	Moody's	S&P
Ratings	*Aa1*	*AA+*

(See "Ratings" herein)

In the opinion of Hawkins Delafield & Wood LLP, Special Tax Counsel to the Authority, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest on the Offered Bonds is excluded from gross income for federal income tax purposes pursuant to Section 103 of the Code, and (ii) interest on the Offered Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code, and is not included in the adjusted current earnings of corporations for the purpose of calculating the alternative minimum tax. For more information concerning the tax treatment of the interest on the Offered Bonds, see "Tax Matters" herein.

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

$70,000,000
VIRGINIA HOUSING DEVELOPMENT AUTHORITY
Homeownership Mortgage Bonds

2011 Series A-Non-AMT

Maturity Date	Principal Amount	Serial or Term	Interest Rate	Price	CUSIP
March 1, 2012	$2,400,000	Serial	0.50%	100.00%	92813TCA6
September 1, 2012	2,400,000	Serial	0.75	100.00	92813TCB4
March 1, 2013	2,500,000	Serial	0.875	100.00	92813TCC2
September 1, 2013	2,500,000	Serial	1.00	100.00	92813TCD0
March 1, 2014	2,600,000	Serial	1.25	99.75	92813TCE8
September 1, 2014	2,600,000	Serial	1.40	99.75	92813TCF5
March 1, 2015	2,700,000	Serial	1.75	99.50	92813TCG3
September 1, 2015	2,700,000	Serial	1.875	99.50	92813TCH1
March 1, 2016	2,800,000	Serial	2.00	99.50	92813TCJ7
September 1, 2016	2,800,000	Serial	2.125	99.50	92813TCK4
March 1, 2017	2,900,000	Serial	2.375	99.25	92813TCL2
September 1, 2017	2,900,000	Serial	2.50	99.25	92813TCM0
March 1, 2018	2,900,000	Serial	2.75	99.25	92813TCN8
September 1, 2018	2,900,000	Serial	2.875	99.25	92813TCP3
March 1, 2019	2,900,000	Serial	3.125	99.25	92813TCQ1
September 1, 2019	2,900,000	Serial	3.125	99.25	92813TCR9
March 1, 2020	2,900,000	Serial	3.375	99.25	92813TCS7
September 1, 2020	2,900,000	Serial	3.375	99.25	92813TCT5
March 1, 2021	2,900,000	Serial	3.50	99.25	92813TCU2
September 1, 2021	2,900,000	Serial	3.50	99.25	92813TCV0
March 1, 2022	3,000,000	Serial	3.75	99.25	92813TCW8
September 1, 2022	3,000,000	Serial	3.75	99.25	92813TCX6
March 1, 2023	3,000,000	Serial	3.875	100.00	92813TCY4
September 1, 2023	3,000,000	Serial	3.875	100.00	92813TDA5
March 1, 2024	3,000,000	Serial	4.00	100.00	92813TCZ1

Dated Date: Date of Delivery

Principal on the Offered Bonds is payable at maturity or prior redemption. Interest on the Offered Bonds commences to accrue on the date of delivery thereof. Interest on the Offered Bonds is payable semi-annually on each March 1 and September 1, commencing September 1, 2011. The Offered Bonds are issuable in $5,000 denominations and in integral multiples thereof. The Offered Bonds will be initially issued and may be purchased only in book-entry form through the facilities of DTC. U.S. Bank National Association, Minneapolis, Minnesota, is the Trustee.

The Offered Bonds are subject to redemption prior to maturity as more fully described herein. See "DESCRIPTION OF THE OFFERED BONDS."

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

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

The Offered Bonds are offered when, as and if issued, subject to prior sale, or withdrawal or modification of the offer without notice. The Offered Bonds are offered subject to receipt of the Approving Opinion of Hunton & Williams LLP, Richmond, Virginia, Bond Counsel to the Authority, as more fully described in "Legal Matters" herein. The Offered Bonds are offered subject to the receipt of the Tax Opinion of Hawkins Delafield & Wood LLP, New York, New York, Special Tax Counsel to the Authority, as more fully described in "Tax Matters" and "Legal Matters" herein. In addition, Hawkins Delafield & Wood LLP will pass on certain matters for the Authority as its Disclosure Counsel. Certain legal matters will be passed upon for the Underwriters by their counsel, Kutak Rock LLP, Atlanta, Georgia. It is expected that the Offered Bonds will be available for delivery through DTC in New York, New York, on or about June 14, 2011.

BofA Merrill Lynch

BB&T Capital Markets **Davenport & Company LLC**

Morgan Keegan **Raymond James & Associates, Inc.** **Wells Fargo Securities**

May 18 , 2011

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

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

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A – The General Bond Resolution

B – Description and Procedures of DTC

C – Additional Information Concerning Mortgage Insurance Policies

D – Certain Federal Income Tax Matters

E – Financial Statements

F – Summary of Continuing Disclosure Agreement

G – Information Concerning Federal Multi-Family Housing Programs

H – Proposed Form of Approving Opinion of Hunton & Williams LLP, for the Offered Bonds

I – Proposed Form of Tax Opinion of Hawkins Delafield & Wood LLP, for the Offered Bonds

OFFICIAL STATEMENT

Capitalized terms used in this Official Statement that are defined in the Bond Resolution (unless otherwise herein defined) shall have the same meaning as in the Bond Resolution (see Section 101 of Appendix A). The following terms are used in this Official Statement to refer to the Bonds listed below.

Term	Referenced Bonds
"Bonds"	Currently Outstanding Bonds, the Offered Bonds and any Homeownership Mortgage Bonds hereafter issued
"Currently Outstanding Bonds"	Previously issued Homeownership Mortgage Bonds presently outstanding as of the date of this Official Statement (the 2009 B Bonds, the 2010 A Bonds and the 2010 B Bonds are the only Currently Outstanding Bonds)
"Offered Bonds" or "Offered Tax Exempt Bonds"	Homeownership Mortgage Bonds, 2011 Series A-Non-AMT
"2009 B Bonds"	Homeownership Mortgage Bonds, 2009 Series B-Taxable, including the Subseries B-1 Bonds, the Subseries B-2 Bonds and the Subseries B-3 Bonds
"2010 A Bonds"	Homeownership Mortgage Bonds, 2010 Series A-Non-AMT
"2010 B Bonds"	Homeownership Mortgage Bonds, 2010 Series B-Non-AMT
"Subseries B-1 Bonds"	Homeownership Mortgage Bonds, 2009 Series B-Non-AMT, Subseries B-1
"Subseries B-2 Bonds"	Homeownership Mortgage Bonds, 2009 Series B-Non-AMT, Subseries B-2
"Subseries B-3 Bonds"	Homeownership Mortgage Bonds, 2009 Series B-Non-AMT, Subseries B-3
"Taxable Bonds"	Any bonds on which interest is included in gross income for federal income tax purposes
"Tax Exempt Bonds"	Any bonds, including the Offered Bonds, on which interest is not included in gross income for federal income tax purposes pursuant to Section 103 of the Code
"Tax Exempt Non-AMT Bonds"	Tax Exempt Bonds, including the Offered Bonds, on which the interest is NOT treated as a preference item in determining the tax liability of individuals, corporations and other taxpayers subject to the alternative minimum tax imposed by Section 55 of the Code and is NOT included in the adjusted current earnings of corporations for purposes of the alternative minimum tax

This Official Statement is being distributed by the Authority to furnish pertinent information in connection with the initial offering of the Offered Bonds. The Offered Bonds are being offered hereby pursuant to the Act, the General Bond Resolution adopted by the Authority on December 2, 2009, as amended by a Supplemental Bond Resolution adopted on October 13, 2010 (the "General Bond Resolution"), the Bond Limitations Resolution adopted by the Authority on December 2, 2009, as amended (the "Bond Limitations Resolution"), and the Written Determinations (the "Written Determinations") as to the terms of the Offered Bonds (the General Bond Resolution, the Bond Limitations Resolution and the Written Determinations are collectively referred to herein as the "Bond Resolution").

The Authority adopted the General Bond Resolution to issue Bonds, including the Offered Bonds, for the principal purpose of funding its single family housing program, including the Program described below. The General Bond Resolution permits the issuance of additional Bonds, and the Authority anticipates that additional Bonds will be issued in the future. The Bonds are secured and payable on a parity basis; provided, however, that the original proceeds of the 2009 B Bonds are pledged exclusively for the 2009 B Bonds which have not been the subject of a Release Date as described in "Description of the New Issuance Bond Program" below. The General Bond Resolution also permits the Authority to execute Exchange Agreements (such as swap agreements), Enhancement Agreements (such as agreements related to bond insurance) and Other Financial Agreements under which the Authority's obligations are payable from Assets and are treated as Bond Obligations payable from the same sources and on a parity basis with the Bonds (see "Security-Exchange Agreements, Enhancement Agreements, and Other Financial Agreements"), except as to the original proceeds of the 2009 B Bonds which are pledged exclusively for the 2009 B Bonds which have not been the subject of a Release Date as described in "Description of the New Issuance Bond Program" below; provided, however, that so long as the 2009 B Bonds remain Outstanding, the Authority may execute any such Agreements only upon compliance with the covenants in the Bond Resolution (see "Other Covenants").

U.S. Bank National Association, Minneapolis, Minnesota, is the Trustee under the General Bond Resolution. Except in the event of the occurrence and continuance of an Event of Default, the Authority may remove and replace the Trustee and may serve in the capacity of Trustee; provided, however, during the period of time that the 2009 B Bonds are Outstanding, no successor Trustee may be appointed without the consent of the GSEs (as defined in "Description of the New Issuance Bond Program" below).

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

DESCRIPTION OF THE NEW ISSUANCE BOND PROGRAM

The Offered Bonds are being issued in connection with the New Issuance Bond Program ("NIBP") of the U.S. Department of the Treasury (the "Treasury") by which the Federal National Mortgage Association ("Fannie Mae") and the Federal Home Loan Mortgage Corporation ("Freddie Mac") (collectively, the "GSEs") have accepted bonds (the "GSE Bonds") from state and local housing agencies in a principal amount not to exceed 60% of the total principal amount of certain bond issues (including the principal amount of the GSE Bonds) of such agencies at interest rates that at the time of issuance of the bonds were either (i) fixed to maturity or (ii) bore a Short-Term Rate as described below that will convert no later than February 28, 2012 to rates fixed to maturity upon each issuance of the remaining 40% of the bond issues as described below, subject to a limitation of six such conversions. Under the NIBP, the Permanent Rates (as defined below) upon such conversions of the Short-Term Rate on the GSE Bonds are expected to be lower than prevailing interest rates available through a public bond offering. In the case of GSE Bonds issued at the Short-Term Rate, such funds will be held in escrow as described below prior to the applicable Release Date (as defined below).

On December 23, 2009, the Authority issued the 2009 B Bonds in the principal amount of $482,960,000 at the Short-Term Rate described below. All of the 2009 B Bonds are GSE Bonds. The original proceeds of the 2009 B Bonds are held in escrow by the Trustee until released from escrow as described below. While held in such escrow, the original proceeds are (i) pledged exclusively to the repayment of the 2009 B Bonds (unless and until there is a default under the General Bond Resolution, in which case such funds will be applied as required by the General Bond Resolution) whose proceeds have not been released from such escrow and (ii) invested in the investments represented by and provided pursuant to the Global Escrow Agreement by and among the GSEs, the Trustee and U.S. Bank National Association, as escrow agent. Under the NIBP, fixed rate bonds sold to the general public (the "Market Bonds") may be issued by the Authority on no more than six dates prior to December 31, 2011, and on or about the date (each a "Conversion Date") two months after each such issuance date, a principal amount of the 2009 B Bonds determined by the Authority, but not to exceed 150% of the principal amount of the Market Bonds issued on such date, is to be converted to a Permanent Rate (as defined below). As a result, the principal amount of the 2009 B Bonds the proceeds of which have been released from escrow shall not constitute more than 60% of the total aggregate principal amounts of the 2009 B Bonds and Market Bonds. In addition, on each such date of issuance of Market Bonds or the next day thereafter (each a "Release Date"), original proceeds of the 2009 B Bonds, in an amount equal to the principal amount of the 2009 B Bonds that the Authority has determined will bear interest rates fixed to maturity on the applicable Conversion Date, are to be released from escrow and become available for the financing of Mortgage Loans described below. On or before each Release Date, the Authority is to deliver to the Trustee and the GSEs a certificate of the issuance of the Market Bonds and a calculation of the amount to be so released from the escrow. The aggregate principal amount of all Market Bonds is not expected to materially exceed the above described 40% of the sum of the GSE Bonds and the Market Bonds.

Notwithstanding the foregoing, the Authority may elect not to issue Market Bonds and not to effect the related conversions of 2009 B Bonds and, in the alternative, may obtain financing for its single family mortgage loans from other sources, including, without limitation, the issuance of bonds under other resolutions of the Authority or the issuance of Ginnie Mae securities (see "Ginnie Mae Financing"). 2009 B Bonds the proceeds of which have not been released from escrow on or prior to December 31, 2011 will be redeemed no later than February 1, 2012. Moneys held in escrow shall be used for any such redemption; if such moneys are not sufficient, then any available moneys under the Bond Resolution shall also be used for any such redemption.

On February 10, 2010, the Authority issued $107,330,000 of 2010 A Bonds as the first series of Market Bonds under the NIBP. On February 10, 2010, in connection with the issuance of the 2010 A Bonds, a portion of the 2009 B Bonds in the principal amount of $160,990,000 was redesignated as the Subseries B-1 Bonds. The 2010 Series A Bonds and the Subseries B-1 Bonds were deemed to be issued pursuant to a common plan of financing and were treated as a composite issue for the purposes of the Code.

On October 29, 2010, the Authority issued $70,000,000 of 2010 B Bonds as the second series of Market Bonds under the NIBP. On October 29, 2010, in connection with the issuance of the 2010 B Bonds, a portion of the 2009 B Bonds in the principal amount of $105,000,000 was redesignated as the Subseries B-2 Bonds. The 2010 Series B Bonds and the Subseries B-2 Bonds were deemed to be issued pursuant to a common plan of financing and were treated as a composite issue for the purposes of the Code.

The Offered Bonds will be the third series of Market Bonds under the NIBP and, in connection with the issuance of the Offered Bonds, a portion of the 2009 B Bonds in the principal amount of $105,000,000 will (i) be redesignated as the Subseries B-3 Bonds, (ii) have a Release Date of June 14, 2011 and a Conversion Date of August 14, 2011, (iii) will bear interest at a Permanent Rate (as defined below) commencing on the Conversion Date, (iv) have a maturity date of November 1, 2041, and (v) be redeemable by quarterly mandatory Sinking Fund Installments beginning on or about June 1, 2024 and be structured so that the annual debt service payments on the Subseries B-3 Bonds will be approximately equal upon commencement of scheduled Sinking Fund Installments. References herein to Market Bonds shall include the Offered Bonds. The Offered Bonds and the Subseries B-3 Bonds will be deemed to be issued pursuant to a common plan of financing and will be treated as a composite issue for the purposes of the Code.

The 2009 B Bonds were issued as Taxable Bonds. On each Release Date, the 2009 B Bonds allocable to the proceeds released from escrow on such Release Date shall convert to Tax Exempt Bonds, subject to delivery by the Authority of an opinion of Hawkins Delafield & Wood LLP, its special tax counsel, that interest on such 2009 B Bonds shall be excluded from gross income for federal income tax purposes pursuant to Section 103 of the Code. The Code imposes substantial requirements with respect to Tax Exempt Bonds (including the Offered Bonds and the 2009 B Bonds, including the Subseries B-3 Bonds, following their Release Dates) which must be satisfied in order for the interest on the Tax Exempt Bonds to be excluded from gross income for federal income tax purposes pursuant to Section 103 of the Code. Any Mortgage Loan financed in whole or in part with proceeds of Tax Exempt Bonds must comply with Code requirements. The Authority has established procedures under which the Authority expects such Code requirements can be met (see Appendix D).

The 2009 B Bonds subsequent to their applicable Release Date and the Market Bonds shall be equal in priority to each other. The Authority has covenanted in the Bond Resolution not to issue any Bonds senior in priority to the 2009 B Bonds, provided that only the GSEs may enforce, or cause the Trustee to enforce, such covenant.

The proceeds of the 2009 B Bonds, subsequent to their applicable Release Dates, and the Market Bonds have been and are expected to be used to finance Mortgage Loans that are eligible to be financed with Tax Exempt Bonds. Such proceeds of the 2009 B Bonds and the Market Bonds may be so used to finance such Mortgage Loans alone or in combination with any net assets in the Bond Resolution and proceeds of other bonds (collectively, the "Other Funds"). Original proceeds of the 2009 B Bonds and the Market Bonds may also be used to refund outstanding notes and bonds of the Authority, if such refunding will produce an equivalent amount of funds to finance Mortgage Loans.

The 2009 B Bonds initially bear interest at a short-term rate (the "Short-Term Rate") from December 23, 2009 to their applicable Conversion Date. The "Short Term Rate" means, (i) for the period from December 23, 2009 to the applicable Release Date, the interest rate which produces an interest payment on such Release Date relative to the 2009 B Bonds with respect to which the escrowed original proceeds are subject to release on such Release Date equal to Investment Earnings (as defined below) and (ii) from the Release Date to the Conversion Date, an interest rate equal to the basis point spread described in (ii) below plus the lesser of (A) the interest rate for Four Week Treasury Bills (as reported by the Federal Reserve on its website http://federalreserve.gov) as of the second business day prior to the Release Date or (B) the Permanent Rate (as defined below) less the basis points spread described in (ii) below. From and after the Release Date, the 2009 B Bonds bear interest on the basis of a 360-day year consisting of twelve 30-day months. For purposes of this provision, "Investment Earnings" means total investment earnings on the portion of the escrowed original proceeds related to the 2009 B Bonds with respect to which a Release Date is occurring. On each Conversion Date, the interest rate on a principal amount of 2009 B Bonds determined by the Authority, but not to exceed 150% of the Market Bonds issued in conjunction with the Release Date for such 2009 B Bonds, converts to a fixed interest rate (the "Permanent Rate") that is equal to the sum of (i) the 10-year Treasury Rate plus (ii) a basis points spread based upon the lowest long term ratings on such 2009 B Bonds on the first business day at least 7 days prior to the Release Date (in the case of the Subseries B-3 Bonds, such day will be June 7, 2011), which basis point spread is expected to be 75 basis points based upon the anticipated long term ratings on such Subseries B-3 Bonds. The 10-Year Treasury Rate is the lower of (i) the Annual Base Rate (such Rate is applicable to the Authority only in connection with a Release Date occurring on or after January 1, 2011, and is 2.97%, which was established in accordance with NIBP procedures) or (ii) the lowest 10 Year Constant Maturity Treasury rate, as reported by Treasury as of the close of business on any business day during the period beginning on the business day immediately prior to receipt by the Treasury and GSEs of the Authority's Notification of Interest Rate Conversion (i.e., the notice that is sent no more than 60 days prior to the Release Date and sets forth the proposed Release Date, the proposed Conversion Date, the principal amount of 2009 B Bonds to be converted, and other related information), and ending on the first business day not less than eight (8) days prior to the related Release Date (in the case of the Subseries B-3 Bonds, this period began on May 6, 2011 and will end on June 6, 2011). However, if such Notification of Interest Rate Conversion is amended after its submission to provide for a later Release Date, clause (ii) above shall be as follows: the lowest 10 Year Constant Maturity Treasury rate, as reported by Treasury as of the close of business on any business day during the period beginning on the business day immediately prior to receipt by the Treasury and GSEs of the amended Notification of Interest Rate Conversion, and ending on the first business day not less than eight (8) days prior to the related Release Date.

Based upon the foregoing, the Permanent Rate on the Subseries B-3 Bonds is expected not to exceed 3.72%.

DESCRIPTION OF THE OFFERED BONDS

The Offered Bonds shall be issued in the denominations and in the principal amount and shall mature in the amounts and on the dates set forth on the front cover hereof. Interest on the Offered Bonds shall commence to accrue on their date of

delivery and shall be payable semi-annually on the dates and at the interest rates set forth on the front cover hereof, calculated on the basis of a 360-day year consisting of twelve 30-day months.

Principal and interest on the Offered Bonds shall be payable to the 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 payable, the Owner of such Bond 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.

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

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

Special Redemption

The Offered Bonds are subject to special redemption at the option of the Authority at a Redemption Price equal to 100% of the principal amount thereof, plus accrued interest to the redemption date, on any one or more dates from (1) excess Revenues deposited in and other moneys transferred to the revenue fund under the Bond Resolution after required transfers therefrom to other funds have been made for the payment of the Bond Obligation and (2) any moneys held under the Bond Resolution in any mortgage loan account or mortgage loan purchase account which the Authority determines will not be used to make or purchase Mortgage Loans, including unexpended proceeds of the Offered Bonds, any other Market Bonds, and any additional Bonds hereafter issued. Excess Revenues include amounts which may be derived from the Offered Bonds, any other Market Bonds, the 2009 B Bonds (see description of mandatory redemption of 2009 B Bonds in "Redemption of 2009 B Bonds" below), and any additional Bonds hereafter issued, and such amounts may be applied to the redemption of the Offered Bonds, any other Market Bonds, the Subseries B-3 Bonds, the other 2009 B Bonds, and any additional Bonds hereafter issued, except as otherwise agreed by the Authority. Such excess Revenues may be received from terminations (including prepayments) or sales of Mortgage Loans. See "Withdrawal of Assets; Limited Operating Covenants" below for a discussion of the Authority's ability to so transfer Mortgage Loans. The Authority does not currently anticipate any sales of Mortgage Loans which would result in special redemption of the Offered Bonds; however, no assurance can be given that no such sales will occur. Such excess Revenues may, at the option of the Authority, be used to finance Mortgage Loans in compliance with Code requirements, if applicable (see Appendix D), and subject to the limitations described below (see description of mandatory redemption of 2009 B Bonds in "Redemption of 2009 B Bonds" below).

See "Redemption of 2009 B Bonds" below for a discussion of the mandatory and optional redemption provisions applicable to the 2009 B Bonds that may affect the likelihood, timing and amount of any redemption of 2009 B Bonds on the redemption of Offered Bonds.

The Code currently requires the redemption of Tax Exempt Bonds (other than certain refunding bonds) from certain unexpended proceeds thereof and repayment of principal on the Mortgage Loans financed thereby (See Appendix D). Except for a $250,000 de minimis amount, unexpended proceeds of the Offered Bonds and Subseries B-3 Bonds which are expected to be used to finance Mortgage Loans but which shall not have been so used within 42 months from the date of issuance are required to be used to retire or redeem Offered Bonds and Subseries B-3 Bonds.

The "10-Year Rule" (defined in Appendix D — Certain Federal Income Tax Matters - Other Requirements), as currently imposed by the Code, requires all or a portion of repayments and prepayments of principal of Mortgage Loans made with or attributable to proceeds of the Offered Bonds and Subseries B-3 Bonds to be used by the Authority to retire or redeem Offered Bonds and Subseries B-3 Bonds. The following table displays the expected years during which the 10-year period will have expired with respect to principal amounts of the Offered Bonds and Subseries B-3 Bonds. Such portion of repayments and prepayments to be used to redeem or retire Offered Bonds and Subseries B-3 Bonds is a fraction, the numerator of which is the principal amount of then outstanding Offered Bonds and Subseries B-3 Bonds on which the 10 year period has expired (less any other Offered Bonds and Subseries B-3 Bonds retired in satisfaction of the 10-Year Rule requirement), and the denominator of which is the then outstanding principal amount of Offered Bonds and Subseries B-3 Bonds. The Authority cannot predict the actual repayments and prepayments it will receive or whether such Code provision may be repealed, and no assurance can be given that such actual redemptions will occur.

Calendar Year	Offered Bonds and Subseries B-3 Bonds
2011	$ 0
2012	0
2013	0
2014	0
2015	0
2016	0
2017	0
2018	0
2019	0
2020	0
2021	175,000,000
Total	$175,000,000

As of May 9, 2011, the Authority has originated or purchased approximately $92 million of 30-year fixed rate single family mortgage loans with a weighted average coupon of 4.85%. All or a portion of such loans may be financed by the Offered Bonds and the Subseries B-3 Bonds; however, the Authority has discretion as to whether to so finance any or all of such loans and can give no assurance as to whether any of such loans shall be so financed or as to the interest rates of any such mortgage loans so financed. In addition, there may be other single family mortgage loans that the Authority has previously originated or purchased or may hereafter originate or purchase that may be financed by the Offered Bonds and the Subseries B-3 Bonds.

Factors which may affect the demand for Mortgage Loans and the amount of prepayments on Mortgage Loans financed by the Bonds and consequently the Authority's ability to use all of the proceeds of the Bonds, prepayments and other excess Revenues for the financing of Mortgage Loans include not only general economic conditions but also the relationship between alternative mortgage loan interest rates (including rates on mortgage loans insured or guaranteed by agencies of the federal government, rates on conventional mortgage loans and the rates on other mortgage loans available from the Authority) and the interest rates being charged on the Mortgage Loans by the Authority. Accordingly, lower interest rates on such alternative mortgage loans could cause a lack of demand for Mortgage Loans to be financed by the Bonds, could result in prepayments in amounts greater than anticipated (see "Security - Sources of Payment"), and could necessitate the exercise by the Authority of its right (or compliance by the Authority with the requirement under the Code or with the mandatory redemption provisions applicable to the 2009 B Bonds described below) to apply the unused proceeds, prepayments and other excess Revenues to redeem the Offered Bonds and Subseries B-3 Bonds, to the extent permitted by the Code.

Mortgage Loans which are financed with proceeds of the Bonds (including the Offered Bonds and Subseries B-3 Bonds) may thereafter be refinanced by subsequent Mortgage Loans made by the Authority. Any such refinancings will result in the prepayments of the Mortgage Loans so refinanced and may result in the special redemption of Bonds (including the Offered Bonds) from excess Revenues generated by such prepayments (see description of mandatory redemption of 2009 B Bonds in "Redemption of 2009 B Bonds" below). The Authority may conduct marketing activities, including the solicitation of Mortgagors, that will offer and encourage such refinancings of Mortgage Loans and may have the effect of increasing the amount of prepayments and the amount of Bonds (including the Offered Bonds and Subseries B-3 Bonds) redeemed by special redemption.

The Code requires a payment from certain mortgagors to the United States as described in "Recapture" in Appendix D. Such requirement may affect the demand for, or rate of prepayment of, Mortgage Loans financed or to be financed in whole or in part by Tax Exempt Bonds. A decrease in the demand for Mortgage Loans may result in the redemption of Offered Bonds and Subseries B-3 Bonds from amounts attributable to the Offered Bonds and the Subseries B-3 Bonds in the mortgage loan account which in the determination of the Authority are not to be used to make or finance Mortgage Loans. An increase or decrease in the rate of prepayment of Mortgage Loans may affect the amount of moneys available for redemption of Bonds or the recycling of funds into other Mortgage Loans as described under this subheading and may affect the average life of Bonds. The Authority cannot predict what effect, if any, such requirement will have on the origination or prepayment of Mortgage Loans financed by Tax Exempt Bonds (including the Offered Bonds and Subseries B-3 Bonds) alone or in participation with Other Funds.

The Authority expects to use the proceeds of the Offered Bonds and the Subseries B-3 Bonds to make Mortgage Loans on a concurrent and competitive basis with Mortgage Loans financed by existing or future Authority bond proceeds or other moneys, including proceeds of any other Market Bonds, the 2009 B Bonds and any Bonds hereafter issued.

When redeeming Offered Bonds as described in this section entitled "Special Redemption", the Authority has complete discretion to select the amount and maturities of Offered Bonds to be so redeemed. In so selecting the Offered Bonds to be redeemed, the Authority expects to consider such factors as it deems relevant at that time to best achieve its financial and programmatic purposes. Such factors may include, but may not be limited to, the interest rates, the maturities, future legislation affecting Tax Exempt Bonds (see "Changes in Federal or State Law" under "The Single Family Programs" herein), and the impact of the 10-Year Rule on the Offered Bonds and Subseries B-3 Bonds then outstanding; however, no assurance can be given as to whether those factors or any other factors will be considered or as to how such factors will be applied in the selection of the Offered Bonds to be redeemed.

If less than all of a maturity of the Offered Bonds is to be redeemed, such Bonds to be redeemed shall be selected by lot in such manner as the Trustee may determine.

Optional Redemption

The Offered Bonds maturing on or after March 1, 2021 are subject to redemption, at the election of the Authority, either in whole or in part on any date on or after September 1, 2020 ("the First Optional Redemption Date"), at a Redemption Price equal to the principal amount, without premium, of the Offered Bonds to be so redeemed. Accrued interest, if any, to the date of redemption will be paid upon redemption.

See "Redemption of 2009 B Bonds" below for a discussion of the mandatory and optional redemption provisions applicable to the 2009 B Bonds that may affect the likelihood, timing and amount of any redemption of 2009 B Bonds on the redemption of Offered Bonds.

When redeeming Offered Bonds as described in this section entitled "Optional Redemption", the Authority has complete discretion to select the amount and maturities of Offered Bonds to be redeemed. In so selecting the Offered Bonds to be redeemed, the Authority expects to consider such factors as it deems relevant at that time to best achieve its financial and programmatic purposes. Such factors may include, but may not be limited to, the interest rates, the maturities, future legislation affecting Tax Exempt Bonds (see "Miscellaneous" under "Tax Matters" herein), and the impact of the 10-Year Rule on the Offered Bonds and the Subseries B-3 Bonds then outstanding; however, no assurance can be given as to whether those factors or any other factors will be considered or as to how such factors will be applied in the selection of the Offered Bonds to be redeemed. If less than all of a maturity of the Offered Bonds is to be redeemed, Bonds to be redeemed shall be selected by lot in such manner as the Trustee may determine.

Sinking Fund Redemption

The Offered Bonds are not subject to redemption prior to maturity from mandatory Sinking Fund Installments.

Redemption of 2009 B Bonds

The 2009 B Bonds, including the Subseries B-3 Bonds, are subject to mandatory and optional redemption as described below. The likelihood, timing and amount of any redemption of the Offered Bonds may be affected by the mandatory or optional redemption of the Subseries B-3 Bonds or other 2009 B Bonds. In particular, in the event of the mandatory redemption of all or any portion of the Subseries B-3 Bonds, the Authority may redeem Offered Bonds in an amount that is based on the then outstanding principal amounts of the Offered Bonds and the Subseries B-3 Bonds. However, no assurances can be given as to whether or when the Authority will redeem any Offered Bonds in the event of any such redemption of 2009 B Bonds, including Subseries B-3 Bonds, or as to the amount of Offered Bonds, if any, that may be so redeemed.

During the period of time that the original proceeds of the 2009 B Bonds are held in escrow, the 2009 B Bonds the proceeds of which have not been released from escrow are subject to mandatory special redemption, without premium, from such original proceeds then held in escrow in the event that minimum long term ratings of Baa3/BBB- by Moody's Investors Service and Standard & Poor's Rating Services, respectively, are not maintained on the 2009 B Bonds. Such redemption shall occur on any date within ten (10) business days of receipt by the Trustee of notice from the Authority that the bond rating on the 2009 B Bonds has been withdrawn or fallen below Baa3 or BBB-.

The 2009 B Bonds are also subject to mandatory special redemption, without premium, on any day no later than February 1, 2012 from any original proceeds of the 2009 B Bonds held in the escrow account on January 1, 2012. Such original proceeds shall be applied exclusively to the redemption of the 2009 B Bonds the proceeds of which have not been released from escrow.

With respect to the redemptions set forth above, moneys held in escrow shall be used for any such redemption; if such moneys are not sufficient, then any available moneys under the Bond Resolution shall also be used for any such redemption.

The 2009 B Bonds which have been the subject of a Release Date, including the Subseries B-3 Bonds, shall also be subject to mandatory redemption without premium on any day as provided for in this paragraph. The following calculations in this paragraph are expected to be performed separately for each subseries of such 2009 B Bonds and each series of Market Bonds that are treated as a composite issue for purposes of the Code. So long as any Market Bonds remain Outstanding, (i) for the 2010 A Bonds, the Subseries B-1 Bonds, the 2010 B Bonds, and the Subseries B-2 Bonds, at least 60%, and after no Market Bonds remain Outstanding 100%, and (ii) for the Offered Bonds, the Subseries B-3 Bonds and any Market Bonds and 2009 B Bonds hereafter issued or converted, respectively, a pro rata portion (calculated based on the outstanding principal amount of the 2009 Series B Bonds and the outstanding principal amount of the Market Bonds) of all principal prepayments and recoveries of principal received with respect to the Mortgage Loans acquired or financed with proceeds of the 2009 B Bonds and Market Bonds shall be applied to redeem 2009 B Bonds, to the extent not used to pay scheduled principal, interest or sinking fund redemptions on the 2009 B Bonds, Market Bonds, or other Bonds issued in conjunction with and secured on a parity with the 2009 B Bonds. The remaining percentage, if any, of such amounts may be applied by the Authority, in its discretion, to redeem Bonds or to finance Mortgage Loans.

The Redemption Price for any of the above described mandatory special redemptions shall be the principal amount of the Bonds to be redeemed. Accrued interest to the date of redemption will be paid upon redemption.

The 2009 B Bonds are subject to optional redemption without premium on the first business day of each month, at the election of the Authority, in whole or in part. The Redemption Price shall be the principal amount of the 2009 B Bonds to be redeemed. Accrued interest, if any, to the date of redemption will be paid upon redemption.

The 2009 B Bonds are also subject to redemption in part by Sinking Fund Installments which will be required to be made in the amounts and on the dates to be established by the Authority no later than the date of the applicable Release Date. The Sinking Fund Installments for the Subseries B-3 Bonds will begin June 1, 2024 and be structured so that the annual debt service payments will be approximately equal upon commencement of scheduled Sinking Fund Installments. The Redemption Price shall be the principal amount of the Subseries B-3 Bonds to be redeemed. Accrued interest, if any, to the date of redemption will be paid upon redemption.

Notice

Notice of any redemption of an Offered Bond will be sent to the Owner thereof at least 20 days, or such lesser number of days if permitted by DTC, prior to the date of redemption. Any notice to Owners required pursuant to the Bond Resolution shall be sent or transmitted, at the Authority's direction, by mail or other means of physical delivery, or by facsimile or other electronic means to such Owner at his last address, physical or electronic, set forth in the Registration Books.

In addition to the above described notice, written notice of each redemption of the 2009 B Bonds shall be provided by the Trustee to the administrator under the NIBP, the GSEs, and Treasury's financial agent under the NIBP. Redemption of 2009 B Bonds shall not be conditioned on or delayed for the giving of such notice, which shall be provided to the foregoing parties at least ten (10) days in advance of the date of such redemption.

Defeasance

The Bond Resolution provides that if the Authority deposits Defeasance Obligations that provide sufficient amounts to pay all Bond Amounts due and to become due on the Offered Bonds, such Offered Bonds shall no longer be deemed outstanding under the Bond Resolution and will be secured solely by such Defeasance Obligations. For further detail see Section 1101 of the General Bond Resolution in Appendix A of this Official Statement.

Acceleration

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

Enforcement by GSEs

Each GSE is intended to be and shall be a third party beneficiary of the Bond Resolution, and each GSE shall have the right (but not the obligation) to enforce, separately or jointly with the Trustee or cause the Trustee to enforce, the provisions of the Bond Resolution that are required to be included therein under the NIBP.

SECURITY

Pledge of Assets

The Bonds, including the Offered Bonds, are secured, to the extent and as provided in the Bond Resolution, by a pledge of the Assets, which consist of Mortgage Loans, Authority Property, Revenues and Investment Obligations, and, to the extent made subject to the pledge or lien of the Bond Resolution, Enhancement Agreements, Exchange Agreements and Other Financial Agreements (see Section 105 of the General Bond Resolution in Appendix A of this Official Statement); provided, however, that the original proceeds of the 2009 B Bonds shall be pledged exclusively to the repayment of the 2009 B Bonds as described in "Description of the New Issuance Bond Program" above. The Bond Resolution imposes no requirements on the Authority as to a minimum amount or type of Assets except for the Revenue Test and certain other withdrawal restrictions (as more fully described in "Withdrawal Restrictions; Limited Operating Covenants" herein).

The Bond Resolution permits the Authority to (i) purchase, sell, exchange, transfer and modify Assets, (ii) apply Assets to the payment of Expenses, and (iii) release Assets from the lien or pledge created by the Bond Resolution subject only to the satisfaction of the Revenue Test (when applicable) and the other restrictions of the Bond Resolution (see "Withdrawal Restrictions; Limited Operating Covenants" herein and Sections 402 through 404 of the General Bond Resolution in Appendix A of this Official Statement).

The Authority may from time to time withdraw Assets from the Bond Resolution for deposit in its General Fund, subject to satisfaction of the Revenue Test (when applicable) and the other restrictions of the Bond Resolution.

The Bond Resolution does not require the establishment and funding of any debt service reserve fund or any other reserve fund, and the Authority does not expect to establish or fund any such reserve fund.

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

Mortgage Loans

The Authority commenced financing Mortgage Loans under the General Bond Resolution in 2010. The Authority expects that the Mortgage Loans financed and to be financed with proceeds of the Offered Bonds, the other Market Bonds and the 2009 B Bonds will be similar to the mortgage loans recently financed by the Authority's Commonwealth Mortgage Bonds as described under the heading "The Single Family Programs" below. However, no assurances can be given that the Mortgage Loans financed and to be so financed by the Offered Bonds, the other Market Bonds and the 2009 B Bonds will have similar data and performance characteristics as the Authority's existing mortgage loans. Furthermore, no assurance can be given as to whether the Authority will modify its single family programs as described herein or as to whether Mortgage Loans financed with proceeds of any Bonds issued subsequent to the Offered Bonds will be similar to the Mortgage Loans currently being financed under such programs.

Exchange Agreements, Enhancement Agreements, and Other Financial Agreements

The General Bond Resolution permits the Authority to execute Exchange Agreements (such as swap agreements), Enhancement Agreements (such as agreements related to bond insurance) and Other Financial Agreements under which the Authority obligations are payable from Assets and are treated as Bond Obligations payable from the same sources and on a parity basis with the Bonds (see Section 508 of the General Bond Resolution in Appendix A of this Official Statement); provided, however, that (i) the original proceeds of the 2009 B Bonds are pledged exclusively for the 2009 B Bonds as described in "Description of the New Issuance Bond Program" above, and (ii) so long as the 2009 B Bonds remain Outstanding, the Authority may execute any such Agreements only upon compliance with the covenants in the Bond Resolution (see "Other Covenants"). Any Enhancement Agreements, any Exchange Agreements or any Other Financial Agreements, including those made subject to the pledge or lien of the Bond Resolution, are subject to the risk that the other parties to such Agreements may not satisfy their obligations set forth in such Agreements. The Bond Resolution does not establish minimum rating requirements for such other parties. Currently, there are no outstanding Exchange Agreements, Enhancement Agreements or Other Financial Agreements under which the Authority's obligations are payable from Assets.

Investment Obligations

Prior to the applicable Release Dates, the original proceeds of the 2009 B Bonds that are held in escrow shall be invested pursuant to the Global Escrow Agreement - see "Description of the New Issuance Bond Program." Subsequent to each of the applicable Release Dates of the 2009 B Bonds and upon issuance of the Offered Bonds, the Authority expects to maintain a portion of Assets as Investment Obligations. Eligible Investment Obligations are set forth in the definition thereof in Appendix A and include (i) any investment (debt or other contractual obligation or equity interest) which, in the determination of an Authorized Officer, is a suitable investment, in light of the amount and timing of Bond Obligation payments, the amount of Assets, and the availability of monies to pay Bond Obligations as they become due, at the time of acquisition thereof, and (ii) certain investments which bear, or the obligor(s) or guarantor(s) thereof bear, an investment grade rating assigned by a nationally recognized rating agency. See "Investments" in "The Authority".

General Obligations of the Authority

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

The Authority has 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 those of the Authority. The Authority has not created a capital reserve fund to secure the Bonds, and therefore, the Bonds are not subject to the provision in the Act that requires the Governor to include in the Governor's budget funds to cover any deficiency in the capital reserve funds of the Authority and that authorizes the General Assembly to appropriate funds therefor.

Sources of Payment

The scheduled payments of Bond Amounts, including the principal of and the interest on the Offered Bonds and any Enhancement Agreements, any Exchange Agreements or any Other Financial Agreements that are payable from Assets, have been or are expected to be based upon the assumed receipt by the Authority of principal and interest or other payments on or with respect to Mortgage Loans and Investment Obligations, any Revenue received with respect to Authority Property, and payments received with respect to any Enhancement Agreement, any Exchange Agreement or any Other Financial Agreements pledged as Assets.

The ability of the Authority to pay Bond Amounts, including principal and interest on the Offered Bonds, 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 Enhancement Agreement, Exchange Agreement or Other Financial Agreement pledged as Assets, (ii) terminations and prepayments of Mortgage Loans at times and at rates not anticipated by the Authority, (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 the Authority or not being made, financed or acquired at all, and (iv) losses from the sale or other disposition of Assets. A portion of such Mortgage Loan terminations are due to foreclosure, deed in lieu of foreclosure, and assignment to mortgage loan companies. The Authority does not necessarily receive cash upon the occurrence of such terminations. The receipt of cash for such terminations may occur at a later time and may be for an amount less than the amount which was due under the Mortgage Loan.

In establishing the principal amounts and dates of the maturities and sinking fund installments for the Offered Bonds, the other Market Bonds and the 2009 B Bonds, the Authority assumes 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 PSA Rate. For this purpose, revenues received by the Authority as a result of defaults on Mortgage Loans are treated as prepayments. The PSA 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 PSA 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 PSA Rate assumes a constant prepayment rate of 6% per annum. The PSA 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.

Set forth below are the percentages of the PSA Rates used or expected to be used by the Authority in assuming the above described levels of prepayment of Mortgage Loans.

Bond Series	Percentage of PSA Rate
2010 A Bonds	20%
Subseries B-1 Bonds	0
2010 B Bonds	20
Subseries B-2 Bonds	0
Offered Bonds	0
Subseries B-3 Bonds	0

The Authority expects to assume a 0% PSA Rate on any future issuances of Market Bonds and any 2009 B Bonds on which the interest thereon is to be converted to a Permanent Rate.

The past events represented by the PSA Rate are not necessarily indicative of future events. As a result, there can be no assurance that the prepayment experience of the Authority will substantially parallel those of the PSA Rate. The Authority's exercise of its rights to redeem some of the Bonds may change the percentage of the PSA 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 Investment Obligations held under the Bond Resolution for the purpose of establishing the principal amounts and dates of the maturities and sinking fund installments for the Offered Bonds, the other Market Bonds and 2009 B Bonds, the Authority assumes 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 Offered Bonds and the Subseries B-3 Bonds (upon their conversion to a Permanent Rate) are expected by the Authority to be in excess of the scheduled debt service thereon. Certain excess Revenues must be used to redeem Bonds, and any other excess Revenues may be used to purchase or redeem Bonds, including the Offered Bonds and the Subseries B-3 Bonds (see "Description of the Offered Bonds"). In reaching such expectation in the second preceding sentence, the Authority has not considered the issuance of additional Bonds or the application or investment of the proceeds thereof. The Authority believes its assumptions regarding the Offered Bonds and the Subseries B-3 Bonds to be reasonable, but the Authority can give no

assurance that the actual receipt of Revenues (including principal prepayments) will correspond with its estimates of available money to pay debt service on the Offered Bonds and the Subseries B-3 Bonds.

Other Covenants

The Authority has covenanted in the Bond Resolution that during the period of time that the 2009 B Bonds are Outstanding (1) the Authority shall not issue any Bonds in a variable rate demand, adjustable rate or auction rate mode under the General Bond Resolution other than the 2009 B Bonds during the period such 2009 B Bonds bear interest at a Short-Term Rate; and (2) the Authority shall take all steps necessary to assure that all assets and revenues of any description pledged to the payment of the 2009 B Bonds and all other Bonds (including the Offered Bonds) issued under the General Bond Resolution shall be applied strictly in accordance with, and solely for the purposes and in the amounts specified and permitted by, the terms of the General Bond Resolution.

In addition, the Authority has also covenanted in the Written Determinations that, so long as the 2009 B Bonds remain Outstanding, it shall:

(a) not amend, supplement or otherwise modify in any material respect the Bond Resolution or any Related Document (defined as any investment agreement or repurchase agreement relating to security for parity debt under the Bond Resolution, any surety bond or other credit or liquidity support relative to such parity debt, and any hedge entered into with respect to such parity debt and payable on a parity therewith) without the prior written consent of the GSEs; provided, however, that the consent of the GSEs shall not be required with respect to supplements entered into solely for the purpose of providing for the issuance of a series of Bonds pursuant to the General Bond Resolution, except as provided in (1) in the preceding paragraph above. With respect to amendments to the General Bond Resolution, the determination of the GSEs as to the materiality of an amendment shall be controlling;

(b) not permit any funds invested under the Bond Resolution to be invested in obligations, securities or other investments of a type not included within the categories permitted for such purposes in the Bond Resolution;

(c) not enter into any hedge relating to Bonds issued under, or secured by Revenues or other Assets pledged under, the Bond Resolution without the prior written consent of the GSEs;

(d) not permit any swap termination fees to be payable on a basis senior to or on a parity with the 2009 B Bonds;

(e) not permit any principal payment, principal prepayments and other recoveries of principal received with respect to that portion of any Mortgage Loans financed with the proceeds of 2009 B Bonds to be recycled into new Mortgage Loans; and

(f) not permit the Bond Resolution to fail to be a "Primarily Single Family Indenture" defined as an existing indenture having underlying single family mortgage loans and mortgage backed securities constituting at least 70% of the underlying portfolio of mortgage loans held under the Bond Resolution; said calculation to include underlying mortgage loans originated and anticipated to be originated in connection with the 2009 B Bonds and to be calculated on the relevant calculation date.

The Authority has also covenanted that, so long as the 2009 B Bonds remain Outstanding, it will keep proper books of record and account in which full, true and correct entries will be made of all dealings and transactions of or in relation to affairs, operations, transactions and activities of the Authority in accordance with generally accepted accounting principles applicable to governmental entities, consistently applied, and will furnish to each GSE certain reports and information relating to the 2009 B Bonds and the Authority's programs and operations as required by the Written Determinations.

Only the GSEs may enforce, or cause the Trustee to enforce, the covenants described in this "Other Covenants" section.

Amendments to Bond Resolution; Bonds Acquired by the Authority

The Bond Resolution provides authorization for amendments to certain provisions therein by supplemental resolution of the Authority without the consent of Owners (see Section 701 of the General Bond Resolution in Appendix A to this Official Statement). Pursuant to such authorization, the Authority may, subject to the Revenue Test described below, amend the Bond Resolution in any respect, except as set forth in Section 701(7) of the General Bond Resolution. The Bond Resolution, including the Revenue Test, also may be amended with the consent of the Owners of more than sixty percent (60%) of the Bond Obligation as provided in Sections 702 and 802 of the General Bond Resolution. Any of the foregoing amendments may adversely affect the security for the Bonds. See Appendix A to this Official Statement for Sections 701(7), 702 and 802. See "Other Covenants" above regarding the consent of the GSEs required for certain amendments to the Bond Resolution.

Pursuant to the Act and the Bond Resolution, the Authority may purchase or otherwise acquire the actual or constructive ownership of Bonds prior to the maturity or redemption thereof with the intent that such Bonds remain Outstanding and that any such Bonds so purchased or acquired shall remain Outstanding, subject to any terms and conditions

determined by the Authority. Any Bonds so owned by the Authority shall be entitled to vote or give consents under the Bond Resolution, except with respect to amendments to the Bond Resolution, and remedies and appointment and removal of the Trustee upon an Event of Default. Any such vote or consent may adversely affect the security for the Bonds.

WITHDRAWAL OF ASSETS; LIMITED OPERATING COVENANTS

Except for the Revenue Test and other restrictions described below, the Bond Resolution imposes no restrictions on the Authority's ability to transfer Assets to the Authority's General Fund and release assets from the lien or pledge of the Bond Resolution and no requirements on the Authority as to the minimum amount or type of Assets, nor does it impose any requirements on the Authority with respect to annual income or net worth. The Bond Resolution does require that certain actions, including transfer of all or any portion of any Asset to the Authority's General Fund and release assets from the lien or pledge of the Bond Resolution, can be undertaken only pursuant to the Revenue Test set forth in the Bond Resolution and upon compliance with the other restrictions in the Bond Resolution. The Revenue Test requires an Authorized Officer of the Authority, based on such assumptions as such Authorized Officer shall deem reasonable and subject to certain other conditions, to determine that subsequent to taking such action, Revenues, as defined in the 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)." See the definition of Revenue Test in Section 101 of the General Bond Resolution attached as Appendix A to this Official Statement. In addition to the Revenue Test, the Bond Resolution requires that, during the period of time that the 2009 B Bonds are Outstanding, the Authority shall not exercise any rights it may have to make voluntary withdrawals of cash or other Assets from the lien of the General Bond Resolution, except under the following circumstances and within the following limits:

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

(A) either:

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

(ii) prior to and as a condition to such withdrawal, the Authority obtains and furnishes to the administrator (the "Administrator") under the NIBP and to Treasury's financial agent (the "Treasury's Financial Agent") under the NIBP a confirmation from each of the rating agencies maintaining ratings on the 2009 B Bonds that the proposed withdrawal will not adversely affect such ratings; and

(B) prior to and as a condition to such withdrawal, the Authority provides a written certification to the Administrator and to Treasury's Financial Agent specifying the amount and purpose of the withdrawal and that all requirements of this paragraph (1) have been met with respect to such withdrawal.

