

**SUPPLEMENT  
TO  
OFFICIAL STATEMENT DATED OCTOBER 9, 2007  
related to**

**\$50,000,000  
COLORADO HOUSING AND FINANCE AUTHORITY  
Single Family Mortgage Class II Adjustable Rate Bonds  
2007 Series B-3 (AMT)  
CUSIP: 196483 AS0\***

The Colorado Housing and Finance Authority (the "**Authority**") Single Family Mortgage Class II Adjustable Rate Bonds, 2007 Series B-3 as shown above (referred to herein as the "**Remarketed Bonds**") are being remarketed as variable rate bonds bearing interest at a Weekly Rate determined on each Tuesday by RBC Capital Markets, LLC in its capacity as Remarketing Agent (the "**Remarketing Agent**"), to be effective from and including each Wednesday to and including the following Tuesday, commencing on May 16, 2012. The interest rate on the Remarketed Bonds or any portion thereof may be adjusted at the election of the Authority to a different interest rate mode, as described in the Official Statement dated October 9, 2007 relating to such Remarketed Bonds (the "**Official Statement**"). Interest on the Remarketed Bonds will be payable on each May 1 and November 1, commencing on November 1, 2012, on any redemption date, on any mandatory tender date and at maturity. No Remarketed Bond (other than Bank Bonds) shall bear interest at an interest rate higher than the Maximum Rate, which pursuant to the 2007 Series B Indenture (defined herein) shall be 10% per annum (or such rate up to 15% per annum as the Authority may direct).

While any of the Remarketed Bonds are in a Weekly Mode Period, owners of any such Remarketed Bonds will have the right to tender their Remarketed Bonds for purchase and will also be required to tender their Remarketed Bonds for purchase at the times and subject to the conditions set forth in the Indenture (as defined herein). Following May 16, 2012, payment of the purchase price for the Remarketed Bonds tendered for purchase and not remarketed or for which remarketing proceeds are not available will be supported by a Standby Bond Purchase Agreement (referred to herein as the "**2007B-3 Facility**") among the Authority, Zions First National Bank, as Trustee and Paying Agent, and Royal Bank of Canada (the "**2007B-3 Facility Provider**"). Subject to certain limitations and conditions described in this Supplement, an alternative liquidity facility may be substituted for the 2007B-3 Facility. Coverage under the 2007B-3 Facility, unless extended or earlier terminated, is stated to expire on May 16, 2015. **Under certain circumstances described herein, the obligation of the 2007B-3 Facility Provider under the 2007B-3 Facility to purchase Remarketed Bonds tendered for purchase or subject to mandatory purchase may be terminated or suspended and, in some of such circumstances, the termination or suspension of such obligation will be immediate and without notice to the owners of such Remarketed Bonds. In such event, sufficient funds may not be available to purchase such Remarketed Bonds. Neither the Authority nor the Remarketing Agent is obligated to purchase Remarketed Bonds tendered by the owners of such Remarketed Bonds or subject to mandatory purchase if remarketing proceeds and payments under the 2007B-3 Facility are insufficient or unavailable to pay the purchase price of the Remarketed Bonds.**

This Supplement provides information about the Remarketed Bonds only when they bear interest at a Weekly Rate and are subject to the 2007B-3 Facility.

*This cover page contains certain information for quick reference only. It is not a summary of the Remarketed Bonds. Investors must read the entire Supplement and the entire Official Statement to obtain information essential to the making of an informed investment decision.*

The Remarketed Bonds are being remarketed by the Remarketing Agent, subject to certain other conditions. The Remarketing Agent is being represented by its counsel, Dorsey & Whitney LLP, Denver, Colorado. Certain legal matters will be passed on for the 2007B-3 Facility Provider by its internal counsel, by Canadian counsel Norton Rose Canada LLP and by Kutak Rock LLP. CSG Advisors Incorporated is serving as financial advisor to the Authority in connection with the remarketing of the Remarketed Bonds. The Remarketing Agent intends, but is not obligated, to make a market in the Remarketed Bonds. It is expected that the Remarketed Bonds will be available through the facilities of DTC, New York, New York, on May 16, 2012.

**RBC Capital Markets<sup>†</sup>**

This Supplement is dated May 9, 2012.

\* Neither the Authority nor the Remarketing Agent takes any responsibility for the accuracy of the CUSIP number, which is being provided solely for the convenience of the owners of the Remarketed Bonds.

<sup>†</sup> Remarketing Agent for the Remarketed Bonds.

No dealer, broker, salesman or other person has been authorized by the Colorado Housing and Finance Authority or by the Remarketing Agent to give any information or to make any representations, other than those contained in this Supplement, and, if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. The information in this Supplement is subject to change without notice, and neither the delivery of this Supplement nor any sale hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority, since the date hereof. This Supplement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Remarketed Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information set forth herein has been furnished by the Authority and obtained from other sources which are believed to be reliable but is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation of, the Remarketing Agent. In connection with this offering of the Remarketed Bonds, the Remarketing Agent may overallocate or effect transactions which stabilize or maintain the market prices of the Remarketed Bonds at levels above which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

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## TABLE OF CONTENTS

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|  | <u>Page</u> |  | <u>Page</u> |
|--|-------------|--|-------------|
| INTRODUCTION .....   | 1           | The Remarketing Agents May Purchase Bonds for<br>their Own Account.....  | 44          |
| COLORADO HOUSING AND FINANCE   |             | Bonds may be Offered at Different Prices on any<br>Date .....  | 44          |
| AUTHORITY .....  | 3           | The Ability to Sell the Bonds other than through<br>Tender Process may be Limited .....  | 44          |
| Background.....  | 3           | RATINGS .....  | 45          |
| Board of Directors and Staff Officers .....  | 3           | LITIGATION.....  | 45          |
| Employees and Pension Information .....  | 6           | CERTAIN RELATIONSHIPS OF PARTIES .....   | 45          |
| Insurance Coverage .....   | 6           | LEGAL MATTERS .....  | 46          |
| Selected Financial Information .....   | 6           | FINANCIAL ADVISOR.....   | 46          |
| The General Fund.....  | 10          | TAX MATTERS UPON REMARKETING .....   | 46          |
| Financial Statements of the Authority .....  | 12          | FORWARD-LOOKING STATEMENTS.....  | 47          |
| Authority Policy Regarding Swaps.....  | 12          | AVAILABILITY OF CONTINUING<br>INFORMATION.....   | 47          |
| Programs to Date .....   | 12          | MISCELLANEOUS.....   | 48          |
| Obligations of the Authority .....   | 15          | APPENDICES:  |             |
| CERTAIN PROGRAM ASSUMPTIONS .....  | 22          | Appendix A - Summary of Certain<br>Provisions of the Indenture.....  | A-1         |
| Insurance Limitations and Requirements.....  | 22          | Appendix B-1 - The Outstanding Bonds and<br>Auxiliary Obligations .....  | B-1-1       |
| Investments.....   | 23          | Appendix B-2 - The Mortgage Loan<br>Portfolio.....   | B-2-1       |
| SECURITY FOR THE BONDS AND AUXILIARY<br>OBLIGATIONS .....                              | 25          | Appendix C-1 - Summary of Certain<br>Provisions of the 2007B-3<br>Facility.....  | C-1         |
| Pledge of Trust Estate .....   | 25          | Appendix D-1 Certain Information<br>Concerning 2007B-3 Facility<br>Provider .....  | D-1         |
| Revenues .....   | 26          | Appendix F - Class Asset Requirements for<br>Bonds .....   | F-1         |
| The Mortgage Loans and the Mortgage-Backed<br>Securities .....                         | 27          | Appendix G - Annual Financial Report<br>(With Independent Auditors'<br>Report Thereon) For the Year<br>Ended December 31, 2011<br>(With comparative financial<br>information for 2010) ..... | G-1         |
| Debt Service Reserve Fund.....   | 29          | Appendix H - Book-Entry System .....   | H-1         |
| Liquidity Facilities.....  | 29          | Appendix I - Insurance and Guarantee<br>Programs; Foreclosure.....   | I-1         |
| Interest Rate Contracts.....   | 30          | Appendix J - Form of Continuing<br>Disclosure Undertaking .....  | J-1         |
| Issuance of Additional Bonds; Auxiliary Obligations ..                                 | 31          |  |             |
| CERTAIN BONDOWNERS' RISKS .....  | 31          |  |             |
| Risks Related to the Liquidity Facility Providers and<br>the Liquidity Facilities..... | 31          |  |             |
| Risks Related to Interest Rate Contracts.....  | 32          |  |             |
| THE SINGLE FAMILY MORTGAGE PROGRAM .....   | 33          |  |             |
| Communication of Program Information.....  | 33          |  |             |
| Reservation, Delivery and Acquisition of Mortgage<br>Loans .....                       | 33          |  |             |
| Eligibility Requirements .....   | 34          |  |             |
| Mortgage Purchase Agreement.....   | 37          |  |             |
| Seller's Guide.....  | 38          |  |             |
| Servicing of the Mortgage Loans.....   | 38          |  |             |
| Loss Mitigation.....   | 39          |  |             |
| Hazard Insurance .....   | 39          |  |             |
| Special Program Features .....   | 40          |  |             |
| REMARKETING AGENTS.....  | 42          |  |             |
| Remarketing Agreement for Remarketed Bonds .....                                       | 42          |  |             |
| Remarketing Agents for Adjustable Rate Bonds .....                                     | 43          |  |             |
| The Remarketing Agents are Paid by the Authority .....                                 | 44          |  |             |

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TO  
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\$50,000,000  
COLORADO HOUSING AND FINANCE AUTHORITY  
Single Family Mortgage Class II Adjustable Rate Bonds  
2007 Series B-3**

**INTRODUCTION**

This Supplement which includes the Appendices hereto (this "**Supplement**") contains certain additional information with respect to the \$50,000,000 Colorado Housing and Finance Authority (the "**Authority**") Single Family Mortgage Class II Adjustable Rate Bonds, 2007 Series B-3 (referred to in this Supplement as the "**Remarketed Bonds**"). Investors must read this Supplement in conjunction with the Official Statement dated October 9, 2007 distributed in connection with the initial offering of the Remarketed Bonds (the "**Official Statement**") to obtain information essential to the making of an informed investment decision. The Remarketed Bonds were issued as Class II Bonds pursuant to the Master Indenture of Trust dated as of October 1, 2001, as amended and supplemented (the "**Master Indenture**"), and the 2007 Series B Indenture dated as of October 1, 2007, as amended (the "**Series Indenture**," and together with the Master Indenture, the "**Indenture**"), each between the Authority and Zions First National Bank, Denver, Colorado, as Trustee (the "**Trustee**"). Capitalized terms used herein and not defined have the meanings specified in the Indenture. See "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE" in **Appendix A** to this Supplement.

The information contained herein on the cover and under the headings "INTRODUCTION," "COLORADO HOUSING AND FINANCE AUTHORITY," "CERTAIN PROGRAM ASSUMPTIONS – Insurance Limitations and Requirements" and "– Investments," "SECURITY FOR THE BONDS AND AUXILIARY OBLIGATIONS," "CERTAIN BONDOWNERS' RISKS – Considerations Regarding Redemption," "– Risks Related to the Liquidity Providers and the Liquidity Facilities" and "– Risks Related to Interest Rate Contracts," "THE SINGLE FAMILY MORTGAGE PROGRAM," "REMARKETING AGENTS," "RATINGS," "LITIGATION," "CERTAIN RELATIONSHIPS OF PARTIES," "LEGAL MATTERS," "FINANCIAL ADVISOR," "TAX MATTERS UPON REMARKETING," "FORWARD-LOOKING STATEMENTS," "AVAILABILITY OF CONTINUING INFORMATION" and "MISCELLANEOUS" in this Supplement supplements, respectively, the information contained on the cover and under the headings "Part I – INTRODUCTION," "Part II – COLORADO HOUSING AND FINANCE AUTHORITY," "Part I – CERTAIN PROGRAM ASSUMPTIONS – Insurance Limitations and Requirements," and "– Investments," "Part II – SECURITY FOR THE BONDS AND AUXILIARY OBLIGATIONS," "Part II – CERTAIN BONDOWNERS' RISKS," "Part II – THE SINGLE FAMILY MORTGAGE PROGRAM," "Part I – FORWARD LOOKING STATEMENTS," "Part I – 2007B REMARKETING AGENT," "Part I – RATINGS," "Part I – LITIGATION," "Part I – CERTAIN RELATIONSHIPS OF PARTIES," "Part I – TAX MATTERS," "Part II – INDEPENDENT AUDITORS" and "Part II – MISCELLANEOUS" in the Official Statement. Appendices A, B-1, B-2, C-1, D-1, F, G, H, I and J to this Supplement are hereby substituted for Appendices A, B-1, B-2, C-1 (as it related to the Remarketed Bonds), D (as it related to the Remarketed Bonds), F, G, H and I to the Official Statement. The information contained herein supersedes any contradictory or inconsistent information contained in the Official Statement. Capitalized terms contained in this Supplement and not otherwise defined shall have the meanings ascribed thereto in the

Official Statement, except that certain capitalized terms used in **Appendix C-1** to this Supplement and not defined herein shall have the meanings ascribed thereto in the 2007B-3 Facility (as defined below).

The Remarketed Bonds are currently subject to a standby bond purchase agreement provided by KBC Bank N.V., acting through its New York Branch ("**KBC**"). On May 16, 2012, the Remarketed Bonds will be subject to mandatory tender by the existing holders as a result of termination of such standby bond purchase agreement with KBC, and will be remarketed by RBC Capital Markets, LLC, as the Remarketing Agent. In connection with the remarketing, the Authority expects to enter into a Standby Bond Purchase Agreement to establish a new liquidity facility for the Remarketed Bonds (the "**2007B-3 Facility**") among the Authority, the Trustee and Royal Bank of Canada, as the standby bond purchaser (the "**2007B-3 Facility Provider**"). See **Appendix C-1** – "SUMMARY OF CERTAIN PROVISIONS OF THE 2007B-3 FACILITY" and **Appendix D-1** – "CERTAIN INFORMATION CONCERNING THE 2007B-3 FACILITY PROVIDER" to this Supplement.

Following May 16, 2012, payment of the purchase price for the Remarketed Bonds tendered for purchase and not remarketed or for which remarketing proceeds are not available will be supported by the 2007B-3 Facility, and the existing standby bond purchase agreement will be terminated. **Under certain circumstances described in Appendix C-1 to this Supplement, the obligation of the 2007B-3 Facility Provider under the 2007B-3 Facility to purchase Remarketed Bonds tendered for purchase or subject to mandatory purchase may be terminated or suspended and, in some of such circumstances, the termination or suspension of such obligation will be immediate and without notice to the owners of such Remarketed Bonds. In such event, sufficient funds may not be available to purchase such Remarketed Bonds. Neither the Authority nor the Remarketing Agent is obligated to purchase Remarketed Bonds so tendered or subject to mandatory purchase if remarketing proceeds or payments under the 2007B-3 Facility are insufficient or unavailable to pay the purchase price of such Remarketed Bonds.** See "CERTAIN BONDOWNERS' RISKS – Risks Related to the Liquidity Facility Providers and the Liquidity Facilities" in this Supplement.

Coverage under the 2007B-3 Facility for the Remarketed Bonds, unless extended or earlier terminated, is stated to expire on May 16, 2015. The Authority may replace the 2007B-3 Facility with one or more new liquidity facilities (each, an "**Alternate Liquidity Facility**") in accordance with the procedures set forth in the Indenture. See "SECURITY FOR THE BONDS AND AUXILIARY OBLIGATIONS – Liquidity Facilities" in this Supplement.

