defeasance Obligations at maturity, without reinvestment, shall be sufficient, in the determination of an Authorized Officer, to pay all Bond Amounts when due at maturity or upon earlier redemption with respect

to a Bond and all fees and expenses of the Trustee with respect to such Defeasance Account, and (iii) any notice of redemption, if applicable, shall have been given to the Owner thereof or provisions satisfactory to the Trustee shall have been made for the giving of such notice, then notwithstanding any other provision of the Restated Bond Resolution to the contrary, the Owner of such Bond shall no longer have a lien on, or the benefit of a pledge of, the Assets. If the foregoing requirements shall have been satisfied with respect to all Outstanding Bonds and no Enhancement Agreement, Exchange Agreement or Other Financial Agreement remains payable from Assets, then the lien, pledge, covenants, agreements and other obligations under the Restated Bond Resolution shall, at our election, be discharged and satisfied, and the Trustee shall thereupon deliver to us all Assets held by it.

Defeasance Obligations shall not be Assets and shall be unavailable for payment to Owners other than the Owners of the Bond Amounts with respect to which such Defeasance Obligations shall have been deposited by us in the applicable Defeasance Account. The Owners of such Bond Amounts so deposited shall have a lien on, and the benefit of the pledge of, the Defeasance Obligations in such Defeasance Account and shall look only to such Defeasance Obligations for payment.

No Defeasance Obligation shall be withdrawn from any Defeasance Account other than to pay, when due, the applicable Bond Amounts or the fees and expenses of the Trustee with respect to such Defeasance Account. If any Defeasance Obligation remains in a Defeasance Account subsequent to the payment of all the applicable Bond Amounts and all fees and expenses of the Trustee with respect to such Defeasance Account have been paid, such Defeasance Obligations shall be transferred to the Authority free of any lien or pledge of the Restated Bond Resolution.

For the purpose of defeasance, interest on any Bond on which the interest is or may be payable at a variable rate shall be calculated at the maximum interest rate (or, if none, the estimated maximum interest rate as determined by an Authorized Officer in an Officer's Certificate) payable on such Bond.

Cash on deposit in a Defeasance Account shall, upon the direction of an Authorized Officer, be invested by the Trustee in Defeasance Obligations or any repurchase agreement fully collateralized, as determined by an Authorized Officer, by any Defeasance Obligations.

Events of Default

Pursuant to the Restated Bond Resolution, each of the following is an Event of Default: (i) a Bond Amount shall become due on any date and shall not be paid by the Authority to either the Trustee or party due such Bond Amount on said date; or (ii) a default shall be made in the observance or performance of any covenant, contract or other provision of the Bonds or Restated Bond Resolution, and such default shall continue for a period of ninety (90) days after written notice to us from Owners of twenty-five percent (25%) of the Bond Obligation or from the Trustee specifying such default and requiring the same to be remedied; or (iii) there shall be filed by or against us as debtor a petition in bankruptcy (or other commencement of a bankruptcy or similar proceeding) under any applicable law or statute now or hereafter in effect.

Remedies

Upon the occurrence and continuance of an Event of Default described in clause (i) in the prior paragraph entitled "Events of Default", the Trustee may, and upon the written request of the Owners of not less than 25% of the Bond Obligation with respect to which such Event of Default has happened, shall, proceed to protect the rights of the Owners under applicable law or the Restated Bond Resolution. 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 Restated Bond Resolution, the Owners of 25% in aggregate principal amount of such issue of Bonds may appoint a trustee to represent the Owners of such issue of Bonds, and such trustee may, and upon written request of the Owners of 25% in aggregate principal amount of such issue of Bonds shall, in its name declare all such issue of Bonds due and payable.

Upon the occurrence and continuance of any Event of Default, the Trustee may, and upon the written request of the Owners of not less than 25% of the Bond Obligation, shall, proceed to protect the rights of the Owners under applicable law or the Restated Bond Resolution.

No Owner shall have any right to institute any suit, action or proceeding in equity or at law for the enforcement of any provision of the Restated Bond Resolution or for the execution of any trust hereunder or for any other remedy hereunder, unless (i) (a) such Owner previously shall have given to us and the Trustee written notice of the Event of Default on account of which such suit, action or proceeding is to be instituted, (b) after the

occurrence of such Event of Default, written request shall have been made of the Trustee to institute such suit, action or proceeding by the Owners of not less than twenty-five percent (25%) of the Bond Obligation or, if such Event of Default is an Event of Default described in clause (i) in the prior section entitled "Events of Default", by the Owners of not less than twenty-five percent (25%) of the Bond Obligation with respect to which such Event of Default has happened, and there shall have been offered to the Trustee security and indemnity satisfactory to it against the costs and liabilities to be incurred therein or thereby, and (c) the Trustee shall have refused or neglected to comply with such request within a reasonable time, or (ii) (a) such Owner previously shall have obtained the written consent of the Trustee to the institution of such suit, action or proceeding, and (b) such suit, action or proceeding is brought for the ratable benefit of all Owners subject to the provisions of the Restated Bond Resolution.

However, nothing in the Restated Bond Resolution shall affect or impair the right of any Owner to enforce the payment of any Bond Amount due such Owner.

Registration

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

Affect of Restated Bond Resolution on Bonds Outstanding on Effective Date

Except as specifically set forth in the Restated Bond Resolution, nothing contained therein shall modify, supersede or otherwise affect the terms of the Series Resolutions or the terms of the Prior Written Determinations. Further, notwithstanding anything in the Restated Bond Resolution to the contrary, Bonds issued under the 1986 Amended Resolution shall be subject to redemption as provided in the 1986 Amended Resolution, the Series Resolutions and the Prior Written Determinations originally applicable to such Bonds.

However, the Restated Bond Resolution provides that:

1. All funds and accounts established under or pursuant to the Series Resolutions or the Prior Written Determinations shall be governed by the terms of the Restated Bond Resolution and shall not be subject to the terms of the Series Resolutions and the Prior Written Determinations;

2. All references in the Series Resolutions and the Prior Written Determinations to the tax covenant in the 1986 Amended Resolution or to the "Tax Covenant" as defined in the Series Resolutions shall be deemed to refer to the Tax Covenant as set forth in Section 504 of the Restated Bond Resolution;

3. The Debt Service Reserve Fund Requirement specified in each Series Resolution or each Prior Written Determinations shall be $0; and

4. The Mortgage Loans which are Assets under the Restated Bond Resolution shall be governed by the provisions of the Restated Bond Resolution and shall not be subject to the covenants, requirements, restrictions, limits and other provisions relating thereto in the Series Resolutions and the Prior Written Determinations, except as required to comply with the Tax Covenant in Section 504 of the Restated Bond Resolution.

Notwithstanding the foregoing exceptions, the covenants of the Authority in such Prior Written Determinations to deposit into Taxable Revenue Accounts (as established pursuant to the Series Resolutions) (i) funds in amounts equal to the outstanding principal balances of any Mortgage Loans that are delinquent by four consecutive monthly payments or are restructured by having delinquent payments added to their outstanding principal balances and (ii) proceeds from the purchase by financial institutions of Mortgage Loans in the event of any material breach of any of their representations or warranties to us with respect to such Mortgage Loans shall remain in full force and effect, provided that we may deposit such funds and proceeds in any other fund and account that is to be used for the payment of principal and interest on the Bonds that financed such Mortgage Loans.

Furthermore, notwithstanding the foregoing exceptions, we may, in order to comply with the terms of the Series Resolutions or any of the Prior Written Determinations permitting the special redemption of Bonds issued pursuant thereto from excess Revenues and other moneys in the Revenue Fund, maintain the Revenue Fund established by the 1986 Amended Resolution until such Bonds shall not be Outstanding or until we shall determine that such Bonds shall not thereafter be redeemed by special redemption, whichever is earlier, and during the time that the Revenue Fund is so maintained, we shall comply with the requirements set forth in Section 504(A) of the 1986 Amended Resolution with respect to withdrawals from the Revenue Fund (see "Revenue Fund" under "Summary of Certain Provisions of the Resolutions"). Except for such requirements of Section 504(A) of the 1986 Amended Resolution, the Revenue Fund shall be governed by the terms of the Restated Bond Resolution. Furthermore, during the time that the Revenue Fund is so maintained, we shall maintain the Bond Payment Fund established pursuant to the 1986 Amended Resolution as shall be necessary to comply with such requirements of Section 504(A) of the 1986 Amended Resolution. The Bond Payment Fund shall be governed by the terms of the Restated Bond Resolution. We may maintain each Mortgage Loan Account and Mortgage Loan Purchase Account established pursuant to the Series Resolution or the Prior Written Determinations. Each such Mortgage Loan Account and Mortgage Loan Purchase Account so maintained shall be governed by the terms of the Restated Bond Resolution. We may transfer Assets in the Revenue Fund and in each such Mortgage Loan Account and Mortgage Loan Purchase Account as may be necessary or appropriate to effect any special redemptions in accordance with the terms of the Series Resolutions and the Prior Written Determinations. In lieu of maintaining the foregoing Funds and Accounts, we may establish and comply with such accounting practices and procedures that will ensure that any such special redemptions of Bonds shall be effected in the same or lesser amount and on the same or later date as could have been effected if such Funds and Accounts had been maintained.

SUPPLEMENTAL BOND RESOLUTION AMENDATORY OF AND SUPPLEMENTAL TO A RESOLUTION PROVIDING FOR THE ISSUANCE OF COMMONWEALTH MORTGAGE BONDS OF THE VIRGINIA HOUSING DEVELOPMENT AUTHORITY AND FOR THE RIGHTS OF THE HOLDERS THEREOF

September 21, 2004

WHEREAS, the Virginia Housing Development Authority has adopted on July 15, 1986, its resolution entitled "A Resolution Providing for the Issuance of Commonwealth Mortgage Bonds of the Virginia Housing Development Authority and for the Rights of the Holders Thereof" (such resolution, as amended and supplemented prior to the effective date hereof, is referred to as the "1986 Amended Resolution"); and

WHEREAS, Section 803 of the 1986 Amended Resolution permits the adoption by the Authority of supplemental bond resolutions but provides that no such resolution shall be effective unless (1) no Bond delivered by the Authority prior to the adoption of such resolution remains Outstanding at the time it becomes effective or (2) such resolution is consented to by or on behalf of the Owners of at least sixty per centum (60%) of the Bond Obligation at the time such consent is given.

NOW, THEREFORE BE IT RESOLVED BY THE COMMISSIONERS OF THE VIRGINIA HOUSING DEVELOPMENT AUTHORITY, that the 1986 Amended Resolution be further amended, supplemented and restated in its entirety as follows:

ARTICLE I

DEFINITIONS, DETERMINATIONS, SECURITY AND INTERPRETATION

SECTION 101. *Definitions.* In the Bond Resolution, unless a different meaning clearly appears from the context, the following definitions shall apply:

"1986 Amended Resolution" means the resolution adopted by the Authority on 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 Holders Thereof", as amended and supplemented prior to the effective date of this Restated Bond Resolution.