In spite of anything to the contrary contained in this paragraph (1), no withdrawals whatsoever shall be made under this paragraph (1) during any period when any of the ratings on the 2009 B Bonds are below the level of "Baa3" or "BBB-" or has been suspended or withdrawn.

(2) The Authority may withdraw cash or other assets from the General Bond Resolution for any purpose of the Authority other than as set out in paragraph (1) above, subject to each of the following requirements:

(A) prior to and as a condition to such withdrawal, the Authority obtains and furnishes to the Administrator and to Treasury's Financial Agent a confirmation from each of the rating agencies maintaining ratings on the 2009 B Bonds that the rating on the 2009 B Bonds will be not less than Aa1 by Moody's Investors Service and AA+ by Standard & Poor's Ratings Services with a rating outlook that is either "stable" or "positive" or the equivalent;

(B) the cash or other assets withdrawn from the lien of the General Bond Resolution pursuant to this paragraph (2) are retained by the Authority within its funds and accounts or are expended to further the mission or otherwise for the benefit of the Authority; and

(C) prior to and as a condition of such withdrawal, the Authority provides a written certification to the Administrator and to Treasury's Financial Agent specifying the amount and purpose of the withdrawal and that all requirements of this paragraph (2) have been met with respect to such withdrawal.

Only the GSEs may enforce, or cause the Trustee to enforce, the restrictions in (1) and (2) above.

To the extent that pursuant to an Officer's Certificate the Authority pledges any funds which are not then subject to the pledge of the 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 the Authority without regard to the satisfaction of the Revenue Test but only if the other applicable restrictions set forth above are satisfied.

TAX MATTERS

Federal Taxes

Taxable Bonds

Interest on Taxable Bonds is included in gross income for Federal income tax purposes pursuant to the Code. None of the Offered Bonds are Taxable Bonds.

Offered Tax Exempt Bonds

The proceeds of the Offered Bonds are expected to be used as set forth in "Description of the Offered Bonds" above. The Offered Bonds and the Subseries B-3 Bonds will be deemed to be issued pursuant to a common plan of financing and will be treated as a composite issue for purposes of the Code.

The Code provides that interest on obligations of a governmental unit such as the Authority issued to finance single family residences or to refund bonds issued for such purposes is excluded from gross income for federal income tax purposes only if certain requirements are met with respect to the terms, amount and purpose of the obligations, the use of the funds generated by the issuance of the obligations, the nature of the residences and the mortgage loans and the eligibility of the borrowers executing the mortgage loan.

The Code requires that the Authority provide restrictions in all relevant documents to permit financing only in accordance with such requirements and that the Authority establish reasonable procedures to assure compliance. These requirements and procedures are described in Appendix D. The Authority has included provisions in the Bond Resolution, its program documentation and other relevant documents and has established procedures (including receipt of certain affidavits and representations from Originating Lenders (as defined below, see "The Single Family Programs – General") and mortgagors respecting the Mortgage Loan eligibility requirements) in order to assure compliance with the Mortgage Loan eligibility requirements and other requirements of the Code. The Authority has covenanted in the Bond Resolution to comply with the Code and for such purposes, to adopt and maintain appropriate procedures. The Authority believes that the procedures and documentation requirements established for the purpose of fulfilling these covenants are sufficient to assure that the proceeds of the Offered Bonds will be applied in accordance with the requirements of the Code so as to assure that interest on the Offered Bonds, is not included in gross income for federal income tax purposes.

In the opinion of Hawkins Delafield & Wood LLP, Special Tax Counsel to the Authority, under existing statutes and court decisions and assuming continuing compliance by the Authority with certain tax covenants described herein, (i) interest on the Offered Bonds is excluded from gross income for federal income tax purposes pursuant to Section 103 of the Code and (ii) interest on the Offered Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code and is not included in the adjusted current earnings of corporations for the purpose of calculating the alternative minimum tax. In rendering its opinion, Special Tax Counsel has relied on certain representations, certifications of fact, and statements of reasonable expectations made by the Authority in connection with the Offered Bonds, and Special Tax Counsel has assumed compliance by the Authority with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the Offered Bonds from gross income under Section 103 of the Code.

Special Tax Counsel expresses no opinion as to any other matter with respect to the exemption of interest on the Offered Bonds from federal income taxation or as to the treatment of any such Bonds for tax purposes by any state, city, county or other jurisdiction. Special Tax Counsel renders its opinion under existing statutes and court decisions as of the date of issue of the Offered Bonds, and assumes no obligation to update, revise or supplement its opinion to reflect any action thereafter taken or not taken, or any facts or circumstances that may thereafter come to its attention, or changes in law or in interpretations thereof that may thereafter occur, or for any other reason. Special Tax Counsel expresses no opinion on the effect of any action thereafter taken or not taken in reliance upon an opinion of other counsel on the exclusion from gross income for federal income tax purposes of interest on the Offered Bonds, or under state and local tax law.

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

The following is a brief discussion of certain collateral federal income tax matters with respect to the Offered Bonds. It does not purport to address all aspects of federal taxation that may be relevant to a particular owner of an Offered Tax-Exempt

Bond. Prospective investors, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the federal tax consequences of owning and disposing of the Offered Bonds.

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

The Authority's Tax Certification, which will be delivered concurrently with the issuance of the Offered Bonds, will contain provisions and procedures relating to compliance with the requirements of the Code. The Authority, in executing its Tax Certification, will certify to the effect that it expects to be able to and will comply with the provisions and procedures set forth therein. The Authority has also covenanted in the Bond Resolution that it shall at all times do and perform all acts required by law in order to assure that interest paid on the Offered Bonds is not included in the gross income of the Owners thereof pursuant to the Code. In furtherance thereof, the Authority has required or will require each Mortgagor with respect to each Mortgage Loan to be financed from the proceeds of the Offered Bonds to make certain covenants in the Mortgage Loan documents (the form of which is subject to the review of Hawkins Delafield & Wood LLP, Special Tax Counsel to the Authority) in order to satisfy the above described requirements of the Code. However, no assurance can be given that in the event of a breach of any such provisions, procedures and covenants, the remedies available to the Authority and/or Owners of the Offered Bonds can be judicially enforced in such manner as to assure compliance with the requirements of applicable federal tax law and therefore to prevent the loss of the exclusion of interest on the Offered Bonds pursuant to the Code. Any loss of the exclusion of interest on the Offered Bonds may be retroactive to the date the Offered Bonds began to accrue interest, irrespective of when an event of noncompliance may occur or be ascertained.

Information Reporting and Backup Withholding

Information reporting requirements apply to interest paid on tax-exempt obligations, including the Offered Bonds. In general, such requirements are satisfied if the interest recipient completes, and provides the payor with, a Form W-9, "Request for Taxpayer Identification Number and Certification", or if the recipient is one of a limited class of exempt recipients. A recipient not otherwise exempt from information reporting who fails to satisfy the information reporting requirements will be subject to "backup withholding", which means that the payor is required to deduct and withhold a tax from the interest payment, calculated in the manner set forth in the Code. For the foregoing purpose, a "payor" generally refers to the person or entity from whom a recipient receives its payments of interest or who collects such payments on behalf of the recipient.

If an owner purchasing an Offered Bonds through a brokerage account has executed a Form W-9 in connection with the establishment of such account, as generally can be expected, no backup withholding should occur. In any event, backup withholding does not affect the excludability of the interest on the Offered Bonds from gross income for Federal income tax purposes. Any amounts withheld pursuant to backup withholding would be allowed as a refund or a credit against the owner's Federal income tax once the required information is furnished to the Internal Revenue Service.

Original Issue Discount

"Original issue discount" ("OID") is the excess of the sum of all amounts payable at the stated maturity of an Offered Bond (excluding certain "qualified stated interest" that is unconditionally payable at least annually at prescribed rates) over the issue price of that maturity. In general, the "issue price" of a maturity means the first price at which a substantial amount of the Offered Bonds of that maturity was sold (excluding sales to bond houses, brokers, or similar persons acting in the capacity as underwriters, placement agents, or wholesalers). In general, the issue price for each maturity of Offered Bonds is expected to be the initial public offering price set forth on the cover page of this Official Statement. Special Tax Counsel further is of the opinion that, for any Offered Bonds having OID (a "Discount Bond"), OID that has accrued and is properly allocable to the owners of the Discount Bonds under Section 1288 of the Code is excludable from gross income for Federal income tax purposes to the same extent as other interest on the Offered Bonds.

In general, under Section 1288 of the Code, OID on a Discount Bond accrues under a constant yield method, based on periodic compounding of interest over prescribed accrual periods using a compounding rate determined by reference to the yield on that Discount Bond. An owner's adjusted basis in a Discount Bond is increased by accrued OID for purposes of determining gain or loss on sale, exchange, or other disposition of such Discount Bond. Accrued OID may be taken into account as an increase in the amount of tax-exempt income received or deemed to have been received for purposes of determining various other tax consequences of owning a Discount Bond even though there will not be a corresponding cash payment.

Owners of Discount Bonds should consult their own tax advisors with respect to the treatment of OID for Federal income tax purposes, including various special rules relating thereto, and the state and local tax consequences of acquiring, holding, and disposing of Discount Bonds.

Virginia Taxes

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

Miscellaneous

Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the Federal or state level, may adversely affect the tax-exempt status of interest on the Offered Bonds under Federal or state law and could affect the market price or marketability of the Offered Bonds. There can be no assurance that any such legislation, actions or decisions, if ever enacted, taken or rendered following the issuance of the Offered Bonds, will not have an adverse effect on the tax-exempt status, market price or marketability of the Offered Bonds.

Prospective purchasers of the Offered Bonds should consult their own tax advisors regarding the foregoing matters.

CONTINUING DISCLOSURE

The Authority has covenanted for the benefit of the Holders and the Beneficial Owners (as each term is defined in the Continuing Disclosure Agreement — see Appendix F) of the Offered Bonds to provide certain financial information and operating data relating to the Authority by not later than 180 days following the end of the Authority's Fiscal Year (the "Annual Financial Information"), and to provide notices of the occurrence of certain enumerated events. The Annual Financial Information and notices of such events will be filed by the Authority with the Electronic Municipal Markets Access ("EMMA") system established by the Municipal Securities Rulemaking Board. EMMA's website address currently is www.emma.msrb.org.

The specific nature of the information to be contained in the Annual Financial Information or the required event notices and other terms of the Continuing Disclosure Agreement are summarized in Appendix F —"Summary of Certain Provisions of the Continuing Disclosure Agreement." These covenants have been made in order to assist the Underwriters in complying with Rule 15c2-12(b)(5) promulgated by the Securities and Exchange Commission (the "Rule"). The Authority has never failed to comply in all material respects with any previous undertakings with respect to the Rule to provide Annual Financial Information or required event notices.

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

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

The Authority periodically compiles certain information on its bond and mortgage loan programs which is available upon request to the Authority (see "The Authority" for address, telephone number and website address). Although the Authority presently intends to continue to compile such information and make it available upon request, it is not obligated to do so pursuant to the Continuing Disclosure Agreement.

LEGAL MATTERS

Certain legal matters relating to the authorization and validity of the Offered Bonds will be subject to the receipt of the approving opinion of Hunton & Williams LLP, Richmond, Virginia, Bond Counsel. Such opinion (the "Approving Opinion") will be limited to matters relating to the authorization and validity of the Offered Bonds. As described in "Tax Matters" below, certain legal matters relating to federal income tax treatment of interest on the Offered Bonds will be subject to the receipt of the tax opinion (the "Tax Opinion") of Hawkins Delafield & Wood LLP, Special Tax Counsel to the Authority. The proposed form of opinions of Bond Counsel and Special Tax Counsel are attached hereto as Appendices H and I, respectively. Neither Bond Counsel nor Special Tax Counsel has been engaged to investigate the financial resources of the Authority or its ability to provide for payment of the Offered Bonds, and neither the Approving Opinion nor the Tax Opinion make any statement as to such matters or as to the accuracy or completeness of this Official Statement generally. Certain legal matters will be passed on for the Authority by its General Counsel, J. Judson McKellar, Jr., Esquire. Certain legal matters will be passed upon for the Underwriters by their counsel, Kutak Rock LLP, Atlanta, Georgia. Hawkins Delafield & Wood LLP will pass on certain matters for the Authority as its Disclosure Counsel.

UNDERWRITING

The Offered Bonds are being purchased by the underwriters listed on the front cover of this Official Statement as delivered in its final form (the "Underwriters"). The Underwriters have agreed, pursuant to certain terms and conditions with respect to the Offered Bonds, to purchase at the prices set forth on the front cover hereof all of the Offered Bonds if any are purchased. In connection with said purchase and underwriting, the Underwriters are to receive a fee of $373,400.00, representing approximately 0.53% of the principal amount of the Offered Bonds. The Underwriters' obligation to purchase the Offered Bonds is contingent upon the release from escrow of the proceeds of the Subseries B-3 Bonds, as described herein.

Wells Fargo Securities is the trade name for certain capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wells Fargo Bank, National Association ("WFBNA"). WFBNA has entered into an agreement (the "Distribution Agreement") with Wells Fargo Advisors, LLC ("WFA") for the retail distribution of certain municipal securities offerings, including the Offered Bonds. Pursuant to the Distribution Agreement, WFBNA will share a portion of its underwriting compensation with respect to the Offered Bonds with WFA. WFA is also a subsidiary of Wells Fargo & Company. BB&T Capital Markets is a division of Scott & Stringfellow, LLC.

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

RATINGS

As noted on the front cover, the Offered Bonds have received a long-term rating of "Aa1" from Moody's Investors Service (Moody's) and a long-term rating of "AA+" from Standard & Poor's Ratings Services ("Standard & Poor's" or "S&P"). It is a condition to the Underwriters' obligation to purchase the Offered Bonds that neither rating agency shall have lowered, withdrawn or suspended its rating prior to the Date of Delivery.

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

THE SINGLE FAMILY PROGRAMS

The information that follows is provided to explain the Authority's current programs of making or purchasing single family mortgage loans. This information does not purport to be comprehensive or definitive, and the limits, amounts of financial reserves, rules and criteria described are not required by the Bond Resolution and are subject to modification, change or waiver by the Authority, in whole or in part at any time, and with respect to any particular single family mortgage loan.

As of March 31, 2011, the Authority had financed approximately $419 million of Mortgage Loans under the General Bond Resolution. Prior to the termination of the NIBP, the Authority expects to continue to obtain funds to finance Mortgage Loans under the single family programs by issuance of the Offered Bonds, the other Market Bonds and the 2009 B Bonds. After termination of the NIBP, the mortgage loans (other than such Mortgage Loans) to be originated under the Authority's single family programs are expected to be financed primarily by issuance of the Authority's Commonwealth Mortgage Bonds. The Authority has financed, and expects to continue to finance, Mortgage Loans through the issuance of Ginnie Mae securities (see "Ginnie Mae Financing" below). The Authority also expects to utilize other moneys of the Authority to finance other new mortgage loans under its other programs as set forth herein under "Miscellaneous Programs" and the "General Fund and Other Net Assets". See "Future Funding of Single Family Programs" below for a discussion of additional funding sources being considered by the Authority.

General

Under its single family programs, the Authority makes and purchases single family mortgage loans for financing and/or refinancing (including the refinancing of any existing mortgage loan and any equity in the single family residential housing in excess of any such existing mortgage loan) the rehabilitation or ownership or both of owner-occupied single family residential housing consisting of not more than four dwelling units, including condominium units, intended for occupancy by persons and households of low and moderate income. Effective April 1, 2008, the Authority suspended the financing of mortgage loans that refinanced single family homes. Mortgage loans will be originated pursuant to the Authority's origination system as described below. If the Authority is unable to utilize all of the proceeds of the Offered Bonds, the other Market Bonds and the 2009 B Bonds to make or purchase Mortgage Loans, the Authority may exercise its obligation or right, or may be required by the Code, to apply such unused proceeds to redeem the Offered Bonds (see "Description of the Offered Bonds").

Single family mortgage loans have been and are expected to be, except as noted below, originated for the Authority by commercial banks, savings and loan associations, private mortgage bankers and local redevelopment and housing authorities approved by the Authority to act as its originating lenders ("Originating Lenders"). Prior to March 7, 2011, the Originating Lenders and mortgage brokers acted as the agents of the Authority in originating the single family mortgage loans and closed the single family mortgage loans in the name of the Authority and with funds of the Authority. Since March 7, 2011, the Originating Lenders have originated and closed the single family mortgage loans in their own names and with their own funds, and pursuant to purchase agreements ("Purchase Agreements") the Authority has purchased such single family mortgage loans upon compliance with the terms and conditions of the Purchase Agreements. Since March 7, 2011, mortgage brokers no longer originate the Authority's single family mortgage loans. The Authority also utilizes its own employees to receive applications for single family mortgage loans in certain areas of the Commonwealth in which the Authority desires to increase lending activity

under the single family program (such loans are referred to herein as "Direct Origination Loans"). In the case of Direct Origination Loans, the Authority processes and originates the single family mortgage loans and retains all fees which would otherwise be available to Originating Lenders with respect to such mortgage loans. Direct Origination Loans are committed and closed in the name of the Authority and funded by the Authority at loan closing upon compliance with all terms and conditions of the Authority's mortgage loan commitment.

All of the single family mortgage loans are currently serviced by the Authority.

The Authority has covenanted in the Bond Resolution that, during the period of time that the 2009 B Bonds are Outstanding, the Authority will: (a) originate or cause to be originated and, if applicable, purchased Mortgage Loans and purchase or cause to be purchased mortgage backed securities, if any, in a manner consistent with applicable state law, the General Bond Resolution and any supplements thereto, and such other related documents by which the Authority is bound; (b) cause all Mortgage Loans to be serviced pursuant to the servicing requirements of the Authority, Ginnie Mae, FHA, Fannie Mae and Freddie Mac, as applicable; (c) except as otherwise permitted by the Treasury and the GSEs, diligently take all steps necessary or desirable to enforce the terms of the Mortgage Loans, mortgage backed securities (if any), Program documents and all such other documents evidencing obligations to the Authority; and (d) diligently take all actions consistent with sound mortgage loan origination, purchase and servicing practices and principles as may be necessary to receive and collect sufficient revenues to pay debt service when due on the 2009 B Bonds. Only the GSEs may enforce, or cause the Trustee to enforce, the other covenants described above in this paragraph.

Summary of Types of Single Family Mortgage Loans

Below is a summary of each of the types of single family mortgage loans financed by the Authority as more fully described herein.

Type of Mortgage Loan	Description
First Mortgage Loan	A single family mortgage loan which is secured by a lien which is not subordinate to a lien for another mortgage loan. All single family mortgage loans, except Second Mortgage Loans, are First Mortgage Loans. First Mortgage Loans may be Insured Mortgage Loans or Self-Insured Mortgage Loans.
Second Mortgage Loan	A single family mortgage loan which is secured by a lien which is subordinate to a lien securing another mortgage loan (including an Authority single family mortgage loan). FHA Plus Second Mortgage Loans, Homebuyer Tax Credit Plus Mortgage Loans and Home Stride Second Mortgage Loans are Second Mortgage Loans. All Second Mortgage Loans are Self-Insured Mortgage Loans.
FHA Plus Second Mortgage Loan	A Second Mortgage Loan which is originated in conjunction with a FHA insured First Mortgage Loan.
Homebuyer Tax Credit Plus Mortgage Loan	A Second Mortgage Loan which is originated in conjunction with a FHA insured First Mortgage Loan and which has a 0% interest rate and no monthly payments for the initial 12 months.
Home Stride Second Mortgage Loan	A Second Mortgage Loan, in the maximum principal amount of $25,000, which is originated in conjunction with an Authority financed First Mortgage Loan in certain high cost areas.
Insured Mortgage Loan	A single family mortgage loan which is insured or guaranteed by a federal government entity or private mortgage insurance company.
Self-Insured Mortgage Loan	A single family mortgage loan which is not insured or guaranteed by a federal government entity or private mortgage insurance company. All Interest Only Mortgage Loans, FHA Plus Second Mortgage Loans, Homebuyer Tax Credit Plus Mortgage Loans and Home Stride Second Mortgage Loans are Self-Insured Mortgage Loans. The Authority has previously financed other single family mortgage loans which are Self-Insured Mortgage Loans. The Authority has previously financed and currently finances single family mortgage loans having a loan to value ratio at or below 80% without requiring that the loan be insured or guaranteed.

Type of Mortgage Loan	Description
Level Payment Mortgage Loan	A single family mortgage loan which has substantially equal monthly principal and interest payments for the entire or remaining term of the mortgage loan. Level Payment Mortgage Loans include single family mortgage loans that were originally Non-Level Payment Mortgage Loans but which now have substantially equal principal and interest payment schedules for their remaining terms.
Non-Level Payment Mortgage Loan	A single family mortgage loan which has future monthly principal and interest payments which are not substantially equal. Interest Only Mortgage Loans, Step Rate Mortgage Loans, Homebuyer Tax Credit Plus Mortgage Loans and Home Stride Second Mortgage Loans are Non-Level Payment Mortgage Loans on the date of their origination.
Interest Only Mortgage Loan	A single family mortgage loan which has scheduled interest only payments for the initial seven years and are thereafter Level Payment Mortgage Loans for the remaining 23 years of the loan term. The interest rate is fixed for the life of the mortgage loan. Interest Only Mortgage Loans are Self-Insured Mortgage Loans.
Step Rate Mortgage Loan	A single family mortgage loan which has an interest rate that increases by 1.0% at the end of the first year and by another 1.0% at the end of the second year and remains at such interest rate for the balance of the term of the mortgage loan. Typically, the initial interest rate was set at 1.50% below the interest rate on the Authority's standard Level Payment Mortgage Loans.

The above descriptions are qualified by the more detailed descriptions herein of the types of single family mortgage loans.

First Mortgage Loans Currently and Previously Financed

The Authority has financed and currently finances single family mortgage loans that are secured by first liens ("First Mortgage Loans") and that finance the acquisition of single family homes and related costs in amounts not to exceed 97% 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 ("RD"), the mortgage loan may be in such other amounts (which may exceed 100% of the sales price or appraised value) as is permitted by FHA, VA or RD. The Authority has adopted changes to its regulations that permit the Authority to establish a lower percentage to be financed by its First Mortgage Loans if necessary to protect its financial interests or enable it to effectively and efficiently allocate its current and anticipated financial resources. The Authority has not established any such lower percentages but can give no assurance that it will not do so in the future. The Authority previously financed First Mortgage Loans in amounts not to exceed 104% of the lesser of (a) or (b) above.

Second Mortgage Loans Currently and Previously Financed

The Authority has financed and currently finances single family mortgage loans which are secured by second liens ("Second Mortgage Loans"). Second Mortgage Loans are not insured or guaranteed by the federal government or private mortgage insurance companies. One type of Second Mortgage Loan provides financing, in conjunction with the origination of an Authority financed First Mortgage Loan insured by FHA, to fund part of the mortgagors' down payment and closing costs not financed by the related FHA insured First Mortgage Loans. Such type of Second Mortgage Loan is referred to as the "FHA Plus Second Mortgage Loan." Each FHA Plus Second Mortgage Loan may, when combined with the related FHA insured First Mortgage Loan, be in a principal amount not to exceed 104% of the sales price and appraised value of the residence and is secured by the lien of a deed of trust subordinate to the lien of the deed of trust securing the FHA insured First Mortgage Loan. The term and the interest rate on the FHA Plus Second Mortgage Loans are the same as those on the related FHA insured First Mortgage Loan.

Effective June 2009, the Authority began originating another type of Second Mortgage Loan which provides financing, in conjunction with the origination of an Authority financed First Mortgage Loan insured by FHA and in anticipation of the eligibility of the mortgagors for the federal first-time homebuyer tax credit, to fund part of the mortgagors' down payment and closing costs not financed by the related FHA insured First Mortgage Loan. Such type of Second Mortgage Loan is referred to as the "Homebuyer Tax Credit Plus Mortgage Loan". Each Homebuyer Tax Credit Plus Mortgage Loan may, when combined with the related FHA insured First Mortgage Loan, be in a principal amount not to exceed 104% of the sales price and appraised value of the residence and is secured by the lien of a deed of trust subordinate to the lien of the deed of trust securing the FHA insured First Mortgage Loan. For the initial 12 months, such Second Mortgage Loan bears a 0% interest rate, and no monthly payments are due on such Loan during such 12 months. The term and interest rate (after the initial twelve month period) on the Homebuyer Tax Credit Plus Mortgage Loan are the same as those on the related FHA insured First Mortgage Loan. Because of the expiration of the federal first-time homebuyer tax credit, the Authority discontinued originating Homebuyer Tax Credit Plus Mortgage Loans on September 30, 2010 and, in the case of such loans to certain qualified members of the military, on January

31, 2011; however, no assurance can be given whether the Authority will recommence the financing of such Homebuyer Tax Credit Plus Mortgage Loans if a similar federal tax credit is made available to homebuyers.

Pursuant to changes to the Authority's regulations, FHA Plus Second Mortgage Loans and Homebuyer Tax Credit Plus Mortgage Loans may be financed in conjunction with the origination of a first mortgage loan financed by a lender other than the Authority. The Authority has not financed, and has no plans to finance, such Loans; however, no assurance can be given that the Authority will not commence the financing of such Loans.

Prior to July 1, 2008, the Authority also financed another type of Second Mortgage Loan financed pursuant to the Authority's Home Stride Loan Program ("Home Stride Second Mortgage Loans") and made as a Subsidized Mortgage Loan, as defined below under "General Fund and Other Net Assets". Home Stride Second Mortgage Loans were only made in conjunction with an Authority financed First Mortgage Loan and had a maximum principal amount of $25,000. Home Stride Second Mortgage Loans were available only in certain high costs areas identified by the Authority. For the initial three years, the Home Stride Second Mortgage Loans have a 0% interest rate, and no monthly payments are due during such three years. Following the initial three years, the interest rate changes to 5% and monthly payments commence at a level that will fully amortize such Mortgage Loan over its remaining 27 years. The combined amounts of the First Mortgage Loan and the Home Stride Second Mortgage Loan typically exceeded the sales price and appraised value of the residence. Effective July 1, 2008, the Authority suspended the financing of Home Stride Second Mortgage Loans. No assurance can be given whether the Authority will recommence the financing of Home Stride Second Mortgage Loans.

Other Single Family Mortgage Loan Financings Prior to April 1, 2008

Prior to April 1, 2008, the Authority financed single family mortgage loans that refinanced single family homes. In the case of such mortgage loans, the loan amount (plus all subordinate debt secured by the property after closing of the mortgage loan) could not exceed the lesser of the then current appraised value of the property or the sum of (i) the payoff (if any) of the applicant's or applicants' existing first mortgage loan; (ii) the payoff (if any) of applicant's or applicants' subordinate mortgage loans (provided such loans did 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 permitted 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) the cost of improvements which were performed to the property after the closing of the mortgage loan and for which loan proceeds were 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 the applicant or applicants at closing. In addition, if the applicant or applicants requested to receive loan proceeds at closing in excess of the limit set forth in (v) above, the loan amount (plus all subordinate debt secured by the property after closing of the mortgage loan) could 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 was an Authority financed mortgage loan, the applicant or applicants could request a streamlined refinance of such existing mortgage loan in which the Authority required less underwriting documentation (e.g. verification of employment) and charged reduced points and fees. For such streamlined refinances, the loan amount (plus all subordinate debt secured by the property after closing of the new mortgage loan) was 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) could not exceed 100% of the greatest of original appraised value, current real estate tax assessment, current appraised value or other alternative valuation method approved by the Authority. Such mortgage loans are First Mortgage Loans. Effective April 1, 2008, the Authority suspended the financing of mortgage loans that refinance single family homes. No assurance can be given whether the Authority will recommence the financing of any of such loans.

Prior to April 1, 2008, the Authority also financed single family mortgage loans that included (a) costs of rehabilitation and improvements 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 financed 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 financed the acquisition of a single family home) or the appraised value. The Authority would also finance the costs of rehabilitation not in excess of 50% of the as-completed appraised value, provided that the principal amount of the mortgage loan did not exceed 100% of (a) in the case of a mortgage loan that financed 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 refinanced 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 mortgage loans that include the financing of costs described in this paragraph are First Mortgage Loans. Effective April 1, 2008, the Authority suspended the financing of the mortgage loans that include the financing of the above described costs. No assurance can be given whether the Authority will recommence the financing of such costs.

Mortgage Loan Insurance

The Bond Resolution does not require that Mortgage Loans be insured or guaranteed. The Authority's program guidelines currently require that First Mortgage Loans financed, in whole or in part, with the proceeds of tax-exempt bonds and 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, RD or other entity of the federal government. However, the Authority's program guidelines do not require any mortgage insurance or guaranty for (i) Interest Only Mortgage Loans (as defined in "Mortgage Loan Terms" below), (ii) mortgage loans financed solely with the proceeds of taxable bonds (except for loans with loan to value ratios in excess of 80% that finance manufactured housing) or Authority net assets, or (iii) Second Mortgage Loans. Such mortgage loans described in the preceding sentence that are not insured or guaranteed are referred to herein as "Self-Insured Mortgage Loans". The Authority may modify its program guidelines at its discretion. See Appendix C 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 closed on or after July 29, 1999. The Authority provides 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. The Authority also permits the cancellation of mortgage insurance if the balance of the mortgage loans is equal to or less than 80%, or such lesser percentage determined by the Authority, of the current property value, subject to the satisfaction of such criteria, requirements and conditions as the Authority may impose for such cancellation. The Authority cannot currently predict what will be the effect, if any, on future losses incurred on mortgage loans as a result of this Act or as a result of its 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.

The Authority has previously financed and currently finances Self-Insured Mortgage Loans having a loan-to-value ratio at or below 80%.

Prior to April 1, 2008, the Authority financed Self-Insured Mortgage Loans with loan to value ratios above 80% but not in excess of 100%. The Authority's regulations authorize the financing of an additional 5% for closing costs and fees (but the Authority has not provided such financing for closing costs and fees) and for rehabilitation and improvements to be completed after the closing of the Self-Insured 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. However, effective April 1, 2008, the Authority suspended the financing of Self-Insured Mortgage Loans, except FHA Plus Second Mortgage Loans, Homebuyer Tax Credit Plus Mortgage Loans (see "Second Mortgage Loans Currently and Previously Financed" above regarding the subsequent suspension of the financing of such Homebuyer Tax Credit Plus Mortgage Loans) and mortgage loans having a loan-to-value ratio at or below 80%. No assurance can be given whether the Authority will recommence the financing of such Self-Insured Mortgage Loans.

Pursuant to changes to the Authority's regulations, the Authority may impose minimum ratings on the issuers of private mortgage insurance policies; however, no assurance can be given whether the Authority will commence requiring such ratings.

Mortgage Loan Terms

Substantially all existing single family mortgage loans have, and future single family mortgage loans are expected to have, original terms of approximately 30 years and bear or are expected to bear, interest at fixed rates. However, as described above, for the initial 12 months, Homebuyer Tax Credit Plus Mortgage Loans bear a 0% interest rate, and no monthly payments are due during such 12 months (see "The Single Family Programs –General –Second Mortgage Loans Currently and Previously Financed"). As noted above, the Authority has discontinued the financing of Homebuyer Tax Credit Plus Mortgage Loans. Also, the Authority has previously financed Step Rate Mortgage Loans which 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 such Mortgage Loan and by another percentage point at the end of the second year of such Mortgage Loan and remain at that rate for the remaining life of such Mortgage Loan. However, effective April 1, 2008, the Authority suspended the financing of Step Rate Mortgage Loans. No assurance can be given whether the Authority will recommence the financing of Step Rate Mortgage Loans.

In September 2004, the Authority implemented a program to finance single family mortgage loans on which interest only will be payable for seven years and which will thereafter be fully amortized over the remainder of the 30-year term of the mortgage loan (each a "Interest Only Mortgage Loan"). The interest rate on each such Interest Only Mortgage Loan is fixed during its term. The maximum principal amount of each Interest Only Mortgage Loan is 100% of the lesser of sales price or appraised value. Such Interest Only Mortgage Loans are Self-Insured Mortgage Loans. Effective April 1, 2008, the Authority suspended the financing of such Interest Only Mortgage Loans. No assurance can be given whether the Authority will recommence the financing of Interest Only Mortgage Loans in the future. The Authority currently expects to make restructuring offers to all mortgagors of Interest Only Mortgage Loans which are scheduled to commence principal payments in 2011, which is the first year that any Interest Only Mortgage Loans are scheduled to commence principal payments. Such restructuring offers, if offered to and accepted by the mortgagors, would modify their Interest Only Mortgage Loans and would result in Level Payment Mortgage Loans with new full 30 year terms. The Authority is considering whether to offer similar restructuring on Interest Only Mortgage Loans that are scheduled to commence principal payments after 2011. The approximate outstanding principal balance (in millions of dollars) of Interest Only Mortgage Loans scheduled to commence principal payments are shown below by calendar year in which such principal payments will commence:

Year	Outstanding Principal Balance
2011	$ 1.6
2012	202.6
2013	277.4
2014	202.8
2015	26.1
Total	$710.5

The Authority requires the applicant to pay, at the time of closing, between 0 and 3 points, with each point being equal to 1% of the principal amount of the single family mortgage loan. The number of points depends on the interest rate option selected by the applicant (the applicants have the option of paying less or more points in exchange for having a higher or lower interest rate on the mortgage loan). The yield that the Authority realizes on single family mortgage loans is affected by the amount of points paid and the rate of prepayments of such mortgage loans. If the single family mortgage loan is originated by an Originating Lender and the applicant pays less than 1 point, the Authority will pay the difference between 1 point and the amount paid by the applicant to the Originating Lender so that such Originating Lender receives the equivalent of 1 point.

Some mortgage loans are funded entirely from a single source of funding (e.g., proceeds of Tax-Exempt Bonds, Taxable Bonds or net assets of the Authority), and other mortgage loans are funded from a combination of such sources. The interest rate (or, if multiple sources of funding, the blended interest rate) on any mortgage loan is expected to be higher than the interest rate cost (or, if multiple sources of funding, the blended interest rate costs) of the corresponding source or sources of funds. The Code imposes limits on the interest rates that can be charged on mortgage loans that are funded, in whole or in part, with the proceeds of Tax Exempt Bonds (see "General Fund and Other Net Assets" for discussion of Subsidized Mortgage Loans financed or supported by the net assets of the Authority).

Security

In addition to the requirements with regard to the loan to value ratio and mortgage loan insurance or guarantees, the Authority relies upon the following security elements in the making and purchasing of single family mortgage loans: (i) mortgage loan underwriting and servicing procedures (see "Origination Procedures and Underwriting Criteria" and "Servicing" under "The Single Family Programs" herein), (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 single family mortgage loans made or purchased by the Authority are to be in the form of deeds of trust, in accordance with Virginia practice, and are to constitute and create first liens (except in the case of Second Mortgage Loans) on single family residential housing.

Loan Balances, Delinquencies and Foreclosures of Single Family Mortgage Loans

The Authority's single family mortgage loan program has financed single family mortgage loans under multiple general bond resolutions, specifically the Homeownership Mortgage Bond resolution, the Commonwealth Mortgage Bond resolution and the VHDA General Purpose Bond resolution. Such single family mortgage loans are financed principally under the Authority's Commonwealth Mortgage Bond resolution (the mortgage loans so financed under the Commonwealth Mortgage Bond resolution, inclusive of the mortgage loans pooled under Ginnie Mae securities held under such resolution, are referred to herein as the "Commonwealth Bond Mortgage Loans"). The Mortgage Loans so financed under the Homeownership Mortgage Bond resolution are referred to herein as the "Homeownership Bond Mortgage Loans."

Data on Homeownership Bond Mortgage Loans

The outstanding balance, delinquency and foreclosure statistics for Homeownership Bond Mortgage Loans have been as set forth below.

	Outstanding Balance of Single Family Mortgage Loans	Outstanding Balance of Delinquent* Single Family Mortgage Loans	Percentage of Single Family Mortgage Loans Delinquent*	Outstanding Balance of Single Family Mortgage Loans in Foreclosure	Percentage of Single Family Mortgage Loans in Foreclosure
June 2010	$236,675,101	$300,675	0.13%	$0.0	0.00%
March 2011	418,842,344	4,107,910	0.98	824,732	0.20

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

As of March 31, 2011, the Authority did not hold title to any single family properties which were financed by Homeownership Bond Mortgage Loans and had been foreclosed upon, but not yet sold.

The following five charts show the distribution of Homeownership Bond Mortgage Loans in different ways. All five charts are as of March 31, 2011, and loan balances are in millions of dollars. Certain amounts may not sum to the total due to rounding.

The Authority has not financed any Home Stride Second Mortgage Loans, Step Rate Mortgage Loans, or Interest Only Mortgage Loans under the Homeownership Mortgage Bond resolution due to the suspension by the Authority of the financing of such loans as described above; therefore, such Loans are not included in any of the charts below for the Homeownership Bond Mortgage Loans.

The following chart shows the distribution of the Homeownership Bond Mortgage Loans by lien status and by program status.

Type of Mortgage Loan	Program Status	Outstanding Balance of Mortgage Loans	Percentage
First Mortgage Loans			
Insured Mortgage Loans	Active	$391	93.3%
Self-Insured Mortgage Loans*	Suspended – April 1, 2008**	14	3.3
Subtotal		404	96.6
Second Mortgage Loans (all Self-Insured)			
FHA Plus Second Mortgage Loans	Active	13	3.1
Homebuyer Tax Credit Plus Mortgage Loans	Suspended – September 30, 2010***	1	0.3
Subtotal		14	3.4
Total Mortgage Loans		$419	100.0%

* None of the Homeownership Bond Mortgage Loans refinance single family homes or finance costs of rehabilitation and improvements in conjunction with the financing of the acquisition or the refinancing of the single family home. Does not include Second Mortgage Loans.

** The Authority has not suspended the financing of, and continues to finance, Self-Insured Mortgage Loans having an initial loan to value ratio at or below 80%.

*** The Authority discontinued originating Homebuyer Tax Credit Plus Mortgage Loans on September 30, 2010, except for such loans to certain qualified members of the military that the Authority continued to originate until January 31, 2011.

The distribution of the outstanding balances of Homeownership Bond Mortgage Loans in the above chart is further shown by year of origination in the below chart.

Type of Single Family Mortgage Loan	Calendar Year of Origination			
	2009	2010	YTD 2011	Total
First Mortgage Loans				
Insured Mortgage Loans	$5	$378	$8	$391
Self-Insured Mortgage Loans*	0	13	1	14
Subtotal	5	391	9	404
Second Mortgage Loans (all Self-Insured)				
FHA Plus Second Mortgage Loans	0	13	0	13
Homebuyer Tax Credit Plus Mortgage Loans***	0	1	**	1
Subtotal	0	14	0	14
Total Single Family Mortgage Loans	$5	$405	$9	$419

* None of the Homeownership Bond Mortgage Loans refinance single family homes or finance costs of rehabilitation and improvements in conjunction with the financing of the acquisition or the refinancing of the single family home. Does not include Second Mortgage Loans. The Authority has suspended the financing of Self-Insured Mortgage Loans, except that the Authority continues to finance Self-Insured Mortgage Loans having an initial loan to value ratio at or below 80%.

** Less than $0.5 million.

*** The Authority discontinued originating Homebuyer Tax Credit Plus Mortgage Loans on September 30, 2010, except for such loans to certain qualified members of the military that the Authority continued to originate until January 31, 2011.

The following chart shows the distribution of Homeownership Bond Mortgage Loans by Level Payment Mortgage Loans and Non-Level Payment Mortgage Loans.

Type of Mortgage Loan	Outstanding Balance of Mortgage Loans	Percentage
Level Payment Mortgage Loans	$418	99.7%
Non-Level Payment Mortgage Loans +		
Homebuyer Tax Credit Plus Second Mortgage Loans	1	0.3
Subtotal	1	0.3
Total Mortgage Loans	$419	100.0%

\+ Excludes mortgage loans which were initially Non-Level Mortgage Loans but currently have substantially equal principal and interest payments for the balance of the term of the mortgage loan. Such mortgage loans are included in Level Payment Mortgage Loans. The Authority has suspended the financing of Non-Level Payment Mortgage Loans.

The following chart shows the distribution of Homeownership Bond Mortgage Loans by types of mortgage insurance.

Type of Mortgage Insurance	Outstanding Balance of Mortgage Loans	Percentage of Outstanding Balance	Outstanding Balance of Delinquent* Mortgage Loans	Percentage of Mortgage Loans Delinquent*	Outstanding Balance of Mortgage Loans in Foreclosure	Percentage of Mortgage Loans in Foreclosure
Securitized by Ginnie Mae	$ 0.0	0.0%	$0.0	0.0%	$0.0	0.0%
FHA	364.4	87.0	4.0	1.1	0.8	0.2
VA	12.4	3.0	0.0	0.0	0.0	0.0
RD	11.2	2.7	0.0	0.0	0.0	0.0
Subtotal Government Insurance	388.0	92.6	4.0	1.0	0.8	0.2
MGIC Mortgage Insurance Co.	1.8	0.4	0.0	0.0	0.0	0.0
Republic Mortgage Insurance Co.	0.0	0.0	0.0	0.0	0.0	0.0
Genworth Mortgage Insurance	0.6	0.1	0.0	0.0	0.0	0.0
PMI Mortgage Insurance Co.	0.0	0.0	0.0	0.0	0.0	0.0
AIG United Guaranty	0.1	0.0	0.0	0.0	0.0	0.0
Triad Guaranty Insurance Corp.	0.0	0.0	0.0	0.0	0.0	0.0
Radian Mortgage Insurance	0.3	0.1	0.0	0.0	0.0	0.0
Other companies	0.0	0.0	0.0	0.0	0.0	0.0
Subtotal Private Mortgage Ins.	2.7	0.7	0.0	0.0	0.0	0.0
Self-Insured	28.1	6.7	0.1	0.5	0.0	0.0
Total Mortgage Loans	$418.8	100.0%	$4.1	1.0%	$0.8	0.2%

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

Many providers of private mortgage insurance, including the providers set forth above, are experiencing financial difficulties and have had their credit ratings downgraded or placed on watch for a future downgrade. The Authority makes no representations about the financial condition of any of the private mortgage insurance companies or their ability to make full and timely payment to the Authority of claims on the mortgage loans on which the Authority may experience losses. Pursuant to changes to the Authority's regulations, the Authority may impose minimum ratings on the issuers of private mortgage insurance policies; however, no assurance can be given whether the Authority will commence requiring such ratings.

The following chart shows the distribution of Homeownership Bond Mortgage Loans by calendar year of origination.

Year of Origination	Outstanding Balance of Single Family Mortgage Loans	Percentage of Outstanding Balance	Outstanding Balance of Delinquent* Single Family Mortgage Loans	Percentage of Single Family Mortgage Loans Delinquent*	Outstanding Balance of Single Family Mortgage Loans in Foreclosure	Percentage of Single Family Mortgage Loans in Foreclosure
2009	$5.0	1.2%	$0.3	6.8%	$0.0	0.0%
2010	404.8	96.7	3.8	0.9	0.8	0.2
2011 through March 31	9.0	2.2	0.0	0.0	0.0	0.0
Total	$418.8	100.0%	$4.1	1.0	0.8	0.2%

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

Data on Commonwealth Bond Mortgage Loans

The outstanding balance, delinquency and foreclosure statistics for single family mortgage loans financed under the Authority's single family mortgage loan program (including single family mortgage loans which have been financed under the Commonwealth Mortgage Bond resolution since July 15, 1986) have been as set forth below. Commencing in 2008 such statistics include only the Commonwealth Bond Mortgage Loans. Such statistics on the Commonwealth Bond Mortgage Loans do not include single family mortgage loans (i) financed under the Authority's Homeownership General Resolution (see "Data on Homeownership Bond Mortgage Loans" above), (ii) financed through the issuance of Ginnie Mae securities sold by the Authority to third parties (see "Ginnie Mae Financing" below), (iii) financed under the VHDA General Purpose Bond resolution (see "VHDA General Purpose Bonds" below), or (iv) financed by the Authority's General Fund, including single family mortgage loans financed through the issuance of Ginnie Mae securities held in the General Fund (see "General Fund and Other Net Assets" below).

	Outstanding Balance of Single Family Mortgage Loans	Outstanding Balance of Delinquent* Single Family Mortgage Loans	Percentage of Single Family Mortgage Loans Delinquent*	Outstanding Balance of Single Family Mortgage Loans in Foreclosure	Percentage of Single Family Mortgage Loans in Foreclosure
June 1986	$1,195,864,387	$ 4,158,521	0.35%	$2,172,558	0.18%
June 1987	1,237,415,544	4,409,492	0.36	2,524,506	0.20
June 1988	1,537,364,756	5,412,004	0.35	3,523,664	0.23
June 1989	1,801,428,511	8,146,835	0.45	3,628,834	0.20
June 1990	1,905,581,579	10,316,930	0.54	3,527,303	0.19
June 1991	1,973,348,630	16,496,589	0.84	7,103,284	0.36
June 1992	2,029,417,516	22,755,830	1.12	7,026,107	0.35
June 1993	2,015,567,145	23,796,850	1.18	7,600,183	0.38
June 1994	1,877,929,438	20,662,329	1.10	6,385,775	0.34
June 1995	2,590,062,023	26,301,889	1.02	5,252,832	0.20
June 1996	2,926,020,625	45,838,102	1.57	10,863,571	0.37
June 1997	3,212,259,451	71,277,888	2.22	12,156,328	0.38
June 1998	3,306,246,756	72,577,895	2.20	14,094,196	0.43
June 1999	3,343,463,438	69,343,954	2.07	12,247,829	0.37
June 2000	3,467,701,927	77,752,107	2.24	11,905,551	0.34
June 2001	3,691,477,394	67,359,881	1.82	9,987,932	0.27
June 2002	3,688,135,950	67,275,150	1.82	10,311,402	0.28
June 2003	2,895,005,283	63,273,245	2.19	8,853,846	0.31
June 2004	2,443,450,255	52,166,695	2.13	6,244,039	0.26
June 2005	2,606,208,240	44,245,729	1.70	5,234,535	0.20
June 2006	3,276,285,786	44,494,131	1.36	2,772,675	0.08
June 2007	4,183,806,161	56,623,486	1.35	6,608,655	0.16
June 2008	4,690,244,980	92,129,053	1.96	17,156,362	0.37
June 2009	4,862,285,803	223,368,854	4.59	22,419,017	0.46
June 2010	4,599,334,626	254,711,955	5.54	50,042,079	1.09
March 2011	4,259,595,711	221,161,723	5.19	64,461,667	1.51

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

As of March 31, 2011 the Authority held title to 301 single family properties which were financed by Commonwealth Bond Mortgage Loans and had been foreclosed upon, but not yet sold. The aggregate principal balance of the mortgage loans that financed such properties was approximately $45.5 million as of their dates of foreclosure. During the preceding 12 months, the average period of time to sell such properties was approximately 215 days.

The following five charts show the distribution of Commonwealth Bond Mortgage Loans in different ways. All five charts are as of March 31, 2011, and loan balances are in millions of dollars. Certain amounts may not sum to the total due to rounding.

The following chart shows the distribution of the Commonwealth Bond Mortgage Loans by lien status and by program status.

Type of Single Family Mortgage Loan	Program Status	Outstanding Balance of Single Family Mortgage Loans	Percentage
First Mortgage Loans			
Insured Mortgage Loans	Active	$ 2,580	60.6%
Self-Insured Mortgage Loans*	Suspended - April 1, 2008**	1,612	37.8
Subtotal		4,192	98.4
Second Mortgage Loans (all Self-Insured)			
FHA Plus Second Mortgage Loans	Active	51	1.2
Homebuyer Tax Credit Plus Mortgage Loans	Suspended - September 30, 2010***	2	0.0
Home Stride Second Mortgage Loans	Suspended - July 1, 2008	15	0.3
Subtotal		68	1.6
Total Single Family Mortgage Loans		$ 4,260	100.0%

* Includes single family mortgage loans that refinanced single family homes. Also, includes the portions of single family mortgage loans that financed costs of rehabilitation and improvements in conjunction with the financing of the acquisition or the refinancing of the single family home. Does not include Second Mortgage Loans.

** The Authority has not suspended the financing of, and continues to finance, Self-Insured Mortgage Loans having an initial loan to value ratio at or below 80%.