The Authority is agreeing to provide continuing information for the benefit of the Owners of the Remarketed Bonds, as described in "AVAILABILITY OF CONTINUING INFORMATION" in this Supplement.

*Copies of the Indenture and additional information may be obtained from the Authority upon request to Margaret Danuser, Director of Corporate Debt and Investment Management, at 1981 Blake Street, Denver, Colorado 80202, phone: (303) 297-7328, email: mdanuser@chfainfo.com.*

## **COLORADO HOUSING AND FINANCE AUTHORITY**

### **Background**

In 1973, upon a finding that there existed in the State a shortage of decent, safe and sanitary housing available within the financial capabilities of low and moderate income families, the Colorado General Assembly established the Colorado Housing Finance Authority, since renamed the Colorado Housing and Finance Authority, as a body corporate and a political subdivision of the State for the purpose of increasing the supply of decent, safe and sanitary housing for such families. The Act authorizes the Authority, among other things, to make loans to individuals and sponsors to finance the construction, reconstruction, rehabilitation or purchase of housing facilities for low and moderate income families and to purchase mortgage loans from, and lend moneys to, qualified Mortgage Lenders under terms and conditions which provide for loans to finance housing facilities for low and moderate income families. The Act was amended in 1982 to authorize the Authority to finance project and working capital loans to commercial and industrial enterprises of small and moderate size. The Act was amended again in 1987 to create an economic development fund to enable the Authority to finance projects or provide capital for business purposes.

In order to achieve its authorized purposes, the Authority currently operates Qualified and Non-Qualified Single Family Mortgage Programs, a Rental Acquisition Program and various rental and business finance programs. See "Programs To Date" under this caption. The Act authorizes the Authority to issue its bonds, notes and other obligations in order to provide sufficient funds to achieve its purposes as set forth in the Act. Bonds or notes issued with respect to such programs are and will be separately secured from other bonds of the Authority, including the Remarketed Bonds, except as described in "SECURITY FOR THE BONDS AND AUXILIARY OBLIGATIONS" in this Supplement.

### **Board of Directors and Staff Officers**

The Board of Directors of the Authority consists of the Colorado State Auditor, a member of the Colorado General Assembly appointed jointly by the Speaker of the House and the Majority Leader in the Senate, an executive director of a principal department of State government appointed by the Governor of Colorado and eight public members appointed by the Governor with the consent of the Senate. Members of the Board of Directors continue to serve after the end of their respective terms until a successor has been duly appointed and confirmed. The present members of the Board of Directors of the Authority are as follows:

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### Present Board of Directors of the Authority

| Name  | Affiliation  | End of Term                                  |
|---|--|--|
| James M. Hahn,<br>Chair <sup>(1)</sup>                | Principal, JMH Consulting, LLC; Denver, Colorado                                     | July 1, 2013                                 |
| Dianne Ray,<br>Chair, <u>pro tem</u> <sup>(2)</sup>   | Colorado State Auditor; Denver, Colorado   | Standing                                     |
| Charles Knight,<br>Secretary/Treasurer <sup>(3)</sup> | Founding Partner, Venture Law Advisors; Denver, Colorado                             | July 1, 2015                                 |
| Sam Betters   | Executive Director; Housing Authority of the City of<br>Loveland; Loveland, Colorado | July 1, 2013                                 |
| John A. Blumberg                                      | Co-Founder and Principal, Black Creek Capital LLC;<br>Denver, Colorado               | July 1, 2013                                 |
| Reeves Brown  | Executive Director, Colorado Department of Local Affairs;<br>Denver, Colorado        | At the pleasure of<br>the Governor           |
| Jennifer Lopez  | Executive Director, Regional Housing Alliance; Durango,<br>Colorado                  | July 1, 2015                                 |
| David J. Myler, Esq.                                  | Partner, The Myler Law Firm, P.C.; Basalt, Colorado                                  | July 1, 2013                                 |
| Cecilia Sanchez de Ortiz                              | Retired; Denver, Colorado  | July 1, 2015                                 |
| Joel S. Rosenstein, Esq.                              | Attorney; Denver, Colorado   | July 1, 2013                                 |
| Keith Swerdfeger                                      | State Representative; Pueblo, Colorado   | End of legislative<br>biennium 2011-<br>2012 |

<sup>(1)</sup> This Board member was elected as Chair of the Board effective March 22, 2012.

<sup>(2)</sup> This Board member was elected as Chair, pro tem, of the Board effective March 22, 2012.

<sup>(3)</sup> This Board member was appointed as Secretary/Treasurer of the Board effective March 22, 2012.

The principal staff officers of the Authority are as follows:

*Cris A. White*, **Executive Director**, was appointed as Executive Director in March 2010, after serving as Chief Operating Officer since February 2002. Mr. White joined the staff in 1988 and served in various capacities until January 1996. He rejoined the staff in September of 1996 as the Director of Asset Management, after serving in the interim as a business development executive with an international equipment and real estate mortgage lender. On February 1, 2001, Mr. White was appointed Deputy Executive Director for Asset Management and Business Support Services and served until his present appointment. He also continued to serve as Director of Asset Management until December 10, 2001. Mr. White has a Bachelor's Degree in Business Administration from Regis College.

*Jaime Gomez*, **Chief Operating Officer**, joined the staff in August 1999. Prior to appointment to his current position in March 2010, Mr. Gomez served as the Director of Commercial Lending following a corporate reorganization in July 2006 which merged the Authority's Business Finance and Rental Finance Divisions, forming the Commercial Lending Division. Prior to that position, Mr. Gomez served as the Director of Business Finance. Mr. Gomez is a graduate of the University of Colorado with a degree in Finance. Mr. Gomez has prior experience working in both the public and private sector, including five-and-a-half years as director of finance and business development for the Colorado Office of Economic Development. Mr. Gomez was also designated as a certified bank examiner by the Federal Reserve Board of Governors in February of 1991.

*Charles L. Borgman*, **General Counsel**, joined the staff in September 2004 and assumed the position of General Counsel on December 1, 2004. Mr. Borgman is a graduate of the University of Iowa and the University of Iowa College of Law and has over 30 years experience in private practice and as in-house counsel in the areas of real estate, mortgage finance, commercial transactions, title insurance, banking and work-outs. Immediately prior to joining the Authority, Mr. Borgman was Vice President and Regional Counsel for North American Title Company, a part of Lennar Corporation.

*Patricia Hippe*, **Chief Financial Officer**, joined the staff in October 2011. Prior to joining the Authority, Ms. Hippe spent 16 years as the Deputy Commissioner and Chief Financial Officer of the Minnesota Housing Finance Agency. Prior to her work with the Minnesota Housing Finance Agency, Ms. Hippe was the manager of secondary market programs for Higher Education Management and Resources (HEMAR) Management Corporation. In this capacity, she oversaw the daily finance and accounting operations of HEMAR's seven affiliate companies which specialized in providing student loan secondary market programs. Following her work with HEMAR, Ms. Hippe was the assistant vice president and corporate trust officer for Wells Fargo Bank, formerly known as Norwest Bank. Ms. Hippe received her Bachelor's Degree in Business Administration from the University of Minnesota, and earned her Master of Business Administration Degree from the University of St. Thomas in St. Paul, Minnesota.

*Margaret Danuser* was appointed as **Director of Corporate Debt and Investment Management** in July, 2010. Prior to joining the Authority, Mrs. Danuser served as the debt administrator for the City and County of Denver, and as a fixed income investment manager for the Dreyfus Founders Funds. She graduated from the University of Colorado at Boulder with a Bachelor of Arts degree in International Affairs.

*Mariam J. Masid*, **Director of Legal Services**, was appointed in October 2010. Prior to her current position, beginning in December 2005, Ms. Masid served the Authority as an in-house Senior Attorney. Ms. Masid is a graduate of the University of Nebraska College of Law and also earned a Ph.D. from Colorado State University in Earth Sciences, Water Resource Management. She has over 30 years experience in private practice and as in-house counsel in the areas of real estate, mortgage finance, municipal law, litigation, and general civil matters. Prior to joining the Authority, Ms. Masid was an adjunct professor at Colorado State University teaching real estate law, real estate principles and business law.

*Karen Harkin*, CMB, CML, was appointed as **Director of Home Finance** in February 2001. Ms. Harkin joined the staff in June, 1999. Ms. Harkin received a Bachelor of Science degree from the University of Wisconsin-Madison and a Masters Degree in Business Administration from the University of Dubuque, Dubuque, Iowa. Ms. Harkin has more than twenty years experience in various capacities in public, private and non-profit real estate lending and development.

*Mark A. MacNicholas*, **Controller**, joined the staff in October 2008. Prior to joining the Authority, Mr. MacNicholas served as Controller for SunCorp Corporate Credit Union. During his career, Mr. MacNicholas has served in various accounting roles within the financial services industry. Mr. MacNicholas has a Bachelor's Degree in Business Administration from the University of Iowa, a Masters Degree in Accountancy from DePaul University and is a Certified Public Accountant.

*Steve Johnson* was appointed as **Director of Commercial Lending** in July 2010. Mr. Johnson began working for the Authority in 1996 as a Business Finance Loan Officer. In 1999, he was promoted to Manager of Business Lending Production. Most recently, Mr. Johnson has led the Authority's small business team's efforts to diversify and expand the products available to help small businesses access capital. Mr. Johnson is the vice chair of the Colorado Enterprise Fund, and a board member of the

Council of Development Finance Agencies (CDFA). He graduated from Hillsdale College in Michigan with a Bachelor of Arts degree in marketing and finance.

*D. Brian Miller* was appointed as **Director of Asset Management** in October 2006. Prior to his current position, Mr. Miller served as the Manager of Multifamily Loan Compliance Department, as well as various other positions within the Asset Management Division since joining the Authority in November 1998. Mr. Miller has over fifteen years experience in financial services and asset management. Mr. Miller is a graduate of the University of Northern Colorado with a Bachelor's Degree in Finance.

*Rodney D. Hardin* joined the staff as **Director of Information Technology** in January 2005. Prior to joining the Authority, Mr. Hardin served as SVP/CIO at Pulte Mortgage LLC for 11 years. He also served as SVP/MIS Manager at North American Mortgage for five years. He is past Chairman of the MBA Residential Technology Steering Committee. His education includes a Bachelor's Degree in Business Administration from Sonoma State University in Rohnert Park, California and a Masters Degree in Business Administration from Regis University in Denver, Colorado.

*Laurie O'Brien, Director of Loan Servicing*, joined the staff as Director in February 2006. Prior to joining the Authority, Ms. O'Brien previously worked for several large mortgage companies in the northeastern United States and was most recently employed by Fidelity Financial Services for the past 13 years. She graduated from Medialle College in Buffalo, NY, with a Bachelor of Science Degree in Human Resource Development. Ms. O'Brien has been in loan servicing for over 22 years.

*Deborah Herrera, Director of Human Resources*, originally joined the Authority in October 2001 as a senior level Human Resources Generalist and rejoined the Authority in September 2006 as the Director of Human Resources. She has ten years of human resources experience, during four of which she served in a management capacity in the financial/mortgage industry. Prior to rejoining the Authority, Mrs. Herrera was a Human Resources Director for an information and analytics company serving the mortgage and finance industry. Mrs. Herrera received a Bachelor of Arts in Psychology and a Masters in Human Resources Management from the University of North Florida.

## **Employees and Pension Information**

As of December 31, 2011, the Authority had approximately 194 full-time employees, all of whom were members of the Public Employees' Retirement Association of Colorado ("**PERA**"). State statutes required the Authority to contribute 13.70% of each participating employee's gross salary to PERA in 2011. In 2011, the Authority's PERA contribution totaled approximately \$1,869,000, compared to an Authority contribution in 2010 of \$1,665,000. See footnote (11) of the audited 2011 financial statements of the Authority, included in this Supplement as **Appendix G**, for further information.

## **Insurance Coverage**

The Authority has general liability, errors and omission and employee dishonesty insurance coverage.

## **Selected Financial Information**

The following is a brief summary of historical selected financial information for the Authority. The audited financial statements of the Authority also provide certain financial information about the Authority on a fund accounting basis, including a description of its General Fund. This information has been included solely for purposes of providing a general overview for potential purchasers of the financial status of the Authority given that the Authority operates the programs which result in the Mortgage Loans



securing Bonds and Auxiliary Obligations under the Master Indenture and also services such Mortgage Loans. See "THE SINGLE FAMILY MORTGAGE PROGRAM" in this Supplement. The Bonds and Auxiliary Obligations are limited obligations of the Authority secured by and payable from the Trust Estate, except in the limited case of those Bonds and Auxiliary Obligations designated as general obligations of the Authority. See "Obligations of the Authority" and "The General Fund" under this caption. For specific information about the Trust Estate, see "SECURITY FOR THE BONDS AND AUXILIARY OBLIGATIONS" and "CERTAIN PROGRAM ASSUMPTIONS" in this Supplement and **Appendices B-1** and **B-2** to this Supplement. *The overall financial status of the Authority does not indicate and will not necessarily affect whether amounts will be available in the Trust Estate to pay principal and interest on Bonds (including the Remarketed Bonds) when due.*

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**Colorado Housing and Finance Authority**  
**Combining Schedule - Statement of Net Position**

December 31, 2011

(with summarized financial information for December 31, 2010)

(in thousands of dollars)