"Act" means the Virginia Housing Development Authority Act, being Chapter 1.2 of Title 36 of the Code of Virginia of 1950, as heretofore and hereafter amended.

"Asset" means any Mortgage Loan, Authority Property, Investment Obligation, Revenue, and, to the extent subject to the pledge or lien of the Bond Resolution or the 1986 Amended Resolution as of the effective date of this Restated Bond Resolution or thereafter, any cash, Exchange Agreement, Enhancement Agreement or Other Financial Agreement. Funds and investments on deposit in any Payment Account and Defeasance Obligations in any Defeasance Account are not Assets.

"Authority" means the Virginia Housing Development Authority, a political subdivision of the Commonwealth, and its successors and assigns.

"Authority Designations" means the one or more designations given to a Bond or Bonds as set forth in or determined pursuant to the applicable Written Determinations or Prior Written Determinations or such other designations as may be deemed necessary or convenient by an Authorized Officer or by the Trustee with the consent of an Authorized Officer.

"Authority Property" means real property and improvements thereon or an ownership share in a cooperative housing association or a leasehold interest under a lease and any personal property attached to or used in connection with any of the foregoing which, as of the effective date of this Restated Bond Resolution or thereafter, is owned by the Authority and is either financed pursuant to the Bond Resolution or the 1986 Amended Resolution or acquired by the Authority by purchase or foreclosure of a Mortgage Loan or by deed in lieu thereof.

"Authorized Denominations" means the principal or Maturity Amount denominations authorized for a Bond or Bonds as set forth in or determined pursuant to the applicable Written Determinations or Prior Written Determinations.

"Authorized Officer" means the Chairman, Vice Chairman, Executive Director, Managing Director of Finance and Administration, Finance Director, General Counsel, any functionally equivalent successor position to any of the aforementioned positions but which bears a different title, or any other person authorized by resolution of the Authority to act as an Authorized Officer hereunder.

"Bond" or "Bonds" means any bond or bonds, as the case may be, authorized and issued pursuant to the Bond Resolution or the 1986 Amended Resolution.

"Bond Amount" means the one or more payments of principal and interest, including any Compounded Amount, Purchase Price, Redemption Price or Sinking Fund Installment, if applicable, due and payable from time to time with respect to a Bond from its date of issuance to its maturity, tender or redemption date, or any payment required to be made by the Authority pursuant to an Exchange Agreement, Enhancement Agreement or Other Financial Agreement to the extent such payment thereunder is payable from Assets.

"Bond Limitations Resolution" means a resolution adopted by the Authority setting forth the limitations required by Section 201(B) and such other limitations and matters as may be deemed appropriate by the Authority.

"Bond Obligation" means, as of a specific date of calculation, the aggregate of (1) all interest due or accrued on Outstanding Bonds, (2) all unpaid principal on Outstanding Bonds, (3) the amount of the payment, if any, the Authority would be obligated to make on any Exchange Agreement payable from Assets if such Exchange Agreement were terminated on such date of calculation, and (4) all amounts owed by the Authority with respect to any Enhancement Agreement or Other Financial Agreement payable from Assets.

"Bond Resolution" means the 1986 Amended Resolution, as amended, supplemented and restated by this Restated Bond Resolution and as the same may from time to time be amended, modified or supplemented by one or more Supplemental Bond Resolutions, Bond Limitations Resolutions or Written Determinations.

"Business Day" means any day other than a Saturday, Sunday or legal holiday on which banking institutions in the Commonwealth, or the state in which Principal Office of the Trustee is located, are authorized to remain closed and other than any day on which the New York Stock Exchange or a security depository with respect to a Bond is closed.

"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.

"Chairman" means the Chairman of the Authority.

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

"Commonwealth" means the Commonwealth of Virginia.

"Compounded Amount" means, with respect to a Capital Appreciation Bond, a Delayed Interest Bond or any other Bond so determined in or pursuant to the applicable Written Determinations or Prior Written Determinations, the sum of principal and accrued interest with respect to such Bond, as of any date, as set forth in or determined pursuant to the applicable Written Determinations or Prior Written Determinations.

"Counsel" means any attorney or firm of attorneys (including, without limitation, the General Counsel) designated by the Authority to render any Counsel's Opinion.

"Counsel's Opinion" means an opinion signed by Counsel.

"Current Interest Paying Bond" means a Bond on which interest is not compounded and which is payable at the interest rate or rates and on the dates set forth in or determined pursuant to the applicable Written Determinations or Prior Written Determinations.

"Dated Date" means the date on which a Bond initially begins to accrue interest as set forth in or determined pursuant to the applicable Written Determinations or Prior Written Determinations.

"Defeasance Obligation" means cash, any direct obligation of the United States of America, any direct federal agency obligation the timely payment of the principal of and the interest on which are fully and unconditionally guaranteed by the United States of America, and any Certificates of Accrual on Treasury Securities or Treasury Investors Growth Receipts; provided, however, that the foregoing are not subject to redemption, call or prepayment, in whole or in part, prior to their respective maturity dates.

"Defeasance Account" means a trust account or other financial arrangement whereby the Trustee holds Defeasance Obligations in trust for the payment of all Bond Amounts due and payable or to become due and payable at maturity or upon earlier redemption with respect to one or more Bonds and all fees and expenses of the Trustee with respect to the administration of such trust account or other financial arrangement.

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

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

"DTC" means The Depository Trust Company.

"Enhancement Agreement" means an agreement with one or more third parties which sets forth the terms and conditions upon which such third party or parties will provide for the payment of all or a portion of one or more Bond Amounts with respect to a Bond or a payment to the Authority. The obligations of and any receipts by the Authority with respect to such Enhancement Agreement shall or shall not, as and to the extent set forth in or determined pursuant to the applicable Written Determinations or Prior Written Determinations or an Officer's Certificate, be payable from Assets or constitute an Asset, as applicable.

"Event of Default" means any of the events set forth in Section 902.

"Exchange Agreement" means an agreement with one or more third parties which sets forth the terms and conditions upon which such third party or parties and the Authority will exchange or make payments to the other party or parties. The obligations of and any receipts by the Authority with respect to such Exchange Agreement shall or shall not, as and to the extent set forth in or determined pursuant to the applicable Written Determinations or Prior Written Determinations or an Officer's Certificate, be payable from Assets or constitute an Asset, as applicable.

"Executive Director" means the Executive Director of the Authority.

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

"External Trustee" means a Trustee other than the Authority.

"Federal Funds Rate" means the interest rate on any given date charged by banks with excess bank reserves on deposit at a Federal Reserve Bank to other banks needing overnight loans to meet bank reserve requirements.

"Finance Director" means the Finance Director of the Authority.

"Fiscal Year" means the period of twelve calendar months ending with June 30 of any year, unless some other time period is otherwise designated in or determined pursuant to the applicable Written Determinations or Prior Written Determinations.

"General Counsel" means the General Counsel of the Authority.

"Interest Payment Date" shall mean any date, as set forth in or determined pursuant to the applicable Written Determinations or Prior Written Determinations, on which interest is due and payable with respect to a Bond.

"Investment Obligation" means any of the following acquired or pledged, as of the effective date of this Restated Bond Resolution or thereafter, pursuant to the Bond Resolution or the 1986 Amended Resolution or pursuant to an Officer's Certificate, except to the extent limited by any amendments to the Act:

(A) direct general obligations of the United States of America;

(B) direct obligations of any state of the United States of America or any political subdivision thereof or the District of Columbia bearing a Rating;

(C) obligations the payment of the principal of and interest on which are unconditionally guaranteed by the United States of America;

(D) obligations which bear a Rating and the payment of the principal of and interest on which are unconditionally guaranteed by any state of the United States of America or any political subdivision thereof or the District of Columbia;

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

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

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

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

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

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

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

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

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

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

"Mortgage Loan" means each of the following financed or pledged, as of the effective date of this Restated Bond Resolution or thereafter, pursuant to the Bond Resolution or the 1986 Amended Resolution and the Act or pursuant to an Officer's Certificate: (1) a loan evidenced by a financial instrument or obligation secured by a Mortgage for financing the acquisition, construction, rehabilitation and/or ownership of single family residential housing as authorized by the Act, (2) an obligation, certificate or instrument for which such a loan secured by a Mortgage is the security or the source of payment, or (3) a participation or other ownership interest in either a loan described in (1) or an obligation, certificate or instrument described in (2) with another party or parties or with another source of funds of the Authority not pledged hereunder.

"Mortgagor" means the obligor or obligors on a Mortgage Loan.

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

"Official Statement" means one or more offering or reoffering documents prepared by the Authority which set forth the terms and conditions of the Bonds being offered or reoffered thereby and matters material thereto. Any reference in the Bond Resolution to "Offering Circular" shall be deemed to refer to such Official Statement.

"Other Financial Agreement" means any type of agreement or arrangement not otherwise referred to herein that is provided for in a Written Determinations or Prior Written Determinations. The obligations of and any receipts by the Authority with respect to such Other Financial Agreement shall or shall not, as and to the extent set forth in or determined pursuant to the applicable Written Determinations or Prior Written Determinations or an Officer's Certificate, be payable from Assets or constitute an Asset, as applicable.

"Outstanding" means, when used with reference to Bonds and as of any particular date, all Bonds theretofore and thereupon being issued except (1) any Bond for which funds for the payment of all Bond Amounts due and payable or to become due and payable with respect to such Bond have been paid to the Owner thereof or are held in a Defeasance Account or Payment Account, and (2) any Bond in lieu of or in substitution for which another Bond or Bonds shall have been delivered. If an Officer's Certificate shall have been delivered in accordance with Section 304 with respect to a Bond that the Authority is the Owner thereof, such Bond does not cease to be Outstanding.

"Owner" means the party set forth in the Registration Books as the owner of a Bond or any other party due a Bond Amount.

"Payment Account" means any trust account or other financial arrangement with the Trustee in which payments made by the Authority to the Trustee with respect to Bond Amounts then due and payable are held in trust by the Trustee pending disbursement to the Owners thereof.

"Principal Payment Date" shall mean any date, as set forth in or determined pursuant to the applicable Written Determinations or Prior Written Determinations, on which principal or Compounded Amount is due and payable with respect to a Bond.

"Principal Office" means the office so designated by the Trustee as its office for administering its duties with respect to the Bond Resolution.

"Prior Written Determinations" means any written determinations that, as of the effective date of this Restated Bond Resolution, have been made pursuant to any Series Resolution with respect to Bonds that are Outstanding on such effective date.

"Program" means the Authority's program of making or purchasing Mortgage Loans and financing Authority Property pursuant to the Bond Resolution.

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

"Purchase Price" means the purchase price, including accrued interest, of a Bond on a Tender Date as set forth in or determined pursuant to the applicable Written Determinations or Prior Written Determinations.

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

"Record Date" means the date or dates as determined pursuant to Section 1104.

"Redemption Price" means the principal or Compounded Amount of a Bond or portion thereof to be redeemed plus the applicable redemption premium, if any, payable upon redemption thereof.