*** The Authority discontinued originating Homebuyer Tax Credit Plus Mortgage Loans on September 30, 2010, except for such loans to certain qualified members of the military that the Authority continued to originate until January 31, 2011.

The distribution of the outstanding balances of Commonwealth Bond Mortgage Loans in the above chart is further shown by year of origination in the below chart.

Type of Single Family Mortgage Loan	Calendar Year of Origination								
	Thru 2004	2005	2006	2007	2008	2009	2010	YTD 2011	Total
First Mortgage Loans									
Insured Mortgage Loans	$ 473	$ 202	$ 341	$ 510	$ 588	$ 377	$ 38	$ 52	$ 2, 580
Self-Insured Mortgage Loans*	271	388	468	390	73	15	5	2	1,612
Subtotal	744	590	809	900	661	391	43	54	4,192
Second Mortgage Loans (all Self-Insured)									
FHA Plus Second Mortgage Loans	2	3	5	6	14	19	1	2	51
Homebuyer Tax Credit Plus Mortgage Loans***	0	0	0	0	0	2	**	0	2
Home Stride Second Mortgage Loans	1	2	3	5	3	0	0	0	15
Subtotal	4	5	8	11	17	20	1	2	68
Total Single Family Mortgage Loans	$ 748	$ 595	$ 817	$ 910	$ 678	$ 412	$ 44	$ 56	$ 4,260

* Includes single family mortgage loans that refinanced single family homes. Also, includes the portions of single family mortgage loans that financed costs of rehabilitation and improvements in conjunction with the financing of the acquisition or the refinancing of the single family home. Does not include Second Mortgage Loans. The Authority has suspended the financing of Self-Insured Mortgage Loans, except that the Authority continues to finance Self-Insured Mortgage Loans having an initial loan to value ratio at or below 80%.

** Less than $0.5 million.

*** The Authority discontinued originating Homebuyer Tax Credit Plus Mortgage Loans on September 30, 2010, except for such loans to certain qualified members of the military that the Authority continued to originate until January 31, 2011.

The following chart shows the distribution of Commonwealth Bond Mortgage Loans shown by Level Payment Mortgage Loans and Non-Level Payment Mortgage Loans.

Type of Single Family Mortgage Loan	Outstanding Balance of Single Family Mortgage Loans	Percentage
Level Payment Mortgage Loans	$ 3,610	84.8%
Non-Level Payment Mortgage Loans +		
Step Rate Mortgage Loans	1	0.0
Interest Only Mortgage Loans	643	15.1
Homebuyer Tax Credit Plus Second Mortgage Loans	2	0.0
Home Stride Second Mortgage Loans	3	0.1
Subtotal	649	15.2
Total Single Family Mortgage Loans	$ 4,260	100.0%

+ Excludes single family mortgage loans which were initially Non-Level Mortgage Loans but currently have substantially equal principal and interest payments for the balance of the term of the single family mortgage loan. Such single family mortgage loans are included in Level Payment Mortgage Loans. The Authority has suspended the financing of Non-Level Payment Mortgage Loans.

The following chart shows the outstanding balances of Commonwealth Bond Mortgage Loans by type of mortgage insurance.

Type of Mortgage Insurance	Outstanding Balance of Single Family Mortgage Loans	Percentage of Outstanding Balance	Outstanding Balance of Delinquent* Single Family Mortgage Loans	Percentage of Single Family Mortgage Loans Delinquent*	Outstanding Balance of Single Family Mortgage Loans in Foreclosure	Percentage of Single Family Mortgage Loans in Foreclosure
Securitized by Ginnie Mae	$ 59.7	1.4%	$ 1.1	1.9%	$ 0.1	0.2%
FHA	1,540.4	36.2	111.1	7.2	36.3	2.4
VA	311.5	7.3	16.0	5.1	5.6	1.8
RD	162.1	3.8	9.4	5.8	1.5	0.9
Subtotal Government Insurance	2,073.7	48.7	137.6	6.6	43.4	2.1
MGIC Mortgage Insurance Co.	172.1	4.0	8.7	5.0	1.4	0.8
Republic Mortgage Insurance Co.	98.5	2.3	5.5	5.6	0.9	0.9
Genworth Mortgage Insurance	92.4	2.2	3.4	3.7	1.4	1.5
PMI Mortgage Insurance Co.	65.1	1.5	3.4	5.3	0.4	0.7
AIG United Guaranty	34.1	0.8	2.1	6.0	0.9	2.7
Triad Guaranty Insurance Corp.	17.6	0.4	0.8	4.4	0.1	0.8
Radian Mortgage Insurance	25.9	0.6	1.0	3.8	0.3	1.1
Other companies	0.5	0.0	0.0	0.0	0.0	0.0
Subtotal Private Mortgage Ins.	506.1	11.9	24.8	4.9	5.5	1.1
Self-Insured	1,679.8	39.4	58.8	3.5	15.5	0.9
Total Single Family Mortgage Loans	$ 4,259.6	100.0%	$ 221.2	5.2%	$ 64.5	1.5%

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

Many providers of private mortgage insurance, including the providers set forth above, are experiencing financial difficulties and have had their credit ratings downgraded or placed on watch for a future downgrade. The Authority makes no representations about the financial condition of any of the private mortgage insurance companies or their ability to make full and timely payment to the Authority of claims on the single family mortgage loans on which the Authority may experience losses. Pursuant to changes to the Authority's regulations, the Authority may impose minimum ratings on the issuers of private mortgage insurance policies; however, no assurance can be given whether the Authority will commence requiring such ratings.

The following chart shows the distribution of Commonwealth Bond Mortgage Loans by calendar year of origination.

Year of Origination	Outstanding Balance of Single Family Mortgage Loans	Percentage of Outstanding Balance	Outstanding Balance of Delinquent* Single Family Mortgage Loans	Percentage of Single Family Mortgage Loans Delinquent*	Outstanding Balance of Single Family Mortgage Loans in Foreclosure	Percentage of Single Family Mortgage Loans in Foreclosure
2004 and earlier	$ 747.9	17.6%	$ 32.1	4.3%	$ 8.6	1.1%
2005	594.7	14.0	26.0	4.4	8.9	1.5
2006	817.1	19.2	48.0	5.9	15.0	1.8
2007	910.5	21.4	50.2	5.5	15.0	1.7
2008	678.2	15.9	47.3	7.0	12.1	1.8
2009	411.6	9.7	17.5	4.3	4.7	1.1
2010	44.1	1.0	**	0.0	0.1	0.1
2011 through March 31	55.5	1.3	0.0	0.0	0.0	0.0
Total	$ 4,259.6	100.0%	$ 221.2	5.2%	$ 64.5	1.5%

* Two or more monthly payments delinquent (excluding loans in foreclosure).
** Less than $0.05 million.

Ginnie Mae Financing

In 2009, the Authority commenced the financing of single family mortgage loans through the issuance of Ginnie Mae securities backed by Authority originated single family mortgage loans insured or guaranteed by FHA, VA or RD. Such securities are held under the Authority's existing single family bond resolutions (other than the Bond Resolution) and/or in the Authority's General Fund or are sold at market prices in order to provide funds for the origination of such single family mortgage loans or for other programs and operations of the Authority. If held under a bond resolution, the securities are pledged as security under such bond resolutions.

The single family mortgage loans financed by the Ginnie Mae securities are not assets of the Authority. The Authority guarantees the timely payment of principal and interest on the mortgage loans so financed. The Authority expects to retain the servicing rights on all such mortgage loans. All of the total outstanding principal balance of such loans are insured or guaranteed by federal government entities such as FHA, VA, and RD, as defined above.

As of March 31, 2011, approximately $226 million aggregate principal amount of single family mortgage loans financed by Ginnie Mae securities sold to third parties and not held by the Authority was outstanding, of which approximately $8.0 million aggregate principal balance was more than two months delinquent in monthly payments, and approximately $1.9 million aggregate principal balance was in foreclosure, representing 3.5% and 0.8%, respectively, of the aggregate principal balance of such mortgage loans.

As of March 31, 2011, the Authority has also financed single family mortgage loans in the approximate outstanding principal amount of $82 million through the issuance of Ginnie Mae securities held by the Authority and not sold to third parties. For information concerning single family mortgage loans financed by Ginnie Mae securities held by the Authority under the Commonwealth Mortgage Bond resolution, see "Data on Commonwealth Bond Mortgage Loans" above. For information concerning single family mortgage loans financed by Ginnie Mae securities held by the Authority in the General Fund, see "General Fund and Other Net Assets" below.

No assurance can be given as to whether the Authority will continue the financing of single family mortgage loans through the issuance of Ginnie Mae securities or, if continued, as to the amount of such financings.

VHDA General Purpose Bonds

As of March 31, 2011, approximately $151.1 million aggregate principal balance of single family mortgage loans financed by VHDA General Purpose Bonds was outstanding, of which $7.4 million aggregate principal balance was more than two months delinquent in monthly payments and $1.0 million aggregate principal balance was in foreclosure, representing 4.9% and 0.7%, respectively, of such aggregate principal balance of mortgage loans. Approximately $10.4 million of the total outstanding principal balance of such loans are insured by federal government entities such as FHA, VA, and RD, as defined above. Substantially all of the balance of such mortgage loans are Self-Insured Mortgage Loans.

Future Funding of Single Family Programs

The Authority is considering a number of alternative means of funding its single family programs upon the termination of the NIBP at the end of calendar year 2011. If conditions in the Tax Exempt Bond market and mortgage market will then permit the financing of single family mortgage loans at interest rates and on other terms superior to or competitive with

mortgage loans offered by other lenders, the Authority would expect to finance its single family programs through the sale and issuance of Tax Exempt Bonds, as the Authority had done prior to the commencement of the NIBP. If such conditions do not exist, the Authority is considering the financing of single family mortgage loans insured or guaranteed by FHA, VA and RD through the issuance of Ginnie Mae securities as described above and is also considering the financing by the sale to Fannie Mae, or the securitization through the issuance of Fannie Mae securities, of single family mortgage loans which are not so insured or guaranteed by federal governmental agencies but for which VHDA would provide either financial recourse for mortgage loan defaults or, if hereafter authorized by amendments to the Act, mortgage insurance by a company or fund created by the Authority. Because of future uncertainties about the foregoing financing methods, the Authority can give no assurance as to whether or not, upon termination of NIBP, any of such financing methods will be available to the Authority or will enable the Authority to finance the single family programs or as to the amount of funding that such financing method will provide.

Declining Markets; Risk of Loss

Since 2007, the residential mortgage loan market has experienced increasing levels of delinquencies, defaults and losses, and the Authority cannot give any assurance that this will not continue. In addition, since 2007, housing prices and appraisal values in the Commonwealth of Virginia have declined or stopped appreciating, after extended periods of significant appreciation. In certain areas of Virginia, particularly the Washington-Arlington-Alexandria area, the decline has been substantial. The Housing Price Index of the Federal Housing Finance Agency (such Index measures average price changes on single family properties whose mortgages have been purchased or securitized by Fannie Mae and Freddie Mac) indicates that home values in Virginia declined approximately 17% between their peak in the second quarter of 2007 and the fourth quarter of 2010; however, the data used in such report may not be representative of the Authority's portfolio of single family mortgage loans, and, therefore, the Authority can give no assurance as to whether or not homes financed by the Authority in its single family mortgage loan programs have experienced a similar decline. This decline and flattening of values has resulted and may continue to result in additional increases in delinquencies, defaults and losses on residential mortgage loans generally, particularly with respect to residential mortgage loans whose aggregate loan amounts (including any subordinate liens) are close to or greater than the related property values. Upon a default on a mortgage loan, a decline in value will affect the Authority's risk of loss depending upon the type of mortgage loan. In the case of a FHA insured mortgage loan, any loss to the Authority is usually limited to approximately 2-3% of the principal balance of the mortgage loan, regardless of any decline in value. In the case of a mortgage loan insured by VA, Rural Development or a private mortgage insurance company, the Authority experiences minimal loss due to any such decline in value, except to the extent that the amount owed on such mortgage loan exceeds the value of the property by an amount greater than the maximum insurance amount (generally 20-25% of the original loan amount). In the case of a Self-Insured Mortgage Loan that is a FHA Plus Second Mortgage Loan or a Homebuyer Tax Credit Plus Mortgage Loan, the Authority will usually suffer a full loss of the amount owed on such Loan. In the case of a Self-Insured Mortgage Loan that is a Home Stride Second Mortgage Loan, the Authority will suffer a loss to the extent that the value of the property minus the amount owed on the Authority financed First Mortgage Loan is less than such Home Stride Second Mortgage Loan; therefore, any decline in value may increase the risk of loss on such Loan. In the case of any other Self-Insured Mortgage Loan, the Authority will suffer a loss to the extent that the value of the property is less than the amount owed on such Loan and, as a result, any decline in value may increase the risk of loss on such Loan. The Authority conducts quarterly analyses of the risk of loan loss on its portfolio of single family mortgage loans in order to determine the amount to be included in the calculation of the Authority's Allowance for Loan Loss for anticipated losses on single family mortgage loans under the single family programs of the Authority. As of March 31, 2011, the amount included in the Allowance for Loan Loss for the single family mortgage loans that are insured by private mortgage insurance companies was $5.1 million, which is equal to 1.0% of the principal balances of such single family mortgage loans. As of March 31, 2011, the amount included in the Allowance for Loan Loss for the single family mortgage loans that are self-insured was $52.0 million, which is equal to 2.8% of the principal balances of such single family mortgage loans. The Authority does not include any amounts for single family mortgage loans that are insured or guaranteed by agencies of the federal government, except that as of March 31, 2011 the Authority included in the Allowance for Loan Loss $0.8 million which is equal to 0.25% of the principal balances of the single family mortgage loans financed through the issuance of Ginnie Mae securities. The total of all of the foregoing amounts that were included in the Authority's Allowance for Loan Loss as of March 31, 2011 is $57.9 million (the Authority's total Allowance for Loan Loss which includes such total amount and amounts for possible losses on multi-family mortgage loans financed by the Authority was $129.0 million as of March 31, 2011).

In response to increased delinquencies and losses with respect to mortgage loans, Fannie Mae, Freddie Mac and many other mortgage loan originators have implemented more conservative underwriting criteria for loans, particularly in the subprime, Alt-A and other nonprime sectors. This may result in reduced availability of financing alternatives for mortgagors seeking to refinance their mortgage loans. The reduced availability of refinancing options for a mortgagor may result in higher rates of delinquencies, defaults and losses on the mortgage loans, particularly mortgagors with adjustable rate mortgage loans or interest only mortgage loans that experience significant increases in their monthly payments following the adjustment date or the end of the interest only period, respectively.

The general market conditions discussed above may affect the performance of the Authority's single-family loans and may adversely affect the Authority's financial condition.

The following chart shows, for each Metropolitan Statistical Area ("MSA") in Virginia, the outstanding balances and delinquency and foreclosure status of Homeownership Bond Mortgage Loans (in millions of dollars) as of March 31, 2011.

Metropolitan Statistical Area	Outstanding Balance of Single Family Mortgage Loans	Outstanding Balance of Delinquent* Single Family Mortgage Loans	Percentage of Single Family Mortgage Loans Delinquent*	Outstanding Balance of Single Family Mortgage Loans in Foreclosure	Percentage of Single Family Mortgage Loans in Foreclosure
Blacksburg Christiansburg-Radford	$ 2.6	$ 0.0	0.0%	$ 0.0	0.0%
Bluefield	**	0.0	0.0	0.0	0.0
Charlottesville	6.1	0.2	2.8	0.0	0.0
Culpeper	2.1	0.0	0.0	0.0	0.0
Danville	3.2	0.0	0.0	0.0	0.0
Harrisonburg	3.9	0.0	0.0	0.0	0.0
Kingsport-Bristol-Bristol	0.7	0.0	0.0	0.0	0.0
Lynchburg	9.0	0.3	2.9	0.0	0.0
Martinsville	1.1	0.0	0.0	0.0	0.0
Richmond	98.9	1.1	1.1	0.0	0.0
Roanoke	19.0	0.2	1.1	0.1	0.4
Staunton-Waynesboro	6.0	0.0	0.0	0.2	3.6
Virginia Beach-Norfolk-Newport News	131.0	1.8	1.4	0.3	0.2
Washington-Arlington-Alexandria	122.9	0.6	0.5	0.3	0.0
Winchester	1.9	0.0	0.0	0.0	0.0
Balance of State	10.4	**	0.0	**	0.0
Total	$ 418.8	$ 4.1	1.0%	$ 0.8	0.2%

* Two or more monthly payments delinquent (excluding loans in foreclosure).
** Less than $0.05 million.

The following chart shows, for each MSA in Virginia, the outstanding balances and delinquency and foreclosure status of Commonwealth Bond Mortgage Loans (in millions of dollars) as of March 31, 2011.

Metropolitan Statistical Area	Outstanding Balance of Single Family Mortgage Loans	Outstanding Balance of Delinquent* Single Family Mortgage Loans	Percentage of Single Family Mortgage Loans Delinquent*	Outstanding Balance of Single Family Mortgage Loans in Foreclosure	Percentage of Single Family Mortgage Loans in Foreclosure
Blacksburg Christiansburg-Radford	$ 34.2	$ 0.8	2.4%	$ 0.2	0.7%
Bluefield	5.6	0.1	2.4	0.1	1.5
Charlottesville	76.6	3.2	4.1	1.0	1.2
Culpeper	15.9	1.5	9.4	0.2	1.5
Danville	56.4	2.1	3.7	1.0	1.8
Harrisonburg	82.4	4.2	5.0	1.2	1.5
Kingsport-Bristol-Bristol	6.7	0.2	3.7	0.1	1.3
Lynchburg	142.7	6.6	4.6	1.4	1.0
Martinsville	37.1	1.5	4.0	0.3	0.9
Richmond	1,011.9	58.8	5.8	17.8	1.8
Roanoke	158.6	8.0	5.1	3.8	2.4
Staunton-Waynesboro	97.6	6.5	6.7	1.2	1.2
Virginia Beach-Norfolk-Newport News	1,410.8	74.6	5.3	23.7	1.7
Washington-Arlington-Alexandria	938.3	43.0	4.6	9.2	1.0
Winchester	23.8	1.4	5.8	0.5	2.0
Balance of State	160.9	8.5	5.3	2.6	1.6
Total	$ 4,259.6	$ 221.2	5.2%	$ 64.5	1.5%

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

Geographic Concentration in Virginia

Different geographic regions of the United States from time to time will experience weaker regional economic conditions and housing markets, and, consequently, may experience higher rates of loss and delinquency on mortgage loans generally. Any concentration of the mortgage loans in a region may present risk considerations in addition to those generally present for similar securities without that concentration. If the mortgage loans are concentrated in one or more regions, a downturn in the economy in these regions of the country would more greatly affect the mortgage portfolio than if the mortgage portfolio were more diversified. In particular, all of the mortgage loans are secured by mortgaged properties in Virginia.

Because of the geographic concentration of the mortgaged properties within Virginia, losses on the mortgage loans may be higher than would be the case if the mortgaged properties were more geographically diversified. For example, some of the mortgaged properties may be more susceptible to certain types of special hazards (such as hurricanes, floods, fires and other natural disasters) and major civil disturbances than residential properties located in other parts of the country. In addition, the economy of Virginia may be adversely affected to a greater degree than the economies of other areas of the country by certain regional developments. If the residential real estate markets in an area of concentration experience an overall decline in property values after the dates of origination of the respective mortgage loans, then the rates of delinquencies, foreclosures and losses on the mortgage loans may increase and the increase may be substantial.

The concentration of mortgage loans with specific characteristics relating to the types of properties, property characteristics, and geographic location are likely to change over time. Principal payments may affect the concentration levels. Principal payments could include voluntary prepayments and prepayments resulting from casualty or condemnation, defaults and liquidations and from repurchases of mortgage loans due to breaches of representations and warranties by the Authority's Originating Lenders.

The geographic concentration of the Authority's single family and multi-family mortgage loans may increase the risk to the Authority of losses on those loans which, in turn, could affect the financial performance of the Authority.

Changes in Federal or State Law

Legislation affecting the Offered Bonds, the Authority's multi-family mortgage loans and the Authority's single family mortgage loans may be considered and enacted by the United States Congress or the Virginia General Assembly. On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), which contains consumer protection provisions affecting the Authority's single family program, was signed into law. Included in the Dodd-Frank Act are provisions that: (i) establish the Consumer Financial Protection Bureau (the "CFPB") within the Federal Reserve with broad authority to protect consumers from unfair or deceptive financial products, acts or practices and reassign to the CFPB responsibility for enforcement of the major federal consumer protection laws; (ii) require entities that securitize mortgage loans to retain at least 5% of the credit risk in the assets that they securitize, except for certain "qualified residential mortgages" to be defined by regulations to be promulgated under the Dodd-Frank Act and except for mortgage loans insured or guaranteed by the federal government; (iii) prohibit compensation to loan originators based on the terms of the loan, including the interest rate but excluding the principal amount of the loan, and prohibit compensation to loan originators from any person other than the consumer, subject to certain exceptions; (iv) prohibit a creditor from making a mortgage loan unless the creditor makes a good faith determination, based on verified and documented information, that the applicant has a reasonable ability to repay the loan, provided that the creditor is entitled to a rebuttable presumption to have met this requirement if the loan is a "qualified mortgage" that satisfies certain requirements (including regular periodic payments on the loan without any increase in principal or a balloon payment not greater than twice the average of earlier scheduled payments, verification and documentation of income and financial resources, underwriting based on a fully amortizing loan at a fixed interest rate or an adjustable rate at the maximum rate during the first five years, compliance with debt-to-income ratios or alternative measures of ability to pay expenses after payment of debt service on the loan to be specified in regulations to be promulgated under the Dodd-Frank Act, total points and fees not in excess of 3% of the loan amount, and a loan term not in excess of 30 years); (v) prohibit steering of loan applicants to loans that the applicants lack a reasonable ability to repay or that have predatory characteristics or effects and prohibit steering from a "qualified mortgages" for which the applicant is qualified to a loan that is not a "qualified mortgage;" (vi) prohibit acts or practices that violate appraiser independence; (vii) establish new requirements for prepayment penalties, forced placed insurance that is obtained by the loan servicer upon termination of hazard insurance, and time requirements for pay-off statements and crediting of loan payments; and (viii) authorize various damages for violations by loan originators and creditors of the Dodd-Frank Act.

With regard to the requirement for retention of 5% of the credit risk described in (ii) above, the Dodd-Frank Act authorizes a total or partial exemption by regulation for asset-backed securities issued by public instrumentalities of states that are exempt under Section 3(a)(2) of the Securities Act of 1933, and the federal regulatory agencies responsible for issuance of regulations under the Dodd-Frank Act have, pursuant to such authorization, issued proposed regulations that provide a total exemption for asset-backed securities that are issued or guaranteed by any state or any political subdivision or instrumentality of a state. Under such proposed regulations, the bonds issued by the Authority to finance single family and multi-family housing would be exempt from the risk retention requirement described in (ii) above. In addition, the proposed regulations would exempt from such risk retention requirement securities (a) that are secured by mortgage loans insured or guaranteed by FHA, VA or RD or are secured by "Qualified Residential Mortgages" (defined as mortgage loans that finance one-to-four family property at least one of which is the principal residence of the borrower and that satisfy certain requirements at to loan terms and underwriting, including a minimum 20% down payment) or (b) that are guaranteed by Fannie Mae, Freddie Mac while in

conservatorship. No assurance can be given that the enactment of such Act and any final regulations to be promulgated thereunder or the consideration or enactment of any other such legislation will not have an adverse effect on the Authority's single family programs, its financial condition, the value of, the timing or amount of payments of, or the security for the Offered Bonds or other risks to the Owners.

In recent years, a number of financial institutions and related entities have announced large losses as a result of their mortgage activities and the increasing number of defaults and foreclosures on such mortgages. The United States Congress may pass additional consumer protection and bankruptcy legislation (including legislation that would allow bankruptcy courts to reduce or "cram down" the principal amounts and/or interest rates on mortgage loans on principal residences) as a result of the adverse effects of the mortgage situation on individuals and families in the United States. Likewise, the Virginia General Assembly may enact consumer protection legislation relating to mortgage loan origination and servicing. Such legislation, if enacted, could have an adverse effect on the Authority's single family mortgage program, including its ability to originate new single family mortgage loans, to collect payments under single family mortgage loans and to foreclose on property securing single family mortgage loans.

A number of state regulatory authorities have recently taken action against certain loan originators and servicers for alleged violations of state laws. Certain of those actions prohibit those servicers from pursuing foreclosure actions. In response to alleged abusive lending and servicing practices, the Commonwealth of Virginia could enact legislation or implement regulatory requirements that impose limitations on the ability of mortgage loan servicers to take actions (such as pursuing foreclosures) that may be essential to service and preserve the value of the single-family loans. Any such limitations that applied to the Authority's single-family loans could adversely affect the Authority's ability to collect amounts due on such loans and could impair the value of such loans.

Origination Procedures and Underwriting Criteria

The procedures and underwriting criteria that are in effect on and after March 7, 2011 for the origination of single family mortgage loans to be purchased by the Authority from Originating Lenders are substantially the same as the procedures and underwriting criteria that were in effect prior to March 7, 2011 for the origination of single family mortgage loans by the Originating Lenders acting as the Authority's originating agents. Therefore, the following discussion of the procedures and underwriting criteria that have been in effect since March 7, 2011 is applicable also to the procedures and underwriting criteria that were in effect prior to that date.

Under the origination system, a prospective mortgagor submits his single family mortgage loan application to an Originating Lender or the Authority. In the case of a single family mortgage loan to finance the purchase of a residence, the application is submitted after the prospective mortgagor has contracted for the purchase of the residence. If a preliminary review by the Originating Lender or the Authority indicates that the prospective mortgagor and single family mortgage loan will qualify under the Authority's underwriting criteria and the Code, the Authority reserves proceeds of bonds and other funds available under the applicable bond resolution for a period of 60 days for the financing of the mortgage loan, although extensions may be granted by the Authority. The Authority expects to continue to accept such reservations on a first-come, first-served basis up to pre-authorized limits. The Authority has allocated, and may in the future allocate, the proceeds of bonds and other funds available under the bond resolution other than as described above.

The Authority establishes maximum sales prices and maximum annual gross incomes which vary depending principally upon location within the Commonwealth. The maximum sales prices which the Authority will approve for single family mortgage loans financed by Tax Exempt Bonds presently range from $231,700 to $450,000, and the maximum annual gross incomes for eligibility for single family mortgage loans to be financed by Tax-Exempt Bonds presently range from $70,000 to $112,950. In certain Targeted Areas, the Authority has established maximum sales prices that range from $275,200 to $498,800 and maximum annual gross incomes that range from $76,300 to $121,900. All of the Authority's current maximum sales prices and maximum annual gross incomes applicable to single family mortgage loans financed in whole or in part, by Tax Exempt Bonds comply with the limits currently established pursuant to the Code. The Authority's regulations permit the Executive Director to establish the maximum sales prices and maximum annual gross incomes that will enable the Authority to effectively and efficiently allocate its current and anticipated financial resources. The Authority can currently give no assurance as to whether or when the Executive Director may in the future approve increases or decreases in such limits or as to the amount of any such increases or decreases. For single family mortgage loans previously financed, in whole, by Taxable Bonds or Authority net assets, the Authority established maximum annual gross incomes equal to 150% of the applicable median family incomes, had no maximum sales prices, and established a maximum principal amount equal to the maximum loan amount permitted by the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation. However, effective April 1, 2008, the financing of such single family mortgage loans, all of which are Self-Insured Mortgage Loans, was suspended by the Authority. The Authority may waive or change its maximum sales prices and maximum annual gross incomes, subject to compliance with the applicable limits established by the Code.

All Originating Lenders are required to enter into Purchase Agreements setting forth the conditions and requirements for origination and purchase of single family mortgage loans. The Originating Lenders must process, settle and disburse the single family mortgage loans in accordance with the underwriting standards and administrative procedures in such Purchase Agreements. For each such single family mortgage loan, the Originating Lender receives an origination fee of 1% of the principal amount of the mortgage loan and a service release fee of 1% of the principal amount of the mortgage loan. In the case of Direct

Origination Loans, the Authority charges and retains any origination fee and discount points paid by the mortgagor, and the service release fee is not applicable.

The Authority has delegated to certain of its Originating Lenders the loan underwriting functions described below. Loans underwritten by the Originating Lenders pursuant to such delegation are referred to herein as "Delegated Loans." Currently approximately 90% of the single family loans being originated are Delegated Loans. In the case of Delegated Loans, the Authority will, subsequent to the closing of the single family mortgage loans, review the loan applications and documentation and determine compliance of the mortgage loans with the Code and, on a test basis, with the Authority's underwriting requirements and criteria. The Authority may require the Originating Lender to purchase or retain any single family mortgage loans which are not subject to mortgage insurance or guaranty in accordance with the requirements of the Authority, which fail to comply with the provisions of the Code, which do not conform with the Authority's sales price and income limits, which are not properly documented as required by the Authority, or which were originated based upon any misrepresentation known to the Originating Lender. For loans other than Delegated Loans, applications for single family mortgage loans are submitted to the Authority for review and approval prior to loan commitment.

The single family mortgage loans are underwritten based on income eligibility, credit and other criteria relating to the proposed mortgagor's ability to meet payments and compliance with the Code, the Act and the Authority's regulations. The Authority requires the applicants to provide usual and customary documentation in support of their applications. The Originating Lender and, in the case of loans other than Delegated Loans, the Authority's staff review the loan application, credit report, verifications of employment, bank deposits, the appraisal and other characteristics of the individual dwelling unit proposed to be financed as security for such loan. In the case of single family mortgage loans to be insured or guaranteed by the FHA, VA or Rural Development, the application is reviewed for compliance with the credit and property standards of the FHA, VA or Rural Development. FHA Plus Second Mortgage Loans are (and Homebuyer Tax Credit Plus Mortgage Loans as described above were prior to the suspension thereof) processed and underwritten in conjunction with the related FHA insured First Mortgage Loan and in accordance with applicable FHA credit and property standards. Single family mortgage loans to be insured by private mortgage insurance are underwritten to comply with the standards of the private mortgage insurance companies.

In the case of the above-described Step Rate 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 beginning of the third year of the mortgage loan, the Authority required that the interest rate to be charged during the second year (or the first year in the case of mortgage loans that have a loan to value ratio below 80% or mortgage loans insured by private mortgage insurance or FHA) of the mortgage loan be used in underwriting the proposed mortgagor's ability to meet payments on the single family mortgage loan. In the case of Interest Only Mortgage Loans on which interest only will be payable during the initial seven (7) years, the Authority required the underwriting of the proposed mortgagor on the basis of his ability to make the interest only payments. For Home Stride Second Mortgage Loans, the Authority required the underwriting of the mortgagor on his ability to make payments on the Authority financed First Mortgage Loan without regard to the payments of principal and interest on the Home Stride Second Mortgage Loan that commence three years thereafter. As stated above, effective July 1, 2008, the Authority suspended the financing of Step Rate Mortgage Loans, Interest Only Mortgage Loans, and Home Stride Second Mortgage Loans. No assurance can be given whether the Authority will recommence the financing of Step Rate Mortgage Loans, Interest Only Mortgage Loans or Home Stride Second Mortgage Loans.

Prior to August 1, 2009, the Authority did not impose a minimum credit score requirement for proposed mortgagors. Effective as of August 1, 2009, the Authority established a minimum credit score of 620 for proposed mortgagors to be eligible for FHA Plus Second Mortgage Loans and Homebuyer Tax Credit Plus Mortgage Loans. Effective as of December 1, 2009, the Authority established a minimum credit score of 620 for proposed mortgagors to be eligible for all mortgage loans. Effective as of May 1, 2010, the Authority established a minimum credit score of 680 for proposed mortgagors to be eligible for the maximum principal amount of FHA Plus Second Mortgage Loans and Homebuyer Tax Credit Plus Mortgage Loans, and proposed mortgagors with credit scores between 620 and 679 are eligible for reduced maximum principal loan amounts of such loans.

The maximum ratios of debt to income vary depending on whether the single family mortgage loan is insured and depending upon the requirements of the mortgage insurer, if any. The ratios are of two types. The first type is the ratio of the total monthly payment on the single family mortgage loan to the monthly income of the applicant (this ratio is referred to as the "front end ratio"). The total monthly payment on the single family mortgage loan includes principal, interest, homeowner's association dues, if applicable, and escrows for real estate taxes, hazard insurance, mortgage insurance, if applicable, and flood insurance, if applicable. The second type is the ratio of all monthly debt payments (including such total monthly payment on the single family mortgage loan) to monthly income (this ratio is referred to as the "back end ratio"). The VA loans have only a back end ratio. The current maximum front end ratio, if applicable, and back end ratio are as follows, respectively: FHA- 31% and 43%; VA- 41%; RD- 31% and 43%; private mortgage insurance- 32% and 40%. The Authority may permit higher front end and back end ratios in the event the application receives approval through an automated underwriting system (e.g., Fannie Mae's Desktop Underwriter system).

When an application is approved, a mortgage loan commitment is issued to the applicant. Upon compliance with the terms and conditions of the mortgage loan commitment, the proceeds of the single family mortgage loan are disbursed. In the case of single family mortgage loans closed prior to March 7, 2011, the Authority disbursed the proceeds of the single family mortgage loan at the closing. In the case of single family mortgage loans closed on and after March 7, 2011, the Originating

Lender disburses the proceeds of the single family mortgage loan at closing, and upon compliance by the Originating Lender with the terms and conditions of the Purchase Agreement, the Authority purchases the single family mortgage loan from the Originating Lender.

Servicing

Each single family mortgage loan is serviced by the Authority. The Authority collects monthly payments of principal and interest and escrows. All such funds are deposited in segregated trust or custodial accounts or other accounts approved by the Authority in state or national banks or savings and loan associations, the deposits in which are insured, in part (in whole effective January 1, 2011), by the Federal Deposit Insurance Corporation. From the funds so deposited the Authority pays to the proper parties, when and if due, mortgage insurance premiums, real estate taxes and special assessments and hazard insurance premiums. The Authority remits the balance to the bond trustee. The hazard and casualty insurance policies which are required by the Authority to be maintained on the mortgaged premises insure the Authority as mortgagee to the full extent of its interest in the mortgaged premises.

Effective June 5, 2009, the Authority's single family mortgage loans are assumable only if permitted by the Authority. An exception is provided for loans (such as mortgage loans insured or guaranteed by FHA and VA) that are assumable in accordance with insurer or guarantor guidelines or applicable law.

In the case of default under any single family mortgage loan that is not cured, the Authority takes all actions necessary to obtain the full benefits of any mortgage insurance or guarantee. If foreclosure proceedings are instituted, the Authority manages and protects the mortgaged premises under foreclosure, including maintenance of insurance on the premises, management and supervision of repairs and maintenance of the premises. In lieu of foreclosure, the Authority may, if deemed to be in its best interests and if acceptable to the mortgage insurer of guarantor (if any), accept a deed of the property from the mortgagor or approve a sale of the property that will not provide sufficient proceeds to pay the mortgage loan in full, and in such cases the lien of the deed of trust securing the mortgage loan will be released.

Loan Modifications

In the case of delinquencies of mortgage loans insured or guaranteed by FHA, VA or Rural Development or by any private insurance companies, the Authority modifies the terms of such mortgage loans in accordance with the requirements of the mortgage insurer or guarantor. Such modifications may include the deferral of monthly payments of principal and interest, the extension of the maturity dates and re-amortization of the outstanding principal balances of the mortgage loans, and, in the case of FHA insured mortgage loans, the payment by FHA of partial insurance claims. In the case of delinquencies of Self-Insured Mortgage Loans, the Authority modifies the terms of such mortgage loans generally in accordance with the guidelines applicable to FHA insured Mortgage Loans (other than the guidelines for partial insurance claims) or as otherwise determined by the Authority to be in its best interests to mitigate any potential losses.

Since October 23, 2009, FHA has required lenders holding FHA insured mortgage loans in default to modify such mortgage loans by reducing the interest rates to current market rates and by extending the term to a full 30 years from the date of loan modification. The Authority has received a letter from FHA waiving such requirement; however, no assurance can be given as to whether FHA will continue such waiver or, if not continued, what the impact will be on the Bonds as a result of any such modifications of the Authority's FHA insured mortgage loans.

On March 4, 2009, the U.S. Department of the Treasury announced guidelines to enable mortgage loan servicers to begin modifications of eligible mortgage loans under the Homeowner Affordability and Stability Plan. The Authority is not participating in the Making Home Affordable Program and is not modifying the Authority's mortgage loans through the Home Affordable Modification Program. No assurance can be given whether the Authority will commence the modification of the Authority's mortgage loans pursuant to such guidelines.

The Authority has implemented its Borrower Assistance Program ("BAP") to modify certain of its mortgage loans as part of its loss mitigation and foreclosure prevention efforts. Only mortgagors with Self Insured Mortgage Loans that are First Mortgage Loans are eligible to participate in the BAP. To be eligible, the mortgagor must be occupying the property as his principal residence and complete a statement of income and debts and a hardship affidavit. These documents must evidence a financial hardship and the ability to repay the mortgage loan as modified. Under BAP, the Authority may modify its mortgage Loan to provide for a reduced monthly payment based upon a stated lower interest rate (currently not less than 4% per annum) for a period up to 36 months or, in the case of an Interest Only Mortgage Loan, the end of the interest only period. Following the effective date of the modification, interest in excess of interest payable at such stated rate continues to accrue but payment of such amount is deferred. The deferred interest is due and payable upon the earlier of (1) a prepayment in full of the mortgage loan upon sale or refinancing of the property, (2) the maturity date of the mortgage loan or (3) foreclosure. The Authority may also, in its discretion, waive repayment of the deferred interest. As an alternative to the deferral of interest, the Authority may defer principal whereby the monthly payments would be decreased based upon a reduced principal balance, interest would not accrue on the deferred principal, and the deferred principal would be due upon prepayment, maturity or foreclosure. As of March 31, 2011, under the BAP the Authority had modified approximately 54 single family mortgage loans with an aggregate outstanding principal balance of approximately $11 million.

THE AUTHORITY

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

Commissioners

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

Name	Position	Term Expires June 30	Occupation
Charles McConnell.....	Commissioner and Chairman	2012	Retired Executive Director, Wise County Redevelopment and Housing Authority, Abingdon
Yvonne Toms Allmond....	Commissioner and Vice Chairman	2013	Senior Vice President, TowneBank, Norfolk
John P. McCann	Commissioner	2011	Retired, Chairman of United Dominion Realty Trust, Richmond
Kermit E. Hale	Commissioner	2011	General Manager, MKB Realtors, Roanoke
Gerald W. Hopkins.....	Commissioner	2012	Retired President, Worldwide Insurance Services, Inc., Oakton
Marjorie N. Leon	Commissioner	2012	Program Associate, Family and Consumer Sciences, Virginia Cooperative Extension Partnership, Warrenton
Jacqueline T. Black.....	Commissioner	2014	Section 8 Housing Choice Voucher assisted tenant, Chester
Timothy M. Chapman.....	Commissioner	2014	Managing Member, Chapman Development LLC, Reston
Manju Ganeriwala.....	Commissioner	ex-officio	Treasurer, Commonwealth of Virginia, Richmond
William C. Shelton	Commissioner	ex-officio	Director, Department of Housing and Community Development of the Commonwealth of Virginia, Richmond
Nancy K. O'Brien.....	Commissioner	ex-officio	Member, Board of Housing and Community Development of the Commonwealth of Virginia, Charlottesville

Management Structure; Principal Staff Officers

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

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

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

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

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

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

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

Program Funds

The funds for the Authority's mortgage loan programs are derived from the proceeds of its notes and bonds, prepayments and repayments on mortgage loans, excess revenues and net assets. Certain information on such notes and bonds is set forth in footnote 7 of the Authority's financial statements attached hereto as Appendix E. The Authority pays its expenses from the income generated from its operations and has received no funds from the Commonwealth other than an initial advance, which the Authority has repaid. The amount of Tax Exempt Bonds which the Authority may issue is limited by the provisions in the Code. The Authority is currently in compliance with such limit in the Code. The Code of Virginia limits the outstanding principal amount of Authority obligations secured by a capital reserve fund to $1.5 billion, excluding certain refunding transactions. The Authority has no outstanding obligations secured by a capital reserve fund. There are no other statutory limits on the amount of notes and bonds which the Authority may issue or have outstanding.

Multi-Family Program

General

Existing mortgage loans under the Authority's multi-family program are financed pursuant to bond resolutions for the VHDA General Purpose Bonds and Rental Housing Bonds. New mortgage loans to be originated under the Authority's multi-family program are financed principally with the proceeds of the Authority's Rental Housing Bonds. 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 have requirements, including a revenue test that has the same terms as the Revenue Test, 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 general obligations of the Authority.

The Authority also has utilized and expects to utilize other moneys of the Authority to finance new mortgage loans under its multi-family program as set forth herein under "Miscellaneous Programs" and the "General Fund and Other Net Assets".

The mortgage loans financed by the VHDA General Purpose Bonds and Rental Housing Bonds are required by the bond resolution 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 secured by first liens. Most, but not all, of the liens securing mortgage loans financed by VHDA General Purpose Bonds are first liens, and the Authority expects that the mortgage loans hereafter financed by Rental Housing Bonds and VHDA General Purpose Bonds will be secured by first liens; however, the Authority may, in its discretion, finance mortgage loans secured by liens that are not first liens and cannot, therefore, provide any assurance that such mortgage loans will be secured by first liens. It is the policy of the Authority that the security for the mortgage loans be a full fee simple ownership interest; however, under the Act and the bond resolutions authorizing the Authority's multi-family bonds, the Authority may finance a leasehold estate if the term of the lease is at least twice the term of the mortgage loan. The Authority has financed, and may in the future finance, multi-family mortgage loans secured by leasehold estates of the land and/or the development if the landlord is unwilling or unable to convey its interest as security for the mortgage loan.

Generally, the multi-family mortgage loans bear interest at fixed interest rates (although the mortgage loan may bear interest at a variable rate during the construction period, if any) and are fully amortizing over the term of the mortgage loan, although the Authority has occasionally structured the mortgage loan (and may do so in the future) to have a balloon principal payment due on the maturity date of the mortgage loan if the amount of such balloon principal payment is expected to be less than the projected value of the development on the maturity date of such mortgage loan.

Federal Programs and Requirements

Neither the Act nor the bond resolutions require that the mortgage loans be insured by the federal government or private mortgage insurance companies or that developments financed under the program be entitled to or eligible for federal assistance (see Appendix G for a description of certain federal programs under which the Authority has previously financed developments). The Authority has issued, and expects to issue in the future, bonds to finance developments assisted under the

Low Income Housing Tax Credit Program described in Appendix G. The Authority does not expect to issue substantial amounts of bonds to finance new developments assisted under the other federal programs described in Appendix G; however, the Authority has issued, and expects to issue in the future, bonds to refund bonds (of the Authority or other governmental entities) which are then financing such developments, and upon such refunding the mortgage loans on such developments shall become security for the bonds. The Authority has issued, and expects to issue in the future, bonds to finance increases in the outstanding principal amounts of the Authority's existing mortgage loans on developments that are assisted under such federal programs and are financed under the bond resolutions of the Authority, and such mortgage loan increases shall be mortgage loans that are security for the bonds. In addition, the Authority has issued, and expects to issue in the future, bonds to finance mortgage loans on developments which are not currently financed by the Authority and which, prior to financing by the Authority, were assisted under the Section 236 Interest Reduction Payments Program or the Section 8 Program described in Appendix G and, after such financing, shall continue to receive assistance under such program and to be subject to the rental and occupancy requirements under such program.

The Housing Assistance Payments Contracts ("Payments Contracts") providing the federal subsidies for the developments under the Section 8 Program have original terms of approximately 30 or 40 years and are scheduled to expire on or about the maturity dates of their mortgage loans in the years 2011 through 2022. Upon such expiration, the mortgagor and a Section 8 contract administrator designated by HUD may, with the approval of HUD, enter into new Payments Contracts with terms not exceeding 20 years, but the annual funding of the subsidy under such new Payments Contracts will be subject to annual appropriations by the federal government. If the mortgagor enters into such new Payments Contract, the Authority may provide a new mortgage loan to finance the development, including the costs of any rehabilitation. Because the continuation of the subsidy under the new Payments Contract is subject to annual federal appropriations, the Authority underwrites such new mortgage loans using the lesser of the contract rents ("Contract Rents") under the new Payments Contract or the estimated market rents for the development. The Authority has financed, and expects to finance in the future, such new mortgage loans. In addition, for certain of the Section 8 assisted developments, the Authority has provided, prior to the expiration of the original Payments Contract, additional mortgage loan financing that will mature after the scheduled expiration of such original Payments Contract, and in certain cases the monthly payments of principal and interest on such additional mortgage loan financing may not commence until the maturity date of the original mortgage loan or the expiration of the original Payments Contract. In underwriting such additional mortgage loan financing, the Authority uses the lesser of the Contract Rents under the original Payments Contract or the estimated market rents for the development for the period that the additional mortgage loan will be outstanding after the expiration of the original Payments Contract. The Authority may provide, and expects to provide in the future, such additional mortgage loan financing for other developments. The above described new mortgage loans and additional mortgage loans are financed by bonds issued under the bond resolutions and are security for such bonds.

The agreements that provide monthly payments of interest to the Authority under the Section 236 Program Interest Reduction Payments Program, as described in Appendix G, have original terms of 40 years that expire on or about the maturity dates of the mortgage loans. In the case of the Authority mortgage loans that originally financed the multi-family developments assisted under the Section 236 Program Interest Reduction Payments Program, the terms of these agreements will expire in years 2012 through 2018 as and when the mortgage loans are fully paid. However, in the case of certain other multi-family developments assisted under the Section 236 Program Interest Reduction Payments Program, the Authority has refinanced the mortgage loans of other lenders that originally financed such multi-family developments, and the interest reduction payments for those multi-family developments will terminate upon the maturity dates of the mortgage loans that were so refinanced. These terminations will occur in years 2015 through 2018. Such Authority mortgage loans are financed by bonds issued under the bond resolution and are security for such bonds. In the case of a multi-family development financed by such an Authority mortgage loan, the interest reduction payments will, prior to such termination date, be applied to pay principal and interest on a portion of the original principal amount of the Authority mortgage loan, and the remaining portion of the original principal amount of the Authority mortgage loan and interest on such portion will be payable over its 30-year term. Also, in those cases, all or substantially all of the units in each of the developments are assisted under the Low Income Housing Tax Credit Program, and except for one such development the rental assistance payments described in Appendix G are replaced by rental subsidies under the Section 8 Program pursuant to Payment Contracts having terms of 20 years, subject to annual federal appropriations, for all or most of the units in such developments.

See Appendix G for further discussion of the requirements under the Section 8 Program, Section 236 Program and Low Income Housing Tax Credit Program, including the income limits for tenants occupying the units in the developments assisted under those Programs.

Except as discussed in the paragraph below, the Code requires that each development financed by Tax Exempt AMT Bonds or Tax Exempt Non-AMT Bonds meet a requirement that either (i) at least 20% of the units in such development be occupied during the Qualified Project Period by individuals whose incomes are 50% or less of area median gross income, as adjusted for family size, or (ii) at least 40% of the units in such development be occupied during the Qualified Project Period by individuals whose incomes are 60% or less of area median gross income, as adjusted for family size. (The foregoing requirement is hereinafter referred to as the "20/50 or 40/60 Requirement", as applicable.) The term "Qualified Project Period" is defined in the Code such that its ending date is the latest of (i) the date which is at least 15 years after the date on which 50% of the units in such development are first occupied, (ii) the first day on which no Tax Exempt Bond issued with respect to such development is outstanding, or (iii) the date on which any assistance provided with respect to such development under Section 8 terminates. In addition to the 20/50 or 40/60 Requirement, all of each such development's units must remain rental property throughout the applicable Qualified Project Period.

However, developments financed by certain Tax Exempt Non-AMT Bonds issued to refund bonds which were either issued on or after January 1, 1981, and before August 16, 1986 or issued pursuant to a transition rule in the Tax Reform Act of 1986 are subject to different restrictions as to the use and occupancy of units therein under the Code and the predecessor provisions of the Internal Revenue Code of 1954, as amended (the "1954 Code"). Such developments consisting of residential rental property, as such term is defined in Section 103(b)(4) of the 1954 Code, are subject to the requirement that (i) at least 20 percent of the units in each development financed by such bonds (15 percent if the development is located in certain low income or economically distressed areas) be occupied during the "Qualified Project Period" (defined below) by individuals whose incomes do not exceed 80% of the median income for the area (the "20/80 Requirement"), (ii) all of the units of each development be rented or available for rental on a continuous basis for the longer of the remaining term of the applicable series of such bonds or the Qualified Project Period for the development, and (iii) no building in any development contains less than 5 units if one of such units is occupied by an owner of the units. The 20/80 Requirement does not apply to developments financed by such Tax Exempt Non-AMT Bonds issued to refund bonds issued prior to January 1, 1981. The term "Qualified Project Period" means (i) for such Tax Exempt Non-AMT Bonds issued to refund bonds issued prior to September 4, 1982, a period of 20 years commencing on the date of initial occupancy of the development or the date of issuance of such bonds, whichever is later, and (ii) for such Tax Exempt Non-AMT Bonds issued to refund bonds issued on or after September 4, 1982, a period commencing upon occupancy of 10% of the units in the development and ending on the later of (a) the date which is 10 years after occupancy of 50% of the units in the development, (b) the date which is subsequent to initial occupancy of any unit in the development by a period of time equal to one-half of the sum of the period the refunded bonds were outstanding and the longest term of such Tax Exempt Non-AMT Bonds or (c) the date upon which any Section 8 assistance for the development terminates.