|   | General Programs  | Single Family    | Multi-Family/<br>Business | Eliminations    | 2011              | Summarized<br>2010 |
|---|-------------------|------------------|---------------------------|-----------------|-------------------|--------------------|
| <b>Assets</b>   |                   |                  |                           |                 |                   |                    |
| Current assets:   |                   |                  |                           |                 |                   |                    |
| Cash (Note 2)   |                   |                  |                           |                 |                   |                    |
| Restricted  | \$ 56,011         | \$ -             | \$ -                      | \$ -            | \$ 56,011         | \$ 75,483          |
| Unrestricted  | 33,281            | -                | -                         | -               | 33,281            | 16,498             |
| Investments (Note 2)                                      | 9,058             | 530,373          | 106,801                   | -               | 646,232           | 652,878            |
| Loans receivable (Note 3)                                 | 43,986            | 44,709           | 25,568                    | (562)           | 113,701           | 134,211            |
| Loans receivable held for sale (Note 3)                   | 38,206            | -                | -                         | -               | 38,206            | 47,478             |
| Accrued interest receivable                               | 3,339             | 8,865            | 4,865                     | (160)           | 16,909            | 20,075             |
| Deferred debt financing costs, net                        | 15                | 478              | 174                       | -               | 667               | 778                |
| Other assets  | 6,977             | 378              | 118                       | -               | 7,473             | 9,541              |
| Due (to) from other programs                              | (27,174)          | 20,345           | 6,829                     | -               | -                 | -                  |
| <b>Total current assets</b>                               | <b>163,699</b>    | <b>605,148</b>   | <b>144,355</b>            | <b>(722)</b>    | <b>912,480</b>    | <b>956,942</b>     |
| Noncurrent assets:  |                   |                  |                           |                 |                   |                    |
| Investments (Note 2)                                      | 658               | 154,576          | 83,204                    | -               | 238,438           | 219,983            |
| Loans receivable, net (Note 3)                            | 129,417           | 1,296,553        | 741,465                   | (16,290)        | 2,151,145         | 2,467,772          |
| Capital assets - non-depreciable (Note 4)                 | 5,026             | -                | -                         | -               | 5,026             | 5,547              |
| Capital assets - depreciable, net (Note 4)                | 19,134            | -                | -                         | -               | 19,134            | 21,194             |
| Other real estate owned, net                              | 3,515             | 4,448            | 2,656                     | -               | 10,619            | 12,505             |
| Deferred debt financing costs, net                        | 263               | 8,605            | 3,138                     | -               | 12,006            | 13,998             |
| Other assets  | 22,691            | -                | -                         | -               | 22,691            | 22,164             |
| <b>Total noncurrent assets</b>                            | <b>180,704</b>    | <b>1,464,182</b> | <b>830,463</b>            | <b>(16,290)</b> | <b>2,459,059</b>  | <b>2,763,163</b>   |
| <b>Total assets</b>                                       | <b>344,403</b>    | <b>2,069,330</b> | <b>974,818</b>            | <b>(17,012)</b> | <b>3,371,539</b>  | <b>3,720,105</b>   |
| <b>Total Deferred Outflows - Hedging</b>                  |                   |                  |                           |                 |                   |                    |
| Accumulated decrease in fair value of hedging derivatives | -                 | 135,763          | 131,647                   | -               | 267,410           | 180,245            |
| <b>Liabilities</b>  |                   |                  |                           |                 |                   |                    |
| Current liabilities:                                      |                   |                  |                           |                 |                   |                    |
| Short-term debt (Note 5)                                  | 46,100            | -                | -                         | -               | 46,100            | 87,900             |
| Bonds payable (Note 6)                                    | -                 | 311,847          | 9,665                     | -               | 321,512           | 299,187            |
| Notes payable (Note 6)                                    | 104               | -                | -                         | -               | 104               | 79                 |
| Accrued interest payable                                  | 1,178             | 14,433           | 10,093                    | (160)           | 25,544            | 25,641             |
| Federally assisted program advances                       | 458               | -                | -                         | -               | 458               | 60                 |
| Accounts payable and other liabilities                    | 45,605            | 1,071            | 743                       | -               | 47,419            | 65,063             |
| <b>Total current liabilities</b>                          | <b>93,445</b>     | <b>327,351</b>   | <b>20,501</b>             | <b>(160)</b>    | <b>441,137</b>    | <b>477,930</b>     |
| Noncurrent liabilities:                                   |                   |                  |                           |                 |                   |                    |
| Bonds payable, net (Note 6)                               | 70,285            | 1,629,772        | 860,303                   | -               | 2,560,360         | 2,910,329          |
| Derivative instruments                                    | 727               | 149,577          | 131,647                   | -               | 281,951           | 183,600            |
| Derivatives related borrowing                             | -                 | 27,253           | 26,354                    | -               | 53,607            | 59,972             |
| Notes payable (Note 6)                                    | 24,283            | -                | -                         | (16,852)        | 7,431             | 6,173              |
| Other liabilities (Note 6)                                | 22,237            | 872              | 832                       | -               | 23,941            | 8,767              |
| <b>Total noncurrent liabilities</b>                       | <b>117,532</b>    | <b>1,807,474</b> | <b>1,019,136</b>          | <b>(16,852)</b> | <b>2,927,290</b>  | <b>3,168,841</b>   |
| <b>Total liabilities</b>                                  | <b>210,977</b>    | <b>2,134,825</b> | <b>1,039,637</b>          | <b>(17,012)</b> | <b>3,368,427</b>  | <b>3,646,771</b>   |
| <b>Net position</b>                                       |                   |                  |                           |                 |                   |                    |
| Invested in capital assets, net of related debt           | 7,308             | -                | -                         | 16,852          | 24,160            | 26,741             |
| Restricted by bond indentures                             | -                 | 70,268           | 66,828                    | -               | 137,096           | 113,252            |
| Unrestricted (Note 10)                                    | 126,118           | -                | -                         | (16,852)        | 109,266           | 113,586            |
| <b>Total net position</b>                                 | <b>\$ 133,426</b> | <b>\$ 70,268</b> | <b>\$ 66,828</b>          | <b>\$ -</b>     | <b>\$ 270,522</b> | <b>\$ 253,579</b>  |

**Colorado Housing and Finance Authority**  
**Combining Schedule - Statement of Revenues, Expenses and Changes in Net Position**

For the year ended December 31, 2011

(with summarized financial information for the year ended December 31, 2010)

(in thousands of dollars)

|   | General<br>Program | Single<br>Family | Multi-Family/<br>Business | Eliminations | 2011       | Summarized<br>2010 |
|---|--------------------|------------------|---------------------------|--------------|------------|--------------------|
| <b>Interest income and expense:</b>                         |                    |                  |                           |              |            |                    |
| Interest on loans receivable                                | \$ 12,719          | \$ 75,599        | \$ 47,564                 | \$ (1,285)   | \$ 134,597 | \$ 151,319         |
| Interest on investments                                     | 735                | 15,154           | 7,534                     | -            | 23,423     | 18,094             |
| Interest on debt  | (6,765)            | (89,676)         | (43,389)                  | 1,285        | (138,545)  | (141,458)          |
| Net interest income   | 6,689              | 1,077            | 11,709                    | -            | 19,475     | 27,955             |
| <b>Other operating income:</b>                              |                    |                  |                           |              |            |                    |
| Rental income   | 8,804              | -                | -                         | -            | 8,804      | 9,306              |
| Loan servicing income                                       | 13,633             | -                | (3)                       | -            | 13,630     | 13,058             |
| Section 8 administration fees                               | 5,052              | -                | -                         | -            | 5,052      | 4,629              |
| Gain on sale of loans                                       | 16,792             | -                | -                         | -            | 16,792     | 19,817             |
| Investment derivative activity loss                         | (527)              | (1,188)          | -                         | -            | (1,715)    | (473)              |
| Net increase (decrease) in the<br>fair value of investments | 74                 | 21,264           | 4,549                     | -            | 25,887     | 7,324              |
| Other revenues (losses)                                     | 255                | 506              | -                         | -            | 761        | 1,713              |
| Total other operating income                                | 44,083             | 20,582           | 4,546                     | -            | 69,211     | 55,374             |
| Total operating income                                      | 50,772             | 21,659           | 16,255                    | -            | 88,686     | 83,329             |
| <b>Operating expenses:</b>                                  |                    |                  |                           |              |            |                    |
| Salaries and related benefits                               | 18,210             | -                | -                         | -            | 18,210     | 17,808             |
| General operating   | 38,963             | 1,319            | 501                       | -            | 40,783     | 55,636             |
| Depreciation  | 3,684              | -                | -                         | -            | 3,684      | 3,773              |
| Provision for losses  | 3,791              | 4,746            | 499                       | -            | 9,036      | 6,521              |
| Total operating expenses                                    | 64,648             | 6,065            | 1,000                     | -            | 71,713     | 83,738             |
| <b>Net operating income (loss)</b>                          | (13,876)           | 15,594           | 15,255                    | -            | 16,973     | (409)              |
| <b>Nonoperating revenues and expenses:</b>                  |                    |                  |                           |              |            |                    |
| Federal grant receipts                                      | 134,491            | -                | -                         | -            | 134,491    | 134,613            |
| Federal grant payments                                      | (134,491)          | -                | -                         | -            | (134,491)  | (134,613)          |
| Gains on sales of capital assets                            | (30)               | -                | -                         | -            | (30)       | 128                |
| Total nonoperating revenues, net                            | (30)               | -                | -                         | -            | (30)       | 128                |
| <b>Income before transfers</b>                              | (13,906)           | 15,594           | 15,255                    | -            | 16,943     | (281)              |
| <b>Transfers from (to) other programs</b>                   | 7,005              | 4,049            | (11,054)                  | -            | -          | -                  |
| <b>Change in net position</b>                               | (6,901)            | 19,643           | 4,201                     | -            | 16,943     | (281)              |
| <b>Net position:</b>  |                    |                  |                           |              |            |                    |
| Beginning of year   | 140,327            | 50,625           | 62,627                    | -            | 253,579    | 253,860            |
| End of year   | \$ 133,426         | \$ 70,268        | \$ 66,828                 | \$ -         | \$ 270,522 | \$ 253,579         |

## The General Fund

### *Generally*

CERTAIN OBLIGATIONS UNDER THE MASTER INDENTURE HAVE BEEN OR MAY IN THE FUTURE BE DESIGNATED AS GENERAL OBLIGATIONS OF THE AUTHORITY. SEE "SECURITY FOR THE BONDS AND AUXILIARY OBLIGATIONS" IN THIS SUPPLEMENT AND **APPENDIX B-1** – "THE OUTSTANDING BONDS AND AUXILIARY OBLIGATIONS" TO THIS SUPPLEMENT. THE FOLLOWING INFORMATION REGARDING THE AUTHORITY'S GENERAL FUND IS PROVIDED ONLY IN CONNECTION WITH OBLIGATIONS WHICH HAVE BEEN OR ARE IN THE FUTURE SO DESIGNATED.

The General Fund is funded principally from reimbursement of administrative expenses and other allowable transfers from other funds (including the transfer of assets in excess of specified parity levels from other bond issues); loan fees payable to the Authority by borrowers; servicing fees payable to the Authority in connection with outstanding loans, income from the Authority's Rental Acquisition Program; income on investments and mortgage loans held temporarily (for warehousing purposes) and permanently in the General Fund; and administrative fees payable by the federal government in connection with the Section 8 housing assistance payments program. Uses of amounts in the General Fund include payment of general and other administrative expenses and payment of costs relating to those activities deemed necessary to fulfill the Authority's corporate purposes and not payable from other funds of the Authority. The General Fund itself is not subject to any pledge created under the Master Indenture.

The Authority Board, in its discretion, has historically from time to time designated portions of the General Fund balance to particular purposes, and may do so in the future, which may affect the availability of the General Fund for payments in connection with any Bonds or Auxiliary Obligations which have been designated as general obligations. The designations have been or may be for particular uses by means of annual appropriations to certain programs, the establishment of reserves in limited situations and the imposition of restrictions on the fund balance. Designations by the Authority's Board using each of these means may also be redesignated at any time in the Board's discretion. The Authority Board also annually restricts the fund balance of the General Fund (net of amounts previously appropriated or restricted for various funds, debt service reserves, or operating reserves) for the benefit of the holders of certain bonds of the Authority in the event that no other moneys are legally available for debt service payments. As long as the Authority is not in default under the related indenture or resolution for such bonds, the Board may withdraw such restricted amounts at any time.

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*Financial Information for the General Fund*

The following table sets forth historical selected financial information for the General Fund for the five years ended December 31, 2011 as provided by the Authority.

| <b>Colorado Housing and Finance Authority</b>                  |                          |                          |                           |                          |                          |
|--|--------------------------|--------------------------|---------------------------|--------------------------|--------------------------|
| <b>General Fund</b>  |                          |                          |                           |                          |                          |
| <b>Selected Financial Information</b>                          |                          |                          |                           |                          |                          |
| <b>Years Ended December 31</b>                                 |                          |                          |                           |                          |                          |
| <b>(in thousands of dollars)</b>                               |                          |                          |                           |                          |                          |
|  | <u>FY</u><br><u>2011</u> | <u>FY</u><br><u>2010</u> | <u>FY</u><br><u>2009*</u> | <u>FY</u><br><u>2008</u> | <u>FY</u><br><u>2007</u> |
| Interest and investment revenue:                               |                          |                          |                           |                          |                          |
| Loans receivable   | \$12,719                 | \$13,302                 | \$17,979                  | \$15,635                 | \$12,900                 |
| Investments  | 730                      | 426                      | 337                       | 1,807                    | 3,420                    |
| Net increase (decrease) fair value of<br>long-term investments | <u>74</u>                | <u>47</u>                | <u>(185)</u>              | <u>41</u>                | <u>(66)</u>              |
| Total interest and<br>investment revenue                       | 13,523                   | 13,775                   | 18,131                    | 17,483                   | 16,254                   |
| Interest expense - bonds and notes<br>payable                  | <u>5,722</u>             | <u>5,603</u>             | <u>6,457</u>              | <u>8,989</u>             | <u>9,718</u>             |
| Net interest and investment revenue                            | 7,801                    | 8,127                    | 11,674                    | 8,494                    | 6,536                    |
| Other revenue (expense):                                       |                          |                          |                           |                          |                          |
| Rental operations  | 8,804                    | 9,306                    | 7,460                     | 8,424                    | 10,882                   |
| Fees and miscellaneous income                                  | 35,731                   | 39,219                   | 27,106                    | 17,592                   | 17,432                   |
| Hedging activity loss  | (527)                    | (200)                    | --                        | --                       | --                       |
| Gain on sales of capital assets                                | <u>(30)</u>              | <u>128</u>               | <u>2</u>                  | <u>6,091</u>             | <u>6,650</u>             |
| Total other revenue  | <u>43,978</u>            | <u>48,453</u>            | <u>34,568</u>             | <u>32,107</u>            | <u>34,964</u>            |
| Net revenue  | 51,779                   | 56,625                   | 46,242                    | 40,601                   | 41,500                   |
| Other expenses:  |                          |                          |                           |                          |                          |
| Salaries and related benefits                                  | 18,210                   | 17,808                   | 16,180                    | 14,935                   | 14,341                   |
| General operating  | 38,962                   | 54,306                   | 16,334                    | 14,160                   | 15,626                   |
| Provision for losses   | 3,791                    | 2,917                    | 3,662                     | 2,985                    | (300)                    |
| Other interest expense   | 1,038                    | 1,068                    | 1,099                     | 1,137                    | 1,465                    |
| Transfers  | (7,005)                  | (2,236)                  | (4,078)                   | 10,663                   | (3,644)                  |
| Depreciation   | <u>3,684</u>             | <u>3,773</u>             | <u>3,159</u>              | <u>2,685</u>             | <u>2,722</u>             |
| Total other expense  | <u>58,680</u>            | <u>77,636</u>            | <u>36,356</u>             | <u>46,565</u>            | <u>30,210</u>            |
| Change in net assets   | <u>\$(6,901)</u>         | <u>\$(21,011)</u>        | <u>\$ 9,886</u>           | <u>\$(5,964)</u>         | <u>\$ 11,290</u>         |
| Net Assets, end of year  | <u>\$133,426</u>         | <u>\$140,326</u>         | <u>\$161,337</u>          | <u>\$151,451</u>         | <u>\$157,415</u>         |
| Bonds and Notes Payable  | <u>\$140,773</u>         | <u>\$190,178</u>         | <u>\$203,041</u>          | <u>\$287,704</u>         | <u>\$203,029</u>         |
| Total Assets   | <u>\$344,403</u>         | <u>\$420,491</u>         | <u>\$400,426</u>          | <u>\$471,057</u>         | <u>\$392,943</u>         |

\* As restated in the audited financial statements of the Authority for the year ended December 31, 2010.

Sources: Derived based on the audited financial statements of the Authority for years ended December 31, 2007-2011. See the audited 2011 financial statements, included in this Supplement as **Appendix G**.

## Financial Statements of the Authority

The most recent audited financial statements of the Authority, included in this Supplement as **Appendix G**, have been audited by KPMG LLP, independent auditors, as stated in their report appearing therein. KPMG LLP has not performed any procedures related to this Supplement.

## Authority Policy Regarding Swaps

The Master Indenture permits the Authority to enter into "Auxiliary Agreements," which include interest rate exchange or swap contracts, cash flow exchange contracts, forward swaps, interest rate floors, caps or collars and other derivative products which qualify as "Interest Rate Contracts" under the Indenture. See **Appendix B-1** – "THE OUTSTANDING BONDS AND AUXILIARY OBLIGATIONS – The Outstanding Auxiliary Obligations – Outstanding Interest Rate Contracts" to this Supplement. Under the master indenture relating to its Multi-Family/Project Bonds and under the general resolution relating to its Multifamily Housing Insured Mortgage Revenue Bonds, the Authority is also permitted to, and has entered into, certain derivative obligations which are described in footnote (8) of the audited 2011 financial statements of the Authority, included in this Supplement as **Appendix G**.