"Registration Books" means the records of the Trustee and the Authority which set forth the Owner of any Bond or any other party due a Bond Amount and such other information as is usual and customary in the securities industry or as specifically directed by the Authority.

"Restated Bond Resolution" means this resolution adopted by the Authority on September 21, 2004, amending and restating the 1986 Amended Resolution.

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

"Revenue Test" means that prior to effecting any proposed action subject to this Revenue Test, an Authorized Officer shall, based on such assumptions as such Officer shall deem reasonable (but without taking into account any future issuances of Bonds and any Assets derived therefrom, or any future execution of an Exchange Agreements, Enhancement Agreements or Other Financial Agreements payable from Assets), determine that, subsequent to the effecting of such action, the anticipated Revenues (including Revenues anticipated to be derived from any acquisition, sale, transfer, exchange, withdrawal or other application or prepayment of any Asset and taking into account any default in the payment of Revenues which such Authorized Officer reasonably expects) to be derived from all Assets which are to remain or anticipated to become subject to the lien or pledge of the Bond Resolution shall be at least sufficient to pay all Bond Amounts as such Bond Amounts are or are anticipated to become due and payable (by purchase, redemption, or otherwise).

"Serial Bonds" means the Bonds as so designated in or pursuant to the applicable Written Determinations or Prior Written Determinations.

"Series Resolution" means any series resolution (including any amendments thereto) which, as of the effective date of this Restated Bond Resolution, have been adopted pursuant to the 1986 Amended Resolution and pursuant to which Bonds are Outstanding as of the effective date of this Restated Bond Resolution.

"Sinking Fund Installment" means the amount of principal or Compounded Amount of any particular Term Bonds to be redeemed or retired prior to the maturity date of such Term Bonds all as set forth in or determined pursuant to the applicable Written Determinations or Prior Written Determinations.

"Supplemental Bond Resolution" means any resolution of the Authority amending or supplementing the Bond Resolution adopted and becoming effective in accordance with the terms of Article VII on or after the effective date of this Restated Bond Resolution.

"Tax Covenant" means the covenant set forth in Section 504.

"Term Bonds" means the Bonds as so designated in or pursuant to the applicable Written Determinations or Prior Written Determinations.

"Tender Date" means any date on which a Bond is subject to tender to the Trustee or the Authority or any other party serving as tender agent for purchase as set forth in or determined pursuant to the applicable Written Determinations or Prior Written Determinations.

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

"Trustee" means the trustee appointed by or pursuant to Article X.

"Vice Chairman" means the Vice Chairman of the Authority.

"Written Determinations" means one or more determinations made in writing by an Authorized Officer which sets forth those terms and conditions authorized by the Bond Resolution to be contained therein and such other terms and conditions as an Authorized Officer may deem appropriate and as shall not be inconsistent with the Bond Resolution and the applicable Bond Limitations Resolution. Any such Written Determinations may be amended by an Authorized Officer from time to time prior to the issuance of Bonds designated therein and may thereafter be amended as provided in Articles VII and VIII of the Bond Resolution. Any Written Determinations shall be subject to the conditions and limitations set forth in or determined pursuant to the applicable Bond Limitations Resolution.

Articles and Sections mentioned by number only are the respective Articles and Sections of the Bond Resolution so numbered.

The words "herein", "hereunder", "hereby", "hereto", "hereof", and any similar terms, refer to this Restated Bond Resolution; the term "heretofore" means before the date of adoption of this Restated Bond Resolution; and the term "hereafter" means after the date of adoption of this Restated Bond Resolution.

Words importing the masculine gender include the feminine and neuter genders.

Words importing persons include firms, associations and corporations.

Words importing the singular number include the plural number, and vice versa.

SECTION 102. *Headings*. Any headings, captions, or titles preceding the text of any Article or Section herein and the table of contents with respect to this Restated Bond Resolution are solely for convenience of reference and shall not constitute part of the Bond Resolution or affect its meaning, construction or effect.

SECTION 103. *Bond Resolution to Constitute Contract*. The Bond Resolution shall constitute a contract between the Authority, the Trustee and the Owners. The pledge made in the Bond Resolution and the provisions, covenants and agreements set forth in the Bond Resolution to be performed by or on behalf of the Authority shall be for the benefit, protection and security of the Owners. All of the Bonds and any Exchange Agreement, Enhancement Agreement or Other Financial Agreement payable from Assets, regardless of the time or times of their issuance, execution, or maturity, shall be of equal rank without preference, priority or distinction, except as otherwise expressly provided in or determined pursuant to a Supplemental Bond Resolution in accordance with Section 701 (8).

SECTION 104. *General Obligation*. The obligation of the Authority with respect to the payment of any Bond Amount shall be a general obligation of the Authority payable out of any of the Authority's revenues, moneys or assets, subject only to agreements heretofore or hereafter made with owners of Authority obligations other than the Owners pledging particular revenues, moneys or assets for the payment thereof or except as otherwise expressly provided in or determined pursuant to a Supplemental Bond Resolution in accordance with Section 701 (8).

SECTION 105. *Pledge of Assets*. Subject only to the right of the Authority to withdraw, transfer, sell, exchange or otherwise apply Assets in accordance with the provisions of the Bond Resolution, a pledge of Assets is hereby made to secure the payment of the Authority's obligations with respect to the Bond Resolution, including any and all Bond Amounts, except as otherwise expressly provided in or determined pursuant to a Supplemental Bond Resolution in accordance with Section 701 (8). A pledge of funds and investments in any Payment Account and Defeasance Obligations in any Defeasance Account is hereby made to secure the payment of the Authority's obligations (including any and all Bond Amounts) on the Bonds, any Enhancement Agreement, any Exchange Agreement and any Other Financial Agreement with respect to which such funds and investments and Defeasance Obligations are so deposited.

SECTION 106. *Assets Held in Trust.* Subject only to the right of the Authority to withdraw, transfer, sell,

exchange or otherwise apply Assets in accordance with the provisions of the Bond Resolution, the Assets, regardless of their location or method of identification, are and shall be hereby held in trust for the purposes and under the terms and conditions of the Bond Resolution.

SECTION 107. *Authorization.* Each Authorized Officer is hereby authorized to prepare, distribute, execute and/or accept, and deliver on behalf of the Authority, and the Trustee is hereby authorized to execute and accept when applicable, such Purchase Contracts, Tender Option Agreements, Enhancement Agreements, Exchange Agreements, Other Financial Agreements and such other agreements, instruments, documents and certificates, and to do and perform such other acts, as may be deemed necessary or appropriate by such Authorized Officer to effect the sale, delivery, issuance, tender, remarketing, registration, transfer, exchange, purchase or redemption of any Bond or any Derivative Product or other instrument or agreement related thereto, and the acquisition, sale, transfer, exchange, withdrawal or other application of Assets, and to otherwise carry out the transactions authorized or contemplated by the Bond Resolution. The authorization set forth above with respect to any Exchange Agreement, any Derivative Product or any Other Financial Agreement not otherwise authorized by a Bond Limitations Resolution is conditioned upon the delivery, prior to any execution and delivery of any agreement related thereto, of an Officer's Certificate which states that the form and substance of such Exchange Agreement, Derivative Product or Other Financial Agreement has been discussed at a meeting of the Authority's Board of Commissioners at which a quorum of Commissioners were present.

SECTION 108. *Series Resolutions and Written Determinations.* Except as set forth below, nothing contained herein shall modify, supersede or otherwise affect the terms of the Series Resolutions or the terms of the Prior Written Determinations. The terms of the Series Resolutions and the Prior Written Determinations are hereby ratified and confirmed, are incorporated into this Restated Bond Resolution as though fully set forth herein, and shall remain in full force and effect, except as follows:

1. All funds and accounts established under or pursuant to the Series Resolutions or the Prior Written Determinations shall be governed by the terms of the Bond Resolution and shall not be subject to the terms of the Series Resolutions and the Prior Written Determinations;

2. All references in the Series Resolutions and the Prior Written Determinations to the covenant in the first sentence of Section 604 of the 1986 Amended Resolution or to the "Tax Covenant" as defined in the Series Resolutions shall be deemed to refer to the Tax Covenant as set forth in Section 504 of this Restated Bond Resolution;

3. The Debt Service Reserve Fund Requirement specified in each Series Resolution or each Prior Written Determinations shall be $0; and

4. The Mortgage Loans which are Assets hereunder shall be governed by the provisions of the Bond Resolution and shall not be subject to the covenants, requirements, restrictions, limits and other provisions relating thereto in the Series Resolutions and the Prior Written Determinations, except as required to comply with the Tax Covenant in Section 504 of this Restated Bond Resolution.

Notwithstanding the foregoing exceptions, the covenants of the Authority in such Prior Written Determinations to deposit into Taxable Revenue Accounts (as established pursuant to the Series Resolutions) (i) funds in amounts equal to the outstanding principal balances of any Mortgage Loans that are delinquent by four consecutive monthly payments or are restructured by having delinquent payments added to their outstanding principal balances and (ii) proceeds from the purchase by financial institutions of Mortgage Loans in the event of any material breach of any of their representations or warranties to the Authority with respect to such Mortgage Loans shall remain in full force and effect, provided that the Authority may deposit such funds and proceeds in any other fund and account that is to be used for the payment of principal and interest on the Bonds that financed such Mortgage Loans.

Furthermore, notwithstanding the foregoing exceptions, the Authority may, in order to comply with the terms of the Series Resolutions or any of the Prior Written Determinations permitting the special redemption of Bonds issued pursuant thereto from excess Revenues and other moneys in the Revenue Fund, maintain the Revenue Fund established by the 1986 Amended Resolution until such Bonds shall not be Outstanding or until the Authority shall determine that such Bonds shall not thereafter be redeemed by special redemption, whichever is earlier, and during the time that the Revenue Fund is so maintained, the Authority shall comply with the requirements set forth in Section 504(A) of the 1986 Amended Resolution. Except for the requirements of Section 504(A) of the 1986 Amended Resolution, the Revenue Fund shall be governed by the terms of the Bond Resolution. Furthermore,

during the time that the Revenue Fund is so maintained, the Authority shall maintain the Bond Payment Fund established pursuant to the 1986 Amended Resolution as shall be necessary to comply with the requirements of Section 504(A) of the 1986 Amended Resolution. The Bond Payment Fund shall be governed by the terms of the Bond Resolution. The Authority may maintain each Mortgage Loan Account and Mortgage Loan Purchase Account established pursuant to the Series Resolution or the Prior Written Determinations. Each such Mortgage Loan Account and Mortgage Loan Purchase Account so maintained shall be governed by the terms of the Bond Resolution. The Authority may transfer Assets in the Revenue Fund and in each such Mortgage Loan Account and Mortgage Loan Purchase Account as may be necessary or appropriate to effect any special redemptions in accordance with the terms of the Series Resolutions and the Prior Written Determinations. In lieu of maintaining the foregoing Funds and Accounts, the Authority may establish and comply with such accounting practices and procedures that will ensure that any such special redemptions of Bonds shall be effected in the same or lesser amount and on the same or later date as could have been effected if such Funds and Accounts had been maintained.