Authority Income Limits

The Authority has established income limits that govern the admission of families and persons to its financed multi-family developments, to the extent not governed by federal income limits. Under the Authority's current rules and regulations (which are subject to change), the adjusted family income as defined by the Authority for admission to a rental unit in a development may not exceed 150% of the area median gross income, except that certain developments financed by mortgage loans approved by the Authority prior to November 15, 1991 are subject to a maximum income limit of seven times the total annual rent for such unit including all utilities (except telephone) and except as described below regarding "economically mixed" developments. In addition, the Authority's rules and regulations authorize the establishment of lower income limits in the resolution of the Authority's Board approving, or in the commitment for, the mortgage loan of any multi-family development. In the case of certain developments financed in whole with Tax Exempt Bonds after March 27, 2002, and prior to January 21, 2004, the Authority established an income limit of 50% of the area median gross income for 50% of the units and an income limit of 100% (150% if the development is located in a rural area) of the area median gross income for the remaining 50% of the units. In the case of certain developments financed or to be financed by the Authority as described in "General Fund and Other Net Assets" below, the Authority has established an income limit between 50% and 100% (50% or 60% in the case of most developments) of the area median gross income for all or a portion (any such portion generally being 40% or 50%) of the units with any remaining units in such developments subject to an income limit of 150% of area median gross income, except that all of the units in such developments located in rural areas are subject to an income limit of 150% of the area median gross income. In the case of developments financed by the Authority's General Fund and after net assets and assisted under the federal low-income housing tax credit program, the Authority will apply the income limits that are applicable under such program.

The Authority may finance "economically mixed" developments in which a portion (not to exceed 80% of the units) will not be subject to the Authority's income limits. The Authority is also authorized 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. The Authority has initiated a program for such financings and has developed the following guidelines that will govern the financing of such "economically mixed" developments under the program: (i) in the case of developments receiving mortgage loans financed by Taxable Bonds or net assets of the Authority, (1) for developments that are 15,000 square feet or larger, the development must be in a revitalization area determined by the locality, at least 60% of its income must be derived from the residential portion of the development, 20% of the units must target households earning income of 80% or less of area median income, 20% of the units must target households earning income of 120% or less of area median income, and the remaining 60% of the units have no income restriction; (2) for developments under 15,000 square feet, the development must be in a revitalization area determined by the locality, and the percentage of income that must be derived from the residential portion and the incomes targeted will be determined by the Authority on a case-by-case basis; (3) for developments receiving mortgage loans financed by Subsidized Mortgage Loans (see "General Fund and Other Net Assets" below), 30% of the units must target households earning income of 80% or less of area median income, 20% of the units must target households earning income of 120% or less of area median income, and the remaining 50% of the units have no income restriction and (ii) in the case of developments receiving mortgage loans financed by Tax Exempt Bonds, 20% of the units must target households earning income of 50% or less of area median income, 20% of the units must target households earning income of 120% or less of area median income, and the remaining 60% of the units have no income restriction.

Underwriting

When a sponsor submits a proposal for a development to the Authority, it is assigned to an Authority staff Development Officer, who evaluates the proposed development concept, the development site and its location. Based upon the initial screening, the Development Officer will then evaluate the suitability of the site and the adequacy of the market for rental housing in the area. The evaluation will include an analysis of the site characteristics, the surrounding land uses, the available

utilities, transportation, employment opportunities, recreation opportunities, shopping facilities and other factors affecting the site. An initial evaluation is made of the experience and financial capacity of the general contractor and the qualifications of the architects, attorneys and rental agent of the proposed development at this time. The Authority's review includes a projection of rental levels and the adequacy of the rental and other income to sustain the proposed development based upon the assumed occupancy rate and existing construction and financing costs, as well as the compatibility of such rent levels with Authority programs and goals. During this stage of processing, the Executive Director notifies the Board of Commissioners of the Authority (the "Board") of the proposed mortgage loan and, absent any objection by the Board, approves the mortgage loan, subject to satisfactory completion of the underwriting as described below.

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

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

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

During its feasibility review, the Authority must determine that, based on the actual or projected interest rate and amortization schedule on the mortgage loan and an operating expense budget, the mortgage loan amount will not result in rents which adversely affect feasibility. Construction costs are reviewed and analyzed by the Authority's staff to determine whether such costs are reasonable based on costs of similar developments. An appraisal of the land is obtained from an independent real estate appraiser. For the purpose of analyzing the feasibility of the development, the Authority's underwriting policies provide that (i) the loan-to-value ratio may not exceed 90%, in the case of for-profit mortgagors, and 100%, in the case of non-profit mortgagors, (ii) the term of the mortgage loan may not exceed 35 years, and (3) the debt service coverage, which is calculated as the net operating income (i.e., the rental income less operating expenses) divided by the debt service on the mortgage loan, may not be less than 110%. If upon completion of these analyses the Executive Director approves the development, a commitment for a mortgage loan is issued with any terms or conditions specified by the Executive Director.

Commitment and Initial Closing

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

Construction

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

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

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

Final Closing and Certifications

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

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

The final mortgage loan amount may be reduced from the initial closing amount based upon the certification of actual costs. Although it is the Authority's present policy not to grant mortgage loan increases at the final closing of a mortgage loan, a mortgage loan increase may be granted if deemed justified by the Authority.

Permanent Financing

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

Regulation and Management

Generally, each development is subject to a regulatory agreement between the Authority and the mortgagor, which regulates the occupancy, management and operations of the development. However, the rents to be charged for units in a development are established by the mortgagor without the approval of the Authority. The management of the development is also governed by a housing management agreement between the mortgagor and its management agent or, if the mortgagor and the management agent are the same entity, between the mortgagor and the Authority. In the case of a development that is not financed by Tax Exempt Bonds and that has an original principal amount of less than $2,000,000, the Authority does not require the execution of a regulatory agreement or housing management agreement but does require the inclusion of covenants in the deed of trust regulating the occupancy, operation and ownership of the development.

The Authority has the right to terminate the housing management agreement for just cause as determined by the Authority. After completion of construction and occupancy, the Authority periodically inspects the development and conducts spot audits of the management agent's verification of resident eligibility, receives a report on the development accounts, accounts payable and receivable and development bank accounts, and generally observes all management operations. Except in the case of mortgage loans having an outstanding principal balance of less than $1 million, the mortgagor is required to submit monthly reports to the Authority which include information on the status of accounts payable and receivable for the development, occupancy of the units, and operating income and expenses. When any potential problems are identified, the Authority attempts to determine the causes in order to facilitate the initiation of appropriate corrective action, which may include management changes, additional equity contributions by the mortgagors, foreclosure, loan modification and other appropriate remedial actions.

After final closing, each mortgagor typically pays a monthly amount to fund a reserve for replacements account for the development. Such monthly amounts may be discontinued if the balance in such account is maintained at the equivalent of three years of reserve deposits, a capital needs study shows that reserves are at a sufficient level or another party is collecting reserves. In addition, on a case by case basis, the Authority may not require such monthly amount if the Authority determines that such deposit is not warranted. The mortgagor may request the withdrawal of funds from the reserve for replacements account for payment of the cost of major replacement items. Disbursements are to be made in accordance with the Authority's determinations as to what is in the best interest of the development.

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

Payment of Multi-Family Bonds

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

The ability of the Authority 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 the Authority and financed by the bonds in amounts less than expected by the Authority, (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 the Authority or not being made, financed or acquired at all, and (iv) receipt of net proceeds from the sale or other disposition of assets pledged thereto in amounts less than expected by the Authority. The ability of a mortgagor to make principal and interest payments on a 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.

Delinquencies and Foreclosures; Risk of Loss

As of March 31, 2011, all mortgagors in the Authority's multi-family bond financed program were current in their payments, except thirteen mortgagors owning developments financed by mortgage loans having an aggregate current principal balance of approximately $7.8 million. Since the inception of the programs utilizing the proceeds of such bonds, the Authority has acquired by foreclosure or deed in lieu of foreclosure twenty-one developments. The Authority currently owns seventeen of such developments (the "Owned Developments") and sold four of such developments to third parties. The Authority has foreclosed on two developments that were purchased by third parties at the foreclosure sales, and has assigned four FHA-insured mortgage loans to the U.S. Department of Housing and Urban Development ("HUD"). The rental and other income of the Owned Developments is, in many instances, insufficient to provide a market rate return to the Authority on its capital investment in such Owned Developments. For developments experiencing financial difficulties, the Authority 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.

The Authority conducts quarterly analyses of the risk of loan loss on its portfolio of multi-family mortgage loans in order to determine the amount to be included in the calculation of the Authority's Allowance for Loan Loss for estimated losses on its multi-family mortgage loans. For this analysis, the Authority develops a list of the multi-family developments that are identified as being at risk of foreclosure and assigns one of three levels of risk ("high risk," "medium risk" or "low risk") to each of those at risk multi-family developments based upon a number of factors, including its mortgage loan payment status and record, its debt service coverage from rental income, the willingness and ability of the mortgagor to fund mortgage loan payment deficiencies, its physical condition, the Authority's judgment as to the mortgagor's commitment to properly operate and manage the development, the financial status of any other multi-family developments that the principals in the mortgagor have financed with the Authority and such other factors as the Authority determines to be related to the risk of loss. In addition, the Authority estimates the potential loss for each of the at-risk multi-family developments calculated as the difference between the outstanding principal balance of the mortgage loan and the value of the development financed by such mortgage loan as determined by the Authority based upon the amount of debt financing (assumed to be fully amortizing with level payments and at market interest rates) which could be supported by the net operating income of the development. Based on such level of risk and potential loss, the Authority includes an amount for each such at-risk development in the Authority's Allowance for Loan Loss. Set forth below is a chart that, as of March 31, 2011, lists the number of such at-risk developments at each level of risk, the aggregate principal balance of the mortgage loans financing such developments, and the amount included in the Authority's Allowance for Loan Loss for the developments at such risk level.

Foreclosure Risk Level	Number of Developments	Principal Balance (in millions)	Amount Included in Allowance for Loan Loss (in millions)
High	8	$ 20.4	$8.2
Medium	30	29.5	7.3
Low	34	144.5	12.7
TOTAL	72	$194.4	$28.2

The Authority also includes in the Allowance for Loan Loss additional amounts for all other multi-family developments based upon percentages (ranging from 1% to 5%) of the outstanding principal balances of the mortgage loans financing such other developments and may include other additional amounts in the Allowance for Loan Loss to cover risks on multi-family developments not otherwise covered by the above described amounts. The total of all of the foregoing amounts that were included in the Authority's Allowance for Loan Loss as of March 31, 2011 is $71.1 million. The Authority's total Allowance for

Loan Loss which includes such total amount and amounts for possible losses on single family mortgage loans financed by the Authority was $129.0 million as of March 31, 2011. The Authority may at any time modify the above described analysis and calculations as it shall determine to reflect its risk of loan loss.

Miscellaneous Programs

The Authority makes certain mortgage loans supported or financed by net assets of the Authority (see "General Fund and Other Net Assets" for a description of mortgage loan programs effected with assets in the General Fund). The Authority also administers the federal low income housing tax credit program under Section 42 of the Code and federal grant or subsidy programs and assists 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 federal grant or subsidy programs are not pledged or available for the payment of any of the Authority's bonds or other obligations.

Summary of Revenues, Expenses, and Net Assets

The following is a summary of the Authority's revenues, expenses and net assets at year end for each of the fiscal years from 2006 through 2010 and at December 31, 2009 and 2010. With respect to December 31, 2009 and 2010, and the six month periods then ended, the summary includes normal accruals and estimates, necessary under generally accepted accounting principles for a fair presentation of combined revenues, expenses and changes in net assets of the Authority. Operations for the six month period ended December 31, 2010 are not necessarily indicative of operations 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 the Authority's operating expenses or for any other purpose. The summary should be read in conjunction with the financial statements and notes appearing in Appendix E. The amounts in the summary for each year ended June 30 are derived from the audited financial statements for each such year.

	Year Ended June 30 (in millions)					Six Months Ended December 31	
	2006	2007	2008	2009	2010	2009	2010
	(Not included in independent accountants' report)						
Memorandum Only – Combined totals							
Revenues:							
Interest on mortgage loans	$389	$436	$487	$519	$513	$257	$252
Investment income	45	52	(17)	2	18	1	4
Pass-through grants received	72	72	72	69	128	51	91
Housing Choice Voucher program	66	64	63	61	69	33	37
Other	14	22	20	23	32	15	13
Total revenues	586	646	625	674	760	357	397
Expenses:							
Interest	260	287	335	355	336	172	163
Pass-through grants disbursed	72	72	72	69	128	51	91
Housing Choice Voucher program	54	61	65	71	70	35	35
Total administrative expenses, etc.	54	71	81	102	124	53	70
Total expenses	440	491	553	597	658	311	359
Excess of revenues over expenses	146	155	72	77	102	46	38
Net Assets at beginning of period	1,669	1,815	1,970	2,042	2,119	2,119	2,221
Net Assets at end of period	$1,815	$1,970	$2,042	$2,119	$2,221	$2,165	$2,259
Net Assets of the General Fund at end of period	$259	$230	$199	$154	$167	$181	$168

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 net assets. 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	
	2006	2007	2008	2009	2010	2009	2010
	(Not included in independent accountants' report)						
Memorandum Only – Combined totals							
Excess of revenues over expenses excluding GASB 31 adjustments	$151	$155	$131	$79	$61	$27	$35
Net Assets at end of period excluding GASB 31 adjustments	$1,813	$1,968	$2,099	$2,178	$2,239	$2,205	$2,274
Net Assets of the General Fund at end of period excluding GASB 31 adjustments	$256	$228	$220	$184	$183	$206	$183

The GASB 31 adjustments in fiscal years 2006 and 2007 were due primarily to below market interest rates on the Authority's investments. The GASB 31 adjustment in fiscal years 2008 and 2009 were due primarily to credit impairment on mortgage backed securities. The GASB 31 adjustment in fiscal year 2010 was primarily due to unrealized gains on investments.

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 the Authority's single family portfolio and thereby adversely affecting the Authority's revenues. No assurances can be given as to future changes in mortgage interest rates or prepayments or the financial impact of such prepayments on the Authority's revenues.

Prior and Anticipated Financings of the Authority

As of December 31, 2010, the Authority had approximately $7.1 billion of notes and bonds outstanding (see Appendix E). Subsequent to such date, the Authority issued (or expects to issue) the following notes and bonds:

Issue	Par Amount	Issuance Date
Note to Federal Home Loan Bank – Atlanta	$5,700,000	February 28, 2011
Note to Federal Home Loan Bank – Atlanta	$24,765,000	March 31, 2011
Rental Housing Bonds, 2011 Series A-Non-AMT	$11,700,000*	May 24, 2011*

* Expected

The notes issued to the Federal Home Loan Bank are described below under "General Fund and Other Net Assets".

Investments

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

The Authority's current investment portfolio consists principally of direct or indirect obligations of the United States of America or of its agencies and instrumentalities, including but not limited to organizations such as the Federal National Mortgage Association (collectively, "Federal Obligations"), 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 footnote 5 of the Authority's financial statements attached hereto as Appendix E). The secondary market for investments which are not Federal Obligations has been in the past and may be in the future very illiquid. No assurances can be given that such investments can be sold prior to maturity or, if sold, can be sold at a price which is not materially less than the Authority's capital investment in such investment.

Footnote 5(b) of the Authority's financial statements sets forth a combined statement of the credit risk of the Authority's investments in the General Fund and under its bond resolutions, which overall is concentrated in the categories of

Money Market Securities and Other Interest Bearing Instruments. As of December 31, 2010, the Authority's counterparties in the Money Market Securities category are as follows:

Counterparty	CUSIP	Principal Amount
US Bank Commercial Paper Fund	02961021	$344,103,644
US Bank/GSE Global Escrow Agreement	99MSCWVJ	217,283,361
General Electric Corp. CP	36959JPU	49,977,083
Abbey National CP	0027A1P1	24,977,500
Credit Agricole CP	22532CNJ	49,982,666
Royal Bank of Canada CP	78009BPF	49,979,944
Bank of Nova Scotia CD	06417DNQ	50,000,000
Toronto Dominion Bank CD	89112YQX	50,000,000
Rabobank CD	74977MRA	50,000,000
Toyota Motor Credit CP	89233HNE	49,947,111
		$936,251,311

The Other Interest Bearing Instruments category is comprised of funds on deposit with the Federal Home Loan Bank of Atlanta.

General Fund and Other Net Assets

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

As of March 31, 2011, approximately $62.4 million aggregate principal balance of multi-family mortgage loans financed by General Fund net assets was outstanding, and all of such multi-family mortgage loans were current in their payments, except four mortgage loans having an aggregate principal balance of approximately $1.3 million that were delinquent. The Authority has acquired by foreclosure eleven multi-family developments that were financed by General Fund net assets, currently owns three of such developments and has foreclosed on one development that was purchased by a third party at the foreclosure sale. The rental and other income of the Owned Developments is, in many instances, insufficient to provide a market rate return to the Authority on its capital investment in such Owned Developments. As of March 31, 2011, approximately $36.3 million aggregate principal balance of single family mortgage loans financed by General Fund net assets (including approximately $22 million of such loans financed through the issuance of Ginnie Mae securities held in the General Fund) was outstanding; and 2.4% of such single family mortgage loans having an aggregate principal balance of approximately $0.9 million were two or more months delinquent in monthly payments, and 0.1% of such single family mortgage loans having an aggregate principal balance of approximately $0.5 million were in foreclosure.

The Authority has conducted and continues to conduct various subsidized mortgage loan programs financed or supported by the net assets of the Authority, including the net assets of the General Fund. Each mortgage loan so financed or supported is herein referred to as a "Subsidized Mortgage Loan". A mortgage loan is a Subsidized Mortgage Loan if the effective interest rate thereon is at or below the effective cost of the capital (debt or net asset) of the Authority 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 the Authority would have paid (at the time of the issuance of the Authority's 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.

Prior to July 1, 2005, the Authority made available the amount of $275.7 million for Subsidized Mortgage Loans, principally for the elderly, disabled, homeless and other low income persons. The Authority implemented, beginning July 1, 2005, 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 (the "Subsidized Programs"). 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 or, commencing with fiscal year 2011, the preceding five fiscal years (the "Percentage Amount"). For example, the present value of the interest rate reductions or other support or subsidies made available for fiscal year 2011 programs is $19.3 million (including $1 million of unused allocations from prior years) which is equal to 15% of the average unadjusted excess revenues for fiscal years 2005 through 2009. Such annual amounts will, in effect, represent the present values of the costs to the Authority to finance (at interest rates below the Authority's 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 the Authority 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, the Authority 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 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, including the Bond Resolution. The Authority may, in its discretion, apply net assets in excess of the Percentage Amount for its Subsidized Programs or may change the percentage or methodology for calculating the amount of net assets to be made available for Subsidized Mortgage Loans, and in 2007 the Authority increased the amount of net assets in excess of the Percentage Amount for fiscal year 2007 Subsidized Programs by approximately $3.1 million in order to provide additional funds for multi-family rental developments to be financed by the Authority. The total of the annual amounts used or expected to be made available for Subsidized Programs under this new methodology through fiscal year 2011 is $117.6 million.

Pursuant to legislation enacted by the 2003 Session of the General Assembly, the Authority 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 the Authority's programs serve generally. The Authority also purchased approximately $16 million of investments which have been used to fund an approximately equal amount of similar loans pursuant to outstanding commitments and allocations. The purchase price for the loans and investments was approximately $60 million. The Authority issued the VHDA General Purpose Bonds, 2003 Series V-Taxable, on June 26, 2003, in the amount of $52,440,000 to finance the purchase of the loans and assets in the Partnership Fund, with the balance of the purchase price paid from other funds of the Authority. Pursuant to such legislation $40,822,000 of the approximately $60 million in proceeds from the sale were transferred to the Commonwealth's General Fund, and the residual balance of approximately $19 million was transferred to the Authority to be used in conjunction with existing resources to provide financing for affordable housing not otherwise eligible through other programs. The Authority and DHCD executed a Memorandum of Understanding that provided for administration of the residual balance as a revolving loan fund for single family and multifamily housing programs. Pursuant to legislation enacted in the 2005 Session of the General Assembly, $7,500,000 of such residual balances was transferred to a Community Development Bank formed by the Commonwealth. The remainder of such residual balance has been committed or disbursed for the financing by the Authority of mortgage loans.

The Authority has a $100 million revolving credit agreement (the "Bank of America Agreement") with Bank of America, N.A. ("Bank of America") to provide a source of immediately available funds for the general corporate purposes of the Authority, including, at the option of the Authority, the payment of the purchase price of bonds which are tendered but are not remarketed. Upon submission of a completed and duly executed request for advance, the Authority may draw funds under the Bank of America Agreement up to the maximum outstanding amount of $100 million, provided that no default by the Authority under the Bank of America Agreement shall have occurred and be continuing. Defaults include (1) failure by the Authority to pay any amounts due under the Bank of America Agreement; (2) any representation or warranty made by the Authority in or pursuant to the Bank of America Agreement being incorrect or untrue in any material respect as of the date of the Bank of America Agreement or as of the date of any extension thereof; (3) any default by the Authority under any mortgage, indenture, contract, agreement, undertaking or instrument evidencing debt of the Authority that is not remedied within 30 days' notice by the Authority to the Bank of America and that could reasonably be expected to have a material adverse effect on the Authority or the ability of the Authority to perform its obligations under the Bank of America Agreement; (4) the bankruptcy of the Authority, certain acts of insolvency by the Authority, or the rendering of any final judgment against the Authority that remains unsatisfied for 60 days; (5) the assignment to the Authority of a rating by Moody's or Standard & Poor's below Baa or BBB, respectively, or a withdrawal by Moody's or Standard & Poor's of their applicable rating of the Authority; (6) failure by the Authority to comply with certain of its covenants in the Bank of America Agreement requiring the Authority (a) not to invest its own funds in a manner which could reasonably be expected to result in a material adverse effect on the Authority or the ability of the Authority to perform its obligations under the Bank of America Agreement, (b) to submit financial records and information, including our official statements, to the Bank of America, (c) to provide notice to the Bank of America of any default by the Authority under the Bank of America Agreement or any default or other event under any instrument evidencing the Authority's debt that may result in the accelerating of the maturity of such debt and could have a material adverse effect on the Authority, (d) to provide notice to the Bank of America of any material litigation pending or threatened against the Authority or of any initiative, referendum, or similar events reasonably expected to have any material adverse effect on the Authority, (e) to maintain adequate and proper books and records, (f) to use best efforts to maintain the Authority's existence and the Authority's rights and privileges material to its ability to repay obligations under the Bank of America Agreement, and (g) to comply with laws and regulations of the Commonwealth of Virginia and the United States; and (7) merger, consolidation or disposition of all or a substantial part of the Authority's property reasonably expected to result in any material adverse effect on the Authority. In the event of any default by the Authority under the Bank of America Agreement, the Bank of America may terminate such Agreement and may demand immediate payment of any and all amounts drawn and outstanding thereunder. Any such demand may adversely affect the financial condition of the Authority, including its ability to use General Fund and other net assets to pay Bond Amounts, to the extent Assets and income therefrom are not sufficient to pay such Bond Amounts. Unless extended by the Bank of America and the Authority, the Bank of America Agreement will terminate on December 1, 2011, subject to any notice of termination by Bank of America due to default or by the Authority. All outstanding amounts are due and payable on the termination date. As of March 31, 2011, $40 million principal amount was outstanding under the Bank of America Agreement. BofA Merrill Lynch, an underwriter of the Offered Bonds, is an affiliate of Bank of America.

The Authority also has a $150 million revolving credit agreement (the "Bank of Nova Scotia Agreement") with The Bank of Nova Scotia to provide a source of immediately available funds for the general corporate purposes of the Authority, including, at the option of the Authority, the payment of the purchase price of bonds which are tendered but are not remarketed. Upon submission of a completed and duly executed request for advance, the Authority may draw funds under the Bank of Nova Scotia Agreement up to the maximum outstanding amount of $150 million, provided that no default by the Authority under the Bank of Nova Scotia Agreement shall have occurred and be continuing. Defaults under the Bank of Nova Scotia Agreement are the same as under the Bank of America Agreement described in the preceding paragraph, except that the Bank of Nova Scotia Agreement contains the following additional events of default: (1) any material and adverse deviation from the investment policies described in the first paragraph of "Investments" above, unless the Authority gives the Bank of Nova Scotia 30 days prior written notice of such deviation, and (2) any failure to pay an amount in excess of $2 million under any debt of the Authority beyond any applicable grace period, unless contested by the Authority in appropriate legal proceedings. In the event of any default by the Authority under the Bank of Nova Scotia Agreement, the Bank of Nova Scotia may terminate such Agreement and may demand immediate payment of any and all amounts drawn and outstanding thereunder. Any such demand may adversely affect the financial condition of the Authority, including its ability to use General Fund and other net assets to pay Bond Amounts, to the extent Assets and income therefrom are not sufficient to pay such Bond Amounts. Unless extended by the Bank of Nova Scotia and the Authority, the initial term of the Bank of Nova Scotia Agreement expires on November 28, 2013, subject to any notice of termination by the Bank of Nova Scotia due to a default or by the Authority. All amounts due by the Authority are due and payable on the termination date, provided that, if no default shall have occurred and be continuing, all such amounts shall, upon the written request of the Authority, be converted into a five-year term loan. No amounts are currently outstanding under the Bank of Nova Scotia Agreement.

The Authority from time to time issues notes to the Federal Home Loan Bank of Atlanta (the "FHLB") under an Advances, Specific Collateral Pledge and Security Agreement for Nonmember Mortgagees dated September 27, 1995 (the "FHLB Agreement"). The proceeds of the notes issued to the FHLB or other qualifying assets are deposited with the FHLB and serve as collateral for the notes. Any such other collateral is periodically marked to market, and the Authority may be required to post additional collateral if the market value falls below thresholds specified in the FHLB Agreement. Each note may be redeemed at par at any time. The notes generally refund tax-exempt bonds, and, in such an event, the Authority expects to refund the notes in the future with tax-exempt bonds. Events of default under the FHLB Agreement include (1) any failure to pay when due the amounts owed under the notes or to perform any other obligation of the Authority under the FHLB Agreement; (2) any failure to maintain adequate qualifying collateral free of encumbrances; (3) bankruptcy and certain other acts of insolvency by the Authority; and (4) any material adverse change in the Authority's financial condition. In the event of any default by the Authority under the FHLB Agreement, the FHLB may demand immediate payment of any and all amounts outstanding under the notes and may take possession of and sell the collateral. If the collateral shall be insufficient to repay all amounts due under the FHLB Agreement, any such demand may adversely affect the financial condition of the Authority, including its ability to use General Fund and other net assets to pay Bond Amounts, to the extent that Assets and income therefrom are not sufficient to pay such Bond Amounts.

LITIGATION

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

LEGAL INVESTMENT

The Act provides, in part, that the Bonds, including the Offered 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. The Act further provides that the Bonds 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.

MISCELLANEOUS

The Authority has furnished all information in this Official Statement relating to the Authority. The financial statements of the Authority in Appendix E as of June 30, 2010 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 E are the unaudited financial statements of the Authority as of December 31, 2010 and for the six month period then ended.

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

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

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

APPENDIX A

GENERAL BOND RESOLUTION

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:

"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, 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 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 is owned by the Authority and is either financed pursuant to the Bond Resolution or acquired by the Authority by purchase or foreclosure of a Mortgage Loan or by deed in lieu thereof.

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

"Authorized Officer" means the Chairman, Vice Chairman, Executive Director, Managing Director of Finance and Administration, 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.

"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 this Resolution 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, 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.

"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.

"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.

"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, to a date specified in such applicable 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.

"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 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 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.

"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, on which interest is due and payable with respect to a Bond.

"Investment Obligation" means any of the following acquired or pledged pursuant to the Bond 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 (Fannie Mae), World Bank, Export-Import Bank of the United States, Student Loan Marketing Association, Farmer's Home Administration, Federal Home Loan Mortgage Corporation (Freddie Mac), Government National Mortgage Association (Ginnie Mae), 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.

"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 pursuant to the Bond 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. 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 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, 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.

"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.

"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.

“Resolution” means this resolution adopted by the Authority on December 2, 2009.

"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.

"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.

"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.

"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.

"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.

"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 covenants, 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 Resolution; the term "heretofore" means before the date of adoption of this Resolution; and the term "hereafter" means after the date of adoption of this 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 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, except as otherwise expressly provided in any Written Determinations pursuant to Section 105. 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) or except as otherwise expressly provided in any Written Determinations pursuant to Section 105.

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). Notwithstanding any other provisions in this Resolution, the Written Determinations may provide for any Assets financed by the proceeds of Bonds issued pursuant thereto to be held in escrow and pledged exclusively for the payment of such Bonds. 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. *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 109. *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 to be applicable.

SECTION 110. *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 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 as may be deemed necessary or appropriate by an Authorized Officer, all matters applicable to such Bonds which are required or specified by the Bond Resolution or the Bond Limitations Resolution to be included therein. The Written Determinations may specify any accounts or funds to be established and the terms relating thereto. 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.

(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. 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.

(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. 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 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, the Bonds shall bear the title "Homeownership Mortgage Bonds" and may bear such additional Authority Designations as set forth in or determined pursuant to the applicable 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, 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.

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.

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. 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.

(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.

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;

(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; or

(9) To comply with requirements of the U.S. Department of the Treasury, Federal National Mortgage Association (Fannie Mae), or Federal Home Loan Mortgage Corporation (Freddie Mac) applicable to any Bonds.

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, either (i) no Bond has been issued, or (ii) 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 Resolution, the Trustee is U.S.Bank National Association, Minneapolis, Minnesota. 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 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 Resolution shall be effective immediately upon adoption by the Authority.

APPENDIX B

DESCRIPTION AND PROCEDURES OF DTC

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

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

To facilitate subsequent transfers, all Offered Bonds deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of Offered Bonds 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 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Offered Bonds are credited, which may or may not be the Beneficial Owners. The 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.

Redemption notices shall be sent to Cede & Co. If less than all of a maturity of any series or subseries of the Offered Bonds is being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity of the Offered Bonds to be redeemed.

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

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

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

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

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ADDITIONAL INFORMATION CONCERNING 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 (other than certain partial claim payments) 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 six months after a mortgagor's default, subject to extension if the mortgagee pursued certain loss mitigation actions referred to below. 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. A mortgagee may also receive payment of insurance benefits in certain circumstances not involving conveyance of the property to FHA, such as if a pre-foreclosure sale to a third party at a required minimum price is arranged in accordance with FHA regulations and procedures.

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 to FHA, the insurance payment is computed as of the institution of the foreclosure proceeding (or acquisition of possession otherwise), 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 a specified percentage of the mortgagee's foreclosure costs or costs of acquiring the property (such percentage, which under current FHA policy is periodically determined based upon a mortgagee's loss mitigation performance, currently is two-thirds in the case of the Authority). Unless the mortgagee has not observed certain FHA regulations, an insurance payment to be made in cash itself bears interest from the date of default to the date of payment of the claim at an interest rate equal to the monthly average yield, for the month in which the default occurred, on United States Treasury securities adjusted to a constant maturity of 10 years.

When any property to be conveyed to FHA has been damaged by fire, earthquake, flood or tornado, or the property has suffered damage because of the mortgagee's failure to take required action, it is required that such property be repaired prior to such conveyance.

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 reasonable effort to arrange a face-to-face conference with the mortgagor and requires that the mortgagee consider, and undertake where appropriate, specified loss mitigation actions to avoid foreclosure, including loan modifications in some circumstances (see "The Single Family Programs – Loan Modifications").

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, the "maximum guarantee amount" described below) 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 the "maxium guarantee amount" described below or 25% of the original loan amount if such amount is in excess of $144,000. Such "maxium guaranty amount" generally is the dollar amount that is equal to 25 percent of the Freddie Mac conforming loan limit for a single family residence. (Pursuant to the Housing and Economic Recovery Act of 2008 and the Veterans Benefit Improvement Act of 2008, the "maximum guaranty amount" for loans originated from July 30, 2008 through December 31, 2011 is 25% of the greater of: (a) the Freddie Mac conforming loan limit, and (b) 125% of the area median price for a single family residence, but in no case to exceed 175% of the Freddie Mac conforming loan limit.) 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, and the VA requires that the mortgagee consider, and undertake where appropriate, specified loss mitigation actions to avoid foreclosure, including loan modifications in some circumstances (see "The Single Family Programs – Loan Modifications").

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. 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 (i) the property has been sold at foreclosure or otherwise sold to a third party in conformity with Rural Development requirements or (ii) six months have elapsed from the date the mortgagee acquired title to the property. 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 loss claim settlement, plus reasonable liquidation costs, minus (ii) net proceeds, which are calculated based upon (A) a property's actual sale price, when the claim is made following sale to a third party, and (B) estimated market value, reduced by a credit for estimated holding costs, when no sale has been made within six months from the date the mortgagee acquired title to the property. A mortgagee seeking loss claim payment following sale of a property at foreclosure may be required to first pursue enforcement of any deficiency judgment obtained if there is a reasonable prospect of present recovery. A mortgagee that receives a loss claim payment based upon the estimated value of a property not sold within six months following acquisition may be required to pay Rural Development a proportionate share of future recovery if the property is later sold for more than the estimated value. 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. The mortgagee must obtain prior Rural Development approval for any liquidation of the property other than by foreclosure or accepting a deed in lieu of foreclosure. Rural Development also requires that the mortgagee make a reasonable attempt to arrange an interview with the mortgagor before payment on the mortgage loan becomes 60 days delinquent, and requires that the mortgagee consider, and undertake where appropriate, specified loss mitigation actions to avoid foreclosure, including loan modifications in some circumstances with prior Rural Development approval (see "The Single Family Programs – Loan Modifications"). 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 the Authority to retain title to the mortgaged property or (iii) settle a claim for actual losses where such losses are less than the insured percentage of the claim. (See "The Single Family Programs" for a discussion of federal legislation affecting private mortgage insurance).

CERTAIN FEDERAL INCOME TAX MATTERS

The Code substantially restricts the use of proceeds of tax-exempt bonds used to finance mortgage loans for single family housing or to refund such bonds. Under the Code, interest on bonds the proceeds of which are used to provide mortgage loans on owner-occupied housing is not excluded from gross income for federal income tax purposes unless the bonds are part of a "qualified mortgage issue". An issue of bonds constitutes a "qualified mortgage issue" if all of the following requirements are met: (i) all proceeds of the issue (exclusive of issuance costs and a reasonably required reserve) are to be used to finance owner-occupied residences, (ii) the mortgage loans financed with the issue and the mortgagors meet certain eligibility requirements, (iii) the yield that is earned by the issuer of the bonds from such mortgage loans and from certain non-mortgage investments that are allocable to the issue, including investments that are held as part of a debt service reserve fund, does not exceed specified limitations and (iv) certain other requirements are met relating to the issue itself and the availability of proceeds of the issue for financing housing located in "targeted areas". These requirements are more fully described below. The Authority is issuing Tax Exempt Bonds (including the Offered Bonds) and expects to issue additional Tax Exempt Bonds which will be subject to these requirements ("Qualified Mortgage Bonds"). Interest on taxable bonds is includable in gross income for federal income tax purposes; therefore, taxable bonds are not subject to these requirements. However, some of the Mortgage Loans financed or to be financed by taxable bonds have been or are expected to be financed, in part, by certain Qualified Mortgage Bonds which are Tax Exempt Bonds as defined and used in the text of this Official Statement.

The following requirements apply to Mortgage Loans financed, in whole or in part, with the proceeds of Qualified Mortgage Bonds.

Residence Requirements

As required by the Code, all residences financed with Qualified Mortgage Bonds must be single family residences located within the Commonwealth, and both the Authority and the mortgagor must reasonably expect that the residence will become the mortgagor's principal residence within a reasonable time after the Mortgage Loan is executed or assumed. These requirements can normally be met by having each mortgagor execute an affidavit stating that the residence is within the Commonwealth and that the mortgagor intends to make the residence his principal residence within such reasonable time period, normally sixty days. The Authority has covenanted to require such an affidavit.

Absence of Prior Home Ownership

Except in the case of (i) a mortgagor acquiring a residence in a "targeted area" (as defined below), certain Presidentially-declared disaster areas or with respect to the refinancing of a "qualified subprime loan" as defined below or (ii) a mortgagor who is a qualified veteran the Code requires that 95% of net proceeds of the Qualified Mortgage Bond issue must be loaned to mortgagors who have had no present ownership interest in a principal residence within the three years preceding the date on which the Mortgage Loan is executed. The Code permits the Authority to rely on an affidavit of a mortgagor to the effect that such requirement has been satisfied and an examination of federal income tax returns for three years evidencing compliance with such requirement. In lieu of such tax returns, a mortgagor may provide a letter from the Internal Revenue Service to the effect that he or she filed Forms 1040A or 1040EZ for such three year period. The Authority has covenanted that it will procure and diligently examine each such affidavit and accompanying tax returns, when required.

Purchase Price Limitations

The Code requires that the purchase price of each residence being financed with the proceeds of Qualified Mortgage Bonds not exceed 90% (110% in the case of "targeted areas" or Presidentially-declared disaster areas) of the applicable average area purchase price. The Authority has adopted purchase price limitations which are not in excess of 90% (110% in the case of "targeted areas" or Presidentially-declared disaster areas) of the current "safe harbor average area purchase prices" published by the U.S. Treasury which may be relied upon for purposes of compliance with the Code. The Authority may adopt different purchase price limitations in the future in accordance with the Code.

Income Requirements

The Code requires that all of the mortgage loans made with the proceeds of certain Qualified Mortgage Bonds be provided to borrowers whose annual gross income does not exceed 115% (100% for households of fewer than three persons) of the applicable median family income. An exception is provided for loans made with respect to "targeted area" residences for which two-thirds; and Presidentially-declared disaster areas for which all of such loans to be made with respect to borrowers whose annual gross income does not exceed 140% (120% for households of fewer than three persons) of applicable median family income and, with respect to "targeted areas", one-third of such loans to be made without regard to any income limitation. The Authority has covenanted to verify compliance with these requirements by requiring each borrower to certify as to the amount of his or her annual gross income.

Targeted Areas

In order to comply with the Code, the Authority must, for at least one year after the date on which lendable proceeds of the Qualified Mortgage Bonds are first available for financing of Mortgage Loans, make available for Mortgage Loans in so-called targeted areas ("Targeted Areas") within the Commonwealth an amount equal to the lesser of 20% of the proceeds of such Bonds (other than any refunding Bonds as to which the original refunded bonds were issued after 1980) which are devoted to providing owner financing or 40% of the average annual aggregate principal amount of mortgages executed in the preceding three years for single family owner-occupied residences in Targeted Areas within the Commonwealth. The Authority's program includes sending periodic program announcements to Originating Lenders and not-for-profit service providers serving the Targeted Areas advising them of the availability of such proceeds and including maps of the Targeted Areas in their region. The Authority's efforts to place Mortgage Loans in Targeted Areas includes advertising in pamphlets, brochures and handouts concerning the Program that mortgage funds are available for such areas. The Targeted Areas in which the Authority is to make the mortgage funds available include those census tracts in the Commonwealth in which 70% or more of the families have an income which is 80% or less of the statewide median family income based on the most recent "safe harbor" statistics published by the U.S. Treasury. Targeted Areas also include areas of chronic economic distress designated by the Commonwealth and approved by the Secretaries of Housing and Urban Development and the Treasury under criteria specified in the Code.

Other Mortgage Loan Eligibility Requirements

Except with respect to loans to refinance "qualified subprime loans", the Code does not allow proceeds of Qualified Mortgage Bonds to be used to acquire existing mortgage loans (thereby requiring the Authority to apply such proceeds only to newly-originated mortgage loans) or to replace existing mortgage loans (thereby precluding refinancings of mortgage loans). This requirement does not prohibit the Authority from acquiring or replacing construction loans, bridge loans or other similar temporary initial financing. The Originating Agreements incorporate these restrictions.

The Code requires that each mortgage loan financed with the proceeds of Qualified Mortgage Bonds may only be assumed if the requirements relating to principal residence, three year lack of prior ownership, income requirements and acquisition cost limitations are met with respect to the assumption. The determinations as to compliance with these requirements are to be made as of the date on which the mortgage loan is being assumed. Accordingly, the Authority must make the required statistical study or otherwise determine (e.g., by reliance on "safe harbor" statistics published by the U.S. Treasury) the relevant average area purchase prices for each statistical area within the Commonwealth on an annual basis, and must assure compliance with the other applicable requirements of the Code as long as a series of bonds is outstanding. The Authority has so covenanted in the Bond Resolution and has required in the Mortgage Loan documents that no Mortgage Loan may be assumed unless the applicable requirements of the Code are satisfied.

Limitation on Mortgage Yield

Under the Code, the yield on Mortgage Loans or portion thereof financed by Qualified Mortgage Bonds may not exceed one and one-eighth percentage points over the yield on the related Bonds.

Recapture

The Code provides for an increase in the federal income tax of certain mortgagors upon sale of their homes (the "Recapture Provision"). Under the Recapture Provision, an amount determined to be subsidy provided to the Mortgagors by Qualified Mortgage Bond financing (but not in excess of 50 percent of the gain) is recaptured on disposition of the home. The recapture amount increases over the period of ownership, with full recapture occurring if the house is sold between four and five full years after the closing of the mortgage loan. The recapture amount declines ratably to zero with respect to sales between five and nine full years after the closing of the mortgage loan. An exception excludes from recapture part of all of the subsidy in the case of assisted individuals whose incomes are less than prescribed amounts at the time of the disposition. The Code requires that the issuer of Qualified Mortgage Bonds provide at settlement of each mortgage loan a written statement informing the mortgagor of the Recapture Provision and, within 90 days thereafter, a written statement specifying certain information needed by the mortgagor to compute the recapture amount. The Authority has included in its program documentation requirements that such information be provided in the time and manner required by the Code.

The following requirements apply only with respect to Qualified Mortgage Bonds, including the Offered Bonds, except as otherwise noted; accordingly, these requirements do not apply to Taxable Bonds.

Other Requirements

For Qualified Mortgage Bonds, the Code requires the Authority to pay to the U.S. Treasury certain amounts earned on investments, which amounts must be computed in accordance with the applicable provisions of the Code. The Authority has covenanted to establish accounting procedures to determine the amount of such excess investment earnings. Such amount, if any, is not subject to the pledge or lien of the Bond Resolution. This requirement also applies to certain Tax Exempt Non-AMT Bonds that are not otherwise subject to the requirements referenced in the first paragraph of this Appendix D.

The Code provides limits on the maximum amount of certain tax-exempt bonds (including Qualified Mortgage Bonds) which may be issued in any state in each calendar year.

The Code requires retirement or redemption of Qualified Mortgage Bonds (other than certain refunding bonds) from unexpended proceeds required to be used to make mortgage loans which have not been used within 42 months (for loans to refinance "qualified subprime loans", 12 months) from the date of issuance of the bonds, except for a $250,000 de minimis amount.

The Code permits repayments (including prepayments) of principal of mortgage loans financed with the proceeds of Qualified Mortgage Bonds to be used to make additional mortgage loans only for 10 years from the date of issuance of the bonds, after which date such amounts must be used to retire or redeem bonds (except for a $250,000 de minimis amount) (the "10-Year Rule"). In the case of refunded bonds, the 10 year period is measured from the date of issuance of the original refunded bonds. As a result, the Authority may be required by the Code to retire or redeem Qualified Mortgage Bonds from repayments (including prepayments) of principal of mortgage loans financed with proceeds allocable to the Qualified Mortgage Bonds.

Good Faith Effort

An issue of Qualified Mortgage Bonds which fails to meet the mortgage eligibility requirements will be treated as meeting all such requirements if:

(i) the issuer in good faith attempted to meet such requirements before the mortgages were executed;

(ii) 95% of the proceeds devoted to owner-financing were devoted to residences with respect to which (at the time the mortgages were executed) all such requirements were met; and

(iii) any failure to meet such requirements is corrected within a reasonable period after such failure is first discovered.

The good faith requirement described in (i) will be satisfied by the Authority's establishing reasonable procedures, including reasonable investigations, to ensure compliance with the requirements under the Code. The 95% requirement referred to in clause (ii) above will be considered to have been satisfied by the Authority's procuring and examining affidavits evidencing compliance from the mortgagors and sellers of residences and income tax returns filed by the mortgagors with the Internal Revenue Service for the preceding three years (or statements in the mortgagors' affidavits that one or more of such returns were not required to have been filed or letters from the IRS that Forms 1040A or 1040EZ were filed for such period). Calling the non-qualifying mortgage or replacing it with a qualifying mortgage will constitute the correction of such failure under clause (iii) above.

The failure to meet the arbitrage and other issue-related requirements will not affect the tax-exemption of an issue of Qualified Mortgage Bonds under the Code and the applicable regulations if:

(i) the issuer in good faith attempted to meet all such requirements; and

(ii) any failure to meet such requirements was due to inadvertent error after taking reasonable steps to comply with such requirements.

Monitoring for Compliance with the Code

Under the procedures which the Authority has established to comply with the Code, Originating Lenders will be responsible for reviewing each Mortgage Loan application and the accompanying documentation, including the affidavits and federal tax returns described above, for compliance with the requirements of the Code. Normal and appropriate measures are required to be undertaken to verify the information given, either independently or concurrently with credit reviews, when applicable. All documentation is to be cross-checked to assure that the information presented is complete and consistent.

Originating Lenders are required to represent as to each Mortgage Loan that, among other things, (1) the Mortgage Loan is in compliance with the Authority's processing guide setting forth the procedures and requirements with respect to the processing of Mortgage Loans, (2) the lender has reviewed the mortgagor's application, the affidavits described above, and the mortgagor's federal income tax returns for compliance with the provisions of the Code, and (3) the Mortgage Loan has been closed in accordance with the processing guide.

Prior to financing such Mortgage Loan, the Authority reviews the documents submitted to the Authority, including the mortgagor's application, the affidavits described above and the mortgagor's federal income tax returns, for compliance with the requirements of the Code. The Authority has delegated to certain of its Origination Lenders the review described in the preceding sentence, and the Authority also performs such review subsequent to financing each Mortgage Loan originated by such Originating Lenders.

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VIRGINIA HOUSING DEVELOPMENT AUTHORITY

(A Component Unit of the Commonwealth of Virginia)

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

June 30, 2010 and 2009

(With Independent Auditors' Report Thereon)

VIRGINIA HOUSING DEVELOPMENT AUTHORITY
(A Component Unit of the Commonwealth of Virginia)

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VIRGINIA HOUSING DEVELOPMENT AUTHORITY
(A Component Unit of the Commonwealth of Virginia)

Management's Discussion and Analysis

June 30, 2010 and 2009

Management of the Virginia Housing Development Authority (the Authority) offers readers of its financial report this overview and analysis of the Authority's financial performance for the years ended June 30, 2010 and 2009. Readers are encouraged to consider this information in conjunction with the Authority's financial statements, accompanying footnotes, and supplemental information, which follow this section.

Organization Overview

The Authority is a political subdivision of the Commonwealth of Virginia, created under the Virginia Housing Development Authority Act (the Act) enacted by the General Assembly in 1972, as amended. The Act empowers the Authority to finance the acquisition, construction, rehabilitation, and ownership of affordable housing for home ownership or occupancy by low-or moderate-income Virginians. To raise funds for its mortgage loan operations, the Authority sells tax-exempt and taxable notes and bonds to investors. Such notes, bonds, and other indebtedness are not obligations of the Commonwealth of Virginia (the Commonwealth) and the Commonwealth is not liable for repayments of such obligations. Furthermore, as a self-sustaining organization, the Authority does not draw upon the general taxing authority of the Commonwealth. Operating revenues are generated primarily from interest on mortgage loans, program administration fees, and investment income from bond proceeds and earnings accumulated since inception.