## Programs to Date

The following is a brief summary of the programs currently operated by the Authority. This summary has been included solely for purposes of providing information about the Authority's activities to assist a potential investor in evaluating the Authority and its programs. **Except as otherwise described herein, the loans referred to below are not pledged in any way as security for the Remarketed Bonds. See "SECURITY FOR THE BONDS AND AUXILIARY OBLIGATIONS" in this Supplement.** See also "Obligations of the Authority" under this caption.

### *Single Family Mortgage Programs*

Under its Single Family Mortgage Programs, the Authority may make mortgage loans for single-family residential dwellings directly to individual borrowers or may purchase such mortgage loans from qualified originating Mortgage Lenders. The Authority presently acquires mortgage loans under its *Qualified Single Family Mortgage Program* and its *Non-Qualified Single Family Mortgage Program*. Under its Qualified Single Family Mortgage Program, the Authority may make mortgage loans to Eligible Borrowers meeting certain income limit requirements, for Eligible Property not exceeding certain Purchase Price limits, and subject to certain other restrictions imposed, in some cases, by the Tax Code. The Authority permits Eligible Borrowers under its Non-Qualified Single Family Mortgage Program to meet certain income limits which are somewhat higher than the limits permitted for the Qualified Single Family Mortgage Program. There is also no limit on prior home ownership or limit on the purchase price of a residence which may be acquired with the proceeds of a loan under the Non-Qualified Single Family Mortgage Program, although the Authority does not exceed the Fannie Mae conforming loan limits. Proceeds of a mortgage loan under the Non-Qualified Single Family Mortgage Program may also be used under the Authority's refinancing program to refinance existing Mortgage Loans. In many other respects, the requirements for the Non-Qualified Single Family Mortgage Program are the same as the requirements for the Authority's Qualified Single Family Mortgage Program. See "THE SINGLE FAMILY MORTGAGE PROGRAM" in this Supplement. The Authority is in the process of revising all of its procedures in order to accommodate a broader range of programs involving the purchase and sale of single family mortgage loans. For certain information regarding the outstanding mortgage loans acquired under the Single Family Mortgage Programs, see footnote (3) to the audited 2011 financial statements of the Authority, included in this Supplement as **Appendix G**.

### *Commercial Loan Programs*

**Rental Finance Programs.** The Commercial Lending Division of the Authority encompasses the business finance programs (described below) as well as the rental finance programs under which the Authority makes mortgage loans to qualified sponsors of low and moderate income multi-family housing within Colorado. As part of its rental finance activities, the Authority makes mortgage loans insured by an agency or instrumentality of the United States. The insured rental loans made by the Authority must be insured by an agency or instrumentality of the United States under an insurance program requiring payment of not less than 99% of the principal amount of such mortgage in the event of default. Insured rental loans made to date have been insured by the Federal Housing Administration ("**FHA**") under Sections 221(d)(3), 221(d)4 and 223(f) of the National Housing Act of 1934, as amended, and under Section 542(c) of the Housing and Community Development Act of 1992, as amended. These insured rental loans have been funded by the Authority as described in "Obligations of the Authority – Commercial Loan Programs" under this caption. In the case of a Section 542(c) claim, the Authority is responsible to reimburse FHA for 50% of any loss incurred by the FHA as a result of and after settlement of such claim. See "Obligations of the Authority – General Obligations – Loans Backed by Authority General Obligation" under this caption. For certain information regarding the Authority's outstanding insured rental loans, see footnote (3) to the audited 2011 financial statements of the Authority, included in this Supplement as **Appendix G**.

The Authority also makes uninsured rental loans to §501(c)(3) nonprofit corporations and public housing authorities as well as to for-profit borrowers. Certain of these uninsured rental loans have been made as a part of the Authority's *Small Affordable Rental Transactions Program* (the "**SMART Program**") in principal amounts under \$5 million (or in such greater amounts as approved from time to time pursuant to the delegated authority policy of the Authority as approved or amended from time to time by the Board). In addition to long-term rental loans under the SMART Program, the Authority also makes uninsured rental loans that provide interim financing for acquisition and/or rehabilitation of the acquired property. These loans, referred to as bridge loans, are generally less than two years in term, are secured by a first deed of trust on the real estate, and have full recourse to the borrower during the term of the bridge loan. In the case of for-profit developers, the loans are both full recourse to the borrower and personally guaranteed by the individual principals during the term of the bridge loan. The Authority has also made an uninsured rental loan to a for-profit borrower in support of certain single family rental housing facilities at Fort Carson Army Base in Colorado Springs, Colorado.

Uninsured rental loans have also been made by the Authority using funds from amounts in its General Fund designated as the *Housing Opportunity Fund* ("**HOF**") under a program referred to as the "**HOF Program**." Under the HOF Program, the Authority makes fixed interest rate loans to nonprofit and for profit developers in support of rental housing facilities targeted to low income residents. Eligible "low income" residents are defined as persons or families that earn 60% of Area Median Income or less. HOF loan interest rates are set on a sliding scale based on the income levels of the residents served by prospective rental housing facilities. All HOF loans must conform to standard Authority diligence processes and underwriting criteria and will be secured by either first or second mortgages on real estate (maximum Loan to Value of 90% for loans to for profit developers and 95% for loans to nonprofit developers). Loan terms on HOF loans may range from 20 to 40 years. HOF loans are generally fully amortizing over their term and do not provide for prepayment restrictions or fees. Balloon payments on HOF loans are permitted under certain circumstances.

Under its *Rental Acquisition Program* (the "**RAP Program**"), the Authority acquires and rehabilitates apartment buildings located throughout Colorado for rental to persons and families of low and moderate income. The Authority contracts with private entities to manage such buildings. For certain information concerning the RAP Program and facilities acquired, rehabilitated and operated by the

Authority, see footnotes (1) and (4) to the audited 2011 financial statements of the Authority, included in this Supplement as **Appendix G**. During 2006, the Authority made the decision to sell a majority of the facilities it then owned under the RAP Program. The facilities were offered for sale to local housing authorities where the facilities are located, and, if those parties were not interested in the purchase, the Authority offered such facilities to for-profit and nonprofit corporations interested in the purchase. As of this date, the Authority has completed the sale of all of the facilities owned under the RAP Program. By its sale of these facilities, the Authority has offered valuable assets at a reasonable price to organizations whose mission is the development and preservation of affordable rental housing in Colorado. In all of such sales, the purchasing parties either agreed to maintain the existing number of units with affordability requirements or increase the number of units with affordability requirements. The sale of these properties does not imply that the Authority is discontinuing or closing the RAP program. The Authority intends to seek opportunities to acquire other rental properties in underserved areas within the State of Colorado at such time as such transactions support the goals of the Authority with respect to affordable rental housing in Colorado.

Business Finance Programs. The Authority originates uninsured loans as part of certain of its business loan programs, including the *CHFA Direct Loan Program*, the *Non-Profit Real Estate Loan Program*, the *U.S. Small Business Administration 504 Program* (the "**SBA 504 Program**"), the *CHFA Rural Loan Program*, the *RENEW Program* and the *Business and Industry Loan I ("B&I I") Program*, described below. These uninsured business loans must meet certain economic development or job creation/retention objectives under the Act and are made to small and moderate-size Colorado businesses to provide long-term, fixed rate financing for real estate and equipment. The uninsured business loans are secured by a first lien on the assets financed, are made in amounts up to ninety percent (90%) of the lesser of cost or appraised value of the collateral, are fully-amortizing over terms of up to thirty (30) years for real estate loans and seven years for equipment, and generally require guarantees from principals of the business having a twenty percent or greater ownership interest. A guaranty is also required from the operating company if different from the Borrower.

- Under the CHFA Direct Loan Program, the Authority provides loans to for-profit businesses to acquire, construct and/or rehabilitate and equip commercial, retail or manufacturing facilities.
- Under the Non-Profit Real Estate Loan Program, the Authority provides loans to non-profit organizations to fund real estate acquisition.
- Under the SBA 504 Program, the Authority provides loans to for-profit businesses to finance owner-occupied real estate and/or equipment. The Program provides two structures, a direct loan option (where the Authority originates the first mortgage loan which generally finances 50% of the project costs) and a loan participation option (where the Authority purchases up to a 90% participation in a first mortgage loan). An SBA-approved company provides a second mortgage for up to 40% of the total project costs (or \$1.3 million, whichever is less), with the Borrower providing the remaining 10% of the costs.
- Under the CHFA Rural Loan Program, the Authority provides loans to rural small for-profit businesses to finance real estate and/or equipment.
- Under the RENEW Program, the Authority provides loans to businesses involved in the recycling and waste diversion industries, with funding received from the Colorado Department of Local Affairs.



- Under the B&I I Program, the Authority provides loans to for-profit businesses located in rural areas, which loans are supported by the partial guaranty of the Rural Business-Cooperative Services (which guarantees to date have ranged from 55% to 80% of the loan principal amount).

In connection with its *Special Projects financing program*, the Authority has financed business loans to corporations for certain manufacturing and solid waste disposal facility projects. The Authority has also made an uninsured business loan to a for-profit borrower to finance a project at the United States Air Force Academy in Colorado Springs, Colorado. The Authority also makes loans under its *Rural Development Loan Program* (the "**RDLP**"), financed through the Intermediary Relending Program offered by the U.S. Department of Agriculture. For the RDLP, the Authority targets Colorado businesses in select rural communities with populations of less than 25,000. Loans can be used to purchase owner-occupied commercial real estate and equipment, and the maximum loan size is \$500,000.

The business loan programs of the Authority also include the SBA 7a, FSA and RD Programs described below. Under these programs, the Authority purchases the guaranteed portion of a business loan (the "**participation interest**"), and is thereby able to provide the borrower with the safety and predictability of a fixed-rate throughout the term of the loan at an attractive interest rate. Additionally, each of these secondary market programs is a source of profit and liquidity for originating lenders.

The *SBA 7a Guaranty Purchase Program* ("**SBA 7a Program**") is a secondary market program whereby the Authority purchases the guaranteed portion of loans originated by local lenders and guaranteed by the SBA. Typically, the Authority markets the SBA 7a Program to local lenders and potential borrowers and purchases the participation interest (which is 100% guaranteed by the SBA). Proceeds of these participation interests may be used to fund real estate, equipment, machinery and working capital.

The *Farm Service Agency Guaranty Purchase Program* ("**FSA Program**") is a secondary market program whereby the Authority purchases the guaranteed portion of loans originated by local lenders and guaranteed 100% by the United States Farm Service Agency. The borrowers are involved in the ranching and agricultural industry throughout Colorado. Proceeds of these loans may be used to finance real estate, equipment, and machinery used in farming and ranching operations.

The *Rural Development Guaranty Purchase Program* ("**RD Program**") creates a secondary market for the purchase of the United States Rural Business Service ("**RBS**") guaranteed portion of qualified loans with funds provided by the Authority. Participating lenders originate loans according to their own credit criteria and RBS requirements. The RD Program provides fixed-rate financing on the guaranteed portion of RBS loans made to borrowers located in a rural community serviced by RBS guaranteed lenders.

### **Obligations of the Authority**

The following is a summary of certain obligations incurred by the Authority to provide funds for and otherwise operate the Authority and the programs described in "Programs to Date" under this caption. This summary has been included solely for purposes of providing information to assist a potential investor in evaluating the Authority's financial status. See also footnote (6) to the audited 2011 financial statements of the Authority, included in this Supplement as **Appendix G**.

### *Single Family Mortgage Programs*

In connection with its Single Family Mortgage Programs, the Authority has issued its Single Family Mortgage Bonds and Notes (referred to as "**Bonds**" in the Official Statement and in this Supplement) under the Master Indenture, payable from the revenues of mortgage loans held thereunder, outstanding as of February 1, 2012 in the aggregate principal amount of \$1,594,340,000. See **Appendix B-1** to this Supplement for further detail about the Bonds and related arrangements. In addition, prior to 2000, the Authority issued numerous series of its Single Family Program Bonds as senior and subordinate bonds under separate indentures of trust, payable from the revenues of mortgage loans pledged under such respective indentures, which bonds were outstanding as of February 1, 2012 in the aggregate principal amount of \$40,129,781. Among these outstanding Bonds and bonds are Class III Single Family Mortgage Bonds outstanding under the Master Indenture and subordinate bonds issued as part of the Single Family Program Bonds under separate indentures which are general obligations of the Authority, as described in "General Obligations – Single-Family Bonds – Class III and Subordinate Bonds" under this caption.

The Authority previously issued its 2009AA Program Bonds under a Master Indenture dated as of December 1, 2009 (the "**NIBP Master Indenture**"), payable from amounts on deposit in an escrow fund until converted and thereafter payable from the revenues of mortgage loans and mortgage-backed securities held thereunder. In May, 2011, the Authority converted \$58,800,000 aggregate principal amount of its 2009AA Program Bonds and issued its Single Family Program Class I Bonds, Series 2011AA (Mortgage-Backed Securities Program) in the aggregate principal amount of \$39,200,000 under the NIBP Master Indenture, the proceeds of which were used to finance Mortgage Loans through the purchase of mortgage-backed securities guaranteed by Ginnie Mae ("**Ginnie Mae Certificates**"). These bonds secured by Ginnie Mae Certificates under the NIBP Master Indenture were outstanding as of February 1, 2012 in the aggregate principal amount of \$96,415,000. Bonds secured by escrowed amounts in the aggregate principal amount of \$216,410,000 remained outstanding under the NIBP Master Indenture as of February 1, 2012. In March 2012, \$106,325,000 aggregate principal amount of 2009AA Program Bonds under the NIBP Master Indenture which remained unconverted as of December 31, 2011 was redeemed with escrowed amounts.

The Authority's financing activities in connection with the Single Family Mortgage Programs also include the sale of certain single family mortgage loans to Fannie Mae and the issuance and sale of Ginnie Mae Certificates in order to finance first mortgage loans as part of the Non-Qualified Single Family Mortgage Programs. Proceeds of Bonds under the Master Indenture may be used to finance Second Mortgage Loans relating to such first mortgage loans financed by and securing the Ginnie Mae Securities. See "THE SINGLE FAMILY MORTGAGE PROGRAM – Special Program Features – Second Mortgage Loans" in this Supplement.

For more detailed information concerning the outstanding bonds of the Authority issued in connection with its Single Family Mortgage Programs, see footnote (6) of the audited 2011 financial statements of the Authority, included in this Supplement as **Appendix G**. The Authority has also issued general obligation bonds through private placement in order to finance single family mortgage loans. See "General Obligations – Privately Placed Bonds" under this caption.

### *Commercial Loan Programs*

The Authority has financed rental loans with proceeds of its Multifamily Housing Insured Mortgage Revenue Bonds (outstanding as of February 1, 2012 in an aggregate principal amount of \$77,355,000) and, since 2000, has financed rental and business loans and certain guaranteed participation interests with proceeds of its Multi-Family/Project Bonds, which were outstanding under a master

indenture as of February 1, 2012 in an aggregate principal amount of \$796,315,000. Certain of the Multi-Family/Project Bonds are secured by the full faith and credit of the Authority, as described in "General Obligations – Multi-Family/Project Bonds" under this caption. In June 2012, the Authority expects to issue an additional series of Multi-Family/Project Bonds in an approximate aggregate principal amount of \$11 million.