SECTION 109. *Parties Interested Herein*. Nothing in the Bond Resolution expressed or implied is intended or shall be construed to confer upon, or to give to, any person or party, other than the Authority, the Trustee and the Owners, any right, remedy or claim under or by reason of the Bond Resolution or any covenant, stipulation, obligation, agreement or condition therein. All the covenants, stipulations, obligations, promises and agreements in the Bond Resolution contained by and on behalf of the Authority, shall be for the sole and exclusive benefit of the Authority, the Trustee and the Owners.

SECTION 110. *Law Applicable*. The laws of the Commonwealth shall be applicable to the interpretation and construction of the Bond Resolution, except to the extent that the laws of another jurisdiction are determined in or pursuant to the applicable Written Determinations or Prior Written Determinations to be applicable.

SECTION 111. *Severability of Invalid Provision*. If any one or more of the provisions, covenants or agreements in the Bond Resolution should be contrary to law, then such provision or provisions, covenant or covenants, agreement or agreements, shall be deemed separable from the remaining provisions, covenants and agreements, and shall in no way affect the validity of the other provisions of the Bond Resolution.

ARTICLE II

BONDS

SECTION 201. *Authorization*. (A) Bonds are hereby authorized to be issued from time to time by the Authority in such amounts and upon such terms and conditions as shall be set forth in or determined pursuant to the Written Determinations approved by an Authorized Officer pursuant to Section 301. Bonds so issued shall comply with the limitations prescribed in the applicable Bond Limitations Resolution.

(B) Each Bond Limitations Resolution shall specify, or set forth the manner for determining, the following limitations with respect to Bonds issued pursuant thereto:

(1) The maximum principal amount of Bonds to be issued or to be Outstanding subject to such Bond Limitations Resolution;

(2) The latest date by which the Authority may enter into the one or more Purchase Contracts providing for the sale of Bonds;

(3) The minimum purchase price for the Bonds upon the issuance thereof; and

(4) Any such other matters as the Authority deems appropriate.

SECTION 202. *Issuance and Delivery*. Subject to the limitations in the applicable Bond Limitations Resolution, Bonds may be delivered, against payment therefor, to the purchaser(s) and/or underwriter(s) thereof in the principal amounts or Maturity Amounts thereof on the date(s) and at the time(s), all as set forth in or determined pursuant to the applicable Written Determinations and upon compliance by the Authority with the requirements of the Bond Resolution.

ARTICLE III

TERMS AND PROVISIONS OF BONDS

SECTION 301. *Terms*. (A) Subject to the limitations set forth in or determined pursuant to the applicable Bond Limitations Resolution, the terms and conditions of the Bonds issued pursuant hereto shall be set forth in or determined pursuant to the applicable Written Determinations. The Written Determinations for any Bonds shall specify the Bond Limitations Resolution which is applicable to such Bonds and shall include, in addition to other matters, all matters applicable to such Bonds which are required or specified by the Bond Resolution or the Bond Limitations Resolution to be included therein. Subject to the provisions of Section 202, the Bonds shall be sold to such purchaser(s) and/or underwriter(s) and at such prices(s) as shall be set forth in or determined pursuant to the applicable Written Determinations and on such other terms and conditions as shall be set forth in or determined pursuant to the applicable Purchase Contract.

(B) Such Written Determinations or other agreement executed by the Authority may include or provide for, without limitation, any such provisions governing or relating to the use and/or investment of assets of the Authority other than Assets as may be deemed by an Authorized Officer to be necessary or appropriate in order to obtain, provide or assure a source of funds for the payment of any Bond Amount.

SECTION 302. *Medium of Payment, Form and Execution*. (A) Each Bond Amount shall be payable to the Owner thereof by check, draft, electronic funds transfer or other means determined by an Authorized Officer (which payment methodology can vary depending upon the amount of the Bond Amount, the Owner of such Bond Amount and the usual and customary practices in the securities industry as determined by an Authorized Officer) 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, unless otherwise set forth in or determined pursuant to the applicable Written Determinations or Prior Written Determinations.

(B) The Bonds shall be issued in the form of fully registered Bonds or such other form as may be set forth in or determined pursuant to the applicable Written Determinations or Prior Written Determinations. In the event that the Bonds are not issued in the form of fully registered Bonds and notwithstanding any inconsistency with the provisions of Section 302 (E) and Sections 303 and 304, such Bonds shall be registered, issued, exchanged, transferred, redeemed, replaced, surrendered and cancelled in such manner as set forth in or determined pursuant to the applicable Written Determinations or Prior Written Determinations.

(C) All or any portion of the Bonds may be owned through the facilities of one or more security depositories as set forth in or determined pursuant to the applicable Written Determinations or Prior Written Determinations. Notwithstanding any inconsistency with the provisions of Section 302 (E) and Sections 303 and 304, the Authority and the Trustee are each hereby authorized to execute and deliver any agreement, to conform to any operational procedure, or to take such other action which may be necessary or convenient to make the Bonds eligible for ownership through such security depositories. Furthermore and notwithstanding anything in Section 605 to the contrary, if any Bonds to be redeemed are then available only through the facilities of a security depository, any notice of redemption to the Owners thereof shall be given at such time prior to the date of redemption as shall be set forth in or determined pursuant to the applicable Written Determinations or Prior Written Determinations and in the manner and containing such information as shall be required by such security depository in order to effect the redemption on the designated date.

(D) Unless otherwise set forth in or determined pursuant to the applicable Written Determinations or Prior Written Determinations, the Bonds shall bear the title "Commonwealth Mortgage Bonds" and may bear such additional Authority Designations as set forth in or determined pursuant to the applicable Written Determinations or Prior Written Determinations or as may be deemed necessary or convenient by an Authorized Officer or by the Trustee with the consent of the Authority.

(E) The Bonds shall be in such form as shall be determined by an Authorized Officer to be appropriate to describe or reference the terms thereof and to comply with the Act. Unless otherwise set forth in or determined pursuant to the applicable Written Determinations or Prior Written Determinations, each Bond shall be issued by the Authority without any manual or facsimile signature of an Authorized Officer but shall be authenticated by the Trustee. Only Bonds bearing a certificate of authentication duly executed by the Trustee shall be entitled to any security, right or benefit pursuant to the Bond Resolution.

SECTION 303. *Registration*. (A) So long as any Bond Amount with respect to a Bond remains payable or is to become payable, the Trustee shall maintain the Registration Books, shall permit the exchange and transfer of ownership of Bonds pursuant to the terms of the Bond Resolution and such other reasonable regulations as it may prescribe without objection thereto by the Authority, and shall make all necessary provisions to permit the exchange and transfer of Bonds at the Principal Office of the Trustee.

(B) The Authority and the Trustee may deem and treat the party in whose name any Bond shall be registered upon the Registration Books on an applicable Record Date as the absolute Owner of such Bond, whether such Bond shall be overdue or not, for the purpose of receiving payment of any Bond Amount due and payable during the time period such person is the Owner of said Bond, and for all other purposes, and all such payments so made to any such Owner or upon his order shall be valid and effectual to satisfy and discharge the liability with respect to such Bond to the extent of the Bond Amount(s) so paid, and neither the Authority nor the Trustee shall be affected by any notice to the contrary. The Authority agrees, to the extent permitted by law, to indemnify and save the Trustee harmless from and against any and all loss, cost, charge, expense, judgment or liability incurred by it, acting in good faith and without negligence hereunder, in so treating such Owner.

SECTION 304. *Exchange, Transfer, Surrender and Cancellation*. (A) Each Bond shall be negotiable as provided in the Act, and shall be exchangeable and transferable only upon the Registration Books upon (1) surrender thereof to the Trustee at the Principal Office, together with a written instrument of exchange or transfer satisfactory to the Trustee, or (2) the satisfaction of such other conditions as may be established by the Trustee (without objection thereto by the Authority) or as may be set forth in or determined pursuant to the Bond Resolution. For any such exchange or transfer of any such Bond, the Trustee shall issue in the name of the exchangee or transferee a new Bond or Bonds of the same aggregate principal or Maturity Amount, Authority Designations, terms (e.g. interest rate) and maturity as the surrendered Bond and shall execute and deliver such Bond or Bonds in accordance with the provisions of the Bond Resolution. For every such exchange or transfer of Bonds, the Authority or the Trustee may make a charge sufficient to reimburse it for any tax, fee or other governmental charge required to be paid with respect to such exchange or transfer.

(B) In case any Bond shall become mutilated or be destroyed, stolen or lost, the Trustee shall deliver a new Bond of like Authority Designations, terms (e.g. interest rate), maturity, and principal or Maturity Amount as the Bond so mutilated, destroyed, stolen or lost, in exchange and substitution for such mutilated Bond upon (1) surrender thereof to the Trustee at the Principal Office, or (2) the satisfaction of such other conditions as may be established by the Trustee (without objection thereto by the Authority) or as may be set forth in or determined pursuant to the Bond Resolution, or in lieu of and in substitution for the Bond destroyed, stolen or lost, upon filing with the Trustee evidence satisfactory to it and complying with such other reasonable requirements as the Trustee may prescribe (without objection thereto by the Authority) and paying such expenses as the Trustee and the Authority may incur in connection therewith.

(C) The Trustee may, and at the direction of the Authority shall, require the surrender of any Bond upon its maturity or redemption as a condition to the payment of the principal or Maturity Amount or any portion thereof.

(D) If less than all of a Bond is to be redeemed, the Trustee shall deliver, upon (1) surrender thereof to the Trustee at the Principal Office or (2) the satisfaction of such other conditions as may be established by the Trustee (without objection thereto by the Authority) or as may be set forth in or determined pursuant to the Bond Resolution, Bonds of similar Authority Designations, terms (e.g. interest rate) and maturity in any of the Authorized Denominations for the portion of the principal or Maturity Amount of the Bond so surrendered which is not to be so redeemed.

(E) Any Bond surrendered to the Trustee pursuant to this Section shall be immediately cancelled by the Trustee. Any Bond surrendered to the Trustee for which all Bond Amounts with respect thereto shall have become due and payable (by maturity, redemption, tender or otherwise) and for which the Authority shall have met all of its obligations under the Bond Resolution with respect to the payment thereof shall be immediately cancelled by the Trustee. Any Bond purchased by the Authority shall be immediately cancelled, unless the Authority shall deliver an Officer's Certificate to the Trustee stating the Authority's intent that any Bond so purchased by the Trustee shall remain Outstanding subject to any such terms and conditions as may be set forth in such Officer's Certificate.

ARTICLE IV

APPLICATION OF ASSETS

SECTION 401. *Payment of Bond Amounts*. (A) On any day on which a Bond Amount is due and payable (or, if such day is not a Business Day, the next Business Day thereafter), the Authority shall pay such Bond Amount from Assets or other funds of the Authority to either, at the Authority's option, the Trustee or to the Owner of such Bond Amount. No such payment shall be made unless the Authority shall pay, in full, all Bond Amounts due and payable on such day. Any such payment to the Trustee shall be in the form of cash or Investment Obligation which is a cash equivalent, and any such payment to the Owner shall be made in accordance with Section 302 (A). In the case of a payment to the Trustee, the Trustee shall make payment of such Bond Amount to the Owner thereof in accordance with Section 302 (A). Any such payment to the Trustee shall, pending disbursement thereof to the Owner thereof, be deposited into a Payment Account.