In addition to its major mortgage loan programs, the Authority also administers, on a fee basis, various other programs related to its lending activities. Such programs include the Housing Choice Voucher program, which provides rental subsidies from federal funds, and the federal Low Income Housing Tax Credit program, which awards income tax credits for the purpose of developing low-income multifamily housing projects. The Authority also underwrites Resources Enabling Affordable Community Housing (REACH Virginia) initiatives, in which the interest rates on loans are subsidized by the Authority, principally for the elderly, disabled, homeless, and other low-income persons. The amount of net assets used to provide reduced interest rates on mortgage loans or otherwise subsidize its programs is equal to 15% of the average of the Authority's change in net assets, as unadjusted for the effect of Governmental Accounting Standards Board (GASB) No. 31 *Certain Investments and External Investment Pools*, for the preceding three fiscal years. The Authority may use a higher amount if determined to be appropriate. The amounts made available to provide reduced interest rates on mortgage loans or otherwise provide housing subsidies under its programs are subject to review by the Authority of the impact on its financial position. The Authority finances some, but not all, of such subsidized mortgage loans, in whole or in part, with funds under its various bond resolutions.

Financial Statements

The basic financial statements consist of the Statements of Net Assets, the Statements of Revenues, Expenses and Changes in Net Assets, the Statements of Cash Flows and the accompanying notes.

The *Statements of Net Assets* reports all of the Authority's assets and liabilities, both financial and capital, presented in order of liquidity and using the accrual basis of accounting in conformity with U.S. generally accepted accounting principles. The difference between assets and liabilities is presented as net assets, and is displayed in three components: capital assets, net of related debt; restricted net assets; and unrestricted net assets. Net assets are restricted when external constraints are placed upon their use, such as bond indentures, legal agreements or statutes. Over time, changes in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The *Statements of Revenues, Expenses, and Changes in Net Assets* identify all the Authority's revenues and expenses for the reporting period, distinguishing between operating and nonoperating activities. 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 mortgage loans, externally funded programs and other revenue sources.

The *Statements of Cash Flows* provides information about the Authority's cash receipts and cash payments during the reporting period. This statement reports cash transactions, including receipts, payments, and net changes resulting from operations, noncapital financing, capital financing, and investing activities. These statements provide information regarding the sources and uses of cash and the change in cash during the reporting period.

The *Notes to the Financial Statements* provide additional information that are essential for understanding financial data that may not be displayed on the face of the financial statements and as such, are an integral part of the Authority's basic financial statements.

Financial Highlights

Overview

The Authority has maintained a stable financial position during a year of challenges in the housing industry and broader economy. Programs and services have been primarily aimed toward continued loan availability and down-payment assistance for qualified first time homebuyers, loan loss mitigation, use of GNMA securities and Treasury's New Issue Bond Program as funding sources, and continual review of bond market opportunities. Amid this period of significant transition, economic uncertainty, and major housing finance and policy shift at the national level, the Authority has successfully sustained its services despite limited financing options, rising delinquencies and foreclosures, nominal investment earnings, and further property devaluations.

The Authority has reviewed its core programs and services to better access cost-effective capital to support its lending programs and assess underwriting risks resulting from market challenges associated with its lending programs. In response to higher loan losses, higher reserve requirements were established. Since the Authority services substantially all of its single family loans, efforts aimed at working with troubled borrowers and mitigating potential foreclosure losses have been paramount. The Borrower Assistance Program has provided an avenue to prevent foreclosure through loan modification for otherwise responsible borrowers encountering financial hardships beyond their control and has continued to participate in foreclosure prevention awareness initiatives. The Authority's homeownership education, underwriting and loss mitigation practices has also helped restrain delinquency and foreclosure rates below those for Virginia and the nation.

In December, the Authority established the Homeownership Mortgage Bond Group pursuant to the U.S. Treasury's New Issuance Bond Program, created to assist state and local housing finance agencies in acquiring cost effective capital for mortgage lending. Under this program, the Authority received an allocation of $482.9 million to issue short-term variable rated bonds to Treasury, representing 60% of the total issue, to be held in escrow until converted no later than December 31, 2011 upon the issuance of the remaining 40% to the general public. Capital funds raised from this program will help sustain the Authority's tax-exempt homeownership mortgage loan production into the next fiscal year.

Operating income for the fiscal year ended June 30, 2010 (FY 2010) was $84.3 million, an increase of $8.3 million from the prior year. With the inclusion of nonoperating income, consisting primarily of investment income, net assets increased for the year by $102.4 million compared to a $77.6 million increase last year.

Year Ended June 30, 2010

Homeownership loan originations totaled 4,191 in FY 2010 compared to 4,259 for the same period last year. Mortgage loan production was favorably impacted by the federal Homebuyer Tax Credit program, yet remained flat year over year as a prolonged consequence of market aversion to taxable bond resources and conservation of available tax-exempt bond resources.

As of June 30, 2010, the Authority serviced 53,246 first and second homeownership mortgage loans with outstanding balances totaling $5.2 billion. The number of loans serviced, net of prepayments, increased 3,427 or 6.9% since June 30, 2009 while outstanding loan balances increased $120 million or 2.3% as of the same date. Delinquency rates based on the portfolio loan count of first mortgage loans averaged 9.52% for FY 2010, compared to 7.31% a year ago. Delinquency rates based on outstanding loan balances averaged 5.34% and 3.33% in FY 2010 and FY 2009, respectively. In FY 2010, there were 648 foreclosures valued at $86.5 million or 1.66% of the homeownership loan portfolio, compared to a year ago with 341 foreclosures valued at $44.8 million or 0.89% of loan assets. Recovery rates by the Authority averaged more than 75% and significantly mitigated the impact of loan losses.

Financing commitments for 4,911 rental housing units were made during the year, totaling $311.9 million, compared to 3,577 units totaling $207.1 million for the prior year. Rental housing development and rehabilitation, driven by a strong demand for tax credit, tax-exempt and taxable loans, created the highest production for the Authority since 2005.

As of June 30, 2010 the Authority serviced 1,501 rental mortgage loans with outstanding balances totaling $3.3 billion. Compared to June 30, 2009, the number of loans in the portfolio increased 51 or 3.5% and the loan balances increased $71.9 million or 2.2%. Delinquency rates based on portfolio loan count averaged 1.34% and 1.08% in FY 2010 and FY 2009, respectively. The average delinquency rates based on outstanding loan balances for FY 2010 were 0.61% or $19.7 million compared to 0.18% or $5.7 million in FY 2009. In FY 2010, foreclosed rental properties valued at $19.7 million were acquired and their operations continued under the Authority's ownership and control.

Year Ended June 30, 2009

Homeownership loan originations totaled 4,259 in FY 2009 compared to 6,491 for the FY 2008. Mortgage loan production decreased by 2,232 or 34% as a consequence of market aversion to taxable bond resources and conserving available tax-exempt bond resources. Challenges experienced in the housing and finance markets, as well as the broader economy prompted the Authority to suspend availability of taxable products since April 2008.

As of June 30, 2009, the Authority serviced 49,819 first and second homeownership mortgage loans with outstanding balances totaling $5.1 billion. The number of loans serviced, net of prepayments, increased 3,170 or 6.8% since June 30, 2008 while outstanding loan balances increased $199 million or 4.1% as of the same date. Delinquency rates on the portfolio loan count of first mortgage loans averaged 7.31% for FY 2009, compared to

4.98% for FY 2008. Delinquency rates based on outstanding loan balances averaged 3.33% and 1.88% in FY 2009 and FY 2008, respectively. In FY 2009, there were 341 foreclosures valued at $44.8 million or 0.89% of the homeownership loan portfolio, compared to 143 foreclosures in FY 2008, valued at $18.0 million, or 0.39% of loan assets.

Financing commitments for 3,577 rental housing units were made during FY 2009, totaling $207.1 million, compared to 3,549 units totaling $181.3 million for FY 2008.

As of June 30, 2009 the Authority serviced 1,450 rental mortgage loans with outstanding balances totaling $3.2 billion. Compared to June 30, 2008, the number of loans in the portfolio increased 72 or 5.2% and the loan balances increased $137.7 million or 4.4%. Delinquency rates based on portfolio loan count averaged 1.08% and 0.94% in FY 2009 and FY 2008, respectively. The average delinquency rates based on outstanding loan balances for FY 2009 were 0.18% or $5.7 million compared to 0.25% or $7.5 million in FY 2008. Delinquency rates continued to be among the lowest levels since July 2003. In FY 2009, foreclosed rental properties valued at $7.4 million were acquired and their operations continued under the Authority's ownership and control.

Financial Analysis of the Authority

Cash is held by the trustees and banks in depository accounts and investments for a variety of purposes, including: debt service reserve funds required by bond indenture, escrow and reserve funds held for the benefit of single-family mortgagors and multi-family projects, funding for new mortgage loan originations, working capital for operating costs of the Authority, governmental funds held for disbursement toward Section 8 projects, and other funds held in a fiduciary capacity to support other housing initiatives. Monies on deposit in Virginia banks are secured under the Virginia Security for Public Deposits Act of the Code of Virginia.

Investment objectives are to invest all monies at favorable rates to maximize returns while maintaining short-term liquidity and to manage investments in a prudent manner to enable the Authority to fulfill its financial commitments. Precautions are taken to minimize the risk associated with investments, including monitoring creditworthiness of the investment, as determined by ratings provided by Standard & Poor's and Moody's, concentration risk, and maturity risk. The Authority does not enter into short sales or futures transactions for which a bona fide hedging purpose has not been established.

Mortgage and other loan receivables represent the Authority's principal assets. Mortgage loans are financed through a combination of proceeds of notes and bonds and net assets accumulated since inception. Mortgage loan payments received from mortgagors are used to pay debt service due on outstanding bonds.

The largest component of the Authority's liabilities is outstanding bonds payable, the majority of which is fixed rate to maturity dates that may extend into the future as much as forty years. The Authority continues to maintain its long-term ratings of Aa1 from Moody's Investors Services and AA+ from Standard & Poor's Rating Services for its general credit rating as well as all bond indentures other than the Commonwealth Mortgage Bonds indenture, which is rated Aaa and AAA, from Moody's and Standard & Poor's, respectively. Net assets are comprised of capital assets, net of related debt, restricted and unrestricted net assets. *Capital assets, net of related debt* represents office buildings, land, furniture and equipment, vehicles and an investment in rental property, less the current outstanding applicable debt. *Restricted net assets* represent the portion of net assets held in trust accounts for the benefit of the respective bond owners, subject to the requirements of the various bond indentures. *Unrestricted net assets* represent a portion of net assets that have been designated for a broad range of

initiatives, such as administration of the Housing Choice Voucher program, support for REACH Virginia initiatives, contributions to bond issues and bond reserve funds, working capital, future operating and capital expenditures, and general financial support to the Authority's loan programs.

Condensed Statements of Net Assets

(In millions)

	June 30		
	2010	**2009**	**2008**
Cash and cash equivalents	$ 1,218.9	978.5	1,111.7
Investments	202.2	96.8	236.7
Mortgage loans held for sale	—	1.7	—
Mortgage and other loans receivable, net	8,076.2	8,141.5	7,854.9
Other assets	163.9	148.8	141.0
Total assets	9,661.2	9,367.3	9,344.3
Notes and bonds payable, net	7,067.6	6,877.0	6,940.3
Other liabilities	371.8	370.9	362.2
Total liabilities	7,439.4	7,247.9	7,302.5
Invested in capital assets, net of related debt	(5.7)	2.1	(3.7)
Restricted by bond indentures	2,069.2	1,970.7	1,854.6
Unrestricted	158.3	146.6	190.9
Net assets	$ 2,221.8	2,119.4	2,041.8

June 30, 2010 Compared to June 30, 2009

Total assets increased $293.9 million, or 3.1% from the prior year. Cash and cash equivalents, and investments, combined, increased $345.8 million, or 32.2% from the prior year. Mortgage and other loans receivables decreased by $65.3 million, or 0.8%, largely as a result of new homeownership mortgage loans securitized through GNMA.

Total liabilities increased $191.5 million, or 2.6% from the prior year. Notes and bonds payable increased $190.6 million and accrued interest on notes and bonds decreased $8.9 million. For the year, the Authority issued $590.3 million in single-family homeownership bonds and $145.3 million in rental housing bonds, and drew a net additional $205.4 million on lines of credit. Proceeds from bond issues in the Homeownership Mortgage bond group and GNMA mortgage loan securitizations were the principal source of funding for mortgage loan originations.

Total assets exceeded total liabilities by $2,221.8 million, representing an increase in net assets of $102.4 million, or 4.8% from the prior year. As of June 30, 2010, net assets invested in capital assets, net of related debt, consisted of $46.3 million in investments in rental property, net of depreciation and amortization, and $23.5 million in property, furniture, and equipment, net of depreciation and amortization, less related bonds

payable of $75.5 million. Net assets restricted by bondholders totaled $2,069.2 million, an increase of $98.5 million, or 5.0% from the prior year. Unrestricted net assets totaled $158.3 million, an increase of $11.7 million, or 8.0% from the prior year.

June 30, 2009 Compared to June 30, 2008

Total assets increased $23.0 million, or 0.2% from June 30, 2008. Cash and cash equivalents, and investments, combined, decreased $273.1 million, or 20.3% from June 30, 2008. Mortgage and other loans receivables increased by $286.6 million, or 3.6%, largely as a result of new homeownership loan originations.

Total liabilities decreased $54.6 million, or 0.7% from the prior year. Notes and bonds payable decreased $63.3 million and accrued interest on notes and bonds increased $7.3 million. In FY 2009, the Authority issued $255.5 million in single-family homeownership bonds, $450.0 million in rental housing bonds, the majority of which was used to finance the redemption of the Multifamily Housing bonds, and drew a net additional $61.3 million on lines of credit. Proceeds from bond issues and lines of credit were the principal source of funding for mortgage loan originations.

Total assets exceeded total liabilities by $2,119.4 million, representing an increase in net assets of $77.6 million, or 3.8% from June 30, 2008. As of June 30, 2009, net assets invested in capital assets, net of related debt, consisted of $44.2 million in investments in rental property, net of depreciation and amortization and $22.8 million in property, furniture, and equipment, net of depreciation and amortization, less related bonds payable of $64.9 million. Net assets restricted by bondholders totaled $1,970.7 million, an increase of $116.1 million, or 6.3% from June 30, 2008. Unrestricted net assets totaled $146.6 million, a decrease of $44.3 million, or 23.2% from June 30, 2008.

Condensed Statements of Revenues, Expenses and Changes in Net Assets

(In millions)

		Year ended June 30		
		2010	**2009**	**2008**
Operating revenues:				
Interest on mortgage and other loans	$	512.8	518.5	487.6
Pass-through grants received		128.3	69.6	72.1
Housing Choice Voucher program income		69.3	61.1	62.9
Other operating revenues		31.8	23.6	19.6
Total operating revenues		742.2	672.8	642.2
Operating expenses:				
Interest on notes and bonds payable		337.4	355.2	335.0
Pass-through grants disbursed		128.3	69.6	72.1
Housing Choice Voucher program expense		69.7	70.6	65.1
Other operating expenses		122.5	101.4	81.2
Total operating expenses		657.9	596.8	553.4
Net operating income		84.3	76.0	88.8
Nonoperating revenues (losses):				
Investment income (loss)		18.0	1.5	(17.3)
Other nonoperating revenues		0.1	0.1	0.1
Total nonoperating revenues (losses)		18.1	1.6	(17.2)
Change in net assets	$	102.4	77.6	71.6

The principal determinants of the Authority's change in net assets (more commonly referred to as net revenues) are operating revenues less operating expenses plus nonoperating revenues.

Operating revenues consist primarily of interest earnings on mortgage loans and operating expenses consist predominantly of interest expense on notes and bonds payable and operating expenses of the Authority. Nonoperating revenues consist of investment income as well as realized and nonrealized gains or losses on investments.

Included in investment income are $41.6 million of unrealized gains and $1.8 million in unrealized losses for the years ended June 30, 2010 and 2009, respectively. The Authority generally holds these investments to maturity.

Fiscal Year 2010

Operating revenues increased $69.4 million or 10.3% from the prior year. The increase was primarily attributable to pass-through grants received, which increased $58.7 million, or 84.3%. The most significant increase related to new tax credit programs included in the American Recovery and Reinvestment Act of 2009 that the Authority began participating in during FY 2010. Mortgage loan production grew at a slower pace compared to the previous year while loan payoffs increased. Mortgage rates averaged 5.13% compared to 5.67% the previous year.

Operating expenses increased $61.0 million or 10.2% from the prior year due primarily to pass through grant disbursements increase of $58.7 million. Interest expense on notes and bonds payable decreased $17.8 million or 5.0% from the prior year, due to a lower average interest rate on the notes and bonds outstanding. Other operating expenses consisting primarily of administrative costs increased $21.0 million or 20.7% above last year. Loan loss provision and expenses accounted for $19.9 million of the increase.

Nonoperating revenues increased $16.4 million from the prior year, due to unrealized investment gains of $41.6 million less offsetting realized investment losses of $28.0 million.

Fiscal Year 2009

Operating revenues increased $30.5 million or 4.7% from FY 2008. The increase was primarily attributable to interest earnings on mortgage and other loan receivables, which increased $30.9 million, or 6.3%. Mortgage loan production grew at a slower pace compared to the previous year while loan payoffs increased. Mortgage rates averaged 5.67% compared to 5.91% in FY 2008.

Operating expenses increased $43.4 million or 7.8% from in FY 2008. Interest expense on notes and bonds payable increased $20.2 million or 6.0% from FY 2008, due to a net increase of $512.7 million in average monthly notes and bonds outstanding. Other operating expenses consisting primarily of administrative costs increased $20.3 million or 25.1% above FY 2008. Loan losses and expenses accounted for $13.5 million of the increase. Expenses for the Housing Choice Voucher program increased $5.5 million or 8.4% over FY 2008.

Nonoperating revenues increased $18.9 million or 109.9% from FY 2008, due primarily to unrealized investment losses of $59.8 million which were included in net investment losses in FY 2008.

Other Economic Factors

The Authority's mortgage loan financing activities are sensitive to the general level of interest rates, the interest rates and other characteristics of the Authority's loans compared to loan products available in the conventional mortgage markets, and the availability of affordable housing in the Commonwealth. The availability of long-term tax-exempt and taxable 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. Short-term investment rates in the United States have declined sharply from approximately 5.0% in July 2007 to less than 0.55% in June 2010.

Delinquency and foreclosure rates in the single family loan portfolio, and to a lesser extent the multifamily loan portfolio, are influenced by unemployment. Virginia's average unemployment rate increased from 5.5% in fiscal year 2009 to 7.0% in fiscal year 2010.

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 the Finance Division of the Virginia Housing Development Authority.

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Independent Auditors' Report

The Board of 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, 2010 and 2009, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These basic financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these basic 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 basic 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 also includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic 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, 2010 and 2009, and the respective changes in its financial position and its cash flows thereof for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2010 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and Schedule of Funding Progress by Plan Valuation Date on pages 1 through 9 and page 45, respectively, are not a required part of the basic financial statements, but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included in schedules 2 through 5 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been

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subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

KPMG LLP

September 27, 2010

VIRGINIA HOUSING DEVELOPMENT AUTHORITY
(A Component Unit of the Commonwealth of Virginia)

Statements of Net Assets

June 30, 2010 and 2009

Assets	2010	2009
Current assets:		
Cash and cash equivalents (note 5)	$ 1,218,877,026	978,531,768
Investments (note 5)	55,328,415	7,389,131
Interest receivable – investments	752,356	661,509
Mortgage loans held for sale	—	1,671,773
Mortgage and other loans receivable, net (note 4)	160,484,496	152,610,057
Interest receivable – mortgage and other loans	38,357,956	39,440,436
Other real estate owned	34,442,929	36,764,772
Housing Choice Voucher contributions receivable (note 1)	—	271,482
Other assets	11,821,260	17,219,635
Total current assets	1,520,064,438	1,234,560,563
Noncurrent assets:		
Investments (note 5)	146,898,208	89,386,031
Mortgage and other loans receivable (note 4)	8,049,634,116	8,096,001,205
Less allowance for loan loss	106,489,448	81,158,206
Less net deferred loan fees	27,394,912	25,973,670
Mortgage and other loans receivable, net	7,915,749,756	7,988,869,329
Investment in rental property, net	46,307,536	21,129,690
Property, furniture, and equipment, less accumulated depreciation and amortization of $27,402,289 and $25,190,157, respectively (note 6)	24,499,823	24,454,729
Unamortized bond issuance expenses	6,748,748	7,913,702
Other assets	950,994	989,878
Total noncurrent assets	8,141,155,065	8,132,743,359
Total assets	$ 9,661,219,503	9,367,303,922
Liabilities and Net Assets		
Current liabilities:		
Notes and bonds payable (note 7)	$ 584,041,478	431,843,820
Accrued interest payable on notes and bonds	105,980,049	114,846,243
Housing Choice Voucher contributions payable (note 1)	7,552	—
Escrows (note 8)	43,051,071	37,946,204
Accounts payable and other liabilities (notes 5 and 9)	19,253,196	22,148,606
Total current liabilities	752,333,346	606,784,873
Noncurrent liabilities:		
Bonds payable, net (note 7)	6,483,551,357	6,445,144,903
Project reserves (notes 8 and 13)	174,820,180	168,015,080
Other liabilities (notes 5, 9, 11, and 13)	28,701,565	27,945,084
Total noncurrent liabilities	6,687,073,102	6,641,105,067
Total liabilities	7,439,406,448	7,247,889,940
Net assets (note 10):		
Invested in capital assets, net of related debt	(5,749,288)	2,135,457
Restricted by bond indentures	2,069,280,597	1,970,640,302
Unrestricted	158,281,746	146,638,223
Total net assets	2,221,813,055	2,119,413,982
Total liabilities and net assets	$ 9,661,219,503	9,367,303,922

See accompanying notes to basic financial statements.

VIRGINIA HOUSING DEVELOPMENT AUTHORITY
(A Component Unit of the Commonwealth of Virginia)

Statements of Revenues, Expenses, and Changes in Net Assets

Years ended June 30, 2010 and 2009

	2010	2009
Operating revenues:		
Interest on mortgage and other loans	$ 512,809,147	518,534,517
Pass-through grants income	128,264,102	69,579,819
Housing Choice Voucher program income (note 1)	69,320,793	61,143,049
Investment in rental property income	13,497,393	14,186,900
Gains and recoveries on sale of other real estate owned	4,929,255	1,486,588
Other	13,371,681	7,883,120
Total operating revenues	742,192,371	672,813,993
Operating expenses:		
Interest on notes and bonds	337,386,090	355,170,325
Salaries and related employee benefits (note 11)	31,804,552	32,086,533
General operating expenses	16,904,641	18,754,188
Note and bond expenses	558,425	538,224
Amortization of bond issuance expenses	942,292	418,746
Pass-through grants expenses	128,264,102	69,579,819
Housing Choice Voucher program expenses (note 1)	69,780,762	70,642,377
External mortgage servicing expenses	1,350,200	1,431,151
Investment in rental property expenses	12,837,356	13,435,917
Losses and expenses on other real estate owned	32,750,041	9,959,770
Provision for loan losses (note 1)	25,331,242	24,790,541
Total operating expenses	657,909,703	596,807,591
Operating income	84,282,668	76,006,402
Nonoperating revenues:		
Investment income (note 9)	18,045,467	1,577,881
Other, net	70,938	58,342
Total nonoperating revenues	18,116,405	1,636,223
Change in net assets	102,399,073	77,642,625
Total net assets, beginning of year	2,119,413,982	2,041,771,357
Total net assets, end of year	$ 2,221,813,055	2,119,413,982

See accompanying notes to basic financial statements.

VIRGINIA HOUSING DEVELOPMENT AUTHORITY
(A Component Unit of the Commonwealth of Virginia)

Statements of Cash Flows

Years ended June 30, 2010 and 2009

	2010	2009
Cash flows from operating activities:		
Cash payments for mortgage and other loans	$ (836,338,867)	(1,267,328,871)
Principal repayments on mortgage and other loans	609,511,845	917,226,643
Sale of mortgage loans	235,661,425	5,397,264
Interest received on mortgage and other loans	510,869,466	515,630,427
Pass-through grants received	128,264,102	69,579,819
Pass-through grants disbursed	(128,264,102)	(69,579,819)
Housing Choice Voucher payments received	69,599,827	64,128,502
Housing Choice Voucher payments disbursed	(69,846,249)	(70,467,288)
Escrow and project reserve payments received	368,316,882	250,828,615
Escrow and project reserve payments disbursed	(356,111,645)	(251,078,244)
Other operating revenues	23,112,446	4,514,056
Cash received for loan origination fees	8,676,794	6,235,474
Cash paid for loan origination fees	(6,720,324)	(7,169,458)
Cash payments for salaries and related benefits	(32,727,131)	(30,741,516)
Cash payments for general operating expenses	(26,878,733)	(13,006,578)
Cash payments for mortgage servicing expenses	(1,209,897)	(1,364,013)
Proceeds from sale of other real estate owned	19,447,848	6,855,926
Investment in rental property	(28,749,962)	14,197,654
Net cash provided by operating activities	486,613,725	143,858,593
Cash flows from noncapital financing activities:		
Proceeds from issuance of notes and bonds	1,357,638,000	959,898,706
Principal payments on notes and bonds	(1,169,041,166)	(1,023,881,936)
Interest payments on notes and bonds	(339,843,392)	(338,719,426)
Cash payments for bond issuance expenses	(4,178,951)	(10,403,079)
Net cash used in noncapital financing activities	(155,425,509)	(413,105,735)
Cash flows from capital and related financing activities:		
Purchases of property, furniture, and equipment	(2,879,190)	(5,155,229)
Net cash used in capital and related financing activities	(2,879,190)	(5,155,229)
Cash flows from investing activities:		
Purchases of investments	(487,244,937)	(117,855,396)
Proceeds from sales or maturities of investments	394,628,125	245,271,038
Interest received on investments	4,653,044	13,848,723
Net cash (used in) provided by investing activities	(87,963,768)	141,264,365
Net increase (decrease) in cash and cash equivalents	240,345,258	(133,138,006)
Cash and cash equivalents, at beginning of year	978,531,768	1,111,669,774
Cash and cash equivalents, at June 30	$ 1,218,877,026	978,531,768

(Continued)

VIRGINIA HOUSING DEVELOPMENT AUTHORITY
(A Component Unit of the Commonwealth of Virginia)

Statements of Cash Flows

Years ended June 30, 2010 and 2009

		2010	2009
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	$	84,282,668	76,006,402
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation of property, furniture, and equipment		2,832,579	2,741,553
Other depreciation and amortization		3,074,002	3,004,699
Interest on notes and bonds		337,386,090	355,170,323
(Increase) decrease in investment in rental property, net		(27,309,557)	14,341,974
Decrease (increase) in mortgage and other loans receivable		40,164,423	(305,068,461)
Increase in allowance for loan loss		25,331,242	16,285,624
Increase in net deferred loan fees		1,421,242	499,792
Decrease (increase) in interest receivable – mortgage and other loans		1,082,480	(1,732,586)
Decrease (increase) in other real estate owned		2,321,843	(19,795,326)
Decrease in Housing Choice Voucher contributions receivable		279,034	2,985,453
Decrease (increase) in other assets		5,509,710	(3,326,555)
(Decrease) increase in accounts payable and other liabilities		(1,967,268)	2,995,333
Increase (decrease) in escrows and project reserves		12,205,237	(249,632)
Net cash provided by operating activities	$	486,613,725	143,858,593
Supplemental disclosure of noncash investing activity:			
Increase in other real estate owned as a result of loan foreclosures	$	43,211,086	18,509,153

See accompanying notes to basic financial statements.

(1) Organization and Summary of Significant Accounting Policies

(a) Organization

The Virginia Housing Development Authority (the Authority) was created under the Virginia Housing Development Authority Act, as amended (the Act) enacted by the 1972 Session of the Virginia General Assembly. The Act 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 U.S. generally accepted accounting principles (GAAP). See note 2 for further discussion.

(b) Measurement Focus and Basis of Accounting

The Authority utilizes the economic resources measurement focus and accrual basis of accounting in preparing its basic 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. As provided for in Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the Authority has elected not to apply Financial Accounting Standards Board pronouncements issued after November 30, 1989.

(c) Use of Estimates

The preparation of basic financial statements, in conformity with GAAP, 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 basic 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 market value on the Statements of Net Assets, with changes in fair market value recognized in investment income in the Statements of Revenues, Expenses, and Changes in Net Assets. Fair market 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 the related 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 30 years for buildings, 15 years for building improvements and from 5 to 10 years for furniture and equipment. The investments are carried net of accumulated depreciation of $11,645,313 as of June 30, 2010 and $5,587,678 as of June 30, 2009. These investments are also tested for impairment when triggers are identified.

(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 and an allowance for loan losses. 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.

The Authority is an Issuer in the Government National Mortgage Association (Ginnie Mae) Mortgage-Backed Securities (MBS) Programs. Through the Ginnie Mae MBS Programs, Ginnie Mae guarantees securities that are issued by the Authority and backed by pools of mortgage loans originated by the Authority. These mortgage loan securitizations are treated as sales for accounting and reporting purposes. Accordingly, the Authority no longer recognizes the sold mortgage loans receivable in the Statements of Net Assets.

(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 and delinquency statistics, economic conditions, the value and adequacy of collateral, and the current level of the allowance. The provision for loan losses approximated $25,331,000 and $24,791,000 for the years ended June 30, 2010 and 2009, respectively.

(h) Property, Furniture, and Equipment

Capital assets are capitalized at cost and depreciation is provided on the straight-line basis over the estimated useful lives, which are 30 years for buildings and from 3 to 10 years for furniture and equipment. The capitalization threshold for property, furniture, and equipment was $1,000 for the years ended June 30, 2010 and 2009.

Effective July 1, 2009, the Authority implemented Governmental Accounting Standards Board Statement No. 51, *Accounting and Financial Reporting for Intangible Assets,* which resulted

in the capitalization of certain costs associated with internally generated computer software. Once the software is ready for its intended use, these costs will be amortized on a straight-line basis over the software's expected useful life of 3 to 5 years.

(i) Bond Issuance Expense

Costs related to issuing bonds are capitalized in the related bond group and are amortized on the straight-line basis, which approximates the effective interest method, over the lives of the bonds.

(j) Other Real Estate Owned

Other real estate owned represents current investments in rental property, acquired primarily 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 Statements 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 unamortized premiums or discounts. Bond premiums and discounts are amortized over the lives of the issues using the interest method. The Authority generally has the right to specially redeem bonds, without premium, upon the occurrence of certain specified events, such as the prepayment of a mortgage loan. The Authority also has the right to optionally redeem the various bonds at premiums ranging from 0% to 2%. The optional redemptions generally cannot be exercised until the bonds have been outstanding for approximately ten years. All issues generally have term bonds, which will be subject to partial redemption, without premium, from mandatory sinking fund installments.

(l) Retirement Plans

The Authority has three defined contribution employees' retirement savings plans covering substantially all employees. Retirement expense is fully funded as incurred. To the extent terminating employees are less than 100% vested in the Authority's contributions, the unvested portion is forfeited and redistributed to the remaining participating employees.

The Authority also provides postretirement healthcare benefits under a defined benefit plan to all employees who have met the years of service requirement and who retire from the Authority on or after attaining age 55 or become permanently disabled.

In accordance with GAAP, provisions consist of standards for the measurement, recognition, and disclosure of OPEB expenses and actuarially accrued liabilities associated with OPEB as well as the extent to which progress has been made in funding the plan.

(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) Pass-Through Revenues and Expenses

U.S. Department of Housing and Urban Development – Project Based Section 8

As the Commonwealth's administrator for the U.S. Department of Housing and Urban Development's (HUD) Section 8 New Construction and Substantive Rehabilitation program, the Authority requisitions Section 8 funds, makes disbursements of Housing Assistance Payments (HAP) funds to landlords of eligible multi-family developments, and recognizes administrative fee income. The Authority received and disbursed pass-through grants totaling $72,052,133 and $69,081,297 during the years ended June 30, 2010 and 2009, respectively.

U.S. Department of Housing and Urban Development – Housing Counseling Assistance Program

The Authority serves as an administrator for thirty HUD-approved Housing Counseling Agencies in Virginia. The Housing Counseling Assistance Program provides counseling to consumers on seeking, financing, maintaining, renting, or owning a home. The Authority received and disbursed pass-through grants totaling $198,121 and $244,691 during fiscal year 2010 and 2009, respectively.

NeighborWorks America

The Authority is an administrator for NeighborWorks America, a national nonprofit organization created by the U.S. Congress to provide financial support, technical assistance, and training for community-based revitalization efforts. Thirteen nonprofit agencies are assisted by NeighborWorks funds administered by the Authority. The Authority received and disbursed pass-through grants totaling $211,461 during fiscal year 2010 and $253,831 during fiscal year 2009, the year of the Authority's start-up with the program.

U.S. Department of Housing and Urban Development – Tax Credit Assistance Program

The Tax Credit Assistance Program (TCAP) provides grant funding for capital investment in Low Income Housing Tax Credit (LIHTC) projects via a formula-based allocation to State housing credit allocation agencies. The Authority is the housing credit administrator in the Commonwealth. The housing credit agencies in each state distribute these funds competitively and according to their qualified allocation plan. The Authority received and disbursed $20,645,587 of assistance during fiscal year 2010 and none for the prior year.

U.S. Department of the Treasury – Low-Income Housing Grants in Lieu of Tax Credit Allocations for 2009 (Tax Credit Exchange)

As the housing credit administrator for the Commonwealth, the Authority administers the Tax Credit Exchange program, which was created by the American Recovery and Reinvestment Act of 2009. Grants are received by the Authority and issued to finance the acquisition or construction of qualified low-income housing projects. The Authority received and disbursed $35,156,800 of assistance during fiscal year 2010, the first year of the program.

(o) Housing Choice Voucher Program

As the Commonwealth's administrator for HUD's Section 8 Housing Choice Voucher program, the Authority requisitions Section 8 funds, makes disbursements of HAP funds to eligible tenants, and recognizes administrative fee income.

Upon receipt or disbursement of HAP and administrative funds related to Section 8, corresponding revenues or expenses are recorded in Housing Choice Voucher program income or Housing Choice Voucher program expense in the Statements of Revenues, Expenses and Changes in Net Assets. Housing Choice Voucher contributions receivable are stated at the balance of funds obligated and available from HUD but not yet disbursed to the Authority. Excess HAP or administrative funds disbursed to the Authority are recorded in unrestricted net assets in the Statements of Net Assets. Cumulative excess HAP and administrative funds totaled $3,041,461 and $1,282,360, respectively, as of June 30, 2010 and $3,550,235 and $1,233,554, respectively, as of June 30, 2009. HUD monitors the utilization of these excess funds and adjusts funding levels prospectively to assure all funds are being used to serve as many families up to the number of vouchers authorized by the program.

(p) Commonwealth Priority Housing Fund

The Commonwealth Priority Housing Fund, established by the 1988 Session of the Virginia General Assembly, uses funds provided by the state to provide loans and grants for a wide variety of housing initiatives. The Department of Housing and Community Development develops the program guidelines and the Authority acts as administrator for the Funds. The balances associated with the Commonwealth Priority Housing Fund are recorded in assets and liabilities in the amounts of $8,215,179 and $8,274,040 as of June 30, 2010 and 2009, respectively.

(q) Cash Equivalents

For purposes of the Statements of Cash Flows, cash equivalents consist of investments with original maturities of three months or less from the date of purchase.

(r) Rebatable Arbitrage

Rebatable arbitrage involves the investment of proceeds from the sale of tax-exempt debt in a taxable investment that yields a higher rate than the rate of the debt. This results in investment income in excess of interest costs. Federal law requires such income be rebated to the government if the yield from these earnings exceeds the effective yield on the related tax-exempt debt issued. Arbitrage must be calculated, reported and paid every five years or at maturity of the debt, whichever is earlier. However, the potential liability is calculated annually for financial reporting purposes.

(s) Statements of Net Assets

The assets presented in the Statements of Net Assets represent the total of similar accounts of the Authority's various groups (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. When both restricted

and unrestricted resources are available for use, the Authority's policy is to use restricted resources first, and thereafter unrestricted resources as needed.

(t) Operating and Nonoperating Revenues and Expenses

The Authority's Statements of Revenues, Expenses, and Changes in Net Assets distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally are a result from financing the acquisition, construction, rehabilitation, and ownership of housing intended for occupancy and ownership, by families of low or moderate income or as a result from the ownership of certain multi-family housing rental properties. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

(u) Reclassifications

Certain reclassifications have been made in the June 30, 2009 basic financial statements to conform to the June 30, 2010 presentation.

(2) Basis of Presentation

The accounts of the Authority are presented in a single proprietary fund set of basic financial statements consisting of various programs. The Authority's activities include the following programs:

(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 Bond and Rental Housing Bond Groups

The proceeds of the Multi-Family Housing Bonds and Rental Housing Bonds are used to finance construction and permanent loans on multi-family development projects, as well as, permanent financing for owned rental property.

All outstanding bonds in the Multi-Family Housing Bond Group were redeemed on May 1, 2009. There are no anticipated future bond issuances to be made from the Multi-Family Housing Bond Group. Substantially all of the residual assets of the Multi-Family Housing Bond Group were transferred to the Rental Housing Bond Group and are available for funding related housing projects.

(c) VHDA General Purpose Bond Group

The proceeds of the General Purpose 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, as well as, temporary financing for other real estate owned.

(e) Homeownership Mortgage Bond Group

The Homeownership Mortgage bond group was established on December 2, 2009 and encompasses the Authority's participation in the U.S. Department of the Treasury Single Family New Issue Bond Program, which was created to assist state and local housing finance agencies in acquiring cost-effective mortgage loan capital.

(3) Restricted Assets

Restricted assets are primarily assets held for the benefit of the respective bond owners and include mortgage loans, debt service and debt reserves, and investments. Certain assets are held on behalf of Federal programs or housing initiatives of the Commonwealth.

Restricted assets as of June 30, 2010 and 2009 were as follows:

	June 30	
	2010	**2009**
Current assets:		
Cash and cash equivalents	$ 1,196,256,185	936,902,290
Investments	55,328,415	7,389,131
Interest receivable – investments	361,062	249,078
Mortgage and other loans receivable	158,423,920	150,900,802
Interest receivable – mortgage and other loans	37,352,857	38,398,171
Other real estate owned	33,997,068	36,764,772
Housing Choice Voucher contributions receivable	—	271,482
Other assets	6,557,958	6,585,921
Total current assets	1,488,277,465	1,177,461,647
Noncurrent assets:		
Investments	101,221,076	89,386,031
Mortgage and other loans receivable	7,993,603,454	8,060,660,879
Less allowance for loan loss	103,215,124	77,291,210
Less net deferred loan fees	26,990,387	25,484,606
Mortgage and other loans receivable, net	7,863,397,943	7,957,885,063
Investment in rental property, net	45,555,554	20,358,208
Property, furniture, and equipment, less accumulated depreciation and amortization of $14,238,464 and $13,425,266, respectively	15,840,952	16,653,135
Unamortized bond issuance expenses	6,362,903	7,510,478
Other assets	190,716	548,871
Total noncurrent assets	8,032,569,144	8,092,341,786
Total restricted assets	$ 9,520,846,609	9,269,803,433

(4) Mortgage and Other Loans Receivable

Substantially all mortgage and other loans receivable are secured by first liens on real property within the Commonwealth. 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
General Operating Accounts	0% to 9.14%	Thirty to forty years
Rental Housing Bond Group	0% to 13.13%	Thirty to forty years
VHDA General Purpose Bond Group	0% to 13.92%	Thirty to forty years
Commonwealth Mortgage Bond Group	1.13% to 13.85%	Thirty years
Homeownership Mortgage Bond Group	4.13% to 5.88%	Thirty years

Commitments to fund new loans and monies available to provide future loans were as follows at June 30, 2010:

	Committed	Uncommitted
General Operating Loan Programs	$ 4,546,298	—
VHDA General Purpose Bond Group	2,496,139	—
Rental Housing Bond Group	140,564,084	—
Commonwealth Mortgage Bond Group	65,832,537	—
Homeownership Bond Group	12,138,130	268,380,490
Total	$ 225,577,188	268,380,490

Uncommitted funds represent the excess of net current funds over existing loan commitments.

(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, 2010 and 2009, the carrying amount of the Authority's deposits was $43,317,762 and $40,699,934, respectively, and checks drawn in excess of bank balances, included in accounts payable and other liabilities were $5,336,544 and $6,607,753, respectively. The associated bank balance of the Authority's deposits was $47,121,109 and $39,407,440 at June 30, 2010 and 2009, respectively. 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 from date of purchase. 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. At June 30, 2010 and 2009, total cash equivalents were $1,175,559,264 and $937,831,834, respectively.

Investments are classified in the statements of net assets as follows:

	June 30 2010	June 30 2009
Current investments	$ 55,328,415	7,389,131
Noncurrent investments	146,898,208	89,386,031
Total investments	$ 202,226,623	96,775,162

The Investment of Public Funds Act of the Code of Virginia permits political subdivisions of the Commonwealth to invest in open repurchase agreements and money market securities that are collateralized with securities that are approved for direct investment. Within the permitted statutory framework, the Authority's investment policy requires securities collateralizing repurchase agreements to maintain a fair value at least equal to 102% of the cost and accrued interest of the repurchase agreement, and no more than 2% of the Authority's total assets may be invested in any one entity, exclusive of overnight repurchase agreements and short term investments with a maturity not to exceed six months.

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.

(a) Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt instruments will adversely affect the fair value of an investment. Investments with interest rates that are fixed for longer periods are likely to be subject to more variability in their fair values as a result of future changes in interest rates. As a means of communicating interest rate risk, the Authority has elected the segmented time distribution method of disclosure, which requires the grouping of investment cash flows into sequential time periods in tabular form.

As of June 30, 2010 the Authority had the following investments (including cash equivalents) and maturities:

Investment type	Less than 1 year	1 – 5 years	6 – 10 years	Over 10 years	Fair value
Corporate notes	$ —	921,861	—	—	921,861
Municipal securities	7,365,287	13,329,766	—	—	20,695,053
Asset-backed securities	—	—	—	40,201,724	40,201,724
Agency-mortgage backed securities	—	—	—	92,444,857	92,444,857
Money market securities	895,228,347	—	—	—	895,228,347
Other interest-bearing securities	328,294,045	—	—	—	328,294,045
Total investments	$ 1,230,887,679	14,251,627	—	132,646,581	1,377,785,887

As of June 30, 2009, the Authority had the following investments (including cash equivalents) and maturities:

Investment type	Less than 1 year	1 – 5 years	6 – 10 years	Over 10 years	Fair value
Corporate notes	$ 2,507,075	905,197	—	—	3,412,272
Municipal securities	8,617,308	17,313,228	—	—	25,930,536
Asset-backed securities	—	—	230,807	63,783,017	64,013,824
Agency-mortgage backed securities	—	—	—	5,449,117	5,449,117
Money market securities	812,812,000	—	—	—	812,812,000
Other interest-bearing securities	122,989,247	—	—	—	122,989,247
Total investments	$ 946,925,630	18,218,425	230,807	69,232,134	1,034,606,996

(b) Credit Risk

Credit risk is the risk that an issuer or other counterparts to an investment will not fulfill its obligations. The Authority places emphasis on securities of high credit quality and marketability. The following table presents investment exposure to credit risk by investment type as of June 30, 2010:

Investment type	Amount	S & P/ Moody's rating	Percentage of total investments
Money market securities	$ 895,228,347	P-1	64.97%
Other interest bearing instruments	328,294,045	Aaa	23.83
Agency mortgage backed securities	92,444,857	Aaa	6.71
Asset-backed securities	12,549,180	Ba2	0.91
Municipal securities	6,516,595	Aaa	0.47
Asset-backed securities	4,785,418	A2	0.35
Municipal securities	4,587,780	Aa1	0.33
Asset-backed securities	4,553,445	Caa2	0.33
Asset-backed securities	3,681,262	B3	0.27
Asset-backed securities	3,643,307	B1	0.26
Asset-backed securities	3,515,050	Ba1	0.26
Asset-backed securities	2,952,254	Aa1	0.21
Asset-backed securities	2,466,295	Baa2	0.18
Municipal securities	2,214,897	Aa2	0.16
Municipal securities	2,117,320	A2	0.15
Municipal securities	1,983,400	NR	0.14
Municipal securities	1,370,000	MIG-1	0.10
Asset-backed securities	1,350,038	Aaa	0.10
Municipal securities	1,059,610	A	0.08
Corporate notes	921,861	A2	0.07
Municipal securities	620,723	Aa3	0.05
Asset-backed securities	559,554	Aa3	0.04
Municipal securities	224,728	A-	0.02
Asset-backed securities	87,403	Ba3	0.01
Asset-backed securities	58,518	Ca	—
Total investments	$ 1,377,785,887		100.00%

(6) Property, Furniture, and Equipment

Activity in the property, furniture, and equipment accounts for the year ended June 30, 2010 was as follows:

	Balance June 30, 2009	Additions	Deletions	Transfers	Balance June 30, 2010
Land	$ 2,935,815	—	—	—	2,935,815
Building	28,734,001	48,247	—	1,898,797	30,681,045
Furniture and equipment	15,934,392	1,560,879	(621,964)	—	16,873,307
Motor vehicles	392,118	29,570	—	—	421,688
Construction in progress	1,648,560	1,240,494	—	(1,898,797)	990,257
	$ 49,644,886	2,879,190	(621,964)	—	51,902,112

Activity in the related accumulated depreciation and amortization accounts during the year ended June 30, 2010 was as follows:

	Balance June 30, 2009	Additions	Deletions	Balance June 30, 2010
Building	$ (12,873,086)	(742,357)	—	(13,615,443)
Furniture and equipment	(12,078,808)	(2,045,573)	620,447	(13,503,934)
Motor vehicles	(238,263)	(44,649)	—	(282,912)
	$ (25,190,157)	(2,832,579)	620,447	(27,402,289)

Activity in the property, furniture, and equipment accounts for the year ended June 30, 2009 was as follows:

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	Balance June 30, 2008	Additions	Deletions	Transfers	Balance June 30, 2009
Land	$ 2,935,815	—	—	—	2,935,815
Building	26,150,115	—	—	2,583,886	28,734,001
Furniture and equipment	14,592,511	2,099,043	(757,162)	—	15,934,392
Motor vehicles	423,448	86,515	(117,845)	—	392,118
Construction in progress	1,225,122	3,007,324	—	(2,583,886)	1,648,560
	$ 45,327,011	5,192,882	(875,007)	—	49,644,886

Activity in the related accumulated depreciation and amortization accounts during the year ended June 30, 2009 was as follows:

	Balance June 30, 2008	Additions	Deletions	Balance June 30, 2009
Building	$ (12,004,031)	(869,055)	—	(12,873,086)
Furniture and equipment	(10,976,593)	(1,888,063)	785,848	(12,078,808)
Motor vehicles	(309,050)	(47,058)	117,845	(238,263)
	$ (23,289,674)	(2,804,176)	903,693	(25,190,157)

(7) Notes and Bonds Payable

Notes and bonds payable at June 30, 2009 and June 30, 2010 and changes for the year were as follows:

Description	Balance at June 30, 2009	Issued	Retired	Balance at June 30, 2010
		(Amounts shown in thousands)		
General operating accounts:				
Revolving line of credit:				
Bank of America termination date of December 1, 2010	$ —	—	—	—
Federal Home Loan Bank floating daily rate (rate of 0.15% at June 30, 2010) no fixed maturity	122,605	409,298	203,913	327,990
Total general operating accounts	122,605	409,298	203,913	327,990
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	35,560	—	35,560	—
1999 Series G/H, dated August 19, 1999, 6.70% effective interest rate, final due date May 1, 2022	44,075	—	44,075	—
1999 Series I/J, dated November 4, 1999, 6.83% effective interest rate, final due date February 1, 2023	29,520	—	29,520	—

Description	Balance at June 30, 2009	Issued	Retired	Balance at June 30, 2010
		(Amounts shown in thousands)		
1999 Series K/L, dated December 16, 1999, 6.41% effective interest rate, final due date February 1, 2023	$ 28,515	—	28,515	—
2000 Series A/B, dated May 10, 2000, 7.14% effective interest rate, final due date August 1, 2024	52,820	—	1,910	50,910
2000 Series C, dated August 3, 2000, 8.18% effective interest rate, final due date April 1, 2024	14,235	—	580	13,655
2000 Series D/E, dated August 3, 2000, 5.98% effective interest rate, final due date April 1, 2024	36,660	—	1,695	34,965
2000 Series F/G/H, dated October 12, 2000, 6.90% effective interest rate, final due date October 1, 2024	53,950	—	2,055	51,895
2001 Series A/B, dated January 9, 2001, 7.02% effective interest rate, final due date March 1, 2025	52,585	—	1,900	50,685
2001 Series C/D, dated March 22, 2001, 5.87% effective interest rate, final due date June 1, 2024	11,640	—	550	11,090
2001 Series E/F/G, dated April 26, 2001, 5.94% effective interest rate, final due date June 1, 2025	16,795	—	785	16,010
2001 Series H/I, dated July 31, 2001, 6.56% effective interest rate, final due date July 1, 2025	42,375	—	1,520	40,855
2001 Series J/K/L, dated October 23, 2001, 6.06% effective interest rate, final due date December 1, 2025	53,710	—	2,070	51,640
2001 Series M, dated December 18, 2001, 6.78% effective interest rate, final due date January 1, 2027	37,505	—	1,165	36,340