Bonds secured by a pledge of loan revenues as well as bonds secured by loan revenues and the general obligation of the Authority have also been privately placed to institutional purchasers by the Authority in order to finance rental loans. See "General Obligations – Privately Placed Bonds" under this caption. Projects in the RAP Program have been acquired using a combination of revenue bonds, the Authority's general fund monies, proceeds of general obligation bonds and non-recourse seller carryback financing. See footnote (6) of the audited 2011 financial statements of the Authority, included in this Supplement as **Appendix G**, for more information regarding these outstanding bonds and notes. The Authority has also acted as a conduit issuer of bonds supported by letters of credit or other credit facilities. These conduit bonds are payable only with amounts received from the conduit borrower, and are therefore not reported as obligations of the Authority on its financial statements. See footnote (7) of the audited 2011 financial statements of the Authority, included in this Supplement as **Appendix G**.

Business loans and participation interests have also been financed by the Authority with the proceeds of the general obligation bonds described in "General Obligations – General Obligation Bonds" under this caption and privately placed bonds, secured by loan and participation revenues as well as the full faith and credit of the Authority. See "General Obligations – Privately Placed Bonds" under this caption. In connection with its Special Projects financing program, the Authority has acted as a conduit issuer its industrial development revenue bonds to finance certain manufacturing facilities and solid waste disposal facility projects for corporations. These bonds are payable only with amounts received from the conduit borrower and are therefore not reported as obligations of the Authority on its financial statements.

**Except for bonds specifically identified in Appendix B-1 to this Supplement as Bonds under the Master Indenture, the revenue bonds described above and at the Authority's website are secured separately from and are not on parity with the Bonds and are issued and secured under resolutions or indentures of the Authority other than the Master Indenture.**

#### *General Obligations*

Many of the bonds and notes issued by the Authority to finance its programs are secured by a pledge of specific revenues, with an additional pledge of its full faith and credit, as described under this caption. Other obligations of the Authority entered in connection with its programs or its operations are not secured by specific revenues or assets other than the Authority's full faith and credit. The bonds, notes and other obligations which are general obligations of the Authority are described below.

Single Family Bonds – Class III Bonds and Subordinate Bonds. The Authority has issued Class III Single Family Mortgage Bonds, the proceeds of which have been used to finance mortgage loans for the Single Family Mortgage Programs. These Class III Bonds, outstanding in the aggregate principal amount of \$53,480,000 as of February 1, 2012, are payable from mortgage loan revenues under the Master Indenture and are also general obligations of the Authority. See **Appendix B-1** to this Supplement for more information about these Class III Bonds. The Subordinate Bonds for the various series of the Authority's Single-Family Program Senior and Subordinate Bonds are payable from mortgage loan revenues on a subordinate lien basis and are also general obligations of the Authority. The aggregate principal amount of such Subordinate Bonds as of February 1, 2012 was \$215,000.

Multi-Family/Project Bonds. The Authority has issued Class I Multi-Family/Project Bonds (outstanding as of February 1, 2012 in an aggregate principal amount of \$264,665,000) in order to finance business loans which are payable not only from a senior lien on loan revenues but also as general obligations of the Authority. The Authority has also issued Class II Multi-Family/Project Bonds (outstanding as of February 1, 2012 in the aggregate principal amount of \$22,095,000) and Class III Multi-Family/Project Bonds (outstanding as of February 1, 2012 in an aggregate principal amount of \$1,700,000) in order to finance certain rental and business loans. These Class II and Class III Multi-Family/Project Bonds are payable from loan revenues on a subordinate lien basis to the Class I Multi-Family/Project Bonds and also as general obligations of the Authority.

Privately Placed Bonds. The Authority has issued general obligation bonds through private placement in order to finance rental loans. As of February 1, 2012, such privately placed bonds were outstanding in an aggregate principal amount of \$21,479,000. The Authority has also funded participation interests and business loans using proceeds of its privately placed bonds, outstanding as of February 1, 2012 in the aggregate principal amount of \$20,136,255. In addition, the Authority has issued general obligation bonds through private placement in order to finance single family mortgage loans. As of February 1, 2012, such privately placed bonds were outstanding in an aggregate principal amount of \$25,473,001.

Loans Backed by Authority General Obligation. The Authority has acquired or originated certain uninsured rental and business loans using proceeds of, and pledged to the repayment of, its Multi-Family/Project Bonds, outstanding as of February 1, 2012 in the aggregate principal amount of \$319,815,247. The Authority has pledged its full faith and credit to the payment of a substantial portion of such loans. The Authority has also assumed, as a general obligation, 50% risk of loss in the mortgage loans acquired by the Authority and insured by the FHA under Section 542(c) of the Housing and Community Development Act of 1992, as amended. As of February 1, 2012, such 542(c) mortgage loans were outstanding in the amount of \$233,762,786 (\$32,818,244 held under the General Resolution and securing the Multifamily Housing Insured Mortgage Revenue Bonds and \$200,944,541 held under the Multi-Family/Project Master Indenture and securing the Multi-Family/Project Bonds). In the case of a §542(c) claim, the Authority is responsible, as a general obligation, to reimburse FHA for 50% of any loss incurred by the FHA as a result of and after the final settlement of such claim. See "Programs to Date – Commercial Loan Programs – Rental Finance Programs" under this caption. To date, the Authority has incurred risk-sharing losses of approximately \$11.8 million following the defaults on insured mortgage loans for certain projects, the foreclosure and sale of those projects and the settlement of the respective final insurance claims with FHA. In addition, the mortgage loans for the Platte Valley Village II project in the approximate aggregate principal amount of \$1.781 million, for the Fox Run Apartments project in the approximate aggregate principal amount of \$3.455 million and for the Gold Camp Apartments project in the approximate aggregate principal amount of \$1.195 million have also defaulted. The Authority has filed insurance claims and received insurance proceeds from HUD with respect to these loans. It is likely that the Authority will incur a risk-sharing liability with respect to these loans, for which the Authority believes it is adequately reserved.

Interest Rate Contracts; Derivative Products. The Authority has pledged its full faith and credit to secure its obligation to make termination payments under the Interest Rate Contracts relating to the Bonds under the Master Indenture and under the derivative products relating to the Multi-Family/Project Bonds under the Multi-Family/Project Master Indenture. See **Appendix B-1** – "THE OUTSTANDING BONDS AND AUXILIARY OBLIGATIONS – The Outstanding Auxiliary Obligations – Outstanding Interest Rate Contracts" to this Supplement. See also "Authority Policy Regarding Swaps" under this caption and footnote (8) to the audited 2011 financial statements of the Authority, included in this Supplement as **Appendix G**.

Other Borrowings. The Authority has entered into agreements with the Federal Home Loan Bank of Topeka and a commercial bank for borrowings from time to time. Such borrowings are also general obligations of the Authority and have generally been used to date to make or purchase loans pending the permanent financing of such loans. As of February 1, 2012, borrowings in the aggregate principal amount of \$47,050,000 were outstanding under those agreements. See footnote (5) to the audited 2011 financial statements of the Authority, included in this Supplement as **Appendix G**. The Authority has also borrowed amounts evidenced by Rural Business Cooperative Service Notes (outstanding as of February 1, 2012 in the aggregate principal amount of \$1,800,370), which have been used to finance project or working capital loans or participations therein for small businesses in rural areas. The Authority has pledged its full faith and credit to the payment of such notes. In addition, the Authority was obligated as of February 1, 2012 to repay certain seller carry-back notes in the aggregate principal amount of \$56,033, which notes evidenced borrowings by the Authority in connection with its purchase of certain RAP projects. These notes have been fully repaid in connection the final sale of the RAP projects.

General Obligation Ratings. Moody's has assigned an "A2" rating and S&P has assigned an "A" rating, both with a stable outlook, to the Authority's ability to repay its general obligation liabilities. The ratings have been assigned based on the Authority's management, financial performance and overall program performance. There is no assurance that any such rating will continue for any given period of time or that any such rating will not be revised downward or withdrawn entirely by Moody's or S&P, respectively, if, in the judgment of the issuing rating agency, circumstances so warrant.

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*Summary of Certain Authority Obligations*

The following is a table which lists certain obligations of the Authority and sets forth the respective outstanding amount for such obligations as of February 1, 2012. Further detail regarding these items is provided under the other subcaptions of "Obligations of the Authority" in this Supplement.

**Summary of Certain Authority Obligations as of February 1, 2012**

| <u>Certain Authority Obligations</u>                                    | <u>Outstanding Amount<br/>(February 1, 2012)</u> |
|---|--|
| Single Family Mortgage Bonds (2001 Master Indenture) <sup>(1)</sup>     | \$1,594,340,000                                  |
| Single Family Program Senior/Subordinate Bonds (Separate Indentures)    | 40,129,781                                       |
| Single Family Program Bonds (NIBP Master Indenture)                     | 312,825,000 <sup>(2)</sup>                       |
| Multifamily Housing Insured Mortgage Revenue Bonds (General Resolution) | 77,355,000                                       |
| Multi-Family/Project Bonds (Master Indenture)                           | 796,315,000                                      |
| Privately Placed Bonds:   |  |
| Rental Finance  | 21,479,000                                       |
| Business Finance  | 20,136,255                                       |
| Single Family   | 25,473,001                                       |

<sup>(1)</sup> These are the Bonds (including the Remarketed Bonds) issued and outstanding under the Master Indenture. See **Appendix B-1** to this Supplement for more information about the Bonds.

<sup>(2)</sup> In March 2012, \$106,325,000 aggregate principal amount of 2009AA Program Bonds under the NIBP Master Indenture was redeemed with escrowed amounts.

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The following table identifies the specific components of the Authority Obligations listed on the preceding table which are general obligations of the Authority as well as other general obligations of the Authority as of February 1, 2012. Further detail regarding these items is provided under the other subcaptions of "Obligations of the Authority" in this Supplement.

**General Obligations of the Authority as of February 1, 2012**

| <b>General Obligations</b>               | <b>Outstanding Amount<br/>(February 1, 2012)</b> |
|--|--|
| Single Family Mortgage Bonds, Class III  | \$53,480,000                                     |
| Single Family Program Subordinate Bonds  | 215,000  |
| Multi-Family/Project Bonds:              |  |
| Class I                                  | 264,665,000                                      |
| Class II                                 | 22,095,000                                       |
| Class III                                | 1,700,000  |
| Privately Placed Bonds:                  |  |
| Rental Finance                           | 21,479,000                                       |
| Business Finance                         | 20,136,255                                       |
| Single Family                            | 25,473,001                                       |
| Other Borrowings:                        |  |
| Lines of Credit                          | 47,050,000                                       |
| Rural Business Cooperative Service Notes | 1,800,370  |
| Seller Carry-Back RAP Notes*             | 56,033   |

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\* These notes were fully repaid in connection with the final sale of the RAP projects in March 2012.

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## CERTAIN PROGRAM ASSUMPTIONS

### Insurance Limitations and Requirements

The Series Indentures require that Mortgage Loans (i) be insured by the FHA, (ii) be guaranteed by the VA, HUD or the Rural Housing Service (formerly the RHCDS, a successor agency to the FmHA), (iii) be Private Mortgage Insurance Mortgage Loans, (iv) be a Mortgage Loan which is not insured or guaranteed but (except for any second mortgage) has an original principal amount less than 80% of the appraised value (at the time of origination of such Mortgage Loan) or purchase price, whichever is less, of the property securing such Mortgage Loan (an "**Uninsured Mortgage Loan**") or (v) otherwise be a type of Mortgage Loan the acquisition of which (as confirmed by each Rating Agency) will not adversely affect such Rating Agency's then current rating on any Bonds. Furthermore, the Authority may use amounts in the Acquisition Account to acquire First and Second Mortgage Loans originated under the HUD Section 184 Indian Housing Guarantee Program, which provides a 100% loan guarantee to the Authority. See "THE SINGLE FAMILY MORTGAGE PROGRAM" in this Supplement and **Appendix I** – "INSURANCE AND GUARANTEE PROGRAMS; FORECLOSURE" to this Supplement.

Private Mortgage Insurance Mortgage Loans must be insured by a private insurance company approved by the Authority, qualified to transact business in the State and to provide insurance on mortgages purchased by Freddie Mac or Fannie Mae and rated by each Rating Agency then rating the Bonds, at the time each Private Mortgage Insurance Mortgage Loan under the Indenture is made or originated, as set forth in the respective series indenture (a "**Private Insurer**"). Such insurance must remain in force except as otherwise required by the Homeowners Protection Act of 1998, as amended, 12 U.S.C. 4901, et, seq. or other applicable laws, or at the option of the Authority, the Private Mortgage Insurance (if borrower paid) may be cancelable after the outstanding principal balance of the Mortgage Loan is reduced to 80% or less of the appraised value (based on the original appraisal) of the property securing the Mortgage Loan.

As of February 1, 2012, the following Private Insurers were providing insurance for the respective percentages of First Mortgage Loans (based on outstanding principal balance):

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**Private Mortgage Insurance Mortgage Loans  
and Private Insurers**

| <u>Name of<br/>Private Insurer <sup>(1)</sup></u> | <u>Percentage of<br/>Trust Estate <sup>(2)</sup></u> | <u>Percentage of<br/>Private Mortgage Insurance<br/>Mortgage Loans <sup>(3)</sup></u> |
|---|--|---|
| Mortgage Guaranty Ins.                            | 7.32%  | 38.00%  |
| Genworth  | 5.48   | 28.47   |
| RMIC  | 2.28   | 11.85   |
| United Guaranty Corp.                             | 2.11   | 10.98   |
| PMI Mortgage Insurance <sup>(4)</sup>             | 1.08   | 5.63  |
| Triad Guaranty Insurance                          | 0.53   | 2.78  |
| Radian Guaranty Inc.                              | <u>0.43</u>  | <u>2.25</u>   |
| <b>Total Percentage</b>                           | <b>19.24%</b>  | <b>100.00%</b>  |

<sup>(1)</sup> The ratings of several of these Private Insurers have been downgraded since the time that the Private Mortgage Insurance Mortgage Loans in the Trust Estate which are insured by such Private Insurers were originated, and such ratings are in most cases below the rating levels which were required for such Private Insurers by the applicable series indentures at the time of such originations.

<sup>(2)</sup> Aggregate principal balance of First Mortgage Loans in the Trust Estate as of February 1, 2012 was approximately \$1.249 billion.

<sup>(3)</sup> Aggregate principal balance of First Mortgage Loans as of February 1, 2012 which were Private Mortgage Insurance Mortgage Loans was approximately \$240 million.

<sup>(4)</sup> In October 2011, Arizona regulators took control of PMI Mortgage Insurance Co., instituting a partial claim payment plan under which insurance claims made to PMI would be paid 50% in cash and the remainder of the claims were deferred. In November 2011, PMI Mortgage Insurance filed a voluntary petition under Chapter 11 of the U.S. Bankruptcy Code. An Order for Appointment of Receiver and Injunction was entered in March 2012, placing PMI Mortgage Insurance Co. into rehabilitation.

As of February 1, 2012, 19.24% of the \$1.249 billion aggregate principal amount of First Mortgage Loans in the Trust Estate were Private Mortgage Insurance Mortgage Loans. Due to the downgrade in the ratings of most Private Insurers, there has been a significant reduction of Private Mortgage Insurance Mortgage Loans being purchased by the Authority and an increase in the number of government insured or guaranteed Mortgage Loans being purchased by the Authority during recent years. The Authority currently does not accept reservations for mortgage loans which are Private Mortgage Insurance Mortgage Loans.

### **Investments**

In connection with the prior issuance of Bonds outstanding under the Master Indenture, the Authority has invested certain amounts in Series subaccounts of Funds related to such Bonds in investment agreements with the investment providers and amounts invested, and at the rates, as of February 1, 2012 as set forth in the following table. As of February 1, 2012, the total amounts in Funds held under the Master Indenture invested with the respective investment providers were as follows: \$43,188,702 with Trinity Funding Company, LLC; \$74,542,320 with Natixis Funding Corp.; \$9,613,500 with Royal Bank of Canada; and \$5,500,000 with Rabobank International.