(B) Funds and investments on deposit in any Payment Account shall not be Assets and shall be unavailable for payment to Owners other than the Owners of the Bond Amounts with respect to which such funds and investments were deposited by the Authority or the Trustee in such Payment Account, and the Owners of any such Bond Amounts shall no longer have a lien on or the benefit of a pledge of the Assets with respect to such Bond Amounts but shall have a lien on, and the benefit of the pledge of, the funds and investments in such Payment Account and shall look only to such funds and investments for payment.

(C) No funds and investments shall be withdrawn from any Payment Account other than to pay the applicable Bond Amounts. If funds and investments remain in a Payment Account subsequent to the payment of all the applicable Bond Amounts, such funds and investments shall be transferred to the Authority free of any lien or pledge of the Bond Resolution.

SECTION 402. *Withdrawals and Transfers*. (A) On any date, the Authority may either directly or by direction to the Trustee (1) apply Assets to make, purchase, finance or refinance Mortgage Loans, to acquire, rehabilitate, construct, finance or refinance Authority Property, to purchase Investment Obligations and make any required payments associated therewith, to make payments pursuant to any agreement associated, related or entered into with respect to the Bonds, to make payments to any party to comply with the covenant in Section 504, to purchase any Bond, to pay any Expense, or to make any other withdrawal, transfer, sale, exchange or other application of Assets required, permitted or contemplated by the Bond Resolution, or (2) subject to satisfaction of the Revenue Test, transfer all or any portion of any Asset to the Authority.

(B) Notwithstanding anything to the contrary herein, to the extent that pursuant to an Officer's Certificate the Authority pledges any funds which are not then subject to the pledge in Section 105 hereof and which are expected to be thereafter used to finance Mortgage Loans until the issuance of Bonds therefor, an amount of Assets equivalent to such funds, plus a reasonable charge for interest on such funds if and as determined by an Authorized Officer, may be subsequently withdrawn and transferred to the Authority without regard to the satisfaction of the Revenue Test.

(C) Assets transferred to the Authority pursuant to Subsections (A) (2) and (B) of this Section shall not thereafter be subject to the lien or pledge created by the Bond Resolution.

SECTION 403. *Sales and Exchanges*. The Authority shall be authorized to sell or exchange any Asset to or with any party (including the Authority) at a price and/or for other assets equal to such Asset's fair market value, or subject to satisfaction of the Revenue Test, at any price and/or for any assets. For purposes of the Bond Resolution, a sale to or exchange with the Authority includes any transaction in which cash or assets of the Authority not included in the Assets are used to pay the sales price of or are exchanged for the Assets.

SECTION 404. *Modifications and Amendments*. The Authority may modify or amend, in any manner it deems appropriate in its sole judgment, the terms and conditions of any Asset, subject to satisfaction of the Revenue Test or subject to the determination of an Authorized Officer that such modification or amendment is either (1) not materially adverse to the payment of any Bond Amount, or (2) in the best interests of the Owners.

ARTICLE V

COVENANTS AND RIGHTS OF THE AUTHORITY

SECTION 501. *General.* The Authority hereby makes the covenants set forth in this Article with the Trustee and with the Owners. The provisions of this Article shall be effective if any Bond Amount is due and payable or is to become due and payable.

SECTION 502. *Powers as to Bonds; Protection of any Liens and Pledges*. The Authority is duly authorized pursuant to law to adopt the Bond Resolution, to make or create the liens and pledges established by the Bond Resolution, and to authorize and issue the Bonds. The Bonds and the provisions of the Bond Resolution are and will be valid and legal obligations of the Authority and enforceable in accordance with their terms. The Authority shall at all times, to the extent permitted by law, defend, preserve and protect any lien and any pledge made or created pursuant to the Bond Resolution and all the rights of the Owners against all claims and demands of all persons whomsoever.

SECTION 503. *Compliance with Conditions Precedent.* Upon the issuance of any Bond, all conditions, acts and things required by law or by the Bond Resolution to exist, to have happened or to have been performed precedent to or upon the issuance of such Bond shall exist, have happened and have been performed.

SECTION 504. *Tax Covenant.* Notwithstanding any provision herein to the contrary (including any restriction imposed by the Revenue Test), in the event that upon the issuance of a Bond, a Counsel's Opinion is delivered opining to the effect that the interest on such Bond is not included in gross income of the Owner thereof pursuant to the Code, the Authority shall at all times do and perform all acts required by the Code in order to assure that the interest on such Bond shall not be included in gross income of the Owner thereof pursuant to the Code. In order to comply with the covenant made in this Section, an Authorized Officer is hereby authorized to take any action (whether or not expressly authorized or permitted herein) and to omit to take any action (whether or not required by the terms hereof), to the extent permitted by applicable law.

SECTION 505. *Asset Covenants.* (A) Except funds and investments in any Payment Account and Defeasance Obligations in any Defeasance Account, an asset or property may be acquired (by purchase or exchange) or financed pursuant to the Bond Resolution only if such asset or property constitutes an Asset as defined in Section 101 hereof.

(B) Subject to the covenant set forth in Section 504, the Authority shall do all such acts as may be reasonably necessary in the sole judgment of the Authority to receive and collect Revenues and to enforce the terms and conditions relating to the Assets.

(C) The Mortgage securing any Mortgage Loan shall be executed and recorded, or reasonable provisions shall have been made for such recording, all in accordance with the requirements of existing laws.

SECTION 506. *Further Assurance.* The Authority shall, so far as it may be authorized by law, pass, make, do, execute, acknowledge and deliver, all and every such further resolutions, acts, deeds, conveyances, assignments, transfers and assurances as may be necessary or desirable for the better assuring, conveying, granting, assigning or confirming all and singular the rights, liens and pledges established pursuant to the Bond Resolution.

SECTION 507. *Records.* The Authority shall keep, or cause to be kept, proper books of record and account in which complete and accurate entries shall be made of all its transactions relating to the Bond Resolution and which reflect all Assets, and all of the foregoing shall at all reasonable times be subject to the inspection of the Trustee and the Owners of an aggregate of not less than twenty five percent (25%) of the Bond Obligation or their representatives duly authorized in writing.

SECTION 508. *Rights of the Authority.* (A) Additional Bonds, Exchange Agreements, Enhancement Agreements and Other Financial Agreements payable from Assets may be issued or executed from time to time pursuant to the Bond Resolution. Except as otherwise expressly provided in or determined pursuant to a Supplemental Bond Resolution in accordance with Section 701 (8), such additional Bonds, Exchange Agreements, Enhancement Agreements and Other Financial Agreements payable from Assets shall be issued or executed on a parity basis with the Outstanding Bonds, shall be secured by the lien and pledge of the Bond Resolution, and shall be payable equally and ratably from the Assets. Such additional Bonds may be issued to refund any Outstanding

Bonds or other obligation of the Authority, whether by payment at maturity or upon redemption or purchase. The Authority expressly reserves the right to adopt one or more other note or bond resolutions and reserves the right to incur or issue other obligations.

(B) Notwithstanding anything to the contrary herein, the Authority may be the Mortgagor with respect to any Mortgage Loan made or financed pursuant to the Bond Resolution. In such an event, the Authority may execute and deliver the Mortgage securing such Mortgage Loan to the Trustee, on behalf of the Owners.

ARTICLE VI

PURCHASE OR REDEMPTION OF BONDS

SECTION 601. *Redemption.* Bonds issued pursuant to the Bond Resolution, the applicable Written Determinations for which provide for redemption prior to maturity, shall be subject to redemption in accordance with such Written Determinations upon compliance by the Authority and the Trustee with the provisions in this Article. Notwithstanding anything in the Bond Resolution to the contrary, Bonds issued under the 1986 Amended Resolution shall be subject to redemption as provided in the 1986 Amended Resolution, the Series Resolutions and the Prior Written Determinations originally applicable to such Bonds.

SECTION 602. *Purchase.* In lieu of the redemption of any Bond, the Authority may direct the Trustee in an Officer's Certificate to purchase such Bond from any Owner willing to sell such Bond. In addition, the Authority may at any time direct the Trustee in an Officer's Certificate to purchase, with Assets or other assets of the Authority, any Bond from any Owner willing to sell such Bond. In either case, the purchase price shall be determined by, or in accordance with the directions of, the Authority.

SECTION 603. *Notice of Purchase or Redemption to Trustee*. The Authority shall direct the Trustee to purchase or redeem Bonds by the delivery to the Trustee of an Officer's Certificate containing such information as the Trustee may reasonably require in order to effect the proposed purchase or redemption. Such Officer's Certificate shall be delivered to the Trustee at such time prior to the date of purchase or prior to the date any notice of redemption must be given to the Owners as shall be reasonably required by the Trustee.

SECTION 604. *Selection of Bonds to be Redeemed by Lot*. If less than all of the Outstanding Bonds with the same Authority Designations (without regard to bond certificate numbers) and maturity are to be redeemed, the Bonds to be redeemed shall be selected by lot in such manner as the Trustee may determine or shall be selected in such other manner as set forth in or determined pursuant to the applicable Written Determinations or Prior Written Determinations.

SECTION 605. *Notice of Redemption to Owners*. (A) When the Trustee shall be required or authorized, or shall receive notice from the Authority of its election, to redeem Bonds, the Trustee shall in accordance with the terms and provisions of the Bond Resolution, select the Bonds to be redeemed and shall give notice of the redemption of Bonds to the Owners thereof unless not required by the Written Determinations or Prior Written Determinations. Such notice shall specify the Authority Designations and maturities of the Bonds to be redeemed, the redemption date, the place or places where the Bond Amounts due upon such redemption will be payable, and any letters, numbers or other distinguishing marks necessary to identify the Bonds to be redeemed, including CUSIPs. In the case of a Bond to be redeemed in part only, such notice shall also specify the portion of the principal amount or Maturity Amount, as the case may be, thereof to be redeemed. Such notice of redemption shall further state that on such date there shall become due and payable upon each Bond to be redeemed the Redemption Price thereof, or the Redemption Price of the specified portion of the principal or Maturity Amount, as the case may be, thereof in the case of a Bond to be redeemed in part only, together with interest accrued, if any, to such date, and that from and after such date interest thereon shall cease to accrue.

(B) Any required notice having been given in the manner provided in this Section, the Bonds or portions thereof called for redemption shall become due and payable on the redemption date and at the Redemption Prices, plus accrued interest.

(C) Any notice of redemption to an Owner shall be sent, as directed by the Authority, by mail or other means of physical delivery or transmitted by facsimile or other means of electronic delivery to such Owner at his last address, physical or electronic, as set forth in the Registration Books. Such notice shall be sent at such time prior to the date of redemption as shall be set forth in or determined pursuant to the applicable Written Determinations or Prior Written Determinations.