Description	Balance at June 30, 2009	Issued	Retired	Balance at June 30, 2010
		(Amounts shown in thousands)		
2001 Series N/O, dated December 18, 2001, 5.40% effective interest rate, final due date January 1, 2027	$ 32,010	—	1,150	30,860
2002 Series A, dated April 11, 2002, 6.70% effective interest rate, final due date April 1, 2027	20,905	—	750	20,155
2002 Series B, dated April 11, 2002, 5.30% effective interest rate, final due date April 1, 2027	38,030	—	1,380	36,650
2002 Series C/D, dated June 27, 2002, 6.45% effective interest rate, final due date September 1, 2027	57,310	—	1,645	55,665
2002 Series E/F/G, dated December 19, 2002, 5.45% effective interest rate, final due date January 1, 2028	68,155	—	2,155	66,000
2003 Series A/B, dated April 24, 2003, 5.04% effective interest rate, final due date June 1, 2028	48,920	—	1,940	46,980
2003 Series C/D, dated August 5, 2003, 3.87% effective interest rate, final due date November 1, 2028	52,200	—	2,870	49,330
2003 Series E, dated August 5, 2003, 4.84% effective interest rate, final due date November 1, 2028	70,680	—	3,030	67,650
2003 Series F/G, dated December 23, 2003, 5.42% effective interest rate, final due date April 1, 2030	46,970	—	1,345	45,625
2004 Series A/B, dated March 17, 2003, 5.25% effective interest rate, final due date March 1, 2030	15,830	—	450	15,380
2004 Series C, dated April 29, 2004, 5.53% effective interest rate, final due date May 1, 2029	67,525	—	2,005	65,520

Description	Balance at June 30, 2009	Issued	Retired	Balance at June 30, 2010
		(Amounts shown in thousands)		
2004 Series D/E, dated April 29, 2004, 4.72% effective interest rate, final due date May 1, 2029	$ 48,160	—	1,585	46,575
2004 Series F/G, dated September 2, 2004, 5.78% effective interest rate, final due date September 1, 2030	53,275	—	1,320	51,955
2004 Series H/I/J, dated December 16, 2004, 5.10% effective interest rate, final due date December 1, 2029	36,600	—	1,000	35,600
2005 Series A, dated April 26, 2005, 5.37% effective interest rate, final due date May 1, 2030	37,790	—	1,250	36,540
2005 Series B/C, dated April 26, 2005, 4.58% effective interest rate, final due date May 1, 2031	58,805	—	2,315	56,490
2005 Series D, dated June 14, 2005, 5.52% effective interest rate, final due date September 1, 2033	40,420	—	875	39,545
2005 Series E/F, dated June 14, 2005, 4.60% effective interest rate, final due date September 1, 2039	44,120	—	725	43,395
2005 Series G, dated October 20, 2005, 5.30% effective interest rate, final due date December 1, 2030	88,260	—	2,385	85,875
2005 Series H/I, dated October 20, 2005, 4.45% effective interest rate, final due date December 1, 2030	37,930	—	1,175	36,755
2005 Series J/K, dated December 14, 2005, 5.30% effective interest rate, final due date February 1, 2035	38,960	—	890	38,070
2006 Series A, dated May 23, 2006, 4.89% effective interest rate, final due date April 1, 2033	8,500	—	205	8,295

Description	Balance at June 30, 2009	Issued	Retired	Balance at June 30, 2010
		(Amounts shown in thousands)		
2006 Series B, dated October 31, 2006, 4.68% effective interest rate, final due date November 1, 2038	$ 23,390	—	390	23,000
2006 Series C, dated December 12, 2006, 5.95% effective interest rate, final due date January 1, 2039	44,735	—	485	44,250
2006 Series DEF, dated December 12, 2006, 4.52% effective interest rate, final due date January 1, 2039	82,020	—	1,470	80,550
2007 Series A, dated June 12, 2007, 6.03% effective interest rate, final due date July 1, 2039	119,760	—	1,050	118,710
2007 Series B/C, dated September 20, 2007, 6.16% effective interest rate, final due date November 1, 2038	23,650	—	340	23,310
2008 Series A, dated March 27, 2008, 5.63% effective interest rate, final due date October 1, 2038	200,000	—	2,740	197,260
2009 Series A, dated February 26, 2009, 6.86% effective interest rate, final due date March 1, 2039	72,915	—	—	72,915
2009 Series B, dated March 26, 2009, 5.53% effective interest rate, final due date June 1, 2043	29,050	—	—	29,050
2009 Series CD, dated March 30, 2009, 5.81% effective interest rate, final due date February 1, 2021	348,000	—	—	348,000
2009 Series E, dated September 24, 2009, 4.71% effective interest rate, final due date October 1, 2044.	—	52,185	—	52,185
2009 Series F, dated November 25, 2009, 4.85% effective interest rate, final due date December 1, 2044	—	49,370	—	49,370
2010 Series A, dated March 23, 2010, 4.80% effective interest rate, final due date April 1, 2045	—	21,005	—	21,005

Description	Balance at June 30, 2009	Issued	Retired	Balance at June 30, 2010
		(Amounts shown in thousands)		
2010 Series B, dated April 27, 2010, 4.74% effective interest rate, final due date June 1, 2045	$ —	22,750	—	22,750
	2,464,820	145,310	190,820	2,419,310
Unamortized premium	3,290			4,003
Total rental housing bonds	2,468,110			2,423,313
VHDA general purpose bonds group:				
2002 Series W, dated October 31, 2002, 5.91% effective interest rate, final due date January 1, 2028	69,275	—	4,015	65,260
2002 Series X/Y/Z, dated October 31, 2002, 4.85% effective interest rate, final due date January 1, 2043	245,710	—	38,270	207,440
2003 Series Q, dated October 30, 2003, 5.65% effective interest rate, final due date October 1, 2028	26,395	—	780	25,615
2003 Series R/S/T/U, dated October 30, 2003 4.662% effective interest rate, final due date October 1, 2038	82,430	—	11,235	71,195
2003 Series V, dated June 26, 2003 4.32% effective interest rate, final due date October 1, 2029	40,770	—	11,010	29,760
	464,580	—	65,310	399,270
Unamortized (discount) premium	1,709			1,829
Total VHDA general purpose bonds	466,289			401,099
Commonwealth mortgage bonds group:				
2001 Series A, dated January 30, 2001, 6.62% effective interest rate, final due date February 25, 2030	2,604	—	476	2,128

Description	Balance at June 30, 2009	Issued	Retired	Balance at June 30, 2010
		(Amounts shown in thousands)		
2001 Series B, dated May 4, 2001, 6.59% effective interest rate, final due date May 25, 2031	$ 4,191	—	4,191	—
2001 Series C/D, dated June 13, 2001, 4.08% effective interest rate, final due date January 1, 2014	17,110	—	17,110	—
2001 Series F, dated July 31, 2001, 6.57% effective interest rate, final due date September 25, 2031	5,035	—	5,035	—
2001 Series G, dated October 17, 2001, 6.27% effective interest rate, final due date December 25, 2031	5,745	—	5,745	—
2001 Series H, dated October 18, 2001, 5.37% effective interest rate, final due date July 1, 2036	223,000	—	18,000	205,000
2001 Series I/J, dated October 18, 2001, 4.13% effective interest rate, final due date July 1, 2011	40,880	—	40,880	—
2002 Series A, dated January 14, 2002, 6.59% effective interest rate, final due date February 25, 2032	7,745	—	1,702	6,043
2002 Series B, dated March 20, 2002, 6.15% effective interest rate, final due date August 25, 2030	29,582	—	4,360	25,222
2002 Series CD, dated June 27, 2002, 6.02% effective interest rate, final due date June 25, 2032	8,718	—	2,158	6,560
2002 Series E/F/G, dated December 17, 2002, 5.13% effective interest rate, final due date December 25, 2032	29,550	—	6,492	23,058
2003 Series A/B, dated April 3, 2003, 3.85% effective interest rate, final due date July 1, 2026	97,140	—	97,140	—

Description	Balance at June 30, 2009	Issued	Retired	Balance at June 30, 2010
		(Amounts shown in thousands)		
2003 Series C, dated October 1, 2003, 5.09% effective interest rate, final due date August 25, 2033	$ 1,927	—	324	1,603
2004 Series A, dated March 18, 2004, 4.30% effective interest rate, final due date October 1, 2029	135,460	—	12,840	122,620
2004 Series B, dated June 10, 2004, 5.61% effective interest rate, final due date June 25, 2034	7,539	—	1,518	6,021
2004 Series C, dated November 2, 2004, 4.21% effective interest rate, final due date January 1, 2031	142,130	—	13,210	128,920
2005 Series A, dated April 21, 2005, 4.31% effective interest rate, final due date October 1, 2031	378,200	—	39,290	338,910
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, 4.41% effective interest rate, final due date October 1, 2032	400,190	—	33,920	366,270
2006 Series AB, dated April 27, 2006, 5.87% effective interest rate, final due date March 25, 2036	9,913	—	1,293	8,620
2006 Series C, dated June 8, 2006, 6.13% effective interest rate, final due date June 25, 2034	54,588	—	11,699	42,889
2006 Series DEF, dated July 13, 2006 4.59% effective interest rate, final due date January 1, 2033	596,400	—	82,195	514,205
2007 Series ABCD, dated May 18, 2007 4.80% effective interest rate, final due date January 1, 2036	1,080,535	—	107,440	973,095

Description	Balance at June 30, 2009	Issued	Retired	Balance at June 30, 2010
2008 Series A, dated March 25, 2008, 6.05% effective interest rate, final due March 25, 2038	$ 90,823	—	12,009	78,814
2008 Series B, dated April 10, 2008, 6.08% effective interest rate, final due date March 25, 2038	135,890	—	18,159	117,731
2008 Series C, dated November 18, 2008, 6.38% effective interest rate, final due date June 25, 2038	51,992	—	6,957	45,035
2008 Series DE, dated December 16, 2008, 6.10% effective interest rate, final due date January 1, 2036	200,000	—	3,865	196,135
2009 Series A, dated November 25, 2009, 4.52% effective interest rate, final due date July 1, 2029	—	51,750	—	51,750
	3,803,007	51,750	548,008	3,306,749
Unamortized premium	16,978			18,604
Total commonwealth mortgage bonds group	3,819,985			3,325,353
Homeownership mortgage bonds group:				
2009 Series B, dated December 23, 2009, 0.151% effective interest rate, final due date November 1, 2041	—	482,960	160,990	321,970
2009 Series B-1, dated February 10, 2010, 4.42% effective interest rate, final due date November 1, 2041	—	160,990	—	160,990

Description	Balance at June 30, 2009	Issued	Retired	Balance at June 30, 2010
2010 Series A, dated February 10, 2010, 3.38% effective interest rate, final due date September 1, 2021	$ —	107,330	—	107,330
	—	751,280	160,990	590,290
Unamortized premium (discount)	—			(452)
Total homeownership mortgage bonds group	—			589,838
Total	$ 6,876,989			7,067,593

Notes and bonds payable at June 30, 2008 and June 30, 2009 and changes for the year were as follows (amounts in thousands):

	June 30, 2008	Issued	Retired	Change in unamortized premium and compound interest payable	June 30, 2009
General operating accounts	$ 61,330	254,433	193,158	—	122,605
Multi-family housing bond group	391,691	—	389,965	(1,726)	—
Rental housing bond group	2,071,566	449,965	51,870	(1,551)	2,468,110
VHDA General purpose bond group	476,265	—	10,640	664	466,289
Commonwealth mortgage bond group	3,939,465	255,501	378,250	3,269	3,819,985
Total	$ 6,940,317	959,899	1,023,883	656	6,876,989

Current and noncurrent amounts of notes and bonds payable at June 30, 2010 and 2009 were as follows:

	June 30 2010	June 30 2009
	(Amount in thousands)	
Notes and bonds payable – current	$ 584,041	431,844
Bonds payable – noncurrent	6,483,551	6,445,145
Total	$ 7,067,592	6,876,989

The Authority has participated in current refundings, in which new debt is issued and the proceeds are used to redeem, generally within ninety days, previously issued debt. Related discounts or premiums previously deferred are recognized in income or expense, respectively. Effective May 1, 2009, all outstanding bonds in the Multi-Family Housing Bond Group were redeemed. The call premium of $3,098,850 less unamortized premiums and cost of issuance on the retired bonds of $999,673, is being amortized through October 2019. There were $51,750,000 and $395,080,000 of refundings for the years ended June 30, 2010 and 2009, respectively.

The principal payment obligations and associated interest related to all note and bond indebtedness (excluding the effect of unamortized discounts and premium) commencing July 1, 2010 and thereafter are as follows:

Period ending June 30	Original principal	Current interest	Total debt service
2011	$ 584,041,478	319,418,165	903,459,643
2012	281,405,000	309,253,733	590,658,733
2013	276,445,000	296,819,715	573,264,715
2014	269,560,000	285,125,765	554,685,765
2015	267,100,000	273,199,664	540,299,664
2016 – 2020	1,323,510,000	1,176,061,594	2,499,571,594
2021 – 2025	1,136,945,000	851,627,112	1,988,572,112
2026 – 2030	1,035,540,872	563,994,000	1,599,534,872
2031 – 2035	837,446,501	314,237,305	1,151,683,806
2036 – 2040	611,004,956	110,036,610	721,041,566
2041 – 2045	420,610,000	10,310,853	430,920,853
Total	$ 7,043,608,807	4,510,084,516	11,553,693,323

The Authority has a $100 million revolving credit agreement with Bank of America to provide funds for general corporate purposes. The agreement will terminate on December 1, 2010 unless extended by Bank of America and the Authority. All amounts outstanding are due and payable on the termination date. Interest on any advances is charged at a rate equal to the daily floating LIBOR rate for deposits with one month maturity plus 95 basis points per annum, 110 basis points per annum or 125 basis points per annum based upon the Authority's long-term credit ratings of AA or higher, A, or BBB or lower, respectively. All amounts outstanding at a given time are due and payable on the termination date. The Authority is in compliance with all debt covenant requirements. At June 30, 2010 and 2009, there were no amounts outstanding.

The Authority has a $150 million revolving credit agreement with the Bank of Nova Scotia to provide funds for general corporate purposes. The term of the agreement expires on November 28, 2013. Interest on any advances is charged at rate equal to the daily floating LIBOR rate for deposits with one month maturity plus a margin ranging from 25 basis points to 150 basis points, based upon the Authority's long-term credit ratings and the duration outstanding. All amounts outstanding at a given time are due and payable on the termination date. At June 30, 2010 and 2009 there were no amounts outstanding.

The Authority maintains a credit agreement with the Federal Home Loan Bank (FHLB) of Atlanta, whereby FHLB of Atlanta may advance funds that are secured by government agency securities held in FHLB of Atlanta. Interest on any advance is charged under a floating daily rate, which amounted to 0.15% on June 30, 2010 and there is a maximum maturity for any advance of twenty-four months. The Authority is in compliance with all debt covenant requirements. At June 30, 2010, $327.99 million was outstanding and $122.6 million was outstanding at June 30, 2009.

(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 (note 12). The Authority invests these funds and, for project reserves, allows earnings to accrue to the benefit of the mortgagor. At June 30, 2010 and 2009, these escrows and project reserves were presented in the Authority's Statements of Net Assets as follows:

	June 30	
	2010	2009
Escrows – current	$ 43,051,071	37,946,204
Project reserves – noncurrent	174,820,180	168,015,080
Total	$ 217,871,251	205,961,284

(9) Investment Income and Arbitrage Liabilities

The amount of investment income the Authority may earn with respect to certain tax-exempt bond issues in the Commonwealth Mortgage Bond Group, Multi-Family Housing Bond Group, Rental Housing Bond Group, and VHDA General Purpose Bond Group is limited by certain federal legislations. Earnings in excess of the allowable amount must be rebated to the U.S. Department of the Treasury. These excess earnings are recorded in accounts payable and other liabilities. Rebates paid were zero and $851,746 for the years ended June 30, 2010 and 2009, respectively. Remaining liability balances were $2,441,444 and $2,613,103 at June 30, 2010 and 2009, respectively.

(10) Net Assets

Invested in 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, 2010 and 2009, such plans 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 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.

(11) Employee Benefits Plans

The Authority incurs employment retirement savings expense under two defined contribution plans equal to 8% of full-time employees' compensation. Total retirement savings expense for the years ended June 30, 2010 and 2009 was $1,820,678 and $1,855,824 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 basic financial statements.

As of June 30, 2010 and 2009, included in other liabilities, is an employee compensated absences accrual of $3,763,412 and $3,551,919, respectively (note 13).

(12) Other Post-Employment Benefits

At the sole discretion of the Authority, eligible employees may participate in the Virginia Housing Development Authority Retiree Health Care Plan (RHC), a single-employer defined benefit plan. The Authority administers the RHC through the Virginia Housing Development Authority Retiree Health Care Plan Trust (RHC Trust), an irrevocable trust to be used solely for providing benefits to eligible participants in the RHC. Assets of the RHC Trust are irrevocable and legally protected from creditors and dedicated to providing post-employment reimbursement of eligible medical and dental expenses to current and eligible future retirees and their spouses in accordance with the terms of the RHC. Employer contributions are recorded in the year in which they are earned and become measurable. Investments are reported at fair value and are based on published prices and quotations.

Effective January 1, 2006, eligible retirees must be at least 55 years of age with 15 years of service, (or at least 55 years of age with 10 years of service if employed by the Authority prior to such date). RHC participants receive an annual benefit based on age and years of service at retirement and based on a matrix, updated annually for cost-of-living plus 2% not to exceed 150% of the annual premium for preferred provider organization medical plan offered that year if the participant under age 65 or not to exceed 75% or the annual premium if the participant is age 65 or over. The annual benefit may be used to pay for health insurance purchased through the Authority's group plan or elsewhere, and for other eligible medical and dental expenses. For the year ended June 30, 2010, there were approximately 56 participating retirees and spouses and 314 active employees earning service credits in the RHC.

The Authority currently contributes amounts to the RHC Trust sufficient to fully fund the annual required contribution (ARC), an actuarially determined rate in accordance with GAAP. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year plus an amortized amount of unfunded actuarial liabilities (or fund excess) over a period not to exceed thirty years. The ARC for the fiscal year ended June 30, 2010 of $964,000 was approximately 4.3% of covered payroll.

The actuarially determined values for disclosure in accordance with GASB 45 are as follows:

Fiscal year-end	Beginning net OPEB obligation (asset)	ARC	Interest on OPEB liability	ARC adjustment	Amortization factor	Annual OPEB cost
June 30, 2009	$ (29,738)	895,410	(2,082)	2,316	12.84	$ 895,644
June 30, 2010	(106,007)	964,000	(6,625)	5,038	21.04	962,413

The OPEB cost to the Authority and its contributions and changes in the RHC plan for fiscal years 2009 and 2010 are as follows:

Fiscal year-end	Beginning net OPEB obligation (asset)	Annual OPEB cost	Contribution	Change in net OPEB obligation	Net OPEB obligation (asset) balance
June 30, 2009	$ (29,738)	895,644	(971,913)	(76,269)	(106,007)
June 30, 2010	(106,007)	962,413	(895,644)	66,769	(39,238)

For the year ended June 30, 2010, the Authority's Annual OPEB cost was $962,413; the percentage of Annual OPEB Cost Contribution was 93%; and the ending Net OPEB asset was $39,238. For the year ended June 30, 2009, the Authority's Annual OPEB cost was $895,644; the percentage of Annual OPEB Cost Contribution was 100%; and the ending Net OPEB asset was $106,007.

As of December 31, 2009, the unfunded actuarial accrued liability (UAAL) for benefits was $5,946,864. The covered payroll (annual payroll of active employees covered by the RHC) was $22,527,041 and the ratio of the UAAL to the covered payroll was 26.4%. As of December 31, 2009, the actuarial value of net assets held by the RHC Trust was $10,333,985, the actuarial accrued liability was $16,280,849, and the funded ratio was 63.5%. As of June 30, 2010, the RHC Trust had $9,855,683 in net assets.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Examples include assumptions about mortality and healthcare cost trends. Actuarially determined amounts are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and are subject to continual revisions as actual results are compared with past expectations and revised estimates are made about the future. In the actuarial valuation, the entry age-cost method was used. The actuarial assumptions include a 6.25% long term investment rate of return per annum (compounded annually, that includes a 4.5% inflation rate, 2.5% real

rate of return, 4.5% salary scale and a 3.5% salary growth). The projected healthcare cost trend is 10.5% initially, reduced by decrements to an ultimate rate of 5.5% after 10 years. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The unfunded actuarial accrued liability was amortized over 30 years in calculating the 2009-10 fiscal year annual required contribution.

(13) Other Long-Term Liabilities

Activity in the Authority's noncurrent liability accounts, other than bonds payable, for the year ended June 30, 2010 was as follows:

	Balance at June 30, 2009	Additions	Decreases	Balance at June 30, 2010
Project reserves	$ 168,015,080	62,043,547	55,238,447	174,820,180
Commonwealth Priority Housing Fund liability	8,197,185	1,038,788	1,137,207	8,098,766
Other liabilities	16,195,980	3,616,789	2,973,382	16,839,387
Compensated absences payable	3,551,919	1,668,342	1,456,849	3,763,412
Total	$ 195,960,164	68,367,466	60,805,885	203,521,745

Activity in the Authority's noncurrent liability accounts, other than bonds payable, for the year ended June 30, 2009 was as follows:

	Balance at June 30, 2008	Additions	Decreases	Balance at June 30, 2009
Project reserves	$ 171,525,076	126,610,661	130,120,657	168,015,080
Commonwealth Priority Housing Fund liability	8,216,186	61,657	80,658	8,197,185
Other liabilities	16,512,384	4,575,858	4,892,262	16,195,980
Compensated absences payable	3,126,061	1,925,603	1,499,745	3,551,919
Total	$ 199,379,707	133,173,779	136,593,322	195,960,164

(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 basic financial statements of the Authority.

The Authority participates in several Federal financial assistance programs, principal of which is the HUD Section 8 programs. 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, 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.

The Authority is exposed to various risks of loss such as theft of, damage to, and destruction of assets, injuries to employees, and natural disasters. The Authority carries commercial insurance for their risks. There have been no significant reductions in insurance coverage from coverage in the prior year, and settled claims have not exceeded the amount of insurance coverage in any of the past three fiscal years.

(15) Subsequent Events

In addition to scheduled issuances and redemptions, the Authority made the following borrowings subsequent to June 30, 2010 as follows:

	Borrowing date		Amount
Rental Housing Bonds, 2010 Series-D-Non-AMT	August 26, 2010	$	33,000,000
Bank of America, N.A., Revolving Credit Agreement	August 31, 2010		40,000,000

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Schedule 1

VIRGINIA HOUSING DEVELOPMENT AUTHORITY
(A Component Unit of the Commonwealth of Virginia)

Required Supplementary Information

Retiree Healthcare Plan – Schedule of Funding Progress by Plan Valuation Date

Actuarial valuation date	Actuarial value of assets	Actuarial accrued liability	Unfunded actuarial accrued liability	Funded ratio	Covered payroll	Unfunded as a percent of covered payroll
December 31, 2007	$ 8,631,596	10,747,191	2,115,595	80.3%	$ 20,479,198	10.3%
December 31, 2008	7,880,680	12,016,655	4,135,976	65.6%	21,830,868	18.9%
December 31, 2009	10,333,985	16,280,849	5,946,864	63.5%	22,527,041	26.4%

The required schedule of funding progress presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. As of December 31, 2009, the unfunded actuarial accrued liability (UAAL) for benefits was $5,946,864. The covered payroll (annual payroll of active employees covered by the RHC) was $21,527,041 and the ratio of the UAAL to the covered payroll was 26.4%. The Authority established the RHC Trust fund in November 2006 and as of the actuarial valuation date of December 31, 2009, the actuarial value of net assets held by the RHC Trust was $10,333,985, the actuarial accrued liability was $16,280,849 and the funded ratio was 63.5%. As of June 30, 2010, the RHC Trust had $9,855,683 in net assets.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Examples include assumptions about mortality and healthcare cost trends. Actuarially determined amounts are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and are subject to continual revisions as actual results are compared with past expectations are revised estimates are made about the future. In the actuarial valuation, the entry age-cost method was used. The actuarial assumptions include a 6.25% long term investment rate of return per annum (compounded annually, that includes a 4.5% inflation rate, 2.5% real rate of return, 4.5% salary scale and a 3.5% salary growth). The projected healthcare cost trend is 10.5% initially, reduced by decrements to an ultimate rate of 5.5% after 10 years. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The unfunded actuarial accrued liability was amortized over 30 years in calculating the 2009-10 fiscal year annual required contribution.

VIRGINIA HOUSING DEVELOPMENT AUTHORITY
(A Component Unit of the Commonwealth of Virginia)

Combining Schedule of Net Assets

June 30, 2010

Assets	General Operating Accounts	Rental Housing Bond Group	VHDA General Purpose Bond Group	Commonwealth Mortgage Bond Group	Home-ownership Bond Group	Total
Current assets:						
Cash and cash equivalents	$ 512,447,173	113,175,904	30,426,058	207,993,917	354,833,974	1,218,877,026
Investments	55,328,415	—	—	—	—	55,328,415
Interest receivable – investments	392,527	44,660	12,330	289,154	13,685	752,356
Mortgage and other loans receivable	2,060,575	56,170,108	23,285,291	75,229,786	3,738,736	160,484,496
Interest receivable – mortgage and other loans	1,043,092	16,022,553	2,733,368	18,042,701	516,242	38,357,956
Other real estate owned	445,861	6,600,465	1,532,855	25,863,748	—	34,442,929
Other assets	5,932,673	253,125	3,001,328	1,690,732	943,402	11,821,260
Total current assets	577,650,316	192,266,815	60,991,230	329,110,038	360,046,039	1,520,064,438
Noncurrent assets:						
Investments	59,006,899	20,703,034	921,861	66,266,414	—	146,898,208
Mortgage and other loans receivable	71,285,992	2,786,815,496	497,604,294	4,460,991,969	232,936,365	8,049,634,116
Less allowance for loan loss	3,274,324	45,187,427	12,043,885	45,677,908	305,904	106,489,448
Less net deferred loan fees	422,858	40,918,893	3,650,882	(16,801,773)	(795,948)	27,394,912
Mortgage and other loans receivable, net	67,588,810	2,700,709,176	481,909,527	4,432,115,834	233,426,409	7,915,749,756
Investment in rental property, net	751,982	41,560,192	3,995,362	—	—	46,307,536
Property, furniture, and equipment, less accumulated depreciation and amortization of $27,402,289	8,932,029	6,793,295	8,774,499	—	—	24,499,823
Unamortized bond issuance expenses	385,844	2,880,442	1,421,423	1,272,955	788,084	6,748,748
Other assets	581,346	—	8,008	361,640	—	950,994
Total noncurrent assets	137,246,910	2,772,646,139	497,030,680	4,500,016,843	234,214,493	8,141,155,065
Total assets	$ 714,897,226	2,964,912,954	558,021,910	4,829,126,881	594,260,532	9,661,219,503

(Continued)

Schedule 2

VIRGINIA HOUSING DEVELOPMENT AUTHORITY
(A Component Unit of the Commonwealth of Virginia)

Combining Schedule of Net Assets

June 30, 2010

Liabilities and Net Assets	General Operating Accounts	Rental Housing Bond Group	VHDA General Purpose Bond Group	Commonwealth Mortgage Bond Group	Home-ownership Bond Group	Total
Current liabilities:						
Notes and bonds payable	$ 327,990,000	70,825,000	11,220,000	170,806,478	3,200,000	584,041,478
Accrued interest payable on notes and bonds	48,374	37,649,230	8,339,175	58,004,985	1,938,285	105,980,049
Housing Choice Voucher contributions payable	7,552	—	—	—	—	7,552
Escrows	43,051,071	—	—	—	—	43,051,071
Accounts payable and other liabilities	8,625,208	398,303	111,251	10,118,434	—	19,253,196
Total current liabilities	379,722,205	108,872,533	19,670,426	238,929,897	5,138,285	752,333,346
Noncurrent liabilities:						
Bonds payable, net	—	2,352,487,988	389,879,120	3,154,545,896	586,638,353	6,483,551,357
Project reserves	174,820,180	—	—	—	—	174,820,180
Other liabilities	(6,620,659)	29,713,396	3,454,765	2,154,063	—	28,701,565
Total noncurrent liabilities	168,199,521	2,382,201,384	393,333,885	3,156,699,959	586,638,353	6,687,073,102
Total liabilities	547,921,726	2,491,073,917	413,004,311	3,395,629,856	591,776,638	7,439,406,448
Net assets:						
Invested in capital assets, net of related debt	8,693,754	(5,741,825)	(8,701,217)	—	—	(5,749,288)
Restricted by bond indentures	—	479,580,862	153,718,816	1,433,497,025	2,483,894	2,069,280,597
Unrestricted	158,281,746	—	—	—	—	158,281,746
Total net assets	166,975,500	473,839,037	145,017,599	1,433,497,025	2,483,894	2,221,813,055
Total liabilities and net assets	$ 714,897,226	2,964,912,954	558,021,910	4,829,126,881	594,260,532	9,661,219,503

See accompanying independent auditors' report.

Schedule 3

VIRGINIA HOUSING DEVELOPMENT AUTHORITY
(A Component Unit of the Commonwealth of Virginia)

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

Year ended June 30, 2010

	General Operating Accounts	Rental Housing Bond Group	VHDA General Purpose Bond Group	Commonwealth Mortgage Bond Group	Home-ownership Bond Group	Total
Operating revenues:						
Interest on mortgage and other loans	$ 2,778,267	196,887,734	37,524,516	273,393,771	2,224,859	512,809,147
Pass-through grants income	128,264,102	—	—	—	—	128,264,102
Housing Choice Voucher program income	69,320,793	—	—	—	—	69,320,793
Investment in rental property income	—	10,828,279	2,669,114	—	—	13,497,393
Gains and recoveries on sale of other real estate owned	(1)	4,402,096	25,454	501,706	—	4,929,255
Other	8,688,430	361,782	1,085,193	3,236,276	—	13,371,681
Total operating revenues	209,051,591	212,479,891	41,304,277	277,131,753	2,224,859	742,192,371
Operating expenses:						
Interest on notes and bonds	384,406	139,309,952	21,961,654	172,304,251	3,425,827	337,386,090
Salaries and related employee benefits	31,804,552	—	—	—	—	31,804,552
General operating expenses	16,223,567	217,220	463,854	—	—	16,904,641
Note and bond expenses	558,425	—	—	—	—	558,425
Amortization of bond issuance expenses	52,125	344,997	289,696	241,436	14,038	942,292
Pass-through grants expenses	128,264,102	—	—	—	—	128,264,102
Housing Choice Voucher program expenses	69,780,762	—	—	—	—	69,780,762
External mortgage servicing expenses	85,296	—	12,448	1,252,456	—	1,350,200
Investment in rental property expenses	20,362	10,034,053	2,782,941	—	—	12,837,356
Losses and expenses on other real estate owned	701,249	8,939,193	2,365,795	20,743,804	—	32,750,041
Provision for loan losses	(592,672)	15,838,237	4,975,404	4,804,369	305,904	25,331,242
Total operating expenses	247,282,174	174,683,652	32,851,792	199,346,316	3,745,769	657,909,703
Operating income (expense)	(38,230,583)	37,796,239	8,452,485	77,785,437	(1,520,910)	84,282,668
Nonoperating revenues:						
Investment income	5,742,503	7,554,421	222,242	4,125,413	400,888	18,045,467
Other, net	70,938	—	—	—	—	70,938
Total nonoperating revenues	5,813,441	7,554,421	222,242	4,125,413	400,888	18,116,405
Income (loss) before transfers	(32,417,142)	45,350,660	8,674,727	81,910,850	(1,120,022)	102,399,073
Transfers between funds	45,408,438	(4,240,369)	5,840,375	(50,612,360)	3,603,916	—
Change in net assets	12,991,296	41,110,291	14,515,102	31,298,490	2,483,894	102,399,073
Total net assets, beginning of year	153,984,204	432,728,746	130,502,497	1,402,198,535	—	2,119,413,982
Total net assets, end of year	$ 166,975,500	473,839,037	145,017,599	1,433,497,025	2,483,894	2,221,813,055

See accompanying independent auditors' report.

VIRGINIA HOUSING DEVELOPMENT AUTHORITY
(A Component Unit of the Commonwealth of Virginia)

Combining Schedule of Net Assets

June 30, 2009

Assets	General Operating Accounts	Multi-Family Housing Bond Group	Rental Housing Bond Group	VHDA General Purpose Bond Group	Commonwealth Mortgage Bond Group	Total
Current assets:						
Cash and cash equivalents	$ 322,363,096	—	186,125,168	43,848,011	426,195,493	978,531,768
Investments	7,389,131	—	—	—	—	7,389,131
Interest receivable – investments	413,899	—	77,089	15,389	155,132	661,509
Mortgage loans held for sale	1,671,773	—	—	—	—	1,671,773
Mortgage and other loans receivable	1,709,255	—	53,037,121	23,266,525	74,597,156	152,610,057
Interest receivable – mortgage and other loans	1,075,486	—	15,790,875	2,922,923	19,651,152	39,440,436
Other real estate owned	—	—	23,576,926	1,192,086	11,995,760	36,764,772
Housing Choice Voucher contributions receivable	271,482	—	—	—	—	271,482
Other assets	12,002,090	—	752,520	3,654,847	810,178	17,219,635
Total current assets	346,896,212	—	279,359,699	74,899,781	533,404,871	1,234,560,563
Noncurrent assets:						
Investments	52,252,017	—	30,779,700	905,197	5,449,117	89,386,031
Mortgage and other loans receivable	83,007,238	—	2,696,776,703	528,448,062	4,787,769,202	8,096,001,205
Less allowance for loan loss	3,866,996	—	29,349,190	7,068,481	40,873,539	81,158,206
Less net deferred loan fees	489,064	—	38,726,934	3,528,599	(16,770,927)	25,973,670
Mortgage and other loans receivable, net	78,651,178	—	2,628,700,579	517,850,982	4,763,666,590	7,988,869,329
Investment in rental property, net	771,482	—	15,969,066	4,389,142	—	21,129,690
Property, furniture, and equipment, less accumulated depreciation and amortization of $25,190,157	8,206,870	—	7,010,521	9,237,338	—	24,454,729
Unamortized bond issuance expenses	403,224	—	4,365,062	1,711,119	1,434,297	7,913,702
Other assets	557,791	—	—	9,527	422,560	989,878
Total noncurrent assets	140,842,562	—	2,686,824,928	534,103,305	4,770,972,564	8,132,743,359
Total assets	$ 487,738,774	—	2,966,184,627	609,003,086	5,304,377,435	9,367,303,922

(Continued)

Schedule 4

VIRGINIA HOUSING DEVELOPMENT AUTHORITY
(A Component Unit of the Commonwealth of Virginia)

Combining Schedule of Net Assets

June 30, 2009

Liabilities and Net Assets	General Operating Accounts	Multi-Family Housing Bond Group	Rental Housing Bond Group	VHDA General Purpose Bond Group	Commonwealth Mortgage Bond Group	Total
Current liabilities:						
Notes and bonds payable	$ 122,605,000	—	59,805,000	10,870,000	238,563,820	431,843,820
Accrued interest payable on notes and bonds	12,837	—	38,897,809	9,519,679	66,415,918	114,846,243
Escrows	37,946,204	—	—	—	—	37,946,204
Accounts payable and other liabilities	7,364,446	—	1,280,934	110,307	13,392,919	22,148,606
Total current liabilities	167,928,487	—	99,983,743	20,499,986	318,372,657	606,784,873
Noncurrent liabilities:						
Bonds payable, net	—	—	2,408,304,990	455,419,116	3,581,420,797	6,445,144,903
Project reserves	168,015,080	—	—	—	—	168,015,080
Other liabilities	(2,188,997)	—	25,167,148	2,581,487	2,385,446	27,945,084
Total noncurrent liabilities	165,826,083	—	2,433,472,138	458,000,603	3,583,806,243	6,641,105,067
Total liabilities	333,754,570	—	2,533,455,881	478,500,589	3,902,178,900	7,247,889,940
Net assets:						
Invested in capital assets, net of related debt	7,361,915	—	3,652,389	(8,878,847)	—	2,135,457
Restricted by bond indentures	(15,934)	—	429,076,357	139,381,344	1,402,198,535	1,970,640,302
Unrestricted	146,638,223	—	—	—	—	146,638,223
Total net assets	153,984,204	—	432,728,746	130,502,497	1,402,198,535	2,119,413,982
Total liabilities and net assets	$ 487,738,774	—	2,966,184,627	609,003,086	5,304,377,435	9,367,303,922

See accompanying independent auditors' report.

Schedule 5

VIRGINIA HOUSING DEVELOPMENT AUTHORITY
(A Component Unit of the Commonwealth of Virginia)

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

Year ended June 30, 2009

	General Operating Accounts	Multi-Family Housing Bond Group	Rental Housing Bond Group	VHDA General Purpose Bond Group	Commonwealth Mortgage Bond Group	Total
Operating revenues:						
Interest on mortgage and other loans	$ 4,459,646	36,619,121	154,665,698	38,815,719	283,974,333	518,534,517
Pass-through grants income	69,579,819	—	—	—	—	69,579,819
Housing Choice Voucher program income	61,143,049	—	—	—	—	61,143,049
Investment in rental property income	—	—	11,510,320	2,676,580	—	14,186,900
Gains and recoveries on sale of other real estate owned	850,554	—	421,070	7,959	207,005	1,486,588
Other	6,613,034	37,890	206,514	980,954	44,728	7,883,120
Total operating revenues	142,646,102	36,657,011	166,803,602	42,481,212	284,226,066	672,813,993
Operating expenses:						
Interest on notes and bonds	2,005,470	18,718,568	122,920,752	23,306,883	188,218,652	355,170,325
Salaries and related employee benefits	32,086,533	—	—	—	—	32,086,533
General operating expenses	17,885,133	—	217,226	651,829	—	18,754,188
Note and bond expenses	538,224	—	—	—	—	538,224
Amortization of bond issuance expenses	10,083	62,630	133,834	53,997	158,202	418,746
Pass-through grants expenses	69,579,819	—	—	—	—	69,579,819
Housing Choice Voucher program expenses	70,642,377	—	—	—	—	70,642,377
External mortgage servicing expenses	475	—	—	5,458	1,425,218	1,431,151
Investment in rental property expenses	38,655	—	10,770,655	2,626,607	—	13,435,917
Losses and expenses on other real estate owned	370,313	—	—	991,501	8,597,956	9,959,770
Provision for loan losses	1,992,833	(4,318,555)	16,356,947	3,223,866	7,535,450	24,790,541
Total operating expenses	195,149,915	14,462,643	150,399,414	30,860,141	205,935,478	596,807,591
Operating income (expense)	(52,503,813)	22,194,368	16,404,188	11,621,071	78,290,588	76,006,402
Nonoperating revenues (losses):						
Investment income (loss)	(7,343,559)	2,879,217	(2,894,917)	677,523	8,259,617	1,577,881
Other, net	58,342	—	—	—	—	58,342
Total nonoperating revenues (losses)	(7,285,217)	2,879,217	(2,894,917)	677,523	8,259,617	1,636,223
Income (loss) before transfers	(59,789,030)	25,073,585	13,509,271	12,298,594	86,550,205	77,642,625
Transfers between funds	14,565,780	(293,169,973)	290,800,279	9,462,036	(21,658,122)	—
Change in net assets	(45,223,250)	(268,096,388)	304,309,550	21,760,630	64,892,083	77,642,625
Total net assets, beginning of year	199,207,454	268,096,388	128,419,196	108,741,867	1,337,306,452	2,041,771,357
Total net assets, end of year	$ 153,984,204	—	432,728,746	130,502,497	1,402,198,535	2,119,413,982

See accompanying independent auditors' report.

KPMG LLP
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1021 East Cary Street
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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*

The Board of Commissioners
Virginia Housing Development Authority:

We have audited the basic financial statements of the Virginia Housing Development Authority (the Authority), a component unit of the Commonwealth of Virginia, as of and for the year ended June 30, 2010, and have issued our report thereon dated September 27, 2010. 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 the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing an opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

KPMG LLP is a Delaware limited liability partnership,
the U.S. member firm of KPMG International Cooperative
("KPMG International"), a Swiss entity.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's basic 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 basic 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 solely for the information and use of the Board of Commissioners, the Audit Committee, management, 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 27, 2010

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

(A Component Unit of the Commonwealth of Virginia)

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

December 31, 2010 and 2009

(Unaudited)

VIRGINIA HOUSING DEVELOPMENT AUTHORITY
(A Component Unit of the Commonwealth of Virginia)

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VIRGINIA HOUSING DEVELOPMENT AUTHORITY
(A Component Unit of the Commonwealth of Virginia)

Management's Discussion and Analysis

December 31, 2010 and 2009

(Unaudited)

Management of the Virginia Housing Development Authority (the Authority) offers readers of its financial report this overview and analysis of the Authority's financial performance for the six months ended December 31, 2010 and 2009. Readers are encouraged to consider this information in conjunction with the Authority's financial statements, accompanying footnotes, and supplemental information, which follow this section.

Organization Overview

The Authority is a political subdivision of the Commonwealth of Virginia, created under the Virginia Housing Development Authority Act (the Act) enacted by the General Assembly in 1972, as amended. The Act empowers the Authority to finance the acquisition, construction, rehabilitation, and ownership of affordable housing for home ownership or occupancy by low-or moderate-income Virginians. To raise funds for its mortgage loan operations, the Authority sells tax-exempt and taxable notes and bonds to investors. Such notes, bonds, and other indebtedness are not obligations of the Commonwealth of Virginia (the Commonwealth) and the Commonwealth is not liable for repayments of such obligations. Furthermore, as a self-sustaining organization, the Authority does not draw upon the general taxing authority of the Commonwealth. Operating revenues are generated primarily from interest on mortgage loans, program administration fees, and investment income from bond proceeds and earnings accumulated since inception.

In addition to its major mortgage loan programs, the Authority also administers, on a fee basis, various other programs related to its lending activities. Such programs include the Housing Choice Voucher program, which provides rental subsidies from federal funds, and the federal Low Income Housing Tax Credit program, which awards income tax credits for the purpose of developing low-income multifamily housing projects. The Authority also underwrites Resources Enabling Affordable Community Housing (REACH Virginia) initiatives, in which the interest rates on loans are subsidized by the Authority, principally for the elderly, disabled, homeless, and other low-income persons. The amount of net assets used to provide reduced interest rates on mortgage loans or otherwise subsidize its programs is equal to 15% of the average of the Authority's change in net assets, as unadjusted for the effect of Governmental Accounting Standards Board (GASB) No. 31 *Certain Investments and External Investment Pools*, for the preceding three fiscal years. The Authority may use a higher amount if determined to be appropriate. The amounts made available to provide reduced interest rates on mortgage loans or otherwise provide housing subsidies under its programs are subject to review by the Authority of the impact on its financial position. The Authority finances some, but not all, of such subsidized mortgage loans, in whole or in part, with funds under its various bond resolutions.

Financial Statements

The basic financial statements consist of a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Net Assets, a Statement of Cash Flows and the accompanying notes.

The *Statement of Net Assets* reports all of the Authority's assets and liabilities, both financial and capital, presented in order of liquidity and using the accrual basis of accounting in conformity with U.S. generally accepted accounting principles. The difference between assets and liabilities is presented as net assets, and is displayed in three components: capital assets, net of related debt; restricted net assets; and unrestricted net assets. Net assets are restricted when external constraints are placed upon their use, such as bond indentures, legal agreements or statutes. Over time, changes in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The *Statement of Revenues, Expenses, and Changes in Net Assets* identify all the Authority's revenues and expenses for the reporting period, distinguishing between operating and nonoperating activities. 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 mortgage loans, externally funded programs and other revenue sources.

The *Statement of Cash Flows* provides information about the Authority's cash receipts and cash payments during the reporting period. This statement reports cash transactions, including receipts, payments, and net changes resulting from operations, noncapital financing, capital financing, and investing activities. These statements provide information regarding the sources and uses of cash and the change in cash during the reporting period.

The *Notes to Financial Statements* provide additional information that are essential for understanding financial data that may not be displayed on the face of the financial statements and as such, are an integral part of the Authority's basic financial statements.

Financial Highlights

Overview

The Authority has maintained a stable financial position during a period of continued challenges in the housing industry and broader economy. Programs and services have been primarily aimed toward continued loan availability and down-payment assistance for qualified first time homebuyers, loan loss mitigation, use of GNMA securities and Treasury's New Issue Bond Program as funding sources, and continual review of bond market opportunities. Amid this period of significant transition, economic uncertainty, and major housing finance and policy shift at the national level, the Authority has successfully sustained its services despite limited financing options, rising delinquencies and foreclosures and nominal investment earnings.

The Authority has reviewed its core programs and services to better access cost-effective capital to support its lending programs and assess underwriting risks resulting from market challenges associated with its lending programs. In response to higher loan losses, higher reserve requirements have been established. Since the Authority services all of its single family loans, efforts aimed at working with troubled borrowers and mitigating potential foreclosure losses have been paramount. The Borrower Assistance Program has provided an avenue to prevent foreclosure through loan modification for otherwise responsible borrowers encountering financial hardships beyond their control and has continued to participate in foreclosure prevention awareness initiatives. The Authority's homeownership education, underwriting and loss mitigation practices has also helped restrain delinquency and foreclosure rates below those for Virginia and the nation.

Since its creation in December 2009, the Authority has utilized the Homeownership Mortgage Bond Group to facilitate its participation in to the U. S. Treasury's New Issuance Bond Program, created to assist state and local housing finance agencies in acquiring cost effective capital for mortgage lending. Under this program, the Authority has issued $482.9 million short-term variable rated bonds to Treasury, which represents 60% of the total issue. These amounts are to be held in escrow until converted, no later than December 31, 2011 and upon the issuance of the remaining 40% to the general public. Capital funds raised from this program have helped to sustain the Authority's tax-exempt homeownership mortgage loan production into the next fiscal year.

Operating income for the six months ended December 31, 2010 was $33.6 million, a decrease of $11.1 million from the prior year. With the inclusion of nonoperating income, consisting primarily of investment income, net assets increased for the six months by $37.6 million compared to a $45.8 million increase last year.

Six Months Ended December 31, 2010

Homeownership loan originations totaled 1,468 in the first half of fiscal year (FY) 2011 compared to 2,247 for the same period last year. Since expiration of the federal Homebuyer Tax Credit program, coupled with a prolonged consequence of market aversion to taxable bond resources and conservation of available tax-exempt bond resources, mortgage loan production has decreased.

During the first six months of FY 2011, 556 single-family mortgage loans valued at $85.2 million were securitized by GNMA, bringing the securitized loan total since its inception in May 2009 to $326.3 million.

As of December 31, 2010 the Authority serviced 54,054 first and second homeownership mortgage loans with outstanding balances totaling $5.22 billion. The number of homeownership mortgage loans serviced, net of prepayments, increased 2,030 since December 31, 2009 while the associated outstanding loan balances increased $24.66 million as of the same date. Second mortgage loans accounted for the majority of the increase. The Authority held 302 foreclosed properties with a value of $37.0 million at December 31, 2010 compared to 209 foreclosed properties with a value of $22.5 million at December 31, 2009. Recovery rates averaging 65% and higher, significantly mitigated the impact of loan losses. Delinquency rates on the portfolio loan count of first mortgage loans averaged 10.81% for the first half of FY 2011, compared to 9.43% a year ago. Delinquency rates based on outstanding loan balances averaged 6.38% and 5.57% in the first half of FY 2011 and FY 2010, respectively.

Financing commitments were made for 30 rental housing projects during the first six months of FY 2011, representing 2,196 units totaling $134.09 million, compared to 22 projects and 1,785 units totaling $129.66 million for the same period a year ago. Rental housing development and rehabilitation, driven in part by the recent federal tax credit exchange and assistance programs, as well as tax-exempt and taxable bond sources, has exceeded last year's levels. Also during the first six months, Rental Housing bonds totaling $102.90 million were issued to fund rental housing projects.

As of December 31, 2010 the Authority serviced 1,510 rental mortgage loans with outstanding balances totaling $3.36 billion. Compared to December 31, 2010, the number of loans in the portfolio increased 44 or 3.0% and the loan balances increased $50.48 million or 1.5%. Delinquency rates based on portfolio loan count averaged 2.12% and 1.44% in the first half of FY 2011 and FY 2010, respectively. The average delinquency rates in the first half based on outstanding loan balances were 0.96% or $31.73 million compared to 0.63% or $20.32 million in FY 2010. During the first six months of FY 2011 three foreclosed rental properties were acquired.