**Outstanding Investment Agreements  
(as of February 1, 2012)**

| <u>Series</u> | <u>Funds Invested<br/>(in related Series subaccounts)</u> | <u>Investment Provider<sup>(1)</sup></u> | <u>Amounts<br/>Invested</u> | <u>Rate</u>                | <u>Termination<br/>Dates</u> |
|---------------|---|--|-----------------------------|----------------------------|------------------------------|
| 2001AA        | Revenue Fund, Redemption Fund                             | Trinity Funding Company, LLC             | \$25,990,985                | 5.30%/<br>3 month<br>LIBOR | 3/1/36                       |
| 2001AA        | Debt Service Reserve Fund                                 | Trinity Funding Company, LLC             | 2,500,000                   | 5.30%                      | 3/1/36                       |
| 2002A         | Revenue Fund, Redemption Fund                             | Trinity Funding Company, LLC             | 6,697,862                   | 5.10%                      | 11/1/32                      |
| 2002A         | Debt Service Reserve Fund                                 | Trinity Funding Company, LLC             | 4,475,500                   | 5.60%                      | 11/1/32                      |
| 2002B         | Revenue Fund, Redemption Fund <sup>(2)</sup>              | Natixis Funding Corp.                    | 15,292,055                  | 4.60%                      | 11/1/32                      |
| 2003A         | Revenue Fund, Redemption Fund                             | Trinity Funding Company, LLC             | 3,524,355                   | 4.13%                      | 11/1/32                      |
| 2004B         | Revenue Fund, Redemption Fund <sup>(2)</sup>              | Natixis Funding Corp.                    | 7,339,419                   | 4.60%                      | 11/1/34                      |
| 2006A         | Revenue Fund, Redemption Fund <sup>(2)</sup>              | Natixis Funding Corp.                    | 14,941,211                  | 4.60%                      | 11/1/36                      |
| 2006A         | Debt Service Reserve Fund                                 | Rabobank International                   | 5,500,000                   | 4.71%                      | 11/1/36                      |
| 2006B         | Debt Service Reserve Fund                                 | Royal Bank of Canada                     | 9,613,500                   | 5.56%                      | 11/1/36                      |
| 2008A         | Revenue Fund, Redemption Fund                             | Natixis Funding Corp.                    | 36,969,635                  | 4.27%                      | 11/1/38                      |

<sup>(1)</sup> Neither the Authority nor the Remarketing Agent makes any representation about the financial condition or creditworthiness of the Investment Providers. Prospective investors are urged to make their own investigation into the financial condition and creditworthiness of the Investment Providers.

<sup>(2)</sup> These funds are invested under a master repurchase agreement entered with Natixis Funding Corp. on January 29, 2010 (the "**Master Repurchase Agreement**"). The Master Repurchase Agreement replaced the investment agreements previously in effect, and provides for the delivery of securities to the Trustee at a collateralization level of 105%.

In accordance with the terms of the Master Indenture, the Authority has also instructed and will instruct the Trustee from time to time to invest certain moneys held by the Trustee in Funds and Accounts relating to Bonds in permitted Investment Securities under the Indenture other than investment agreements, including mortgage-backed securities. Information about such investments is available in filings with national repositories that the Authority is obligated to make on an annual basis in connection with certain outstanding Bonds under the Master Indenture. See "AVAILABILITY OF CONTINUING INFORMATION" in this Supplement.

The assumptions made by the Authority as to projected cashflows under the Indenture include the assumption that the investment rates provided by the Investment Agreements shown on the preceding table will be available as described. However, in the event that any Investment Agreement shown on the preceding table is terminated as a result of default by the respective investment provider or for any other reason, it may not be possible to reinvest such proceeds and deposits at these assumed rates and the cashflows may be adversely affected.

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## SECURITY FOR THE BONDS AND AUXILIARY OBLIGATIONS

### Pledge of Trust Estate

All Bonds and obligations of the Authority for the payment of money under the Interest Rate Contracts and Liquidity Facilities (the "**Auxiliary Obligations**") outstanding under the Master Indenture (other than Bonds and Auxiliary Obligations which are General Obligations of the Authority) are secured by and payable from revenues, assets and moneys pledged for the payment thereof under the Master Indenture (the "**Trust Estate**"). The pledge and lien of the Master Indenture on the Trust Estate is created and established in the following order of priority: first, to secure the payment of the principal of and interest on the Class I Obligations; second, to secure the payment of the principal of and interest on the Class II Obligations; third, to secure the payment of the principal of and interest on the Class III Obligations; and fourth, to secure the payment of principal and interest on the Class IV Obligations. Bonds and Auxiliary Obligations may also be designated as General Obligations of the Authority.

No Bonds or Auxiliary Obligations are presently outstanding under the Master Indenture other than as listed in **Appendix B-1** – "THE OUTSTANDING BONDS AND AUXILIARY OBLIGATIONS" to this Supplement. The Authority's obligation to pay principal of Bank Bonds at maturity or in accordance with a scheduled amortization date as set forth in any Liquidity Facility is a Class I Obligation. To the extent of any principal of Bank Bonds which is payable in advance of the maturity or scheduled amortization date as set forth in any Liquidity Facility, such portion of any Bank Bonds will in some cases constitute Class I Bonds and in other cases will constitute Class III Bonds and be designated as General Obligations of the Authority. The Authority's obligation to make regular interest payments under any Interest Rate Contract has been (and is expected in the future to be) a Class I Obligation, and the Authority's obligation to make certain payments due upon early termination of any such Interest Rate Contract has been (and is expected in the future to be) a General Obligation of the Authority and not secured by the Trust Estate under the Master Indenture. The Authority expects to issue Additional Bonds under the Master Indenture, as described in "Issuance of Additional Bonds; Auxiliary Obligations" under this caption. *Notes and bonds heretofore or hereafter issued to provide funds for programs of the Authority (other than the Bonds under the Master Indenture) are and will be authorized and secured by separate resolutions or indentures and are not and will not be secured by the pledge of the Master Indenture and do not and will not rank on a parity with the Bonds. See "COLORADO HOUSING AND FINANCE AUTHORITY – Obligations of the Authority" in this Supplement.*

Under the Master Indenture, the Trust Estate pledged to secure the Bonds and Auxiliary Obligations includes:

- (i) all right, title and interest of the Authority in and to the proceeds of Bonds until used as set forth in the Master Indenture;
- (ii) all right, title and interest of the Authority in and to the Revenues (as described in "Revenues" under this caption);
- (iii) all right, title and interest of the Authority in and to all moneys and securities in the Funds and Accounts from time to time held by the Trustee under the terms of the Master Indenture (except moneys and securities in the Rebate Fund, the Excess Earnings Fund and a Bond Purchase Fund) and investments, if any, thereof (other than the Rebate Requirement which is to be deposited in the Rebate Fund and any Excess Earnings which are to be deposited in the Excess Earnings Fund);

(iv) all right, title and interest of the Authority in and to the Mortgage Loans and the MBS described in "The Mortgage Loans and the Mortgaged-Backed Securities" under this caption; and

(v) all other property of any kind from time to time pledged under the Master Indenture as additional security.

**In no event shall the Bonds constitute an obligation or liability of the State or any political subdivision thereof (except the Authority). The Authority has no taxing power nor does it have the power to pledge the general credit or the taxing power of the State or any political subdivision thereof, other than the general credit of the Authority, which general credit is not pledged for the payment of the Bonds except in the case of Bonds specifically designated as general obligations of the Authority.**

## **Revenues**

Under the Master Indenture, the term "Revenues" means:

(a) all Mortgage Repayments, which include, with respect to any Mortgage Loan or the related MBS, the amounts received by or for the account of the Authority as scheduled payments of the principal of or interest (if any) on such Mortgage Loan or related MBS by or on behalf of the Borrower to or for the account of the Authority, and does not include Prepayments, Servicing Fees or Escrow Payments;

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

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

(d) all amounts earned on investments (other than Mortgage Loans and MBS) credited to any Fund or Account pursuant to the Indenture (including gains upon the sale or disposition of such investments), except the Rebate Requirement payable to the United States and any Excess Earnings;

(e) all payments and receipts received by the Authority under Interest Rate Contracts; and

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

fees charged by a Mortgage Lender in connection with a Mortgage Loan, or accrued interest received in connection with the purchase of Investment Securities).

For a further description of the Revenues, the pledge thereof and the payment and transfer thereof from the Revenue Fund, see "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – Revenue Fund" in **Appendix A** to this Supplement.

Pursuant to the Master Indenture, all Revenues related to each Series of Bonds, in addition to other amounts, are to be deposited into the subaccount of the Revenue Fund related to such Series of Bonds. On the last business day prior to each Payment Date or on the other dates specifically provided in the Indenture, the Trustee is required to make certain transfers of amounts from each Series subaccount of the Revenue Fund, to the extent moneys are available, to various Funds and Accounts in a certain priority, as provided in the Master Indenture. See **Appendix A** – "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – Revenue Fund" to this Supplement. Among these transfers, the Trustee is to deposit into: (i) the related Series Subaccount of the related Class Special Redemption Account, Loan Recycling Account (at the election of the Authority), or any combination of the two, the amount needed, if any, to ensure that the Class Asset Requirements for the related Series of Bonds will be met on such Payment Date; and (ii) each Series subaccount of the Related Class Special Redemption Account not related to such Series of Bonds, on a proportionate basis with all such unrelated subaccounts, the amount of any deficiency resulting from the lack of moneys sufficient to make the deposit described in (i). The Class Asset Requirements applicable to each Series of Bonds are set forth in each Related Series Indenture. For information about the Class Asset Requirements, see **Appendix F** – "CLASS ASSET REQUIREMENTS FOR BONDS" to this Supplement.

## **The Mortgage Loans and the Mortgage-Backed Securities**

### *Generally*

The Trust Estate pledged under the Master Indenture to secure Bonds and Auxiliary Obligations issued thereunder includes the right, title and interest of the Authority in the Mortgage Loans and the MBS acquired by the Authority in order to finance Mortgage Loans. Under the Master Indenture, "MBS" means collectively, the Ginnie Mae Certificates, the Fannie Mae Certificates and the Freddie Mac Certificates. See "Mortgage-Backed Securities" under this caption. "**Mortgage Loan**" means a permanent loan secured by a Mortgage for the purchase and/or rehabilitation of Residential Housing made to a Borrower by the Authority or an originating Mortgage Lender which is purchased pursuant to a Mortgage Purchase Agreement and which satisfies certain requirements of the Master Indenture. See "Mortgage Loan Requirements" under this caption. All Bonds issued under the Master Indenture will be secured by the Trust Estate which includes all MBS and Mortgage Loans so acquired with proceeds of such Bonds. In the event that only a portion of or interest in an MBS or Mortgage Loan is purchased under the Master Indenture, reference to such an MBS or a Mortgage Loan shall be interpreted and applied to relate to such portion or interest.

### *Mortgage-Backed Securities*

An MBS acquired as part of the Trust Estate can be a Ginnie Mae Certificate, a Fannie Mae Certificate or a Freddie Mac Certificate. A "**Ginnie Mae Certificate**" is a mortgage backed security (which may be issued under either the GNMA I Program or the GNMA II Program) bearing interest at a Pass-Through Rate, issued by the Authority registered in the name of the Trustee and guaranteed as to timely payment of principal and interest by GNMA pursuant to Section 306(g) of Title III of the National Housing Act of 1934 and the regulations promulgated thereunder backed by FHA Insured Mortgage Loans or VA Guaranteed Mortgage Loans. A "**Fannie Mae Certificate**" is a single pool, guaranteed

mortgage, pass-through certificate, issued by Fannie Mae, guaranteed as to timely payment of interest and principal by Fannie Mae and backed by Conventional Mortgage Loans. A "**Freddie Mac Certificate**" is a mortgage participation certificate issued by Freddie Mac and representing an undivided interest in a pool of Conventional Mortgage Loans identified by a particular alpha numeric number and CUSIP number, guaranteed as to timely payment of principal and interest by Freddie Mac.

#### *Mortgage Loan Requirements*

The Mortgage Loans must be permanent loans secured by a mortgage, deed of trust or other instrument constituting a valid lien on real property in the State and improvements constructed or to be constructed thereon or on a leasehold under a lease having a remaining term, at the time such instrument is acquired by the Authority, of not less than the term for repayment of the Mortgage Loan secured by such instrument. The Mortgage Loans may be secured by a first mortgage on the real property (a "**First Mortgage Loan**") or may be originated by the Authority or on behalf of the Authority by the Mortgage Lender and secured by a second mortgage loan on the real property (a "**Second Mortgage Loan**"). A Second Mortgage Loan will only be originated in connection with a First Mortgage Loan. Each Mortgage Loan must be made in connection with the purchase or refinance of a single-family, owner-occupied dwelling located within the State that qualifies for financing or refinancing by the Authority within the meaning of the Act, the Rules and Regulations of the Program, the relevant provisions of the Tax Code and related regulations (referred herein as "**Residential Housing**"). A Second Mortgage Loan may be originated for the purpose of assisting Eligible Borrowers with their upfront cash requirements in connection with the purchase of Residential Housing or for closing cost assistance in connection with the financing or refinancing of a mortgage loan. See "THE SINGLE-FAMILY MORTGAGE PROGRAM – Reservation, Delivery and Acquisition of Mortgage Loans" in this Supplement. A First Mortgage Loan must be the subject of a title insurance policy in an amount at least equal to the outstanding principal amount of such Mortgage Loan and must be made to a Borrower by the Authority or made by an originating Mortgage Lender and purchased by the Authority pursuant to a Mortgage Purchase Agreement. For this purpose, a *Borrower* means the maker of, and any other party obligated on, a Mortgage Loan in connection with the acquisition or rehabilitation of Residential Housing, who is a person or family of "low or moderate income" qualifying as such under the Act and the Rules and Regulations of the Program and, as applicable, in accordance with the Tax Code. The Mortgage Lenders may include certain banks, trust companies, FHA-approved direct endorsement mortgagees, VA-approved automatic lenders, Fannie Mae-approved and/or Freddie-Mac-approved sellers, RHS-approved mortgagees, national banking associations, credit unions, and savings and loan associations which make mortgage loans on properties located in the State and mortgage bankers approved by a private mortgage company insuring a Mortgage Loan.

First Mortgage Loans are required by the Master Indenture to be subject to mortgage insurance or guaranty to the extent required by any Series Indenture. See "CERTAIN PROGRAM ASSUMPTIONS – Insurance Limitations and Requirements" in this Supplement. The Master Indenture further requires that the buildings on the premises with respect to which each First Mortgage Loan is made are to be insured, as and to the extent required by the Authority to protect its interest and with the Authority designated as the loss payee as its interest may appear, against loss or damage by fire, lightning and other hazards (including flooding in some cases). Each Mortgage Loan must be serviced by a participating lender until it is purchased by the Authority, at which time the servicing is transferred to the Authority. If the Authority purchases a Mortgage Loan before the first payment on such loan is due, then the Authority will be the initial servicer rather than the participating lender. See "THE SINGLE FAMILY MORTGAGE PROGRAM – Servicing of the Mortgage Loans" in this Supplement. In the Master Indenture, the Authority has covenanted to take certain action to protect the interests of the owners of the Bonds in the Mortgage Loans. See **Appendix A** – "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – Program Covenants; Enforcement of Mortgage Loans and Servicing Agreements" to this

Supplement. In one such covenant, the Authority has agreed to diligently enforce and take or cause to be taken all reasonable steps, actions and proceedings necessary for the enforcement of all terms, covenants and conditions of all Mortgage Loans consistent with sound lending practices and principles and applicable requirements under the Tax Code including the prompt payment of all Mortgage Repayments and all other amounts due the Authority thereunder.