(D) Notwithstanding anything in this Section to the contrary, in the case of redemption on a Tender Date of any Bond being tendered on such Tender Date, notice of redemption shall not be required to be given to the Owner thereof, unless expressly required by the applicable Written Determinations or Prior Written Determinations.

SECTION 606. *Rescission of Notice of Redemption*. Notwithstanding anything to the contrary herein, (1) any notice of purchase to the Trustee may be rescinded by the Authority at any time prior to the date of purchase, and (2) any notice of redemption to the Trustee may be rescinded at any time prior to the Trustee's sending of the corresponding notice of redemption to the Owners of the Bonds to be redeemed, and thereafter, prior to the date of redemption, such notice of redemption to the Owner may be rescinded by the Authority with respect to any Bond upon consent to such rescission by the Owner of such Bond.

ARTICLE VII

SUPPLEMENTAL BOND RESOLUTIONS

SECTION 701. *Supplemental Bond Resolutions Effective Upon Filing*. For any one or more of the following purposes and at any time or from time to time, a resolution of the Authority amending or supplementing the Bond Resolution may be adopted which, upon its filing with the Trustee, shall be fully effective in accordance with its terms:

(1) To cure any ambiguity, supply any omission, or cure or correct any defect or inconsistent provision in the Bond Resolution;

(2) To include such provisions as are deemed by an Authorized Officer to be necessary or desirable and are not contrary to or inconsistent with the Bond Resolution as theretofore in effect;

(3) To add other covenants, agreements, limitations, or restrictions to be observed by the Authority which are not contrary to or inconsistent with the Bond Resolution as theretofore in effect;

(4) To add to the rights or privileges of the Owners;

(5) To surrender any right, power or privilege reserved to or conferred upon the Authority by the Bond Resolution;

(6) To comply with any provision of the Code or federal or state law or regulation;

(7) To modify or amend the Bond Resolution in any respect, subject to satisfaction of the Revenue Test; provided, however, that no such modification or amendment pursuant to this Section 701 (7) shall modify or delete, or shall authorize or permit any deletion or modification of, any of the following: (i) any of the covenants, rights or remedies under Section 504 or Article IX, (ii) the definition of Revenue Test in Section 101, (iii) any requirement for satisfaction of the Revenue Test, (iv) the definition of Defeasance Obligation in Section 101, (v) the provisions of Sections 103 through 106, Section 701, Section 1007 and Section 1101, (vi) any requirement for notice to or consent, approval or direction of Owners, or (vii) the terms of redemption or the due date or amount of payment of any Bond Amount without the consent of the Owner of such Bond Amount; or

(8) To set forth such amendments to the Bond Resolution as necessary or desirable to provide for the issuance of Bonds or the execution of Exchange Agreements, Enhancement Agreements or Other Financial Agreements payable from Assets (i) on which the payment of the Bond Amounts may be subordinate to the payment of the Bond Amounts with respect to other Bonds, Exchange Agreements, Enhancement Agreements or Other Financial Agreements payable from Assets, (ii) which may have the payment of their Bond Amounts conditional upon the happening of certain events, (iii) which may not be general obligations of the Authority, (iv) which may not be secured by all or any of the Assets, or (v) whose Owners do not have all of the rights or benefits of the other Owners.

SECTION 702. *Supplemental Bond Resolutions Effective with Consent of Owners*. (A) At any time or from time to time, a resolution may be adopted by the Authority amending, supplementing or eliminating any provision of the Bond Resolution or releasing the Authority from any of the obligations, covenants, agreements, limitations, conditions or restrictions therein contained, but no such resolution shall be effective until after the

filing with the Trustee of a copy thereof and unless (1) on the date such resolution becomes effective, no Bond issued prior to the adoption of such resolution remains Outstanding and no Exchange Agreement, Enhancement Agreement or Other Financial Agreement in existence prior to the adoption of such resolution remains payable from Assets, or (2) such resolution is consented to by the Owners in accordance with the provisions of Article VIII.

(B) The provisions of Subsection (A) of this Section shall not be applicable to resolutions of the Authority adopted and becoming effective in accordance with the provisions of Section 701.

SECTION 703. *Restriction on Amendments.* The Bond Resolution shall not be modified or amended except as provided in and in accordance with the provisions of this Article and Article VIII.

SECTION 704. *Adoption of Supplemental Bond Resolutions.* Any resolution of the Authority referred to and permitted or authorized by Sections 701 or 702 (A) (1) may be adopted by the Authority without the consent of the Owners, but such resolution shall become effective only in accordance with such Sections. Every such resolution so becoming effective shall thereupon form a part of the Bond Resolution.

SECTION 705. *Authorization to Trustee.* The Trustee is hereby authorized to accept the delivery of any resolution of the Authority referred to and permitted or authorized by Sections 701 or 702.

ARTICLE VIII

AMENDMENTS

SECTION 801. *Notice.* Any provision in this Article relating to the mailing, giving or sending of a notice or other document to an Owner shall be fully complied with if such notice or other document is sent or transmitted, at the Authority's discretion, by mail or other means of physical delivery, or by facsimile or other electronic means to such Owner at his last address, physical or electronic, set forth in the Registration Books.

SECTION 802. *Powers of Amendment.* Any consent to a resolution required by Section 702 (A) (2) shall be deemed given if the Owners of more than sixty percent (60%) of the Bond Obligation (as of the Record Date for such consent) responding to the request for consent described in Section 803 shall so consent within such time period as shall be established (and as may be extended) by the Authority. If, however, such resolution will, by its terms, not take effect so long as certain Bonds shall remain Outstanding, or shall not affect certain Owners, the consent of such Owners shall not be required or recognized and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of the Bond Obligation under this Section. No such resolution shall permit a change in the terms of redemption or in the due date or amount of payment of any Bond Amount without the consent of the Owner of such Bond Amount or lower the percentage of Owners required for consent hereunder.

SECTION 803. *Consent of Owners.* (A) Any resolution of the Authority adopted in accordance with the provisions of Sections 702 (A) (2) and 802 shall take effect when and as provided in this Section. A copy of such resolution (or brief summary thereof or reference thereto), together with a request to Owners to indicate whether they consent or do not consent to such resolution, shall be sent to such Owners. Such resolution shall not be effective unless and until, and shall take effect in accordance with its terms when, (1) there shall have been filed with the Trustee the written consents of Owners specified in Section 802, and (2) a notice shall have been given as hereinafter in this Section provided.

(B) Each such consent shall be effective only if accompanied by proof of the ownership, as of the applicable Record Date, of the Bonds with respect to which such consent is given, which proof shall be such as is permitted by Section 1103. A certificate or certificates by the Trustee filed with the Trustee that it has examined such proof and that such proof is sufficient under the provisions of Section 1103 shall be conclusive that the consents have been given by the Owners of the Bonds described in such certificate or certificates of the Trustee. Notwithstanding the provisions of Section 1103, any such consent may, if permitted by the Authority, be revoked in writing by the Owner of such Bond giving such consent prior to the effectiveness thereof.

(C) At any time subsequent to the expiration of the time period during which Owners of the required percentage of the Bond Obligation shall have filed their consents to such resolution, the Trustee shall make and file with the Authority a written statement that such Owners have filed and given such consents. Such written statement shall be conclusive that such consents have been so filed and have been given.

(D) Subsequent to the date on which the written statement of the Trustee provided for in Subsection (C)

of this Section is filed, a notice stating in substance that such resolution has been consented to by such Owners and will be effective as provided in this Section shall be mailed, sent or given to such Owners. A record, consisting of the papers required or permitted by this Section to be filed with the Trustee, shall be proof of the matters therein stated. Such resolution shall be deemed conclusively binding upon the Authority, the Trustee and all Owners at the expiration of ten (10) days after the filing with the Trustee of proof of the mailing or other delivery of such last-mentioned notice.

SECTION 804. *Modification of Bonds.* If the Authority shall so determine, new Bonds, as modified in such manner as in the opinion of an Authorized Officer of the Authority is necessary to conform to action provided for in this Article, shall be prepared and delivered to the Trustee.

ARTICLE IX

REMEDIES ON DEFAULT

SECTION 901. *Powers of Trustee.* The Authority hereby vests in the Trustee, in trust for the benefit of the Owners and in addition to all its rights, powers and duties set forth in any other provision of the Bond Resolution, the rights, powers and duties set forth in this Article.

SECTION 902. *Events of Default.* Each of the following shall constitute an "Event of Default" under the Bond Resolution:

(1) a Bond Amount shall become due on any date and shall not be paid by the Authority to either the Trustee or party due such Bond Amount on said date; or

(2) a default shall be made in the observance or performance of any covenant, contract or other provision of the Bonds or Bond Resolution, and such default shall continue for a period of ninety (90) days after written notice to the Authority from Owners of twenty-five percent (25%) of the Bond Obligation or from the Trustee specifying such default and requiring the same to be remedied; or

(3) there shall be filed by or against the Authority as debtor a petition in bankruptcy (or other commencement of a bankruptcy or similar proceeding) under any applicable law or statute now or hereafter in effect.

SECTION 903. *Enforcement by Trustee.* (A) Upon the occurrence and continuance of an Event of Default described in Section 902 (1), the Trustee in its own name and as trustee of an express trust, on behalf and for the benefit and protection of the Owners, may, after notice to the Authority, proceed, or upon the written request of the Owners of not less than twenty-five percent (25%) of the Bond Obligation with respect to which such Event of Default has happened, shall proceed, subject to the provisions of Section 1002, to protect and enforce its rights and, to the full extent that the Owners themselves might do, the rights of such Owners under applicable law or under the Bond Resolution by such suits, actions or proceedings in equity or at law, either for the specific performance of any covenant or contract contained herein or in aid or execution of any power herein granted or for any legal or equitable remedy as the Trustee shall deem most effectual to protect and enforce the rights aforesaid.

(B) Upon the occurrence and continuance of an Event of Default described in any of the clauses of Section 902, the Trustee in its own name and as trustee of an express trust, on behalf and for the benefit and protection of all Owners, may, after notice to the Authority, proceed, or upon the written request of the Owners of not less than twenty-five percent (25%) of the Bond Obligation shall proceed, subject to the provisions of Section 1002, to protect and enforce its rights and, to the full extent that the Owners themselves might do, the rights of such Owners under applicable law or under the Bond Resolution by such suits, actions or proceedings in equity or at law, either for the specific performance of any covenant or contract contained herein or in aid or execution of any power herein granted or for any proper legal or equitable remedy as the Trustee shall deem most effectual to protect and enforce the rights aforesaid.