Six Months Ended December 31, 2009

Homeownership loan originations totaled 2,247 in the first half of fiscal year (FY) 2010 compared to 2,543 for the same period last year. Mortgage loan production decreased by 296 or 11.6% due to market competition and limited capital available at lendable mortgage rates, brought on primarily from federal government programs to prop up the housing market through purchases of single-family mortgage loans, as well as a general decline in home purchase activity.

During the first half of FY 2010, 1,319 single-family mortgage loans valued at $176.50 million were securitized by GNMA, bringing capital raised from securitized loans to $181.90 million.

As of December 31, 2009, the Authority serviced 51,997 first and second homeownership mortgage loans with outstanding balances totaling $5.19 billion. The number of homeownership mortgage loans serviced, net of prepayments, increased 2,723 since December 31, 2008 while the associated outstanding loan balances increased $28.73 million as of the same date. Second mortgage loans accounted for the majority of the increase. The Authority held 209 foreclosed properties with a value of $22.5 million at December 31, 2009 compared to 87 foreclosed with properties with a value of $10.3 million at December 31, 2008. The recovery rate on foreclosed homes has averaged 75% over the last twelve months. Delinquency rates on the portfolio loan count of first mortgage loans averaged 9.43% for the first half of FY 2010, compared to 6.80% a year ago. Delinquency rates based on outstanding loan balances averaged 5.57% and 2.83% in the first half of FY 2010 and FY 2009, respectively.

Financing commitments were made for 22 rental housing projects during the first six months of FY 2010, representing 1,785 units totaling $129.66 million, compared to 27 projects and 1,155 units totaling $75.36 million for the same period a year ago. Volatility in interest rates coupled with diminishing property available for developing affordable rental housing stock constrained FY 2010 activity.

As of December 31, 2009 the Authority serviced 1,466 rental mortgage loans with outstanding balances totaling $3.31 billion. Compared to December 31, 2008, the number of loans in the portfolio increased 44 or 3.1% and the loan balances increased $123.46 million or 3.9%. Delinquency rates based on portfolio loan count averaged 1.44% and 1.05% in the first half of FY 2010 and FY 2009, respectively. The average delinquency rates in the first half based on outstanding loan balances were 0.63% or $20.32 million compared to 0.19% or $5.90 million in FY 2009.

Financial Analysis of the Authority

Cash is held by the trustees and banks in depository accounts and investments for a variety of purposes, including: debt service reserve funds required by bond indenture, escrow and reserve funds held for the benefit of single-family mortgagors and multi-family projects, funding for new mortgage loan originations, working capital for operating costs of the Authority, governmental funds held for disbursement toward Section 8 projects, and other funds held in a fiduciary capacity to support other housing initiatives. Monies on deposit in Virginia banks are secured under the Virginia Security for Public Deposits Act of the Code of Virginia.

Investment objectives are to invest all monies at favorable rates to maximize returns while maintaining short-term liquidity and to manage investments in a prudent manner to enable the Authority to fulfill its financial commitments. Precautions are taken to minimize the risk associated with investments, including monitoring creditworthiness of the investment, as determined by ratings provided by Standard & Poor's and Moody's, concentration risk, and maturity risk. The Authority does not enter into short sales or futures transactions for which a bona fide hedging purpose has not been established.

Mortgage and other loan receivables represent the Authority's principal asset. Mortgage loans are financed through a combination of proceeds of notes and bonds and net assets accumulated since inception. Mortgage loan payments received from mortgagors are used to pay debt service due on outstanding bonds.

The largest component of the Authority's liabilities is outstanding bonds payable, the majority of which is fixed rate to maturity dates that may extend into the future as much as forty years. The Authority continues to maintain strong long-term ratings of Aa1 from Moody's Investors Services and AA+ from Standard & Poor's Rating Services for its general credit rating as well as all bond indentures other than the Commonwealth Mortgage Bonds indenture, which is rated Aaa and AAA, from Moody's and Standard & Poor's, respectively. Net assets comprise capital assets, net of related debt, and restricted and unrestricted net assets. *Capital assets, net of related debt* represents office buildings, land, furniture and equipment, vehicles and an investment in rental property, less the current outstanding applicable debt. *Restricted net assets* represent the portion of net assets held in trust accounts for the benefit of the respective bond owners, subject to the requirements of the various bond indentures. *Unrestricted net assets* represent a portion of net assets that have been designated for a broad range of initiatives, such as administration of the Housing Choice Voucher program, support for REACH Virginia initiatives, contributions to bond issues and bond reserve funds, working capital, future operating and capital expenditures, and general financial support to the Authority's loan programs.

Condensed Statement of Net Assets

(In millions)

		December 31,		
		2010	**2009**	**2008**
Cash and cash equivalents	$	1,404.7	1,291.1	996.4
Investments		137.5	91.5	203.5
Mortgage loans held for sale		—	62.2	—
Mortgage and other loans receivable, net		7,978.4	8,015.3	8,154.8
Other assets		182.3	152.1	146.7
Total assets		9,702.9	9,612.2	9,501.4
Notes and bonds payable, net		7,087.3	7,080.0	7,054.4
Other liabilities		356.1	367.0	354.7
Total liabilities		7,443.4	7,447.0	7,409.1
Invested in capital assets, net of related debt		(4.4)	7.0	5.2
Restricted by bond indentures		2,103.3	2,000.2	2,072.4
Unrestricted		160.6	158.0	14.7
Net assets	$	2,259.5	2,165.2	2,092.3

December 31, 2010 Compared to December 31, 2009

Total assets increased $90.7 million, or 0.9%, from the prior year. Cash and cash equivalents, and investments, combined, increased $159.6 million, or 11.5% from the prior year. Mortgage and other loans receivables decreased by $36.9 million, or 0.5%. During the first half of FY 2011 there was a $20.3 million increase in the allowance for loan loss in addition to reduced homeownership loan originations.

Total liabilities decreased $3.6 million from the prior year. Notes and bonds payable increased $7.3 million, or 0.1% from the prior year. Over the last twelve months, the Authority issued $229.08 million in single-family

homeownership bonds, $146.65 million in rental housing bonds, and borrowed a net $410.59 million on lines of credit. Under the New Issuance Bond Program, the Authority has converted $265.99 million of the $482.96 million short-term variable rate bonds issued to Treasury. Proceeds from bond issues and lines of credit were a principal source of funding for mortgage loan originations.

Total assets exceeded total liabilities by $2,259.5 million, representing an increase in net assets of $94.3 million, or 4.4% from the prior year. As of December 31, 2010, net assets invested in capital assets, net of related debt, consisted of $47.6 million in investments in rental property, net of depreciation and amortization and $22.4 million in property, furniture, and equipment, net of depreciation and amortization, less related bonds payable of $74.4 million. Net assets restricted by bondholders totaled $2,103.3 million, an increase of $103.1 million, or 5.2% from the prior year. Unrestricted net assets totaled $160.6 million, an increase of $2.6 million or 1.6% from the prior year.

December 31, 2009 Compared to December 31, 2008

Total assets increased $110.8 million, or 1.2%, from the prior year. Cash and cash equivalents, and investments, combined, increased $182.7 million, or 15.2% from the prior year. Mortgage and other loans receivables decreased by $139.5 million, or 1.7%, largely as a result of new homeownership mortgage loans securitized through GNMA.

Total liabilities increased $37.9 million, or 0.5% from the prior year. Notes and bonds payable increased $25.6 million, or 0.4% from the prior year. For the six months ended December 31, 2009, the Authority issued $482.96 million in Homeownership taxable bonds, $51.75 million in Commonwealth tax-exempt bonds, and $101.56 million in Rental Housing tax-exempt bonds. Proceeds from bond issues were a principal source of funding for mortgage loan originations and repayment of short term borrowing.

Total assets exceeded total liabilities by $2,165.2 million, representing an increase in net assets of $72.9 million, or 3.5% from the prior year. As of December 31, 2009, net assets invested in capital assets, net of related debt, consisted of $47.2 million in investments in rental property, net of depreciation and amortization and $24.0 million in property, furniture, and equipment, net of depreciation and amortization, less related bonds payable of $64.2 million. Net assets restricted by bondholders totaled $2,000.2 million, a decrease of $72.2 million, or 3.5% from the prior year. Unrestricted net assets totaled $158.0 million, an increase of $143.3 million from the prior year.

Condensed Statement of Revenues, Expenses and Changes in Net Assets
(In millions)

		Six months ended December 31,		
		2010	**2009**	**2008**
Operating revenues:				
Interest on mortgage and other loans	$	252.1	256.5	258.6
Pass-through grants received		91.2	50.5	34.2
Housing Choice Voucher program income		36.6	33.1	28.2
Other operating revenues		12.5	15.1	10.2
Total operating revenues		392.4	355.2	331.2
Operating expenses:				
Interest on notes and bonds payable		163.4	172.6	174.6
Pass-through grants disbursed		91.2	50.5	34.2
Housing Choice Voucher program expense		34.9	35.2	34.5
Other operating expenses		69.3	52.2	42.4
Total operating expenses		358.8	310.5	285.7
Net operating income		33.6	44.7	45.5
Nonoperating revenues:				
Investment income		4.0	1.1	5.0
Other nonoperating revenues		—	—	—
Total nonoperating revenues		4.0	1.1	5.0
Change in net assets	$	37.6	45.8	50.5

The principal determinants of the Authority's change in net assets (more commonly referred to as excess revenues) are operating revenues less operating expenses plus nonoperating revenues.

Operating revenues consist primarily of interest earnings on mortgage loans and operating expenses consist predominantly of interest expense on notes and bonds payable and operating expenses of the Authority. Nonoperating revenues consist of investment earnings as well as realized and unrealized gains or losses on the sale of investments.

Six months ended December 31, 2010

Operating revenues increased $37.2 million or 10.5% from the prior year. The increase was primarily attributable to federal funding of new tax credit programs in pass-through grants received ($39.5 million). Interest on mortgage and other loans decreased $4.4 million reflecting significantly fewer loan originations held compared to the previous year. Interest revenue as a percent of average loans outstanding was 6.28% compared to 6.34% the previous year.

Operating expenses increased $48.3 million or 15.6% compared to the first half of FY 2010. Interest expense on notes and bonds payable decreased $9.2 million or 5.3% from the prior year. Pass-through grants disbursed

increased $40.7 million due to the Authority's role as administrator for new federal tax credit programs. Loan losses and expenses, included in other operating expenses, increased $14.5 million compared to the same period in FY 2010.

Non-operating revenues increased $2.9 million compared to the prior year, due to lower realized investment losses and higher investment income.

Six Months Ended December 31, 2009

Operating revenues increased $24.0 million or 7.2% from the prior year. The increase was primarily attributable to federal funding of new tax credit programs in Pass-through grants received ($14.6 million), higher federal funding in the Housing Choice Voucher program ($4.9 million), and gains on the securitization of single family mortgage loans ($3.8 million). Interest on mortgage and other loans decreased $2.1 million reflecting lower interest rates which as a percent of average loans outstanding averaged 6.34% compared to 6.46% the previous year.

Operating expenses increased $24.8 million or 8.7% compared to the first half of FY 2009. Interest expense on notes and bonds payable decreased $2.0 million or 1.1% from the prior year. Pass-through grants disbursed increased $16.3 million due to the Authority's role as administrator for new federal tax credit programs. Loan losses and expenses, included in other operating expenses, increased $14.0 million compared to the same period in FY 2009. Conversely, the remaining other operating expenses, primarily administrative costs, decreased $4.2 million.

Non-operating revenues decreased $3.9 million compared to the prior year, due to realized investment losses and reduced investment income resulting from lower interest rates.

Other Economic Factors

The Authority's mortgage loan financing activities are sensitive to the general level of interest rates, the interest rates and other characteristics of the Authority's loans compared to loan products available in the conventional mortgage markets, and the availability of affordable housing in the Commonwealth. The availability of long-term tax-exempt and taxable 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. Short-term investment rates in the United States have declined sharply from approximately 5.0% in July 2007 to less than 0.15% in December 2010.

Delinquency and foreclosure rates in the single family loan portfolio, and to a lesser extent the multifamily loan portfolio, are influenced by unemployment. Virginia's average unemployment rate increased from an average of 6.6% in 2009 to an average of 7.0% in 2010.

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 the Finance Division of the Virginia Housing Development Authority.

VIRGINIA HOUSING DEVELOPMENT AUTHORITY
(A Component Unit of the Commonwealth of Virginia)

Statements of Net Assets

December 31, 2010 and 2009

(Unaudited)

Assets	2010	2009
Current assets:		
Cash and cash equivalents (note 5)	$ 1,404,701,567	1,291,108,335
Investments (note 5)	3,777,815	6,596,971
Interest receivable – investments	796,494	665,695
Mortgage loans held for sale	—	62,168,652
Mortgage and other loans receivable (note 4)	161,481,491	155,833,597
Interest receivable – mortgage and other loans	37,657,813	38,237,815
Housing Choice Voucher contributions receivable (note 1)	73,815	—
Other real estate owned	55,158,641	24,259,698
Other assets	7,381,962	13,374,754
Total current assets	1,671,029,598	1,592,245,517
Noncurrent assets:		
Investments (note 5)	133,699,199	84,940,469
Mortgage and other loans receivable (note 4)	7,969,858,819	7,981,151,282
Less allowance for loan loss	126,739,552	94,484,034
Less net deferred loan fees	26,219,030	27,187,898
Mortgage and other loans receivable, net	7,816,900,237	7,859,479,350
Investment in rental property, net	47,623,569	47,242,495
Property, furniture, and equipment, less accumulated depreciation and amortization of $22,044,820 and $26,311,983 respectively (note 6)	24,496,454	25,045,731
Unamortized bond issuance expenses	6,032,933	7,663,389
Other assets	3,092,436	1,044,978
Total noncurrent assets	8,031,844,828	8,025,416,412
Total assets	$ 9,702,874,426	9,617,661,929
Liabilities and Net Assets		
Current liabilities:		
Notes and bonds payable (note 7)	$ 709,170,154	299,648,856
Accrued interest payable on notes and bonds	102,900,213	111,527,933
Housing Choice Voucher contributions payable	—	5,424,563
Escrows (note 8)	43,840,953	42,265,081
Accounts payable and other liabilities (notes 5 and 9)	10,893,617	11,968,114
Total current liabilities	866,804,937	470,834,547
Noncurrent liabilities:		
Bonds payable, net (note 7)	6,378,155,470	6,780,345,237
Project reserves (notes 8 and 13)	168,653,039	174,764,054
Other liabilities (notes 5, 9, 11, and 13)	29,791,543	26,473,699
Total noncurrent liabilities	6,576,600,052	6,981,582,990
Total liabilities	7,443,404,989	7,452,417,537
Net assets (note 10):		
Invested in capital assets, net of related debt	(4,352,732)	7,025,018
Restricted by bond indentures (note 3)	2,103,252,409	2,000,236,223
Unrestricted	160,569,760	157,983,151
Total net assets	2,259,469,437	2,165,244,392
Total liabilities and net assets	$ 9,702,874,426	9,617,661,929

See accompanying notes to basic financial statements.

VIRGINIA HOUSING DEVELOPMENT AUTHORITY
(A Component Unit of the Commonwealth of Virginia)

Statements of Revenues, Expenses, and Changes in Net Assets

Six months ended December 31, 2010 and 2009

(Unaudited)

	2010	2009
Operating revenues:		
Interest on mortgage and other loans	$ 252,124,749	256,465,698
Pass-through grants income	91,152,344	50,507,265
Housing Choice Voucher program income	36,643,838	33,118,304
Investment in rental property income	6,250,325	6,936,590
Gains and recoveries on sale of other real estate owned	631,141	210,441
Other	5,622,224	8,000,366
Total operating revenues	392,424,621	355,238,664
Operating expenses:		
Interest on notes and bonds	163,407,288	172,644,988
Salaries and related employee benefits (note 11)	15,673,974	14,788,883
General operating expenses	7,973,744	7,296,327
Note and bond expenses	39,005	79,944
Amortization of bond issuance expenses	304,581	260,420
Pass-through grants expenses	91,152,344	50,507,265
Housing Choice Voucher program expenses	34,932,946	35,259,767
External mortgage servicing expenses	529,610	689,605
Investment in rental property expenses	7,304,831	6,085,055
Losses and expenses on other real estate owned	17,209,038	9,543,648
Provision for loan losses	20,250,104	13,404,478
Total operating expenses	358,777,465	310,560,380
Operating income	33,647,156	44,678,284
Nonoperating revenues:		
Investment income (loss) (note 9)	905,244	(18,077,386)
Net increase in fair value of investments	3,106,222	19,206,354
Other, net	(2,240)	23,158
Total nonoperating revenues	4,009,226	1,152,126
Change in net assets	37,656,382	45,830,410
Total net assets, beginning of year	2,221,813,055	2,119,413,982
Total net assets, end of six months	$ 2,259,469,437	2,165,244,392

See accompanying notes to basic financial statements.

VIRGINIA HOUSING DEVELOPMENT AUTHORITY
(A Component Unit of the Commonwealth of Virginia)

Statements of Cash Flows

Six Months Ended December 31, 2010 and 2009

(Unaudited)

	2010	2009
Cash flows from operating activities:		
Cash payments for mortgage and other loans	$ (383,951,046)	(559,378,827)
Principal repayments on mortgage and other loans	326,874,354	424,968,851
Sale of mortgage loans	85,222,185	176,504,444
Interest received on mortgage and other loans	251,906,674	256,684,431
Pass-through grants received	91,152,344	50,507,265
Pass-through grants disbursed	(91,152,344)	(50,507,265)
Housing Choice Voucher payments received	36,562,471	38,814,348
Housing Choice Voucher payments disbursed	(35,152,762)	(35,328,903)
Escrow and project reserve payments received	153,287,094	140,671,143
Escrow and project reserve payments disbursed	(158,531,218)	(129,423,242)
Other operating revenues	10,246,739	11,727,962
Cash received for loan origination fees	1,993,296	5,445,972
Cash paid for loan origination fees	(3,539,123)	(3,856,525)
Cash payments for salaries and related benefits	(17,003,959)	(17,202,469)
Cash payments for general operating expenses	(19,839,789)	(9,752,790)
Cash payments for mortgage servicing expenses	(2,490,437)	(623,743)
Proceeds from sale of other real estate owned	11,368,909	9,163,282
Investment in rental property	8,343,402	(26,330,013)
Net cash provided by operating activities	265,296,790	282,083,921
Cash flows from noncapital financing activities:		
Proceeds from sale of notes and bonds	429,338,000	706,183,000
Principal payments on notes and bonds	(411,966,854)	(505,976,506)
Interest payments on notes and bonds	(161,887,942)	(171,029,333)
Cash payments for bond issuance expenses	(1,826,305)	(2,145,196)
Net cash provided by (used in) noncapital financing activities	(146,343,101)	27,031,965
Cash flows used in capital and related financing activities:		
Purchases of property, furniture, and equipment	(1,345,151)	(2,022,861)
Cash flows from investing activities:		
Purchases of investments	(23,207,561)	(199,312,461)
Proceeds from sales or maturities of investments	88,233,169	202,671,371
Interest received on investments	3,190,395	2,124,632
Net cash provided by investing activities	68,216,003	5,483,542
Net increase in cash and cash equivalents	185,824,541	312,576,567
Cash and cash equivalents, at beginning of year	1,218,877,026	978,531,768
Cash and cash equivalents, at end of six months	$ 1,404,701,567	1,291,108,335

(Continued)

VIRGINIA HOUSING DEVELOPMENT AUTHORITY
(A Component Unit of the Commonwealth of Virginia)

Statements of Cash Flows

Six Months Ended December 31, 2010 and 2009

(Unaudited)

		2010	2009
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	$	33,647,156	44,678,284
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:			
Depreciation of property, furniture, and equipment		1,306,625	1,430,924
Other depreciation and amortization		2,044,845	1,254,971
Interest on notes and bonds		163,407,288	172,677,802
Decrease in investment in rental property, net		(3,056,298)	(27,140,169)
Decrease in mortgage and other loans receivable		78,778,302	51,129,504
Increase in allowance for loan loss		20,250,104	13,325,828
(Increase) decrease in net deferred loan fees		(1,175,882)	1,214,229
Decrease in interest receivable – mortgage and other loans		700,143	1,202,620
(Decrease) increase in other real estate owned		(20,715,712)	12,505,074
(Increase) decrease in Housing Choice Voucher contributions receivable		(81,367)	5,696,045
Decrease in other assets		2,337,511	3,813,873
Decrease in accounts payable and other liabilities		(6,901,801)	(10,952,965)
(Increase) decrease in escrows and project reserves		(5,244,124)	11,247,901
Net cash provided by operating activities	$	265,296,790	282,083,921
Supplemental disclosure of noncash investing activity:			
Increase in other real estate owned as a result of loan foreclosures	$	26,603,875	21,117,043

See accompanying notes to basic financial statements.

(1) Organization and Summary of Significant Accounting Policies

(a) Organization

The Virginia Housing Development Authority (the Authority) was created under the Virginia Housing Development Authority Act, as amended (the Act) enacted by the 1972 Session of the Virginia General Assembly. The Act 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 U.S. generally accepted accounting principles (GAAP). See note 2 for further discussion.

(b) Measurement Focus and Basis of Accounting

The Authority utilizes the economic resources measurement focus and accrual basis of accounting in preparing its basic 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. As provided for in Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the Authority has elected not to apply Financial Accounting Standards Board pronouncements issued after November 30, 1989.

(c) Use of Estimates

The preparation of basic financial statements, in conformity with GAAP, 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 basic 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 market value on the Statements of Net Assets, with changes in fair market value recognized in investment income in the Statements of Revenues, Expenses, and Changes in Net Assets. Fair market value is determined by reference to published market prices and quotations from national security exchanges and securities pricing services.

VIRGINIA HOUSING DEVELOPMENT AUTHORITY
(A Component Unit of the Commonwealth of Virginia)
Notes to Basic Financial Statements
December 31, 2010 and 2009
(Unaudited)

(e) Investment in Rental Property

Investment in rental property represents several multi-family apartment complexes, including the related 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 30 years for buildings, 15 years for building improvements and from 5 to 10 years for furniture and equipment. The investments are carried net of accumulated depreciation of $14,057,392 as of December 31, 2010 and $12,676,282 as of December 31, 2009. These investments are also tested for impairment when triggers are identified.

(f) Mortgage and Other Loans Receivable

Mortgage loans held for sale are recorded at the lower of cost or fair value. These loans are in the process of being transferred to Ginnie Mae in return for investment securities which the Authority intends to sell. Mortgage and other loans receivable are stated at their unpaid principal balance, net of deferred loan fees and costs and an allowance for loan losses. 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 and delinquency statistics, economic conditions, the value and adequacy of collateral, and the current level of the allowance. The provision for loan losses was $20,250,104 and $13,404,477 for the six months ended December 31, 2010 and 2009, respectively.

(h) Property, Furniture, and Equipment

Capital assets are capitalized at cost and depreciation is provided on the straight-line basis over the estimated useful lives, which are 30 years for buildings and from 3 to 10 years for furniture and equipment. The capitalization threshold for property, furniture, and equipment is $1,000.

Effective July 1, 2009 the Authority, in accordance with GASB Statement No. 51 — Accounting and Financial Reporting for Intangible Assets, capitalized certain costs associated with internally developed computer software. Once the software is ready for its intended use, these costs will be amortized on a straight-line basis over the software's expected useful life.

(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 current investments in rental property, acquired primarily 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 Statements 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 unamortized premiums or discounts. Bond premiums and discounts are amortized over the lives of the issues using the interest method. The Authority generally has the right to specially redeem bonds, without premium, upon the occurrence of certain specified events, such as the prepayment of a mortgage loan. The Authority also generally has the right to optionally redeem the various bonds at premiums ranging from 0% to 2%. The optional redemptions generally cannot be exercised until the bonds have been outstanding for approximately ten years. All issues generally have term bonds, which will be subject to partial redemption, without premium, from mandatory sinking fund installments.

(l) ***Retirement Plans***

The Authority has three defined contribution employees' retirement savings plans covering substantially all employees. Retirement expense is fully funded as incurred. To the extent terminating employees are less than 100% vested in the Authority's contributions, the unvested portion is forfeited and redistributed to the remaining participating employees.

The Authority also provides postretirement healthcare benefits under a defined benefit plan to all employees who have met the years of service requirement and who retire from the Authority on or after attaining age 55 or become permanently disabled.

The Authority adopted GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions (OPEB)*, at July 1, 2007. GASB Statement No. 45 provisions consist of standards for the measurement, recognition, and disclosure of OPEB expenses and actuarially accrued liabilities associated with OPEB as well as the extent to which progress has been made in funding the plan. Additional details on the implementation of GASB Statement No. 45 are disclosed in note 12.

(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) ***Pass-Through Revenues and Expenses***

U.S. Department of Housing and Urban Development – Project Based Section 8

As the Commonwealth administrator for the Department of Housing and Urban Development's (HUD) Section 8 New Construction and Substantive Rehabilitation program, the Authority requisitions Section 8 funds, makes disbursements of Housing Assistance Payments (HAP) funds to landlords of eligible multi-family developments, and recognizes administrative fee income. The Authority received and disbursed pass-through grants totaling $36,769,320 and $35,707,001 during the six months ended December 31, 2010 and 2009, respectively.

U.S. Department of Housing and Urban Development – Housing Counseling Assistance Program

The Authority serves as an administrator for twenty eight HUD-approved Housing Counseling Agencies in Virginia. The Housing Counseling Assistance Program provides counseling to consumers on seeking, financing, maintaining, renting, or owning a home. There were $124,844 of Housing Counseling Assistance Program pass-through revenues and expenses during the six months ended December 31, 2010, and $97,840 for the same period a year ago.

U.S. Department of Housing and Urban Development – Tax Credit Assistance Program

The Tax Credit Assistance Program (TCAP) provides grant funding for capital investment in Low Income Housing Tax Credit (LIHTC) projects via a formula-based allocation to State housing credit allocation agencies. The Authority is the housing credit administrator in the Commonwealth. The housing credit agencies in each state distribute these funds competitively and according to their qualified allocation plan. The Authority received and disbursed $14,419,442 of assistance during the six months ended December 31, 2010, and $2,350,000 in the same period a year ago.

NeighborWorks America

The Authority is an administrator for NeighborWorks America, a national nonprofit organization created by Congress to provide financial support, technical assistance, and training for community-based revitalization efforts. Thirteen nonprofit agencies are assisted by NeighborWorks funds administered by the Authority. There were $152,373 of NeighborWorks America pass-through revenues and expenses during the six months ended December 31, 2010 and $94,974 for the same period a year ago.

U. S. Department of the Treasury - Low-Income Housing Grants in Lieu of Tax Credit Allocations for 2009 (Tax Credit Exchange)

As the housing credit administrator for the Commonwealth, the Authority administers the Tax Credit Exchange program which was created by the American Recovery and Reinvestment Act of 2009. Grants are received by the Authority and issued to finance the acquisition or construction of qualified low-income housing projects. The Authority received and disbursed $39,686,365 million of assistance during the six months ended December 31, 2010, and $12,257,451 in the same period a year ago.

(o) ***Housing Choice Voucher Program***

As the Commonwealth administrator for HUD's Section 8 Housing Choice Voucher program, the Authority requisitions Section 8 funds, makes disbursements of HAP funds to eligible tenants, and recognizes administrative fee income.

Upon receipt or disbursement of HAP and administrative funds related to Section 8, corresponding revenues or expenses are recorded in Housing Choice Voucher program income or Housing Choice Voucher program expense in the Statements of Revenues, Expenses and Changes in Net Assets. Housing Choice Voucher contributions receivable are stated at the balance of funds obligated and available from HUD but not yet disbursed to the Authority. Excess HAP or administrative funds disbursed to the Authority are recorded in unrestricted net assets in the Statements of Net Assets. Cumulative excess HAP and administrative funds totaled $4,790,028 and $1,244,685, respectively, as of December 31, 2010 and $1,446,133 and $1,196,192, respectively, as of December 31, 2009. HUD monitors the utilization of these excess funds and adjusts funding levels prospectively to assure all funds are being used to serve as many families up to the number of vouchers authorized by the program.

(p) ***Commonwealth Priority Housing Fund***

The Commonwealth Priority Housing Fund, established by the 1988 Session of the Virginia General Assembly, uses funds provided by the state to provide loans and grants for a wide variety of housing initiatives. The Department of Housing and Community Development develops the program guidelines and the Authority acts as administrator for the Funds. The balances associated with the Commonwealth Priority Housing Fund are recorded in assets and liabilities in the amounts of $8,185,715 and $8,124,975 as of December 31, 2010 and 2009, respectively.

(q) ***Cash Equivalents***

For purposes of the Statements of Cash Flows, cash equivalents consist of investments with original maturities of three months or less from the date of purchase.

(r) ***Rebatable Arbitrage***

Rebatable arbitrage involves the investment of proceeds from the sale of tax-exempt debt in a taxable investment that yields a higher rate than the rate of the debt. This results in investment income in excess of interest costs. Federal law requires such income be rebated to the government if the yield from these earnings exceeds the effective yield on the related tax-exempt debt issued. Arbitrage must be calculated, reported and paid every five years or at maturity of the debt, whichever is earlier. However, the potential liability is calculated annually for financial reporting purposes.

(s) ***Statement of Net Assets***

The assets presented in the Statement of Net Assets represent the total of similar accounts of the Authority's various groups (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. When both restricted and unrestricted resources are available for use, the Authority's policy is to use restricted resources first and thereafter unrestricted resources as needed.

(t) ***Operating and Nonoperating Revenues and Expenses***

The Authority's Statements of Revenues, Expenses, and Changes in Net Assets distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally are a result from financing the acquisition, construction, rehabilitation, and ownership of housing intended for occupancy and ownership, by families of low or moderate income or as a result from the ownership of certain multi-family housing rental properties. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

(u) ***Reclassifications***

Certain reclassifications have been made in the December 31, 2009 basic financial statements to conform to the December 31, 2010 presentation.

(2) Basis of Presentation

The accounts of the Authority are presented in a single proprietary fund set of basic financial statements consisting of various programs. The Authority's activities include the following programs:

(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) ***Rental Housing Bond Group***

The proceeds of the Rental Housing Bonds are used to finance construction and permanent loans on multi-family development projects, as well as, permanent financing for owned rental property.

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

The proceeds of the General Purpose 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, as well as, temporary financing for other real estate owned.

(e) ***Homeownership Mortgage Bond Group***

This bond group was established on December 2, 2009 and encompasses the Authority's participation in the U. S. Department of the Treasury Single Family New Issue Bond Program which

was created to assist state and local housing finance agencies acquire cost-effective mortgage loan capital.

(3) Restricted Assets

Restricted assets are primarily assets held for the benefit of the respective bond owners and include mortgage loans, debt service and debt reserves, and investments. Certain assets are held on behalf of Federal programs or housing initiatives of the Commonwealth.

Restricted assets as of December 31, 2010 and 2009 were as follows:

	December 31, 2010	December 31, 2009
Current assets:		
Cash and cash equivalents	$ 990,560,360	1,239,084,305
Interest receivable – investments	433,627	192,300
Mortgage loans held for sale	—	62,168,652
Mortgage and other loans receivable	159,200,041	153,766,597
Interest receivable – mortgage and other loans	36,512,758	37,313,559
Other real estate owned	54,441,239	22,863,936
Housing Choice Voucher contributions receivable	73,815	—
Other assets	3,259,987	9,487,107
Total current assets	1,244,481,827	1,524,876,456
Noncurrent assets:		
Investments	$ 78,039,280	57,980,359
Mortgage and other loans receivable	7,904,971,499	7,923,134,662
Less allowance for loan loss	119,389,826	91,204,711
Less net deferred loan fees	25,761,370	26,728,430
Mortgage and other loans receivable, net	7,759,820,303	7,805,201,521
Investment in rental property, net	47,623,569	46,480,332
Property, furniture, and equipment, less accumulated depreciation and amortization of $14,602,289 and $13,858,251 respectively	15,473,141	16,221,165
Unamortized bond issuance expenses	5,841,933	7,641,050
Other assets	—	128,339
Total noncurrent assets	7,906,798,226	7,933,652,766
Total assets	$ 9,151,280,053	9,458,529,222

(4) Mortgage and Other Loans Receivable

Substantially all mortgage and other loans receivable are secured by first liens on real property within the Commonwealth. 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
General Operating Accounts	0% to 9.14%	Thirty to forty years
Rental Housing Bond Group	0% to 13.13%	Thirty to forty years
VHDA General Purpose Bond Group	0% to 13.92%	Thirty to forty years
Commonwealth Mortgage Bond Group	1.13% to 13.85%	Thirty years

Commitments to fund new loans and monies available to provide future loans were as follows at December 31, 2010:

	Committed	Uncommitted
General Operating Loan Programs	$ 35,780,010	—
VHDA General Purpose Bond Group	10,139,121	—
Rental Housing Bond Group	93,767,922	—
Commonwealth Mortgage Bond Group	51,455,355	—
Homeownership Bond Group	—	315,579,666
Total	$ 191,142,408	315,579,666

(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, 2010 and 2009, the carrying amount of the Authority's deposits was $45,334,509 and $53,705,599, respectively, and checks drawn in excess of bank balances, included in accounts payable and other liabilities were $29,203 and $495,534, respectively. The associated bank balance of the Authority's deposits was $44,785,494 and $53,576,398 at December 31, 2010 and 2009, respectively. 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 from date of purchase. 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. At December 31, 2010 and 2009, total cash equivalents were $1,359,367,058 and $1,237,392,737, respectively.

Investments are classified in the statements of net assets as follows:

	December 31, 2010	December 31, 2009
Current investments	$ 3,777,815	6,596,971
Noncurrent investments	133,699,199	84,940,469
Total investments	$ 137,477,014	91,537,440

The Investment of Public Funds Act of the Code of Virginia permits political subdivisions of the Commonwealth to invest in open repurchase agreements and money market securities that are collateralized with securities that are approved for direct investment. Within the permitted statutory framework, the Authority's investment policy requires securities collateralizing repurchase agreements to maintain a fair value at least equal to 102% of the cost and accrued interest of the repurchase agreement, and no more than 2% of the Authority's total assets may be invested in any one entity, exclusive of overnight repurchase agreements and short term investments with a maturity not to exceed six months.

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.

(a) Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt instruments will adversely affect the fair value of an investment. Investments with interest rates that are fixed for longer periods are likely to be subject to more variability in their fair values as a result of future changes in interest rates. As a means of communicating interest rate risk, the Authority has elected the segmented time distribution method of disclosure, which requires the grouping of investment cash flows into sequential time periods in tabular form.

As of December 31, 2010, the Authority had the following investments (including cash equivalents) and maturities:

Investment type	Less than 1 year	1 – 5 years	6 – 10 years	Over 10 years	Fair value
Corporate notes	$ —	911,251	—	—	911,251
Municipal securities	7,258,115	6,454,564	—	—	13,712,679
Asset-backed securities	—	—	—	34,537,897	34,537,897
Agency-mortgage backed securities	—	—	—	88,690,187	88,690,187
U S Government & Agency securities	49,966,750	—	—	—	49,966,750
Money market securities	936,251,311	—	—	—	936,251,311
Other interest-bearing securities	372,773,997	—	—	—	372,773,997
Total investments	$ 1,366,250,173	7,365,815	—	123,228,084	1,496,844,072

As of December 31, 2009, the Authority had the following investments (including cash equivalents) and maturities:

Investment type	Less than 1 year	1 – 5 years	6 – 10 years	Over 10 years	Fair value
Corporate notes	$ —	917,766	—	—	917,766
Municipal securities	9,641,249	12,722,966	—	—	22,364,215
Asset-backed securities	—	—	—	38,630,013	38,630,013
Agency-mortgage backed securities	—	—	—	31,010,946	31,010,946
Money market securities	1,233,693,945	—	—	—	1,233,693,945
Other interest-bearing securities	2,313,291	—	—	—	2,313,291
Total investments	$ 1,245,648,485	13,640,732	—	69,640,959	1,328,930,176

(b) *Credit Risk*

Credit risk is the risk that an issuer or other counterparts to an investment will not fulfill its obligations. The Authority places emphasis on securities of high credit quality and marketability. The following table presents investment exposure to credit risk by investment type as of December 31, 2010:

Investment type	Amount	S & P/ Moody's rating	Percentage of total investments
Money Market Securities	$ 936,251,311	P-1	62.55%
Other Interest Bearing Instruments	372,773,997	Aaa	24.90%
Agency Mortgage Backed Securities	88,690,187	Aaa	5.93%
U S Government & Agency Securities	49,966,750	Aaa	3.34%
Asset Backed Securities	15,356,640	Caa1	1.03%
Municipal Securities	4,813,319	Aaa	0.32%
Asset Backed Securities	3,657,660	Ba1	0.24%
Asset Backed Securities	3,379,058	Caa2	0.23%
Asset Backed Securities	3,058,646	Ba2	0.20%
Municipal Securities	2,744,906	Aa1	0.18%
Municipal Securities	2,198,395	Aa2	0.15%
Municipal Securities	2,069,720	A2	0.14%
Asset Backed Securities	1,869,426	Caa3	0.12%
Asset Backed Securities	1,665,640	A2	0.11%
Asset Backed Securities	1,498,329	B3	0.10%
Asset Backed Securities	1,238,741	Baa2	0.08%
Asset Backed Securities	1,223,375	Ca	0.08%
Asset Backed Securities	1,106,366	Aaa	0.07%
Municipal Securities	1,035,580	BBB	0.07%
Corporate Notes	911,251	A2	0.06%
Asset Backed Securities	483,744	Aa3	0.04%
Municipal Securities	375,000	NR	0.03%
Municipal Securities	254,377	Aa3	0.02%
Municipal Securities	221,382	A-	0.01%
Asset Backed Securities	272	C	0.00%
Total investments	$ 1,496,844,072		100.00%

(6) Property, Furniture, and Equipment

Activity in the property, furniture, and equipment accounts for the six months ended December 31, 2010 was as follows:

	Balance June 30, 2010	Additions	Deletions	Transfers	Balance December 31, 2010
Land	$ 2,935,815	—	—	—	2,935,815
Building	30,681,045	(11,959)	—	—	30,669,086
Furniture and equipment	16,873,307	243,176	(6,705,989)	—	10,410,494
Motor vehicles	421,688	—	—	—	421,688
Construction in progress	990,257	1,113,934	—	—	2,104,191
	$ 51,902,112	1,345,151	(6,705,989)	—	46,541,274

Activity in the related accumulated depreciation and amortization accounts during the six months ended December 31, 2010 was as follows:

	Balance June 30, 2010	Additions	Deletions	Balance December 31, 2010
Building	$ (13,615,443)	(380,891)	—	(13,996,334)
Furniture and equipment	(13,503,934)	(900,945)	6,664,094	(7,740,785)
Motor vehicles	(282,912)	(24,789)	—	(307,701)
	$ (27,402,289)	(1,306,625)	6,664,094	(22,044,820)

Activity in the property, furniture, and equipment accounts for the six months ended December 31, 2009 was as follows:

	Balance June 30, 2009	Additions	Deletions	Transfers	Balance December 31, 2009
Land	$ 2,935,815	—	—	—	2,935,815
Building	28,734,001	15,710	—	1,898,797	30,648,508
Furniture and equipment	15,934,392	696,693	(310,033)	—	16,321,052
Motor vehicles	392,118	—	—	—	392,118
Construction in progress	1,648,560	1,310,458	—	(1,898,797)	1,060,221
	$ 49,644,886	2,022,861	(310,033)	—	51,357,714

Activity in the related accumulated depreciation and amortization accounts during the six months ended December 31, 2009 was as follows:

	Balance June 30, 2009	Additions	Deletions	Balance December 31, 2009
Building	$ (12,873,086)	(360,681)	—	(13,233,767)
Furniture and equipment	(12,078,808)	(1,048,661)	309,348	(12,818,121)
Motor vehicles	(238,263)	(21,832)	—	(260,095)
	$ (25,190,157)	(1,431,174)	309,348	(26,311,983)

(7) Notes and Bonds Payable

Notes and bonds payable at June 30, 2010 and December 31, 2010 and changes for the six months were as follows:

Description	Balance at June 30, 2010	Issued	Retired	Balance at December 31, 2010
		(Amounts shown in thousands)		
General operating accounts:				
Revolving line of credit:				
Bank of America floating daily rate (rate of 1.21063 % at December 31, 2010) termination date of December 1, 2011	$ —	40,000	—	40,000
Federal Home Loan Bank floating daily rate (rate of 0.19 % at December 31, 2010) no fixed maturity	327,990	111,443	66,845	372,588
Total general operating accounts	327,990	151,443	66,845	412,588
Rental housing bond group:				
2000 Series A/B, dated May 10, 2000, 5.98% effective interest rate, final due date August 1, 2024	50,910	—	50,910	—
2000 Series C, dated August 3, 2000, 8.18% effective interest rate, final due date April 1, 2024	13,655	—	13,655	—
2000 Series D/E, dated August 3, 2000, 5.98% effective interest rate, final due date April 1, 2024	34,965	—	—	34,965
2000 Series F/G/H, dated October 12, 2000, 6.90% effective interest rate, final due date October 1, 2024	51,895	—	29,495	22,400
2001 Series A/B, dated January 9, 2001, 7.02% effective interest rate, final due date March 1, 2025	50,685	—	—	50,685

Description	Balance at June 30, 2010	Issued	Retired	Balance at December 31, 2010
		(Amounts shown in thousands)		
2001 Series C/D, dated March 22, 2001, 5.87% effective interest rate, final due date June 1, 2024	$ 11,090	—	—	11,090
2001 Series E/F/G, dated April 26, 2001, 5.94% effective interest rate, final due date June 1, 2025	16,010	—	—	16,010
2001 Series H/I, dated July 31, 2001, 6.56% effective interest rate, final due date July 1, 2025	40,855	—	1,605	39,250
2001 Series J/K/L, dated October 23, 2001, 6.06% effective interest rate, final due date December 1, 2025	51,640	—	2,180	49,460
2001 Series M, dated December 18, 2001, 6.78% effective interest rate, final due date January 1, 2027	36,340	—	—	36,340
2001 Series N/O, dated December 18, 2001, 5.40% effective interest rate, final due date January 1, 2027	30,860	—	—	30,860
2002 Series A, dated April 11, 2002, 6.70% effective interest rate, final due date April 1, 2027	20,155	—	—	20,155
2002 Series B, dated April 11, 2002, 5.30% effective interest rate, final due date April 1, 2027	36,650	—	—	36,650
2002 Series C/D, dated June 27, 2002, 6.45% effective interest rate, final due date September 1, 2027	55,665	—	1,750	53,915
2002 Series E/F/G, dated December 19, 2002, 5.45% effective interest rate, final due date January 1, 2028	66,000	—	—	66,000
2003 Series A/B, dated April 24, 2003, 5.04% effective interest rate, final due date June 1, 2028	46,980	—	—	46,980

Description	Balance at June 30, 2010	Issued	Retired	Balance at December 31, 2010
		(Amounts shown in thousands)		
2003 Series C/D, dated August 5, 2003, 3.87% effective interest rate, final due date November 1, 2028	$ 49,330	—	2,875	46,455
2003 Series E, dated Agust 5, 2003, 4.84% effective interest rate, final due date November 1, 2028	67,650	—	3,140	64,510
2003 Series F/G, dated December 23, 2003, 5.42% effective interest rate, final due date April 1, 2030	45,625	—	—	45,625
2004 Series A/B, dated March 17, 2003, 5.25% effective interest rate, final due date March 1, 2030	15,380	—	—	15,380
2004 Series C, dated April 29, 2004, 5.53% effective interest rate, final due date May 1, 2029	65,520	—	—	65,520
2004 Series D/E, dated April 29, 2004, 4.72% effective interest rate, final due date May 1, 2029	46,575	—	—	46,575
2004 Series F/G, dated September 2, 2004, 5.78% effective interest rate, final due date September 1, 2030	51,955	—	1,385	50,570
2004 Series H/I/J, dated December 16, 2004, 5.10% effective interest rate, final due date December 1, 2029	35,600	—	1,035	34,565
2005 Series A, dated April 26, 2005, 5.37% effective interest rate, final due date May 1, 2030	36,540	—	—	36,540
2005 Series B/C, dated April 26, 2005, 4.58% effective interest rate, final due date May 1, 2031	56,490	—	1,200	55,290

Description	Balance at June 30, 2010	Issued	Retired	Balance at December 31, 2010
		(Amounts shown in thousands)		
2005 Series D, dated June 14, 2005, 5.52% effective interest rate, final due date September 1, 2033	$ 39,545	—	910	38,635
2005 Series E/F, dated June 14, 2005, 4.60% effective interest rate, final due date September 1, 2039	43,395	—	760	42,635
2005 Series G, dated October 20, 2005, 5.30% effective interest rate, final due date December 1, 2030	85,875	—	2,490	83,385
2005 Series H/I, dated October 20, 2005, 4.45% effective interest rate, final due date December 1, 2030	36,755	—	1,070	35,685
2005 Series J/K, dated December 14, 2005, 5.30% effective interest rate, final due date February 1, 2035	38,070	—	—	38,070
2006 Series A, dated May 23, 2006, 4.89% effective interest rate, final due date April 1, 2033	8,295	—	—	8,295
2006 Series B, dated October 31, 2006, 4.68% effective interest rate, final due date November 1, 2038	23,000	—	405	22,595
2006 Series C, dated December 12, 2006, 5.95% effective interest rate, final due date January 1, 2039	44,250	—	—	44,250
2006 Series DEF, dated December 12, 2006, 4.52% effective interest rate, final due date January 1, 2039	80,550	—	575	79,975
2007 Series A, dated June 12, 2007, 6.03% effective interest rate, final due date July 1, 2039	118,710	—	1,315	117,395
2007 Series B/C, dated September 20, 2007, 6.16% effective interest rate, final due date November 1, 2038	23,310	—	375	22,935

Description	Balance at June 30, 2010	Issued	Retired	Balance at December 31, 2010
		(Amounts shown in thousands)		
2008 Series A, dated March 27, 2008, 5.63% effective interest rate, final due date October 1, 2038	$ 197,260	—	—	197,260
2009 Series A, dated February 26, 2009, 6.86% effective interest rate, final due date March 1, 2039	72,915	—	—	72,915
2009 Series B, dated March 26, 2009, 5.53% effective interest rate, final due date June 1, 2043	29,050	—	—	29,050
2009 Series CD, dated March 30, 2009, 5.81% effective interest rate, final due date February 1, 2021	348,000	—	—	348,000
2009 Series E, dated September 24, 2009, 4.71% effective interest rate, final due date October 1, 2044.	52,185	—	—	52,185
2009 Series F, dated November 25, 2009, 4.85% effective interest rate, final due date December 1, 2044	49,370	—	—	49,370
2010 Series A, dated March 23, 2010, 4.80% effective interest rate, final due date April 1, 2045	21,005	—	—	21,005
2010 Series B, dated April 27, 2010, 4.74% effective interest rate, final due date June 1, 2045	22,750	—	—	22,750
2010 Series C, dated July 28, 2010, 4.62% effective interest rate, final due date August 1, 2045		11,790	—	11,790
2010 Series D, dated August 26, 2010, 4.30% effective interest rate, final due date September 1, 2040		33,000	—	33,000
2010 Series E, dated October 7, 2010, 4.177% effective interest rate, final due date October 1, 2045		38,405	—	38,405

Description	Balance at June 30, 2010	Issued	Retired	Balance at December 31, 2010
		(Amounts shown in thousands)		
2010 Series F, dated December 2, 2010, 4.85% effective interest rate, final due date January 1, 2041	$ —	19,700	—	19,700
	2,419,310	102,895	117,130	2,405,075
Unamortized premium	4,003			4,402
Total rental housing bonds	2,423,313			2,409,477
VHDA General purpose bonds group:				
2002 Series W, dated October 31, 2002, 5.91% effective interest rate, final due date January 1, 2028	65,260	—	2,100	63,160
2002 Series X/Y/Z, dated October 31, 2002, 4.85% effective interest rate, final due date January 1, 2043	207,440	—	1,465	205,975
2003 Series Q, dated October 30, 2003, 5.65% effective interest rate, final due date October 1, 2028	25,615	—	815	24,800
2003 Series R/S/T/U, dated October 30, 2003 4.66% effective interest rate, final due date October 1, 2038	71,195	—	735	70,460
2003 Series V, dated June 26, 2003 4.32% effective interest rate, final due date October 1, 2029	29,760	—	1,010	28,750
	399,270	—	6,125	393,145
Unamortized premium	1,829			1,992
Total VHDA general purpose bonds	401,099			395,137
Commonwealth mortgage bonds group:				
2001 Series A, dated January 30, 2001, 6.62% effective interest rate, final due date February 25, 2030	2,128	—	91	2,037

Description	Balance at June 30, 2010	Issued	Retired	Balance at December 31, 2010
		(Amounts shown in thousands)		
2001 Series H, dated October 18, 2001, 5.37% effective interest rate, final due date July 1, 2036	$ 205,000	—	—	205,000
2002 Series A, dated January 14, 2002, 6.60% effective interest rate, final due date February 25, 2032	6,043	—	407	5,636
2002 Series B, dated March 20, 2002, 6.15% effective interest rate, final due date August 25, 2030	25,222	—	1,855	23,367
2002 Series CD, dated June 27, 2002, 6.03% effective interest rate, final due date June 25, 2032	6,560	—	691	5,869
2002 Series E/F/G, dated December 17, 2002, 5.13% effective interest rate, final due date December 25, 2032	23,058	—	1,781	21,277
2003 Series C, dated October 1, 2003, 5.09% effective interest rate, final due date August 25, 2033	1,603	—	16	1,587
2004 Series A, dated March 18, 2004, 4.30% effective interest rate, final due date October 1, 2029	122,620	—	6,510	116,110
2004 Series B, dated June 10, 2004, 5.62% effective interest rate, final due date June 25, 2034	6,021	—	478	5,543
2004 Series C, dated November 2, 2004, 4.21% effective interest rate, final due date January 1, 2031	128,920	—	6,380	122,540
2005 Series A, dated April 21, 2005, 4.31% effective interest rate, final due date October 1, 2031	338,910	—	18,300	320,610
2005 Series B, dated April 21, 2005, 4.92% effective interest rate, final due date July 1, 2042	46,120	—	—	46,120

Description	Balance at June 30, 2010	Issued	Retired	Balance at December 31, 2010
		(Amounts shown in thousands)		
2005 Series C/D/E, dated November 3, 2005, 4.41% effective interest rate, final due date October 1, 2032	$ 366,270	—	15,500	350,770
2006 Series AB, dated April 27, 2006, 5.86% effective interest rate, final due date March 25, 2036	8,620	—	619	8,001
2006 Series C, dated June 8, 2006, 6.14% effective interest rate, final due date June 25, 2034	42,889	—	4,060	38,829
2006 Series DEF, dated July 13, 2006 4.59% effective interest rate, final due date January 1, 2033	514,205	—	19,000	495,205
2007 Series ABCD, dated May 18, 2007 4.80% effective interest rate, final due date January 1, 2036	973,095	—	17,455	955,640
2008 Series A, dated March 25, 2008, 6.06% effective interest rate, final due March 25, 2038	78,814	—	6,867	71,947
2008 Series B, dated April 10, 2008, 6.09% effective interest rate, final due date March 25, 2038	117,731	—	10,603	107,128
2008 Series C, dated November 18, 2008, 6.38% effective interest rate, final due date June 25, 2038	45,035	—	3,319	41,716
2008 Series DE, dated December 16, 2008, 6.10% effective interest rate, final due date January 1, 2036	196,135	—	2,935	193,200
2009 Series A, dated November 25, 2009, 4.52% effective interest rate, final due date July 1, 2029	51,750	—	—	51,750
	3,306,749	—	116,867	3,189,882
Unamortized premium	18,604			20,434
Total commonwealth mortgage bonds group	3,325,353			3,210,316

VIRGINIA HOUSING DEVELOPMENT AUTHORITY
(A Component Unit of the Commonwealth of Virginia)
Notes to Basic Financial Statements
December 31, 2010 and 2009
(Unaudited)

Description	Balance at June 30, 2010	Issued	Retired	Balance at December 31, 2010
		(Amounts shown in thousands)		
Homeownership mortgage bonds group:				
2009 Series B, dated December 23, 2009, 0.151% effective interest rate, final due date November 1, 2041	$ 321,970	—	105,000	216,970
2009 Series B-1, dated February 10, 2010, 4.42% effective interest rate, final due date November 1, 2041	160,990	—	—	160,990
2010 Series A, dated February 10, 2010, 3.38% effective interest rate, final due date September 1, 2021	107,330	—	—	107,330
2009 Series B-2, dated October 29, 2010, 3.16% effective interest rate, final due date November 1, 2041		105,000	—	105,000
2010 Series B, dated October 29, 2010, 2.948% effective interest rate, final due date March 1, 2022		70,000	—	70,000
	590,290	175,000	105,000	660,290
Unamortized discount	(452)			(483)
Total homeownership mortgage bonds group	589,838			659,807
Total	$ 7,067,593			7,087,325

Notes and bonds payable at June 30, 2009 and December 31, 2009 and changes for the six months were as follows (amounts in thousands):

	June 30, 2009	Issued	Retired	and compound interest payable	December 31, 2009
General operating accounts	$ 122,605	69,918	190,523	—	2,000
Rental housing bond group	2,468,110	101,555	57,610	415	2,512,470
VHDA General purpose bond group	466,289	—	5,920	277	460,646
Commonwealth mortgage bond group	3,819,985	51,750	251,924	2,107	3,621,918
Homeownership mortgage bond group	—	482,960	—	—	482,960
Total	$ 6,876,989	706,183	505,977	2,799	7,079,994

Current and noncurrent amounts of notes and bonds payable at December 31, 2010 and 2009 were as follows:

	December 31, 2010	December 31, 2009
	(Amount in thousands)	
Notes and bonds payable – current	$ 709,170	299,649
Bonds payable – noncurrent	6,378,155	6,780,345
Total	$ 7,087,325	7,079,994

The Authority has participated in current refundings, in which new debt is issued and the proceeds are used to redeem, generally within ninety days, previously issued debt. Related discounts or premiums previously deferred are recognized in income or expense, respectively. Effective May 1, 2009, all outstanding bonds in the Multi-Family Housing Bond Group were redeemed. The call premium of $3,098,850 less unamortized premiums and cost of issuance on the retired bonds of $999,673, is being amortized through October 2019. There were no refundings for the six months ended December 31, 2010 and $51,750,000 for the six months ended December 31, 2009.