### *Mortgage Loans*

The Mortgage Loans securing the Bonds and Auxiliary Obligations under the Master Indenture will include Mortgage Loans originated by the Authority, or by Mortgage Lenders and thereafter purchased by the Authority, using amounts on deposit in the Acquisition Account and transferred to the Trustee. Upon transfer of any Mortgage Loans by the Authority to the Trustee, the Trustee is to reimburse the Authority for its costs of purchasing such Mortgage Loans using amounts on deposit in the Acquisition Account. The Mortgage Loans must satisfy the requirements described in "Mortgage Loan Requirements" under this caption. See also **Appendix A** – "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – Program Fund; Acquisition Account" to this Supplement. The Mortgage Loans securing the Bonds and Auxiliary Obligations under the Master Indenture will include any Mortgage Loans acquired using proceeds of additional Bonds which may be issued by the Authority under the Master Indenture as described in "Issuance of Additional Bonds; Auxiliary Obligations" under this caption. Any additional Mortgage Loans so acquired must meet the requirements required by the Series Indenture relating to such additional Bonds.

### **Debt Service Reserve Fund**

The Debt Service Reserve Fund Requirement (if any) for each Series of Bonds is established by the Related Series Indenture. Upon the issuance of any Series of Bonds, the Debt Service Reserve Fund Requirement for such Bonds is expected to be funded by a deposit of proceeds to the Debt Service Reserve Fund or by the deposit of a Qualified Surety Bond as permitted by the Indenture. Additional moneys are to be transferred into the various subaccounts of the Debt Service Reserve Fund from the Revenue Fund as provided in the Master Indenture in the amounts needed, if any, to increase the amount in any subaccount of the Debt Service Reserve Fund, together with any Qualified Surety Bond therein, to the Debt Service Reserve Fund Requirement for the Bonds. See **Appendix A** – "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – Revenue Fund" to this Supplement.

Amounts in the Debt Service Reserve Fund are to be transferred to the Debt Service Fund and applied by the Trustee to the payment of principal and interest on the Bonds issued under the Master Indenture, in order of Class, in the event that amounts on deposit in the Debt Service Fund for the Related Class are insufficient to make such payments on any Bond Payment Date. **When making such payments, the Trustee is to transfer amounts first from the Series subaccount of the Debt Service Reserve Fund related to the Bonds for which the payment will be made and, second, from any unrelated Series subaccounts.** See **Appendix A** – "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE –Debt Service Reserve Fund" to this Supplement.

### **Liquidity Facilities**

Pursuant to the respective Series Indentures, the Authority has entered, and expects in the future to enter, into Liquidity Facilities in connection with Adjustable Rate Bonds issued under the Master Indenture. See **Appendix B-1** – "THE OUTSTANDING BONDS AND AUXILIARY OBLIGATIONS – The Outstanding Auxiliary Obligations – Liquidity Facilities" to this Supplement for a description of the outstanding Liquidity Facilities under the Master Indenture. The Authority may elect to replace any Liquidity Facility with an Alternate Liquidity Facility. The Authority is to promptly notify the Trustee,



the Remarketing Agent and the Paying Agent of the Authority's intention to deliver an Alternate Liquidity Facility at least 45 days prior to the date of such delivery. Upon receipt of such notice, the Trustee is to promptly mail a notice of the anticipated delivery of an Alternate Liquidity Facility, including the name of the provider of such Alternate Liquidity Facility, by first-class mail to the Remarketing Agent and to each Owner of the Adjustable Rate Bonds at such Owner's registered address and to EMMA. The Authority is to deliver such Alternate Liquidity Facility to the Trustee on or before the day preceding the date of expiration of the then expiring Liquidity Facility or on the date of its intent to deliver.

The Authority is to use its best efforts to obtain an Alternate Liquidity Facility to replace the Liquidity Facility or cause the Adjustable Rate Bonds to be Converted to Fixed Rate Bonds or to bear interest in a Mode which does not require a Liquidity Facility in the event (i) the Liquidity Facility Provider shall decide not to extend the term of the Liquidity Facility beyond the expiration date thereof pursuant to the terms of the Liquidity Facility, (ii) the Authority terminates the Liquidity Facility pursuant to its terms, (iii) the Liquidity Facility Provider furnishes a termination notice to the Trustee, or (iv) the Liquidity Facility Provider fails to purchase Bonds as permitted by the Liquidity Facility.

No Alternate Liquidity Facility may be delivered to the Trustee for any purpose under the respective Series Indenture unless accompanied by certain documents, including letters from Moody's and S&P evidencing that the replacement of the Liquidity Facility with the Alternate Liquidity Facility will result in the reconfirmation of the then existing rating or the assignment of a new short-term rating of not less than "A-1+" or "P-1/VMIG-1" (in the case of S&P and Moody's, respectively) on the related Adjustable Rate Bonds.

Unless the Trustee has received (a) written notice from the Liquidity Facility Provider that it elects to extend or renew the Liquidity Facility or (b) written notice from the Authority that it has determined to provide or cause to be provided an Alternate Liquidity Facility, which notice shall be received not less than 30 days prior to the stated expiration date of the Liquidity Facility, the Trustee is to give notice to the Owners of Adjustable Rate Bonds and to EMMA that the Adjustable Rate Bonds will be subject to mandatory tender for purchase, with no right to retain, not less than 20 days from the date of such notice to such Bondowners, at the Purchase Price (payable by the Liquidity Facility Provider) on the date set forth for purchase in such notice.

### **Interest Rate Contracts**

In connection with the issuance of certain Adjustable Rate Bonds under the Master Indenture, the Authority has entered, and expects in the future to enter, into interest rate swap agreements which qualify as "**Interest Rate Contracts**" under the Master Indenture, with a counterparty for the purpose of converting the floating rate interest payments the Authority is obligated to make with respect to the Adjustable Rate Bonds into substantially fixed rate payments. See **Appendix B-1** – "THE OUTSTANDING BONDS AND AUXILIARY OBLIGATIONS" to this Supplement. See also "COLORADO HOUSING AND FINANCE AUTHORITY – Authority Policy Regarding Derivatives" in this Supplement. Any payments or receipts received by the Authority under the Interest Rate Contracts will be pledged as Revenues, as described in "Revenues" under this caption. The Authority's obligation to make regular interest payments to the Counterparty under each of the Interest Rate Contracts has constituted, and is expected in the future to constitute, a Class I Obligation under the Master Indenture, secured on parity with the lien on the Trust Estate of the other Class I Obligations. The Authority's obligation to make termination payments under each of the Interest Rate Contracts in the event of early termination and in the future is expected to be a general obligation of the Authority and not an Auxiliary Obligation under the Master Indenture. See "CERTAIN BONDOWNERS' RISKS – Risks Related to Interest Rate Contracts" and "COLORADO HOUSING AND FINANCE AUTHORITY – Obligations of the Authority – General Obligations" in this Supplement.



## **Issuance of Additional Bonds; Auxiliary Obligations**

No Bonds or Auxiliary Obligations are outstanding under the Master Indenture other than as described in **Appendix B-1** – "THE OUTSTANDING BONDS AND AUXILIARY OBLIGATIONS" to this Supplement. However, the Master Indenture permits the Authority to issue additional Bonds and to incur additional Auxiliary Obligations thereunder from time to time, without limitation as to amount, secured on an equal lien with the outstanding Bonds and Auxiliary Obligations of the respective class, upon delivery of a Cash Flow Statement and satisfaction of certain other conditions contained therein. The Authority may not issue additional Bonds if such issuance would result in a lowering, suspension or withdrawal of the ratings then applicable to any Bonds issued under the Master Indenture. The Authority may also enter into any Interest Rate Contract or Liquidity Facility it deems necessary or desirable with respect to any or all of the Bonds issued under the Master Indenture, subject to the requirements of the Master Indenture. The Authority expects to issue additional Bonds and to incur additional Auxiliary Obligations in the future under the Master Indenture.

## **CERTAIN BONDOWNERS' RISKS**

### **Risks Related to the Liquidity Facility Providers and the Liquidity Facilities**

#### *Creditworthiness of the Liquidity Facility Providers*

The short-term credit ratings of the Adjustable Rate Bonds under the Master Indenture are based on the issuance of the respective Liquidity Facilities relating to such Adjustable Rate Bonds. Such ratings are based solely on the general credit of the respective Liquidity Facility Provider. Any downgrade in the ratings of the related Liquidity Facility Provider may impact the interest rate of the related Adjustable Rate Bonds.

Each Liquidity Facility provides the Trustee with the liquidity support necessary to purchase the applicable Adjustable Rate Bonds deemed tendered for purchase as described in the related Series Indenture. If remarketing proceeds are not sufficient to provide funds sufficient to pay the purchase price of tendered Adjustable Rate Bonds, the Trustee is required to draw funds under the applicable Liquidity Facility. The ability of the respective Liquidity Facility Provider to honor such drawings may be adversely affected by its financial condition at the time of such draws. No assurance is given as to the current or future financial condition of any Liquidity Facility Provider or the financial condition of any entity with which any Liquidity Facility Provider may merge or by which it may be acquired. For more information about the Liquidity Facility Providers and Outstanding Liquidity Facilities, see **Appendix B-1** – "THE OUTSTANDING BONDS AND AUXILIARY OBLIGATIONS – The Outstanding Auxiliary Obligations – Liquidity Facilities" to this Supplement. If a Liquidity Facility Provider becomes insolvent or otherwise becomes a debtor in bankruptcy, timely payment of the purchase price of related Adjustable Rate Bonds subject to tender for purchase might depend entirely on the sufficiency of the Trust Estate to pay such amounts.

#### *Inability to Obtain Substitute Liquidity Facility*

Each Liquidity Facility expires on a particular date which is much earlier than the maturity dates of the related Adjustable Rate Bonds. See **Appendix B-1** to this Supplement. No assurances can be given that the Authority will be able to extend any of the Liquidity Facilities or obtain a Substitute Liquidity Facility with respect to any Series of Adjustable Rate Bonds upon the terms required by the

respective Series Indenture until and including the final maturity dates of such Adjustable Rate Bonds or until the interest rate on such Adjustable Rate Bonds is converted to a Fixed Rate. Failure to extend a Liquidity Facility or obtain a Substitute Liquidity Facility will result in a mandatory purchase of the related Adjustable Rate Bonds prior to maturity at a price of par. The mandatory purchase of such Adjustable Rate Bonds on such a mandatory bond purchase date may not be waived. As a result, related Adjustable Rate Bonds subject to such mandatory purchase will become Bank Bonds under the Master Indenture. **Coverage under the 2007B-3 Facility for the Remarketed Bonds is stated to expire on May 16, 2015, subject to prior termination or extension.** See "Interest Costs Associated with Bank Bonds - Priority of Accelerated Payments" under this caption.

*Interest Costs Associated with Bank Bonds; Priority of Accelerated Payments*

Pursuant to the Liquidity Facilities, certain unpaid fees will bear interest at the "Default Rate" and Bank Bonds will bear interest at a rate as set forth in the related Liquidity Facilities. Those interest rates can be substantially higher than the variable rate that otherwise would apply to the calculation of interest on the Adjustable Rate Bonds; any increase in those interest rates increases the amount of interest payable by the Trust Estate under the Master Indenture and may affect its sufficiency to pay the Bonds. Payment of such interest on Bank Bonds is on parity with the lien of the related Adjustable Rate Bonds which have been purchased. Furthermore, the Liquidity Facilities provide for accelerated amortization of principal of the respective Bank Bonds payable by the Trust Estate under the Master Indenture. See **Appendix B-1** for specific information about the "term-out" provisions of the outstanding Liquidity Facilities. WHILE THE PRINCIPAL PAYMENTS DUE ON THE BANK BONDS FOLLOWING ANY SUCH ACCELERATION BY THE LIQUIDITY FACILITY PROVIDERS WILL IN SOME CASES BE CLASS III OBLIGATIONS AND CONSTITUTE GENERAL OBLIGATIONS OF THE AUTHORITY, SUCH ACCELERATED PRINCIPAL IN OTHER CASES WILL BE ON PARITY WITH THE LIEN OF THE RELATED SERIES OF BONDS WHICH HAVE BEEN PURCHASED OR, IN THE CASE OF THE REMARKETED BONDS WHICH ARE CLASS II BONDS, WILL BE CLASS I OBLIGATIONS WITH A LIEN PRIOR TO THE LIEN OF THE REMARKETED BONDS. For information about the terms of such accelerated principal payments in the case of the Remarketed Bonds, see **Appendix C-1 – "SUMMARY OF CERTAIN PROVISIONS OF THE 2007B-3 FACILITY – Bank Bonds; Accelerated Payments"** to this Supplement. See also "Inability to Obtain Substitute Liquidity Facility" under this caption.

**Risks Related to Interest Rate Contracts**

Each of the Interest Rate Contracts exposes the Authority to certain risks including, but not limited to, the risk that payments received by the Authority from the applicable Counterparty could be substantially less than the floating rate interest payments due on the related Series of Adjustable Rate Bonds. Pursuant to each of the Interest Rate Contracts, the Authority will pay interest to the Counterparty at a fixed rate and will receive interest from the Counterparty at a variable rate which will be based on a LIBOR or SIFMA Index. To the extent Counterparty payments are based on a LIBOR or SIFMA Index, the amount of actual interest payments due on the respective Adjustable Rate Bonds may differ from the amount of such interest payments to be made by the Counterparty and the Trust Estate may not be sufficient to pay interest as due.

The payment obligations of the Authority under the Interest Rate Contracts do not remove the obligations of the Authority to pay interest on the related Series of Bonds from the Trust Estate. A negative change to the financial position of any of the Counterparties (including bankruptcy or insolvency) at any time may negatively impact payments to the Authority pursuant to the applicable Interest Rate Contract to an extent that cannot be determined. In addition, each Interest Rate Contract is subject to termination upon the occurrence of certain events, and no assurance can be given that the

Interest Rate Contracts, or any of them, will continue to be in effect. None of the Interest Rate Contracts provide a source of credit or security for the Bonds. The Owners of the Bonds do not have any rights under any Interest Rate Contract or against any Counterparty. See "SECURITY FOR THE BONDS AND AUXILIARY OBLIGATIONS – Interest Rate Contracts" in this Supplement. See also **Appendix B-1** – "THE OUTSTANDING BONDS AND AUXILIARY OBLIGATIONS – The Outstanding Auxiliary Obligations – Outstanding Interest Rate Contracts" to this Supplement. See **footnote (8) to the audited 2011 financial statements of the Authority, included in this Supplement as Appendix G, for a description of certain further risks associated with the Interest Rate Contracts.**

## **THE SINGLE FAMILY MORTGAGE PROGRAM**

The Trust Estate which secures Bonds under the Master Indenture (including the Remarketed Bonds) will include Mortgage Loans, as described in "SECURITY FOR THE BONDS AND AUXILIARY OBLIGATIONS" in this Supplement. The following sections describe requirements for the Mortgage Loans which are based on requirements in the Act or derive from general policies and limits established by the Authority for qualification of Mortgage Lenders, Servicers, Borrowers and Eligible Properties as well as basic requirements for Mortgage Loans (with noted exceptions). As indicated, certain requirements described below relate only to Mortgage Loans made as a part of the Authority's Qualified Single Family Mortgage Program. A number of the procedures described below may not apply to the Zero Interest First Mortgage Loans. *It is expected that there will be variations in particular cases and that the policies and procedures of the Authority will be modified from time to time consistent with the Act, the Indenture and any procedures applicable to the Mortgage Loans.*

### **Communication of Program Information**

The Authority communicates information on its website ([www.chfainfo.com](http://www.chfainfo.com)) and through subscription Internet services regarding the changes to policies and procedures for First Mortgage Loans under the Program. Interest rates announced to participating Mortgage Lenders on the Authority website may change daily. The Authority also makes available on the website a guide to Mortgage Lenders setting forth requirements for the Program and information relating to the reservation procedures as more fully described in "Seller's Guide" under this caption (the "**Seller's Guide**"). Participating Mortgage Lenders are expected to obtain this information from the website, which is currently being hosted by AllRegs to improve its useability. The Seller's Guide describes each Program parameters, mortgage purchase prices, discounts, income limits and other parameters and information necessary for Mortgage Lenders to determine the eligibility of Applicants, residences and Mortgage Loans under the Program. The Seller's Guide is incorporated by reference into the Mortgage Purchase Agreement entered into between the Authority and each respective participating Mortgage Lender for eligible Mortgage Loans. See "Mortgage Purchase Agreements" under this caption.