SECTION 904. *Representation of Owners by Trustee.* The Trustee is hereby appointed (and the Owners shall be conclusively deemed to have so appointed the Trustee and to have mutually covenanted and agreed, each with the other, not to revoke such appointment) the true and lawful attorney-in-fact of the Owners with power and authority, at any time in its discretion:

(1) Pursuant to the Bond Resolution or the Act or any other law and subsequent to the occurrence and

continuance of an Event of Default, (a) by action in lieu of mandamus or other prerogative writ or by other suit, action or proceeding in equity or at law, to enforce all rights of the Owners including the right to require the Authority to fulfill its obligations with respect to the Bond Resolution, (b) to bring suit upon the Bonds, (c) by action or suit in equity, to require the Authority to account as if it were a trustee of an express trust for the Owners, or (d) by action or suit in equity, to enjoin any acts or things which may be unlawful or in violation of the rights of the Owners; and

(2) To make and file in any bankruptcy or similar proceeding either in the respective names of the Owners or on behalf of all the Owners as a class, any proof of debt, amendment of proof of debt, petition or other document, to receive payment of any sums becoming distributable to the Owners, and to execute any other papers and documents and do and perform any and all such acts and things as may be necessary or advisable in the opinion of the Trustee in order to have the respective claims of the Owners against the Authority allowed in any bankruptcy or other proceeding.

SECTION 905. *Limitation on Powers of Trustee.* Nothing in the Bond Resolution shall be deemed to give power to the Trustee either as such or as attorney-in-fact of the Owners to vote the claims of the Owners in any bankruptcy proceeding or to accept or consent to any plan or reorganization, readjustment, arrangement or composition or other like plan, or by other action of any character to waive or change any right of any Owner or to give consent on behalf of any Owner to any modification or amendment of the Bond Resolution requiring such consent or to any resolution requiring such consent pursuant to the provisions of Article VII or Article VIII.

SECTION 906. *Action by Trustee.* (A) All rights of action under the Bond Resolution or upon any of the Bonds, enforceable by the Trustee, may be enforced by the Trustee without the possession of any of the Bonds, or the production thereof in the trial or other proceedings relative thereto, and any such suit, action or proceeding instituted by the Trustee may be brought in its name for the benefit of the Owners, subject to the provisions of the Bond Resolution.

(B) In the enforcement of any rights under the Bond Resolution, the Trustee shall be entitled to sue for, enforce payment of and to receive any and all Bond Amounts then or during any Event of Default becoming, and at any time remaining, due and unpaid to the Owners thereof, together with interest on such overdue Bond Amounts at the applicable Federal Funds Rate and any and all costs and expenses of collection and of all proceedings hereunder, without prejudice to any other right or remedy of the Trustee or of the Owners, and to recover and enforce judgment or decree against the Authority for any portion of such Bond Amounts due and remaining unpaid together with interest at the applicable Federal Funds Rate and all costs and expenses as aforesaid, and to collect in any manner provided by law, the moneys adjudged or decreed to be payable.

(C) In any action, suit or other proceeding by the Trustee pursuant to this Section, the fees and expenses of the Trustee and its counsel allowed by a court of competent jurisdiction, shall be a first lien on the Assets.

SECTION 907. *Accounting, and Examination of Records after Default.* The Authority covenants with the Trustee that, if an Event of Default shall have occurred and shall not have been remedied, (1) the books of record and account of the Authority and all records relating to the Bond Resolution and the Program shall at all reasonable times be subject to the inspection and use of the Trustee and of its agents and attorneys, and (2) the Authority, whenever the Trustee shall reasonably demand, will account, as if it were the trustee of an express trust, for all Assets.

SECTION 908. *Restriction on Owner's Action.* (A) No Owner shall have any right to institute any suit, action or proceeding in equity or at law for the enforcement of any provision of the Bond Resolution or for the execution of any trust hereunder or for any other remedy hereunder, unless (1) (a) such Owner previously shall have given to the Authority and the Trustee written notice of the Event of Default on account of which such suit, action or proceeding is to be instituted, (b) after the occurrence of such Event of Default, written request shall have been made of the Trustee to institute such suit, action or proceeding by the Owners of not less than twenty-five percent (25%) of the Bond Obligation or, if such Event of Default is an Event of Default set forth in Section 902 (1), by the Owners of not less than twenty-five percent (25%) of the Bond Obligation with respect to which such Event of Default has happened, and there shall have been offered to the Trustee security and indemnity satisfactory to it against the costs and liabilities to be incurred therein or thereby, and (c) the Trustee shall have refused or neglected to comply with such request within a reasonable time, or (2) (a) such Owner previously shall have obtained the written consent of the Trustee to the institution of such suit, action or proceeding, and (b) such suit, action or proceeding is brought for the ratable benefit of all Owners subject to the provisions of the Bond Resolution.

(B) No Owner shall have any right in any manner whatever by his action to affect, disturb or prejudice the pledge of Assets hereunder, or, except in the manner and on the conditions in this Section provided, to enforce any right or duty hereunder.

SECTION 909. *Application of Assets after Default.* (A) All Assets collected by the Trustee pursuant to this Article shall, unless otherwise directed by a court of competent jurisdiction, be held in trust by the Trustee for the benefit of the Owners, and shall be applied in a manner determined by the Trustee to comply with the terms of the Bond Resolution.

(B) In the event that the Assets held by the Authority or Trustee shall be insufficient for the payment of Bond Amounts as such become due and payable, such Assets shall be applied to the payment to the Owners entitled thereto of all Bond Amounts which shall have become due and payable, ratably, according to the amounts due and payable, without any discrimination or preference unless otherwise expressly provided in or determined pursuant to the Bond Resolution.

SECTION 910. *Remedies Not Exclusive.* No remedy by the terms of the Bond Resolution conferred upon or reserved to the Trustee or to Owners is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in addition to any other remedy given hereunder or now or hereafter existing at law or in equity or by statute, except as provided in Section 908.

SECTION 911. *Control of Proceedings.* In the case of an Event of Default, the Owners of a majority of the Bond Obligation, shall have the right, subject to the provisions of Section 908, by an instrument in writing executed and delivered to the Trustee, to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee; provided, however, that the Trustee shall have the right to decline to follow any such direction if the Trustee shall be advised by counsel that the action or proceeding so directed may not lawfully be taken, or if the Trustee in good faith shall determine that the action or proceeding so directed would involve the Trustee in personal liability or be unjustly prejudicial to Owners not parties to such direction.

SECTION 912. *Effect of Waiver and Other Circumstances.* No delay or omission of the Trustee or of any Owners to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver of any such default, or acquiescence therein, and every right, power and remedy given by the Bond Resolution to them or any of them may be exercised from time to time and as often as may be deemed expedient by the Trustee or, in an appropriate case, by the Owners. In case the Trustee shall have proceeded to enforce any right under the Bond Resolution, and such proceedings shall have been discontinued or abandoned for any reason, or shall have been determined adversely to the Trustee, then and in every such case the Authority and the Trustee will be restored to their former positions and rights hereunder with respect to all rights, remedies and powers of the Trustee, which shall continue as if no such proceedings had been taken.

SECTION 913. *Right to Enforce Payment of Bond Amounts Unimpaired.* Nothing in this Article shall affect or impair the right of any Owner to enforce the payment of any Bond Amount due such Owner.

ARTICLE X

THE TRUSTEE

SECTION 1001. *Appointment and Acceptance of Duties.* Any Trustee hereunder must be (1) a bank, trust company or national banking association, having trust powers, or (2) with the prior approval of its Commissioners, the Authority. As of the date of adoption of this Restated Bond Resolution, the Trustee is SunTrust Bank, Atlanta, Georgia. The rights, responsibilities and duties of the Trustee under the Bond Resolution are hereby vested in said Trustee in trust for the benefit of the Owners. Any successor Trustee shall signify its acceptance of the duties and obligations imposed upon it by the Bond Resolution by executing and delivering to the Authority a written instrument of acceptance thereof.

SECTION 1002. *Limited Liability of Trustee.* The External Trustee shall not be liable in connection with the performance of its duties and responsibilities hereunder except for its own negligence or default. The recitals of fact herein and in the Bonds shall be taken as the statements of the Authority, and the External Trustee assumes no responsibility for the correctness of the same. The External Trustee makes no representations as to the validity

or sufficiency of the Bond Resolution or of any Bonds issued thereunder or in respect of the security afforded by the Bond Resolution, and the External Trustee shall not incur any responsibility in respect thereof. The External Trustee shall not be under any responsibility or duty with respect to Assets except to the extent such Assets are paid to the External Trustee in its capacity as Trustee, or the application of any such Assets paid or distributed to the Authority or others in accordance with the Bond Resolution. The External Trustee shall be under no obligation or duty to perform any act which would involve it in expense or liability or to institute or defend any action or suit in respect of the Bond Resolution or Bonds, or to advance any of its own moneys, unless properly indemnified.

SECTION 1003. *Evidence on which Trustee May Act.* The External Trustee shall be protected in acting upon any notice, resolution, request, consent, order, certificate, opinion, bond, or other paper or document believed by it to be genuine, and to have been signed or presented by the proper party or parties. The External Trustee may consult with counsel, who may or may not be of counsel to the Authority, and may request an opinion of counsel as a condition to the taking or suffering of any action hereunder, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it hereunder in good faith and in accordance therewith. Whenever the External Trustee shall deem it necessary or desirable that a fact or matter be proved or established prior to taking or suffering any action hereunder, such fact or matter (unless other evidence in respect thereof be herein specifically prescribed) may be deemed to be conclusively proved and established by an Officer's Certificate stating the same, and such Officer's Certificate shall be full warrant for any action taken or suffered in good faith under the provisions of the Bond Resolution upon the faith thereof. Except as otherwise expressly provided herein, any request, order, notice or other direction required or permitted to be furnished pursuant to any provision hereof by or on behalf of the Authority to the External Trustee shall be sufficiently executed if executed by an Authorized Officer.

SECTION 1004. *Compensation and Expenses.* Unless otherwise set forth in a contract between the Authority and the External Trustee, the Authority shall pay to the External Trustee from time to time reasonable compensation for all services rendered by it hereunder, and also reimbursement for all its reasonable expenses, charges, and legal fees and other disbursements and those of its attorneys, agents and employees, incurred in and about the performance of its powers and duties hereunder.

SECTION 1005. *Certain Permitted Acts.* The External Trustee may become the Owner of or may deal in Bonds and may be a party to any agreement or transactions related to the Bonds as fully and with the same rights it would have if it were not the External Trustee. To the extent permitted by law, the External Trustee may act as depository for, and permit any of its officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of Owners or to effect or aid in any reorganization growing out of the enforcement of the Bonds or the Bond Resolution, whether or not any such committee shall represent the Owners of a majority of the Bond Obligation.

SECTION 1006. *Resignation.* Unless otherwise provided by contract between an External Trustee and the Authority, the Trustee may at any time resign and be discharged of its duties and obligations created by the Bond Resolution by giving not less than ninety (90) days' written notice to the Authority. Such resignation shall take effect upon the day specified in such notice unless previously a successor shall have been appointed by the Authority as herein provided, in which event such resignation shall take effect immediately on the effective date of the appointment of such successor. Notwithstanding anything in the Bond Resolution to the contrary, the resignation of the Trustee shall not take effect until a successor Trustee shall have been appointed and shall have accepted its duties and obligations as of the effective date of such resignation.