The principal payment obligations and associated interest related to all note and bond indebtedness (excluding the effect of unamortized discounts and premium) commencing January 1, 2011 and thereafter are as follows:

Period ending December 31	Original principal	Current interest	Total debt service
2011	$ 709,170,154	314,214,767	1,023,384,921
2012	287,220,000	302,062,339	589,282,339
2013	275,880,000	290,664,432	566,544,432
2014	272,505,000	279,087,363	551,592,363
2015	270,685,000	267,220,652	537,905,652
2016 - 2020	1,333,700,000	1,146,994,660	2,480,694,660
2021 - 2025	1,100,845,000	832,815,287	1,933,660,287
2026 - 2030	1,062,480,061	553,539,746	1,616,019,807
2031 - 2035	835,573,783	303,867,382	1,139,441,165
2036 - 2040	597,760,955	99,503,625	697,264,580
2041 - 2045	315,160,000	9,650,093	324,810,093
Total	$ 7,060,979,953	4,399,620,346	11,460,600,299

The Homeownership Mortgage Bond Group exists pursuant to the New Issuance Bond Program (NIBP) of the U.S. Treasury, by which the Federal National Mortgage Associations (Fannie Mae) and Federal Home Loan Mortgage Corporation (Freddie Mac), collectively the GSEs, will accept bonds in a principal amount not to exceed 60% of the principal amount of certain bond issues at interest rates that at the time of issuance are either (i) fixed to maturity or (ii) bear a short-term rate that will convert no later than February 1, 2012 to rates fixed to maturity upon the issuance of the remaining 40% of the bond issues solely to the general public at interest rates fixed to maturity, subject to a limitation of three (3) conversions. The Authority received from the Treasury an allocation to sell $482.9 million in principal to the GSEs who will issue and sell securities backed by the bonds to the Treasury in exchange for the funds received. Funds from the Treasury bonds, issued as taxable, short-term variable rate bonds, remain in escrow until such time as tax-exempt fixed rate market bonds are issued, whereupon the Treasury bonds may be converted, in the principal amount of 1.5 times the market bonds principal amount, at a tax-exempt rate fixed to maturity. Provisions of the NIBP program require receipts of principal on mortgage loans originated from bond proceeds be used to redeem the program's bonds, limit the withdrawal of assets from the lien and pledge of the bond resolution, and require proceeds of the variable rate Treasury bonds be exclusively pledged to the Treasury.

The Authority has a $100 million revolving credit agreement with Bank of America to provide funds for general corporate purposes. The agreement will terminate on December 1, 2011 unless extended by Bank of America and the Authority. All amounts outstanding are due and payable on the termination date. Interest on any advances is charged at a rate equal to the daily floating LIBOR rate for deposits with one

month maturity plus 95 basis points per annum, 110 basis points per annum or 125 basis points per annum based upon the Authority's long-term credit ratings of AA or higher, A, or BBB or lower, respectively. All amounts outstanding at a given time are due and payable on the termination date. The Authority is in compliance with all debt covenant requirements. At December 31, 2010 there was $40.0 million outstanding and at December 31, 2009 there was zero outstanding.

The Authority has a $150 million revolving credit agreement with the Bank of Nova Scotia to provide funds for general corporate purposes. The term of the agreement expires on November 28, 2013. Interest on any advances is charged at rate equal to the daily floating LIBOR rate for deposits with one month maturity plus a margin ranging from 25 basis points to 150 basis points, based upon the Authority's long-term credit ratings and the duration outstanding. All amounts outstanding at a given time are due and payable on the termination date. At December 31, 2010 and 2009 there were no amounts outstanding.

The Authority maintains a credit agreement with the Federal Home Loan Bank (FHLB) of Atlanta, whereby FHLB of Atlanta may advance funds that are secured by government agency securities held in FHLB of Atlanta. Interest on any advance is charged under a floating daily rate, which amounted to 0.19% on December 31, 2010 and there is a maximum maturity for any advance of twenty-four months. The Authority is in compliance with all debt covenant requirements. At December 31, 2010, $372.6 million was outstanding and at December 31, 2009 there was $2.0 million outstanding.

(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 (note 12). The Authority invests these funds and, for project reserves, allows earnings to accrue to the benefit of the mortgagor. At December 31, 2010 and 2009, escrows and project reserves were presented in the Authority's statements of net assets as follows:

	December 31, 2010	December 31, 2009
Escrows – current	$ 43,840,953	42,265,081
Project reserves – noncurrent	168,653,039	174,764,054
Total	$ 212,493,992	217,029,135

(9) Investment Income and Arbitrage Liabilities

The amount of investment income the Authority may earn with respect to certain tax-exempt bond issues in the Commonwealth Mortgage Bond Group, Homeownership Bond Group, Multi-Family Housing Bond Group, Rental Housing Bond Group, and VHDA General Purpose Bond Group is limited by certain federal legislations. Earnings in excess of the allowable amount must be rebated to the U.S. Department of the Treasury. These excess earnings are recorded in accounts payable and other liabilities. Rebates paid were $389,133 for the six months ended December 31, 2010 and none for the six months ended December 31,

2009. Remaining liability balances were $2,073,647 and $1,914,190 at December 31, 2010 and 2009, respectively.

(10) 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, 2010 and 2009, such plans included funds to be available for other loans and loan commitments; for 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.

(11) Employee Benefits Plans

The Authority incurs employment retirement savings expense under two defined contribution plans equal to 8% of full-time employees' compensation. Total retirement savings expense for the six months ended December 31, 2010 and 2009 was $881,957 and $839,472 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 basic financial statements.

As of December 31, 2010 and 2009, included in other liabilities is an employee compensated absences accrual of $3,731,908 and $3,367,181, respectively (note 13).

(12) Other Post-Employment Benefits

At the sole discretion of the Authority, eligible employees may participate in the Virginia Housing Development Authority Retiree Health Care Plan (RHC), a single-employer defined benefit plan. The Authority administers the RHC through the Virginia Housing Development Authority Retiree Health Care Plan Trust (RHC Trust), an irrevocable trust to be used solely for providing benefits to eligible participants in the RHC. Assets of the RHC Trust are irrevocable and legally protected from creditors and dedicated to

providing post-employment reimbursement of eligible medical and dental expenses to current and eligible future retirees and their spouses in accordance with the terms of the RHC. Employer contributions are recorded in the year in which they are earned and become measurable. Investments are reported at fair value and are based on published prices and quotations.

Effective January 1, 2006, eligible retirees must be at least 55 years of age with 15 years of service, (or at least 55 years of age with 10 years of service if employed by the Authority prior to such date). RHC participants receive an annual benefit based on age and years of service at retirement and based on a matrix, updated annually for cost-of-living plus 2% not to exceed 150% of the annual premium for preferred provider organization medical plan offered that year if the participant under age 65 or not to exceed 75% or the annual premium if the participant is age 65 or over. The annual benefit may be used to pay for health insurance purchased through the Authority's group plan or elsewhere, and for other eligible medical and dental expenses. For the year ended June 30, 2010, there were approximately 56 participating retirees and spouses and 314 active employees earning service credits in the RHC.

The Authority currently contributes amounts to the RHC Trust sufficient to fully fund the annual required contribution (ARC), an actuarially determined rate in accordance with GAAP. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year plus an amortized amount of unfunded actuarial liabilities (or fund excess) over a period not to exceed thirty years. The ARC for the fiscal year ended June 30, 2010 of $964,000 was approximately 4.3% of covered payroll.

The actuarially determined values for disclosure in accordance with GASB 45 are as follows:

Fiscal year-end	Beginning net OPEB obligation (asset)	ARC	Interest on OPEB liability	ARC adjustment	Amortization factor	Annual OPEB cost
June 30, 2009	$ (29,738)	895,410	(2,082)	2,316	12.84	$ 895,644
June 30, 2010	(106,700)	964,000	(6,625)	5,038	21.04	962,413

The OPEB cost to the Authority and its contributions and changes in the RHC plan for fiscal years 2009 and 2010 are as follows:

Fiscal year-end	Beginning net OPEB obligation (asset)	Annual OPEB cost	Contribution	Change in net OPEB obligation	Net OPEB obligation (asset) balance
June 30, 2009	$ (29,738)	895,644	(971,913)	(76,269)	(106,007)
June 30, 2010	(106,007)	962,413	(895,644)	66,769	(39,238)

For the year ended June 30, 2010, the Authority's Annual OPEB cost was $962,413; the percentage of Annual OPEB Cost Contribution was 100%; and the ending Net OPEB asset was $39,238. For the year

ended June 30, 2009, the Authority's Annual OPEB cost was $895,644; the percentage of Annual OPEB Cost Contribution was 100%; and the ending Net OPEB asset was $106,007.

As of December 31, 2009, the unfunded actuarial accrued liability (UAAL) for benefits was $5,946,864. The covered payroll (annual payroll of active employees covered by the RHC) was $22,527,041 and the ratio of the UAAL to the covered payroll was 26.4%. As of December 31, 2009, the actuarial value of net assets held by the RHC Trust was $10,333,985, the actuarial accrued liability was $16,280,849, and the funded ratio was 63.5%. As of June 30, 2010, the RHC Trust had $9,855,683 in net assets.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Examples include assumptions about mortality and healthcare cost trends. Actuarially determined amounts are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and are subject to continual revisions as actual results are compared with past expectations and revised estimates are made about the future. In the actuarial valuation, the entry age-cost method was used. The actuarial assumptions include a 6.25% long term investment rate of return per annum (compounded annually, that includes a 4.5% inflation rate, 2.5% real rate of return, 4.5% salary scale and a 3.5% salary growth). The projected healthcare cost trend is 10.5% initially, reduced by decrements to an ultimate rate of 5.5% after 10 years. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The unfunded actuarial accrued liability was amortized over 30 years in calculating the 2009-10 fiscal year annual required contribution.

(13) Other Long-Term Liabilities

Activity in the Authority's noncurrent liability accounts, other than bonds payable, for the six months ended December 31, 2010 was as follows:

	Balance at June 30, 2010	Additions	Decreases	Balance at December 31, 2010
Project reserves	$ 174,820,180	44,665,021	50,832,162	168,653,039
Commonwealth Priority Housing Fund liability	8,098,766	40,374	70,336	8,068,804
Other liabilities	16,839,387	7,138,754	5,987,310	17,990,831
Compensated absences payable	3,763,412	1,062,950	1,094,454	3,731,908
Total	$ 203,521,745	52,907,099	57,984,262	198,444,582

Activity in the Authority's noncurrent liability accounts, other than bonds payable, for the six months ended December 31, 2009 was as follows:

	Balance at June 30, 2009	Additions	Decreases	Balance at December 31, 2009
Project reserves	$ 168,015,080	36,537,726	29,788,752	174,764,054
Commonwealth Priority Housing Fund liability	8,197,185	11,689	659,672	7,549,202
Other liabilities	16,195,980	1,056,250	1,694,913	15,557,317
Compensated absences payable	3,551,919	748,187	932,926	3,367,180
Total	$ 195,960,164	38,353,852	33,076,263	201,237,753

(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 basic financial statements of the Authority.

The Authority participates in several Federal financial assistance programs, principal of which is the HUD Section 8 programs. 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, 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.

The Authority is exposed to various risks of loss such as theft of, damage to, and destruction of assets, injuries to employees, and natural disasters. The Authority carries commercial insurance for their risks. There have been no significant reductions in insurance coverage from coverage in the prior year, and settled claims have not exceeded the amount of insurance coverage in any of the past three fiscal years.

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Schedule 1

VIRGINIA HOUSING DEVELOPMENT AUTHORITY
(A Component Unit Of The Commonwealth of Virginia)

Required Supplementary Information

Retiree Healthcare Plan Schedule of Funding Progress by Plan Valuation Date

(Unaudited)

Actuarial valuation date	Actuarial value of assets	Actuarial accrued liability	Unfunded actuarial accrued liability	Funded ratio	Covered payroll	Unfunded as a percent of covered payroll
December 31, 2007	$ 8,631,596	10,747,191	2,115,595	80.3%	$ 20,479,198	10.3%
December 31, 2008	7,880,680	12,016,655	4,135,976	65.6%	21,830,868	18.9%
December 31, 2009	10,333,985	16,280,849	5,946,864	63.5%	22,527,041	26.4%

The required schedule of funding progress presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. As of December 31, 2009, the unfunded actuarial accrued liability (UAAL) for benefits was $5,946,864. The covered payroll (annual payroll of active employees covered by the RHC) was $22,527,041 and the ratio of the UAAL to the covered payroll was 26.4%. The Authority established the RHC Trust fund in November 2006 and as of the actuarial valuation date of December 31, 2009, the actuarial value of net assets held by the RHC Trust was $10,333,985, the actuarial accrued liability was $16,280,849 and the funded ratio was 63.5%. As of June 30, 2010, the RHC Trust had $9,855,683 in net assets.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Examples include assumptions about mortality and healthcare cost trends. Actuarially determined amounts are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and are subject to continual revisions as actual results are compared with past expectations and revised estimates are made about the future. In the actuarial valuation, the entry age-cost method was used. The actuarial assumptions include a 6.25% long term investment rate of return per annum (compounded annually, that includes a 4.5% inflation rate, 2.5% real rate of return, 4.5% salary scale and a 3.5% salary growth). The projected healthcare cost trend is 10.5% initially, reduced by decrements to an ultimate rate of 5.5% after 10 years. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The unfunded actuarial accrued liability was amortized over 30 years in calculating the 2009-10 fiscal year annual required contribution.

VIRGINIA HOUSING DEVELOPMENT AUTHORITY
(A Component Unit of the Commonwealth of Virginia)

Combining Schedule of Net Assets

December 31, 2010

(Unaudited)

Assets	General Operating Accounts	Rental Housing Bond Group	VHDA General Purpose Bond Group	Commonwealth Mortgage Bond Group	Home-ownership Bond Group	Total
Current assets:						
Cash and cash equivalents	$ 625,757,572	173,641,240	50,908,275	180,162,240	374,232,240	1,404,701,567
Investments	3,777,815	—	—	—	—	3,777,815
Interest receivable – investments	365,012	49,849	22,658	312,404	46,571	796,494
Mortgage loans held for sale	—	—	—	—	—	—
Mortgage and other loans receivable	2,281,450	57,209,444	22,715,894	74,806,909	4,467,794	161,481,491
Interest receivable – mortgage and other loans	1,183,810	16,416,644	2,788,178	16,366,640	902,541	37,657,813
Housing Choice Voucher contributions receivable	73,815	—	—	—	—	73,815
Other real estate owned	717,402	17,376,993	2,438,879	34,625,367	—	55,158,641
Other assets	4,856,894	289,453	201,983	2,033,632	—	7,381,962
Total current assets	639,013,770	264,983,623	79,075,867	308,307,192	379,649,146	1,671,029,598
Noncurrent assets:						
Investments	68,774,160	273	911,250	64,013,516		133,699,199
Mortgage and other loans receivable	80,042,238	2,827,987,947	483,681,835	4,292,669,181	285,477,618	7,969,858,819
Less allowance for loan loss	7,349,726	52,588,731	17,742,773	48,547,573	510,749	126,739,552
Less net deferred loan fees	470,993	41,137,851	3,492,513	(16,912,255)	(1,970,072)	26,219,030
Mortgage and other loans receivable, net	72,221,519	2,734,261,365	462,446,549	4,261,033,863	286,936,941	7,816,900,237
Investment in rental property, net	—	42,653,509	4,970,060	—	—	47,623,569
Property, furniture, and equipment, less accumulated depreciation and amortization of $22,044,820	9,269,198	6,684,682	8,542,574	—	—	24,496,454
Unamortized bond issuance expenses	191,000	2,268,610	1,398,258	1,231,565	943,500	6,032,933
Other assets	3,092,436	—	—	—	—	3,092,436
Total noncurrent assets	153,548,313	2,785,868,439	478,268,691	4,326,278,944	287,880,441	8,031,844,828
Total assets	$ 792,562,083	3,050,852,062	557,344,558	4,634,586,136	667,529,587	9,702,874,426

(Continued)

VIRGINIA HOUSING DEVELOPMENT AUTHORITY
(A Component Unit of the Commonwealth of Virginia)

Combining Schedule of Net Assets

December 31, 2010

(Unaudited)

Liabilities and Net Assets	General Operating Accounts	Rental Housing Bond Group	VHDA General Purpose Bond Group	Commonwealth Mortgage Bond Group	Home-ownership Bond Group	Total
Current liabilities:						
Notes and bonds payable	$ 412,588,000	82,810,000	11,390,000	188,882,154	13,500,000	709,170,154
Accrued interest payable on notes and bonds	52,757	35,989,282	8,243,235	56,434,979	2,179,960	102,900,213
Escrows	43,840,953	—	—	—		43,840,953
Accounts payable and other liabilities	4,692,520	454,069	143,191	5,603,837		10,893,617
Total current liabilities	461,174,230	119,253,351	19,776,426	250,920,970	15,679,960	866,804,937
Noncurrent liabilities:						
Bonds payable, net	—	2,326,667,245	383,747,264	3,021,433,782	646,307,179	6,378,155,470
Project reserves	168,653,039	—	—	—		168,653,039
Other liabilities	(5,095,322)	30,234,790	4,146,164	505,911		29,791,543
Total noncurrent liabilities	163,557,717	2,356,902,035	387,893,428	3,021,939,693	646,307,179	6,576,600,052
Total liabilities	624,731,947	2,476,155,386	407,669,854	3,272,860,663	661,987,139	7,443,404,989
Net assets:						
Invested in capital assets, net of related debt	7,192,374	(4,175,661)	(7,369,445)	—		(4,352,732)
Restricted by bond indentures	68,002	578,872,337	157,044,149	1,361,725,473	5,542,448	2,103,252,409
Unrestricted	160,569,760	—	—	—		160,569,760
Total net assets	167,830,136	574,696,676	149,674,704	1,361,725,473	5,542,448	2,259,469,437
Total liabilities and net assets	$ 792,562,083	3,050,852,062	557,344,558	4,634,586,136	667,529,587	9,702,874,426

See accompanying notes to financial statements.

Schedule 3

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

(A Component Unit of the Commonwealth of Virginia)

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

Six months ended December 31, 2010

(Unaudited)

	General Operating Accounts	Rental Housing Bond Group	VHDA General Purpose Bond Group	Commonwealth Mortgage Bond Group	Home-ownership Bond Group	Total
Operating revenues:						
Interest on mortgage and other loans	$ 1,310,477	100,871,317	17,578,863	125,738,041	6,626,051	252,124,749
Pass-through grants income	91,152,344	—	—	—	—	91,152,344
Housing Choice Voucher program income	36,643,838	—	—	—	—	36,643,838
Investment in rental property income	—	4,899,109	1,351,216	—	—	6,250,325
Gains and recoveries on sale of other real estate owned	—	—	3,996	627,145	—	631,141
Other	3,514,360	904,689	478,749	724,426	—	5,622,224
Total operating revenues	132,621,019	106,675,115	19,412,824	127,089,612	6,626,051	392,424,621
Operating expenses:						
Interest on notes and bonds	545,185	67,270,974	9,895,838	79,563,973	6,131,318	163,407,288
Salaries and related employee benefits	15,673,974	—	—	—	—	15,673,974
General operating expenses	7,633,206	108,613	231,925	—	—	7,973,744
Note and bond expenses	39,005	—	—	—	—	39,005
Amortization of bond issuance expenses	24,292	202,531	23,166	41,391	13,201	304,581
Pass-through grants expenses	91,152,344	—	—	—	—	91,152,344
Housing Choice Voucher program expenses	34,932,946	—	—	—	—	34,932,946
External mortgage servicing expenses	151,312	—	3,658	374,640	—	529,610
Investment in rental property expenses	-	5,432,180	1,872,651	—	—	7,304,831
Losses and expenses on other real estate owned	43,255	4,482,941	726,091	11,956,751	—	17,209,038
Provision for loan losses	4,075,402	7,401,304	5,698,888	2,869,665	204,845	20,250,104
Total operating expenses	154,270,921	84,898,543	18,452,217	94,806,420	6,349,364	358,777,465
Operating income (expense)	(21,649,902)	21,776,572	960,607	32,283,192	276,687	33,647,156
Nonoperating revenues (losses):						
Investment income (loss)	(2,808,864)	4,907,911	76,591	1,472,563	363,265	4,011,466
Other, net	(2,240)	—	—	—	—	(2,240)
Total nonoperating revenues (losses)	(2,811,104)	4,907,911	76,591	1,472,563	363,265	4,009,226
Income (loss) before transfers	(24,461,006)	26,684,483	1,037,198	33,755,755	639,952	37,656,382
Transfers between funds	25,315,642	74,173,156	3,619,907	(105,527,307)	2,418,602	—
Change in net assets	854,636	100,857,639	4,657,105	(71,771,552)	3,058,554	37,656,382
Total net assets, beginning of year	166,975,500	473,839,037	145,017,599	1,433,497,025	2,483,894	2,221,813,055
Total net assets, end of six months	$ 167,830,136	574,696,676	149,674,704	1,361,725,473	5,542,448	2,259,469,437

See accompanying notes to financial statements.

VIRGINIA HOUSING DEVELOPMENT AUTHORITY
(A Component Unit of the Commonwealth of Virginia)

Combining Schedule of Net Assets

December 31, 2009

(Unaudited)

Assets	General Operating Accounts	Rental Housing Bond Group	VHDA General Purpose Bond Group	Commonwealth Mortgage Bond Group	Home-ownership Bond Group	Total
Current assets:						
Cash and cash equivalents	$ 250,818,416	190,925,248	61,296,401	305,082,325	482,985,945	1,291,108,335
Investments	6,596,971	—	—	—	—	6,596,971
Interest receivable – investments	474,818	77,688	22,242	90,947	—	665,695
Mortgage loans held for sale	2,731,041	—	—	59,437,611	—	62,168,652
Mortgage and other loans receivable	2,067,000	54,444,459	23,473,745	75,848,393	—	155,833,597
Interest receivable – mortgage and other loans	958,386	16,505,662	2,764,939	18,008,828	—	38,237,815
Other real estate owned	1,395,762	312,000	2,073,468	20,478,468	—	24,259,698
Other assets	7,399,688	743,803	3,432,976	1,798,287	—	13,374,754
Total current assets	272,442,082	263,008,860	93,063,771	480,744,859	482,985,945	1,592,245,517
Noncurrent assets:						
Investments	57,536,534	22,371,964	917,766	4,114,205	—	84,940,469
Mortgage and other loans receivable	68,639,886	2,774,400,085	516,119,959	4,621,991,352	—	7,981,151,282
Less allowance for loan loss	3,279,323	38,778,713	9,670,162	42,755,836	—	94,484,034
Less net deferred loan fees	459,468	39,624,867	3,824,603	(16,721,040)	—	27,187,898
Mortgage and other loans receivable, net	64,901,095	2,695,996,505	502,625,194	4,595,956,556	—	7,859,479,350
Investment in rental property, net	762,163	41,268,541	5,211,791	—	—	47,242,495
Property, furniture, and equipment, less accumulated depreciation and amortization of $26,311,983	9,137,386	6,901,908	9,006,437	—		25,045,731
Unamortized bond issuance expenses	22,339	3,841,548	1,684,120	1,406,782	708,600	7,663,389
Other assets	657,891	—	9,527	377,560	—	1,044,978
Total noncurrent assets	133,017,408	2,770,380,466	519,454,835	4,601,855,103	708,600	8,025,416,412
Total assets	$ 405,459,490	3,033,389,326	612,518,606	5,082,599,962	483,694,545	9,617,661,929

(Continued)

VIRGINIA HOUSING DEVELOPMENT AUTHORITY
(A Component Unit of the Commonwealth of Virginia)

Combining Schedule of Net Assets

December 31, 2009

(Unaudited)

Liabilities and Net Assets	General Operating Accounts	Rental Housing Bond Group	VHDA General Purpose Bond Group	Commonwealth Mortgage Bond Group	Home-ownership Bond Group	Total
Current liabilities:						
Notes and bonds payable	$ 2,000,000	101,100,000	11,075,000	185,473,856	—	299,648,856
Accrued interest payable on notes and bonds	16	39,747,079	9,434,579	62,330,314	15,945	111,527,933
Housing Choice Voucher contributions payable	5,424,563	—	—	—	—	5,424,563
Escrows	42,265,081	—	—	—	—	42,265,081
Accounts payable and other liabilities	6,564,050	944,926	97,748	4,361,390	—	11,968,114
Total current liabilities	56,253,710	141,792,005	20,607,327	252,165,560	15,945	470,834,547
Noncurrent liabilities:						
Bonds payable, net	—	2,411,369,821	449,570,731	3,436,444,685	482,960,000	6,780,345,237
Project reserves	174,764,054	—	—	—	—	174,764,054
Other liabilities	(6,414,363)	27,971,210	3,368,053	1,548,799	—	26,473,699
Total noncurrent liabilities	168,349,691	2,439,341,031	452,938,784	3,437,993,484	482,960,000	6,981,582,990
Total liabilities	224,603,401	2,581,133,036	473,546,111	3,690,159,044	482,975,945	7,452,417,537
Net assets:						
Invested in capital assets, net of related debt	8,839,329	5,900,049	(7,714,360)	—	—	7,025,018
Restricted by bond indentures	14,033,609	446,356,241	146,686,855	1,392,440,918	718,600	2,000,236,223
Unrestricted	157,983,151	—	—	—	—	157,983,151
Total net assets	180,856,089	452,256,290	138,972,495	1,392,440,918	718,600	2,165,244,392
Total liabilities and net assets	$ 405,459,490	3,033,389,326	612,518,606	5,082,599,962	483,694,545	9,617,661,929

See accompanying notes to financial statements.

Schedule 3

VIRGINIA HOUSING DEVELOPMENT AUTHORITY
(A Component Unit of the Commonwealth of Virginia)
Combining Schedule of Revenues, Expenses, and Changes in Net Assets
Six months ended December 31, 2009
(Unaudited)

	General Operating Accounts	Rental Housing Bond Group	VHDA General Purpose Bond Group	Commonwealth Mortgage Bond Group	Home-ownership Bond Group	Total
Operating revenues:						
Interest on mortgage and other loans	$ 1,522,969	98,300,944	19,067,279	137,574,506	—	256,465,698
Pass-through grants income	50,507,265	—	—	—	—	50,507,265
Housing Choice Voucher program income	33,118,304	—	—	—	—	33,118,304
Investment in rental property income	—	5,625,596	1,310,994	—	—	6,936,590
Gains and recoveries on sale of other real estate owned	(1)	—	3,018	207,424	—	210,441
Other	4,002,628	277,366	493,484	3,226,888	—	8,000,366
Total operating revenues	89,151,165	104,203,906	20,874,775	141,008,818	—	355,238,664
Operating expenses:						
Interest on notes and bonds	100,698	70,746,867	11,455,379	90,326,099	15,945	172,644,988
Salaries and related employee benefits	14,788,883	—	—	—	—	14,788,883
General operating expenses	6,955,797	108,613	231,917	—	—	7,296,327
Note and bond expenses	79,944	—	—	—	—	79,944
Amortization of bond issuance expenses	30,250	96,608	26,999	104,703	1,860	260,420
Pass-through grants expenses	50,507,265	—	—	—	—	50,507,265
Housing Choice Voucher program expenses	35,259,767	—	—	—	—	35,259,767
External mortgage servicing expenses	23,801	—	5,691	660,113	—	689,605
Investment in rental property expenses	10,181	5,079,381	995,493	—	—	6,085,055
Losses and expenses on other real estate owned	(63)	—	956,286	8,587,425	—	9,543,648
Provision for loan losses	(525,333)	9,445,833	2,601,681	1,882,297	—	13,404,478
Total operating expenses	107,231,190	85,477,302	16,273,446	101,560,637	17,805	310,560,380
Operating income (expense)	(18,080,025)	18,726,604	4,601,329	39,448,181	(17,805)	44,678,284
Nonoperating revenues (losses):						
Investment income (loss)	(2,450,097)	2,479,403	111,677	972,040	15,945	1,128,968
Other, net	23,158	—	—	—	—	23,158
Total nonoperating revenues (losses)	(2,426,939)	2,479,403	111,677	972,040	15,945	1,152,126
Income (loss) before transfers	(20,506,964)	21,206,007	4,713,006	40,420,221	(1,860)	45,830,410
Transfers between funds	47,378,849	(1,678,463)	3,756,992	(50,177,838)	720,460	—
Change in net assets	26,871,885	19,527,544	8,469,998	(9,757,617)	718,600	45,830,410
Total net assets, beginning of year	153,984,204	432,728,746	130,502,497	1,402,198,535	—	2,119,413,982
Total net assets, end of six months	$ 180,856,089	452,256,290	138,972,495	1,392,440,918	718,600	2,165,244,392

See accompanying notes to financial statements.

APPENDIX F

SUMMARY OF CONTINUING DISCLOSURE AGREEMENT

Certain provisions of the Continuing Disclosure Agreement, as amended, between the Authority and the Trustee (the "Continuing Disclosure Agreement") applicable to the Offered Bonds 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. This summary does not apply to Subject Bonds issued prior to December 1, 2010.

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

Certain Definitions

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

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

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

"Bonds" means, at any time, all of the Authority's then Outstanding Homeownership Mortgage Bonds, collectively.

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

"Holders" means the registered owners of the Subject Bonds.

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

"Obligated Person" means any person, including the Authority, who is either generally or through an enterprise, fund or account of such person committed by contract or other arrangement to support payment of all or part of the obligations on any Subject Bonds to be sold in an offering (other than providers of municipal bond insurance, letters of credit, or other liquidity facilities). The term "Obligated Person" shall not include the mortgagor of any Mortgage Loan.

"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.

"Subject Bonds" means those Bonds which are expressly made subject to the Continuing Disclosure Agreement in the Authority documents related to the issuance of such Bonds.

Provision of Annual Financial Information

The Authority will, not later than 180 days after the end of the Authority's Fiscal Year, provide to the MSRB the Annual Financial Information.

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

Content of Annual Financial Information

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

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

(b) the 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;

(c) the delinquency status of single family mortgage loans originated under the Authority's bond financed single family programs, including, the outstanding balance of such mortgage loans, the outstanding balance of such mortgage loans that are delinquent, the percentage of delinquent mortgage loans, the outstanding balance of such mortgage loans in foreclosure, and the percentage of such mortgage loans in foreclosure;

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

(e) 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;

(f) the percentages of outstanding principal balance of bond financed single family mortgage loans, by primary insurance provider; and

(g) the percentage of the Authority's bond financed single family mortgage loan portfolio serviced by the Authority, overall and newly originated, and the remaining percentage of such portfolio serviced by its principal external servicers.

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

Any of the items (b) through (g) above will not be provided separately if included in the Authority's financial statements. In addition, any or all of the items listed above may be included by specific reference to documents, including official statements of debt issues of the Authority or related public entities, previously either (i) provided to the MSRB, or (ii) filed with the SEC (if such document is a final official statement 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 (g) above, the Authority's Annual Financial Information shall include information regarding amendments to the Continuing Disclosure Agreement as described below in the last two paragraphs under the heading "Amendment of Continuing Disclosure Agreement."

Reporting of Significant Events

The Authority will give notice, in a timely manner not in excess of ten business days after the occurrence of an event, to the MSRB of the occurrence of any of the following events with respect to the Subject Bonds:

(i) principal and interest payment delinquencies;

(ii) non-payment related defaults, if material;

(iii) unscheduled draws on debt service reserves reflecting financial difficulties;

(iv) unscheduled draws on credit enhancements reflecting financial difficulties;

(v) substitution of credit or liquidity providers, or their failure to perform;

(vi) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status (if applicable) of any Subject Bonds, or other material events affecting the tax status of any Subject Bonds;

(vii) modifications to rights of Holders, if material;

(viii) Subject Bond calls, if material, and tender offers;

(ix) defeasances;

(x) release, substitution, or sale of property securing repayment of the Subject Bonds, if material;

(xi) rating changes;

(xii) bankruptcy, insolvency, receivership or similar event of the Obligated Person;

(xiii) the consummation of a merger, consolidation, or acquisition involving an Obligated Person or the sale of all or substantially all of the assets of the Obligated Person, other than in the ordinary course

of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and

(xiv) appointment of a successor or additional trustee or the change of name of a trustee, if material.

For the purposes of the event identified in clause (xii) above, the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the Obligated Person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or government authority has assumed jurisdiction over substantially all of the assets or business of the Obligated Person, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Obligated Person.

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

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

Amendment of Continuing Disclosure Agreement

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

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

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

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

Enforcement

The obligation of the Authority to comply with the provisions of the Continuing Disclosure Agreement are enforceable (i) in the case of enforcement of obligations to provide financial statements, financial information, operating data and notices, by any Beneficial Owner of Outstanding Subject Bonds, or by the Trustee on behalf of the Holders of Outstanding Subject Bonds, or (ii), in the case of challenges to the adequacy of the financial statements, financial information and operating data so provided, by the Trustee on behalf of the Holders of Outstanding Subject Bonds or by any Beneficial Owner; provided, however, that a Beneficial Owner may not take any enforcement action pursuant to clause (ii) without the consent of the Holders of not

less than 25% in aggregate principal amount of the Subject Bonds at the time Outstanding; provided, further, that the Trustee shall not be required to take any enforcement action except at the direction of the Holders of not less than 25% in aggregate principal amount of the Subject Bonds at the time Outstanding who shall have provided the Trustee with adequate security and indemnity. The Holders', the Beneficial Owners' and the Trustee's right to enforce the provisions of the Continuing Disclosure Agreement are limited to a right, by action in mandamus or for specific performance, to compel performance of the Authority's obligations under the Continuing Disclosure Agreement. Any failure by the Authority or the Trustee to perform in accordance with the Continuing Disclosure Agreement will not constitute a default or any Event of Default under the Bond Resolution, and the rights and remedies provided by the Bond Resolution upon the occurrence of a default or an Event of Default will not apply to any such failure.

Termination

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

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

Manner of Reporting

All notices and filings required to be made to the MSRB hereunder shall be made in the manner prescribed by 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 G

INFORMATION CONCERNING FEDERAL MULTI-FAMILY PROGRAMS AND REQUIREMENTS

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

FHA Insurance Program

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

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

Section 8 Program

The Housing and Community Development Act of 1974 amended Section 8 of the United States Housing Act of 1937 so as to establish a federal assistance program which was the primary source of federal housing assistance for developments of the type which the Authority financed under the Program.

HUD has issued special regulations for state housing finance and development agencies ("HFAs") such as the Authority. With respect to developments to be permanently financed by the Authority without federal mortgage insurance, the Section 8 regulations give the Authority a high degree of program responsibility – e.g., selection of the developer (either by advertising or negotiation), approval of design and construction quality, site selection, economic feasibility and marketability.

Subsidy Contracts

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

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

Initial Amount of Subsidy

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

The amount of the subsidy actually payable to the Authority for the account of the mortgagor is the Contract Rent less the payment made to the mortgagor by the tenant. The proportion of the Contract Rent paid by HUD and that paid by tenants will vary from month to month depending upon tenant income. The method of computation of the tenant's payment is

determined by HUD regulation and is subject to change. Subject to certain exceptions for the elderly, disabled, and low-income wage earners, each tenant is required to pay a minimum rent of $25 per month.

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

Tenants Eligible for Housing Assistance Payments

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

Limitation on Subsidy – Vacancies

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

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

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

Adjustments of Contract Rents

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

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

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

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

Funding of Increases in Subsidy

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

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

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

Payment of Subsidy

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

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

Compliance with Subsidy Contracts

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

Administration of Subsidy for Certain FHA Mortgage Loans

On some of the FHA mortgage loans, the Authority will not administer the Section 8 subsidy in the manner described above. Any failure to make full and timely payment on such mortgage loans shall, subject to and in accordance with the

conditions described above under "FHA Insurance Program", provide a basis for a claim for payment of FHA mortgage insurance benefits.

Low Income Housing Tax Credit Program

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

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

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

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

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

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

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

The agreements contain several covenants of the mortgagor, including among other things that (1) the mortgagor has established, "basic rents" computed assuming a mortgage loan interest rate of 1% per annum and "fair market rents" (unsubsidized) for each subsidized dwelling unit, (2) the rent for each subsidized dwelling unit, including all utilities except telephone, will be equal to 30% of the tenant's adjusted income or the basic rent, whichever is greater, up to a maximum of the fair market rent, (3) the mortgagor will limit admission to subsidized dwelling units to families whose incomes do not exceed the lower of the income limits prescribed by HUD or the Authority, and (4) the mortgagor shall remit to HUD the amount ("Excess Income Payment") by which the total rents collected on all subsidized dwelling units exceeds the sum of the basic rents for all such units. The Authority covenants in the agreements that it will not agree to the forbearance or deferment of any payment due under the mortgage loan without HUD's approval. HUD may, at its discretion, terminate payments under the agreement upon default by the mortgagor or the Authority under any provision of the agreement. If payments are terminated by HUD, such payments may be reinstated by HUD on such conditions as it may prescribe. The rights and obligations under the agreement are not assignable by the Authority or by the Mortgagor without the approval of HUD.

Each of the developments which is subject to Section 236 interest reduction payments is also subject to rental assistance payments under Section 236(f)(2) of the National Housing Act, as amended. Payments under this program are paid by HUD directly to the mortgagor on behalf of eligible tenants occupying assisted dwelling units. To be eligible for rental assistance payments, a tenant must have an income not in excess of 50% of the median income for the area, as determined by HUD. The payments for each assisted unit are generally in an amount equal to the difference between the "basic rent" approved by HUD for the unit and 30% of the eligible tenant's adjusted income (as defined by HUD). Such payments to the mortgagor in effect represent rental income and do not reduce or otherwise affect the amounts the mortgagor must pay to the Authority under the mortgage loan.

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

APPENDIX H

Proposed Form of Approving Opinion of
Hunton & Williams LLP
Bond Counsel to the Authority to be
Delivered on the Date of Issuance of the Offered Bonds

June 14, 2011

Virginia Housing Development Authority
Richmond, Virginia

Commissioners:

We have examined a record of proceedings relating to the issuance of $70,000,000 Homeownership Mortgage Bonds, 2011 Series A-Non-AMT (the "Bonds") by the Virginia Housing Development Authority (the "Authority"), a political subdivision of the Commonwealth of Virginia (the "Commonwealth") created by the Virginia Housing Development Authority Act, being Chapter 1.2 of Title 36 of the Code of Virginia, 1950, as amended (the "Act"), and organized and existing under the Act and other laws of the Commonwealth.

The Bonds are authorized to be issued pursuant to the Act and (1) a resolution of the Authority adopted December 2, 2009, entitled "A Resolution Providing for the Issuance of Homeownership Mortgage Bonds of the Virginia Housing Development Authority and for the Rights of the Owners Thereof," as amended and supplemented to the date hereof (the "Resolution"); (2) the resolution of the Authority adopted December 2, 2009 entitled "Bond Limitations Resolution," as amended and supplemented to the date hereof (the "Bond Limitations Resolution"); and (3) the Written Determinations of an Authorized Officer of the Authority dated May 18, 2011 (the "Written Determinations"), executed and delivered in accordance therewith. Such Written Determinations, the Bond Limitations Resolution and the Resolution are collectively herein referred to as the "Bond Resolution." The Bonds 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 and is valid and binding upon the Authority and is enforceable in accordance with its terms.

3. The Bonds are valid and legally binding general obligations of the Authority secured by a pledge in the manner and to the extent set forth in the 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 Bonds and the Bond Resolution may be limited by bankruptcy, moratorium or insolvency or other laws affecting creditors' rights or remedies generally and is subject to general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

Our services as bond counsel to the Authority have been limited to delivery of the foregoing opinion based upon our review of such proceedings and documents as we deem necessary to approve the validity of the Bonds and the Bond Resolution. We express no opinion herein as to the tax-exempt status of the interest on any of the Bonds, the financial resources of the Authority, the adequacy of the Assets pledged to payment of the Bonds, the ability of the Authority to provide for the payment of the Bonds, or the accuracy or completeness of any information that may have been relied on by anyone in making a decision to purchase the Bonds, including the Authority's Preliminary Official Statement dated May 11, 2011 and its Official Statement dated May 18, 2011.

Very truly yours,

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APPENDIX I

Proposed Form of Tax Opinion of
Hawkins Delafield & Wood LLP
Special Tax Counsel to the Authority to be
Delivered on the Date of Issuance of the Offered Bonds

June 14, 2011

Virginia Housing Development Authority
Richmond, Virginia

Commissioners:

We have acted as Special Tax Counsel to the Virginia Housing Development Authority (herein called the "Authority") in connection with the offering of the Homeownership Mortgage Bonds, 2011 Series A-Non-AMT (herein called the "Bonds") of the Authority. In connection with rendering the opinion below, we have examined the provisions of Sections 103 and 141 through 150 of the Internal Revenue Code of 1986, as amended (the "Code"), and the regulations promulgated thereunder and have also examined the following:

(1) the resolution of the Authority adopted December 2, 2009 entitled "A Resolution Providing for the Issuance of Homeownership Mortgage Bonds of the Virginia Housing Development Authority and for the Rights of the Owners Thereof', as amended and supplemented to the date hereof (herein called the "General Bond Resolution"), the resolution of the Authority adopted December 2, 2009, entitled "Bond Limitations Resolution", as amended and supplemented to the date hereof, (herein called the "Bond Limitations Resolution") and the Written Determinations of an Authorized Officer of the Authority executed and delivered in accordance therewith (such Written Determinations, the Bond Limitations Resolution and the General Bond Resolution are collectively herein called the "Bond Resolution");

(2) the opinion of even date herewith of Hunton & Williams LLP, Bond Counsel, approving the legality of the Bonds and other matters;

(3) the Authority's Tax Certification and the Arbitrage Certificate, of even date herewith (the "Certificates"), of authorized officers of the Authority, to the effect that the Bonds are not "arbitrage bonds" within the meaning of the Code and as to other matters affecting the tax-exempt status of such Bonds; and

(4) the relevant provisions of such other documents and such other matters of fact and law as we have deemed relevant to the rendering of this opinion.

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

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

Based upon the foregoing, we are of the opinion that under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest on the Bonds is excluded from gross income for federal income tax purposes pursuant to Section 103 of the Code and (ii) interest on the Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code and is not included in the adjusted current earnings of corporations for the purpose of calculating the alternative minimum tax. In rendering our opinion, we have relied on certain representations, certifications of fact, and statements of reasonable expectations made by the Authority in connection with the Bonds, and we have assumed compliance by the Authority with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the Bonds from gross income under Section 103 of the Code. In addition, the original issue discount on the Bonds, if any, that has accrued and is properly allocable to the owners thereof under Section 1288 of the Code is excludable from gross income for federal income tax purposes to the same extent as other interest on such Bonds.

Except as stated in the paragraph above, we express no opinion as to any other matter with respect to the exemption of interest on the Bonds from federal income taxation or as to the treatment of any such Bonds for tax purposes by any state, city, county or other jurisdiction. We render our opinion under existing statutes and court decisions as of the date hereof, and

we assume no obligation to update, revise or supplement this opinion to reflect any action hereafter taken or not taken, or any facts or circumstances that may hereafter come to our attention, or changes in law or in interpretations thereof that may hereafter occur, or for any other reason. We express no opinion on the effect of any action hereafter taken or not taken in reliance upon an opinion of other counsel on the exclusion from gross income for federal income tax purposes of interest on the Bonds, or under state and local tax law.

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

Very truly yours,

VIRGINIA HOUSING DEVELOPMENT AUTHORITY • HOMEOWNERSHIP MORTGAGE BONDS, 2011 SERIES A-NON-AMT

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