SECTION 1007. *Removal*. Any Trustee may be removed at any time by the Owners of a majority of the Bond Obligation by an instrument or concurrent instruments in writing signed and duly acknowledged by such Owners or by their attorneys duly authorized in writing and delivered to the External Trustee, if any, and to the Authority. The Authority may remove any External Trustee at any time, except during the existence and continuance of an Event of Default. In the event of the occurrence and continuance of an Event of Default and in the event that the Authority is serving in the capacity of the Trustee, the Authority shall immediately appointment a successor Trustee or shall, or any Owner may, petition a court of competent jurisdiction to appoint a successor Trustee, and the Authority shall resign as Trustee as of the effective date of the appointment of such successor Trustee. No Trustee shall be removed unless, on or prior to the effective date of removal of the Trustee, the Owners, the Authority or a court of competent jurisdiction, as the case may be, shall have appointed a successor Trustee and such successor Trustee shall have accepted its duties and obligations hereunder as of the effective date of such removal. Any successor Trustee shall have the qualifications set forth in Section 1001.

SECTION 1008. *Transfer of Rights and Property to Successor Trustee.* Any successor Trustee appointed

hereunder shall execute, acknowledge and deliver to the Authority, an instrument accepting such appointment, and on the effective date thereof, such successor Trustee, without any further act, deed or conveyance, shall become the Trustee under the Bond Resolution. Upon the effective date of any appointment of a successor Trustee, the predecessor Trustee shall immediately pay over, assign and deliver to the successor Trustee any property held by it pursuant to the terms of the Bond Resolution, including the Registration Books and any Assets. Upon the written request of the Authority or of the successor Trustee, the predecessor Trustee shall execute, acknowledge and deliver any instruments of conveyance and further assurance and do such other things as may reasonably be required to effect the transfer of all right, title and interest of the predecessor Trustee in and to any property previously held by it pursuant to the terms of the Bond Resolution. Should any deed, conveyance or instrument in writing from the Authority be required by such successor Trustee for more fully and certainly vesting in and confirming to such successor Trustee any such Assets, estates, properties, rights, powers and duties, any and all such deeds, conveyances and instruments in writing shall, on request, and so far as may be authorized by laws, be executed, acknowledged and delivered by the Authority.

SECTION 1009. *Merger or Consolidation*. Any company into which the Trustee may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it shall be a party or any company to which such Trustee may sell or transfer all or substantially all of its corporate trust business (provided such company shall be a bank or trust company or national banking association which is qualified to be a successor to such Trustee and shall be authorized by law to perform all the duties imposed upon it by the Bond Resolution) shall be the successor to such Trustee without the execution or filing of any paper or the performance of any further act.

SECTION 1010. *Authority as Trustee*. Any notice, consent, resolution, opinion or other document required hereunder to be given, filed or delivered by the Authority to the Trustee or by the Trustee to the Authority shall, if the Authority is serving in the capacity of the Trustee, be considered so given, filed or delivered upon the Authority's generation of such notice, consent, resolution, opinion or other document.

ARTICLE XI

MISCELLANEOUS

SECTION 1101. *Defeasance*. (A) If (1) Defeasance Obligations shall have been deposited in a Defeasance Account, (2) the principal of and interest on such Defeasance Obligations at maturity, without reinvestment, shall be sufficient, in the determination of an Authorized Officer, to pay all Bond Amounts when due at maturity or upon earlier redemption with respect to a Bond and all fees and expenses of the Trustee with respect to such Defeasance Account, and (3) any notice of redemption, if applicable, shall have been given to the Owner thereof or provisions satisfactory to the Trustee shall have been made for the giving of such notice, then notwithstanding any other provision of the Bond Resolution to the contrary, the Owner of such Bond shall no longer have a lien on, or the benefit of a pledge of, the Assets. If the foregoing requirements shall have been satisfied with respect to all Outstanding Bonds and no Enhancement Agreement, Exchange Agreement or Other Financial Agreement remains payable from Assets, then the lien, pledge, covenants, agreements and other obligations under the Bond Resolution shall, at the election of the Authority, be discharged and satisfied, and the Trustee shall thereupon deliver to the Authority all Assets held by it.

(B) Defeasance Obligations shall not be Assets and shall be unavailable for payment to Owners other than the Owners of the Bond Amounts with respect to which such Defeasance Obligations shall have been deposited by the Authority in the applicable Defeasance Account. The Owners of such Bond Amounts so deposited shall have a lien on, and the benefit of the pledge of, the Defeasance Obligations in such Defeasance Account and shall look only to such Defeasance Obligations for payment.

(C) No Defeasance Obligation shall be withdrawn from any Defeasance Account other than to pay, when due, the applicable Bond Amounts or the fees and expenses of the Trustee with respect to such Defeasance Account. If any Defeasance Obligation remains in a Defeasance Account subsequent to the payment of all the applicable Bond Amounts and all fees and expenses of the Trustee with respect to such Defeasance Account have been paid, such Defeasance Obligations shall be transferred to the Authority free of any lien or pledge of the Bond Resolution.

(D) For the purpose of this Section, interest on any Bond on which the interest is or may be payable at a variable rate shall be calculated at the maximum interest rate (or, if none, the estimated maximum interest rate as determined by an Authorized Officer in an Officer's Certificate) payable on such Bond.

(E) Cash on deposit in a Defeasance Account shall, upon the direction of an Authorized Officer, be invested by the Trustee in Defeasance Obligations or any repurchase agreement fully collateralized, as determined by an Authorized Officer, by any Defeasance Obligations.

SECTION 1102. *Escheat*. Notwithstanding any provision herein to the contrary, any Bond Amount held in a Payment Account or Defeasance Account which remains unclaimed for a period of six (6) years subsequent to the date such Bond Amount was due and payable shall be paid by the Trustee to the Authority free of the trust created by the Payment Account or Defeasance Account and free of any lien or pledge of the Bond Resolution, and thereafter the Owner of such Bond Amount shall look only to the Authority for the payment thereof. If any of the provisions of this Section 1102 shall conflict or be inconsistent with any applicable provisions of law, the applicable provisions of law shall control.

SECTION 1103. *Evidence of Signatures of Owners.* (A) Any request, consent, revocation of consent, assignment or other instrument which the Bond Resolution may require or permit to be signed and executed by Owners may be in one or more instruments of similar tenor, and shall be signed or executed by such Owners in person or by their attorneys duly authorized in writing. Proof of (1) the execution of any such instrument or of an instrument appointing or authorizing any such attorney, or (2) ownership by the Owner of any Bond or Bond Amount shall be sufficient for any purpose of the Bond Resolution if made in the following manner or in any other manner satisfactory to the Trustee and the Authority:

(a) The fact and date of such execution or ownership may be proved (1) by the acknowledgment of such execution by a witness, who may be required by the Trustee or the Authority to be a notary public, or (2) by the certificate, which need not be acknowledged or verified, of an officer of a bank, trust company or financial firm or corporation (including members of the National Association of Securities Dealers, Inc.) satisfactory to the Trustee that the person signing such instrument acknowledged to such bank, trust company, firm or corporation the execution thereof.

(b) The authority of a person or persons to execute any such instrument on behalf of a corporate Owner may be established without further proof if such instrument is signed by a person purporting to be the president, vice-president or other authorized officer of such corporation.

The Authority or the Trustee may in their discretion require further or other proof in cases where they deem the same desirable.

(B) Any request, consent or other instrument executed by the Owner of any Bond shall bind all future Owners of such Bond with respect to anything done or suffered to be done hereunder by the Authority or the Trustee in accordance therewith.

(C) Each Owner may elect to give consent or not give consent with respect to each Authorized Denomination of Bonds owned by such Owner.

SECTION 1104. *Record Dates*. The Trustee shall establish such Record Date(s), which the Authority may require to be subject to its prior approval, for the purposes of determining the Owner of any Bond or Bond Amount or determining the Owners who are eligible to give their consent or who are to receive notices of certain events under the Bond Resolution or who may exercise certain rights under the Bond Resolution.

SECTION 1105. *Exclusion of Bonds.* Bonds which are owned by the Authority and which have not been cancelled by the Trustee shall be excluded and shall not be deemed Outstanding for the purpose of any consent or other action or any calculation of Bond Obligation under Section 507 and Articles VIII, IX and X.

SECTION 1106. *Preservation and Inspection of Documents.* All reports, resolutions, certificates, statements, and other documents received by the Trustee with respect to the Bond Resolution shall be retained in its possession and shall be available at all reasonable times to the inspection of the Authority or the Owners of an aggregate of not less than twenty-five percent (25%) of the Bond Obligation or their agents or representatives duly authorized in writing, any of whom may make copies thereof, but any such reports, resolutions, certificates, statements or other documents may, at the election of the Trustee, be destroyed or otherwise disposed of at any time six years subsequent to such date as any and all liens and pledges and all covenants, agreements and other obligations of the Authority with respect to the Bond Resolution shall be discharged as provided in Section 1101.

SECTION 1107. *No Recourse.* No recourse shall be had for the payment of any Bond Amount or for any claim based thereon or on the Bond Resolution or the 1986 Amended Resolution or on any other agreement, instrument, certificate or opinion relating to any Bond against any current or former Commissioner, Authorized Officer or employee of the Authority, the Trustee or its officers or employees, or any person executing a Bond.

SECTION 1108. *Effective Date.* This Restated Bond Resolution shall be effective upon the satisfaction of the condition in Section 803(A)(1) of the 1986 Amended Resolution or the condition in Section 803(A)(2) of the 1986 Amended Resolution, whichever occurs first, and upon satisfaction of the other requirements specified in Sections 803, 805 and (in the case of satisfaction of the condition in Section 803(A) (2) of the 1986 Amended Resolution) 903 of the 1986 Amended Resolution.

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX F

Set forth below is the proposed form of the Approving Opinion of Hunton & Williams LLP, 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 $7,585,891 of Commonwealth Mortgage Bond Pass-Through Certificates, 2006 Series B (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 March 21, 2006 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 April 20, 2006, 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 Private Placement Memorandum for the Offered Certificates dated April 20, 2006.

Very truly yours,

[THIS PAGE INTENTIONALLY LEFT BLANK]

No dealer, broker, salesman or other person has been authorized by us or the Placement Agent 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 Placement Agent.

TABLE OF CONTENTS

Page

Reference Sheet *1*

The Offered Certificates *4*

Risk Factors *5*

Description of the Offered Certificates *8*

Ratings *12*

Tax Matters *12*

Legal Matters and Continuing Disclosure *13*

Sale *13*

Litigation *13*

Legal Investment *13*

General Matters *14*

Security *14*

The General Program *20*

The Authority *24*

The Resolutions *29*

Index of Principal Definitions *37*

Miscellaneous *37*

Appendix

Mortgage Insurance Policies ..... *A*

DTC ..... *B*

Our Financial Statements ..... *C*

Continuing Disclosure Agreement ..... *D*

Restated Bond Resolution ..... *E*

Opinion of Hunton & Williams LLP ..... *F*

$7,585,891

Commonwealth Mortgage Bonds
Pass-Through Certificates
2006 Series B

SunTrust Bank
Trustee

PRIVATE PLACEMENT MEMORANDUM

Virginia Housing Development Authority

Issuer

April 20, 2006