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

The Seller's Guide references and incorporates a description of reservation procedures by which a Mortgage Lender may reserve Mortgage Loan funds. Reservations may be made on a continuous basis without regard to the availability of proceeds from a specific Series of Bonds. The reservation procedures require a Mortgage Lender to have taken a loan application from an Applicant who has entered into a purchase contract with the seller of a residence or to have taken an application from an Applicant who intends to refinance their existing mortgage loan as part of a refinance program. The Mortgage Lender must use the Internet Reservation System to reserve funds. Prior to closing the Mortgage Loan, the

Mortgage Lender may deliver to the Authority further documentation in order for the Authority to review the eligibility of the Applicant and the residence. The Mortgage Lender must then close the Mortgage Loan and deliver to the Authority the complete Mortgage Loan closing documents within specified timeframes.

In connection with any First Mortgage Loan (with the exception of Zero Interest Loans) originated by a Mortgage Lender in the Single Family Mortgage Programs, a Borrower may request and obtain a Second Mortgage Loan, the proceeds of which may be used to fund upfront cash requirements of the applicable First Mortgage Loan, including payment of the origination fee, closing costs, initial required escrow deposits and/or all or a portion of a downpayment. Proceeds of a Second Mortgage Loan may also be used by a Borrower for a temporary "buy down" of the interest rate. See "Special Program Features – Second Mortgage Loans" under this caption. First Mortgage Loans will be offered with and without a Second Mortgage Loan at varying interest rates. In addition, the Authority may require a Borrower to make a cash contribution using funds other than the proceeds of a Second Mortgage Loan. The cash contribution must be from the Borrower's own funds. The Authority or the Trustee will acquire First Mortgage Loans from the Mortgage Lenders with available funds of the Authority at a price sufficient, in some cases, to pay additional lender fees. The Authority or the Trustee will also use available funds to reimburse Mortgage Lenders for any related Second Mortgage Loans originated by such Mortgage Lenders on behalf of the Authority in connection with such First Mortgage Loans.

In order to satisfy the requirements of the Tax Code in connection with certain tax-exempt Bonds, the Authority is required by the Indenture to reserve an amount in the Acquisition Account for the acquisition of First Mortgage Loans on "targeted area residences" within the meaning of Section 143 of the Tax Code ("**Targeted Area Residences**"). Such amount must be reserved until all of such amount is used to acquire First Mortgage Loans on such Targeted Area Residences or a date at least one year after the date on which the proceeds of the Series of Bonds or amounts exchanged therefor are first made available for the acquisition of such First Mortgage Loans.

## **Eligibility Requirements**

### *Residency Requirements*

In the case of Mortgage Loans made in the Qualified Single Family Mortgage Program, Mortgage Loans must be made only to Applicants who have not had a present ownership interest in a principal residence during the three-year period prior to the date of execution of each respective Mortgage which secures each such Mortgage Loan. Mortgage Loans in the Non-Qualified Single Family Mortgage Program to Eligible Veterans or in Targeted Areas will not be subject to this requirement. Each Applicant must also intend to occupy the Eligible Property as his or her principal place of residence.

### *Purchase Price Limitations*

In the case of Mortgage Loans made in the Qualified Single Family Mortgage Program, the Purchase Price of an Eligible Property financed in connection with such a Mortgage Loan may not exceed certain Purchase Price limits as established by the Authority. The Authority has established Purchase Price limits for Eligible Properties, with no differentiation between new and existing residences, based on the county in which such Eligible Property is located. These limits range from \$243,900 to \$417,000. Certain of these Purchase Price limits are somewhat lower than those permitted by the Tax Code in order to better serve persons and families of lower income. Purchase Price limits determined by the Authority may be amended by the Authority from time to time without notice to Bondowners. Furthermore, a Mortgage Loan may be made in an amount up to \$15,000 for an existing Residence to finance certain capital improvements to the Eligible Property for energy efficiency purposes. In addition to the proceeds

of a First Mortgage Loan, an Eligible Property may be financed with amounts received and secured by a second mortgage encumbering the property. For other Mortgage Loans and in certain jurisdictions, the Authority has established or may establish higher Purchase Price limits, not in excess of 90% (110% in the case of Targeted Area Residences) of the Average Area Purchase Price, as defined below, of previously occupied or new single family residences, as the case may be, for the statistical area in which the Eligible Property is located.

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

The term "Average Area Purchase Price" means the average area purchase price under the safe harbor limitations calculated as provided in Revenue Procedure 2012-25. This Revenue Procedure announces that the Treasury Department and the Internal Revenue Service have determined that FHA loan limits provide a reasonable basis for determining average area purchase price safe harbor limitations. Because FHA loan limits do not differentiate between new and existing residences, the Revenue Procedure contains a single average area purchase price safe harbor for both new and existing residences in a statistical area. If the Treasury Department and the Internal Revenue Service become aware of other sources of average purchase price data, including data that differentiate between new and existing residences, consideration will be given as to whether such data provide a more accurate method for calculating average area purchase price safe harbors. If no purchase price safe harbor is available for a statistical area, the safe harbor for "All Other Areas" may be used for that statistical area.

If the FHA revises the FHA loan limit for any statistical area after December 1, 2010, an issuer of qualified mortgage bonds or mortgage credit certificates may use the revised FHA loan limit for the statistical area to compute a revised average area purchase price safe harbor for that statistical area, provided that the issuer maintains records evidencing the revised FHA loan limit. In accordance with the Tax Code, the average area purchase price may be determined by the Authority, in lieu of the safe harbor limitations described above, if the Authority uses more accurate and comprehensive data.

On December 1, 2010, FHA issued Mortgagee Letter 2010-40 which provided notice of the 2011 comprehensive update to the FHA single-family loan limits, under the authority of Continuing Resolution 2011 ("CR") as part of the Department of Interior Environmental and Related Agencies Appropriations Act, Public Law 111-242. The loan limits described in ML-2010-40 were effective for loans with credit approval issued by the mortgagee between January 1, 2011 and September 30, 2011. The CR mandated that the FHA loan-limit floor for the first nine months of 2011 remain at 65% of the national conforming limit, which remained at \$417,000, set by the Economic Stimulus Act of 2008 ("ESA") and section 203(b), as amended by the Housing and Economic Recovery Act of 2008 ("HERA"). The CR further provided that the FHA loan-limit ceiling for 2011 is set at 175% (subject to certain exceptions) of

the conforming loan limit of \$417,000 based on the ceiling set under ESA. The limits set under ESA and HERA were based on the national conforming loan limits (used by Fannie Mae and Freddie Mac for one-unit homes in the continental United States). HERA stipulated that the national conforming loan limits be established using a house price index chosen by the Federal Housing Finance Agent ("FHFA"). On November 22, 2011, the FHFA announced that the national conforming loan limit for 2012 would remain unchanged from the 2011 loan limits (except for one county in Connecticut).

On December 2, 2011, the FHA issued Mortgagee Letter 2011-39 which provided notice that loan limits for mortgages with case numbers assigned on or after January 1, 2012 will use the same loan limits as those announced in ML 10-2010-40 for January 1, 2011 through September 30, 2011.

The most recently published safe harbor limitations for Average Area Purchase Prices for Single Family Residences in the State were as follows:

| <u>Area</u>        | <u>Average Purchase Price Safe Harbor</u> |
|--------------------|---|
| Summit County      | \$748,462                                 |
| Pitkin County      | 748,462                                   |
| Lake County        | 748,462                                   |
| Eagle County       | 748,462                                   |
| Routt County       | 692,308                                   |
| San Miguel County  | 667,949                                   |
| Hinsdale County    | 571,795                                   |
| Ouray County       | 494,872                                   |
| Boulder County     | 471,795                                   |
| La Plata County    | 455,128                                   |
| Gunnison County    | 444,872                                   |
| San Juan County    | 435,897                                   |
| Garfield County    | 435,897                                   |
| Weld County        | 428,205                                   |
| Park County        | 416,667                                   |
| Jefferson County   | 416,667                                   |
| Gilpin County      | 416,667                                   |
| Elbert County      | 416,667                                   |
| Douglas County     | 416,667                                   |
| Denver County      | 416,667                                   |
| Clear Creek County | 416,667                                   |
| Broomfield County  | 416,667                                   |
| Arapahoe County    | 416,667                                   |
| Adams County       | 416,667                                   |
| Mesa County        | 380,769                                   |
| Grand County       | 365,385                                   |
| Teller County      | 333,333                                   |
| El Paso County     | 333,333                                   |
| Archuleta County   | 325,641                                   |
| Larimer County     | 320,513                                   |
| Mineral County     | 307,692                                   |
| Chaffee County     | 287,179                                   |

Source: Internal Revenue Service Revenue Procedure 2012-25, IRB 2012-20, released and to be dated May 14, 2012.



### *Condominium Projects*

Under the Qualified Single Family Mortgage Program, Mortgage Loans on a limited number of condominium units which qualify for FHA insurance, VA or Rural Housing Service guarantees or PMI may be purchased. The aggregate principal amount of Mortgage Loans encumbering condominium units may not exceed 20% of the aggregate principal amount of all Mortgage Loans financed by the Bonds at the time such Mortgage Loans are originated or purchased.

### *Income Limits*

An Applicant may be a Borrower for purposes of a Mortgage Loan only if such Applicant has a current Gross Annual Household Income which does not exceed the limits set forth in the Seller's Guide. Income limits determined by the Authority may be amended by the Authority from time to time without notice to Bondowners.

### *Credit Scores for Originated Mortgage Loan Applicants*

Applicants for Mortgage Loans originated under the Qualified Single Family Mortgage Program must meet a minimum FICO credit score requirement of 620. Applicants who have credit scores greater than or equal to 620 but less than or equal to 659 (and have debt to income ratios exceeding 43%) must successfully pass the Authority's CHFA Risk Information Score Card ("**RISC**") to utilize any Qualified or Non-Qualified Single Family Mortgage Loan Program. RISC evaluates a comprehensive list of "mortgage compensating factors" to determine homeownership preparedness. While some Applicants do not meet the mortgage program requirements at the time of application, they may be able to qualify later by addressing some or all of the issues identified in the RISC Score Card. The list of "mortgage compensating factors" evaluated in the RISC Score Card includes, among other things, the amount of investment by the Applicant in the subject property, the amount of cash reserves held by the Applicant, and whether the Applicant uses budgeting or credit-counseling services.

### *Homebuyer Education Requirement*

Applicants for Mortgage Loans originated under the Qualified Single Family Mortgage Program will be required by the Authority (at the Authority's expense) to attend homebuyer education classes. Homebuyer education classes are intended to give Applicants a clearer understanding, among other things, of their debt obligations. Applicants obtaining financing under the Authority's HomeAccess Program must attend the class prior to executing a contract with respect to the applicable property. Homebuyer education classes are offered statewide and at no cost to the Borrower by Authority-approved housing counseling agencies and housing authorities under contract with the Authority. Homebuyer education certificates are only valid for nine months from the date of the certificate through the date of the purchase contract. Pursuant to its contracts with such agencies, the Authority will pay up to certain amounts for the classroom education. Homebuyer education is also available online on the Authority's website.

### **Mortgage Purchase Agreement**

Each Mortgage Lender approved by the Authority to participate in the Authority's Single Family Mortgage Program has executed a Mortgage Purchase Agreement. Additional Mortgage Lenders may become eligible to participate and, if approved by the Authority, will enter into a Mortgage Purchase Agreement. Purchases of Mortgage Loans by the Authority from Mortgage Lenders are made pursuant to Mortgage Purchase Agreements, which in most cases incorporate by reference the terms and provisions of the Seller's Guide. A reservation of Mortgage Loan funds is for a specific Applicant, residence, Mortgage

Loan amount and interest rate. The Seller's Guide provides that an origination fee equal to one percent (1%) of the aggregate principal amount of each First Mortgage Loan may be charged to a Borrower and Mortgage Lenders may receive an additional payment from the Authority as a servicing release fee and, in the case of First Mortgage Loans originated in non-metropolitan areas, an additional 50/100 of one percent (.50%) fee will be paid to Mortgage Lenders. In the case of Mortgage Loans originated in the HomeAccess Program and as 203K rehabilitation loans, an additional one percent (1%) fee will be paid to Mortgage Lenders. Mortgage Lenders will also be paid one-hundred fifty dollars (\$150.00) for Second Mortgage Loans.

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

### **Seller's Guide**

Each Mortgage Purchase Agreement (applicable only to Mortgage Loans other than Zero Interest First Mortgage Loans) incorporates by reference the Seller's Guide, including all of the terms, conditions, representations and warranties therein. The Seller's Guide describes the procedures for reservation, loan delivery and acquisition, and contains representations, warranties, covenants and agreements of the Mortgage Lender to the Authority, certain of which relate to: (i) the legality and validity of the Mortgage Loans and related documents; (ii) the existence and conveyance to the Authority of a valid lien (subject only to current taxes and assessments not yet due and payable, and encumbrances permitted by the Authority) on the Eligible Property, located in the State and held in fee simple; (iii) the absence of delinquencies with respect to payments on each Mortgage Loan; (iv) the absence of defaults under each Mortgage Loan; (v) the Mortgage Lender's right to sell each Mortgage Loan to the Authority; (vi) the existence and validity of hazard insurance on the Eligible Property in an amount equal to the lesser of (a) 100% of the replacement value of improvements (as established by the property insurer) or (b) the unpaid principal balance of the First Mortgage Loan plus any Second Mortgage Loan held by the Authority; provided, however, that under no circumstances may the amount of insurance be less than 80% of the replacement value of the improvements; (vii) compliance by the Mortgage Lender with all requirements relating to the insurance or guaranty of the Mortgage Loan; (viii) compliance with the applicable requirements of the Tax Code; and (ix) the requirement that any insurance or guaranty will inure to the benefit of the Authority. The Authority has the right to decline to purchase any Mortgage Loan offered to it if, in the reasonable opinion of the Authority, the Mortgage Loan does not conform to the requirements of the Act or the Seller's Guide. See "Mortgage Purchase Agreement" under this caption.

*The Seller's Guide may be amended or supplemented by the Authority from time to time without notice to the owners of the Bonds.*

### **Servicing of the Mortgage Loans**

Through its in-house servicing operations put into effect in 1997, the Authority is currently servicing its portfolios of single-family mortgage loans, including the Mortgage Loans. The Authority has covenanted in the Indenture to service, or cause to be serviced, each Mortgage Loan in accordance with acceptable mortgage servicing practices of prudent lending institutions or in accordance with such other standards as are required to maintain the government mortgage insurance or guaranty or private mortgage insurance, as applicable, with respect to such Mortgage Loan. The Authority believes that it is servicing Mortgage Loans in compliance with this covenant. For more information concerning the Authority, see "COLORADO HOUSING AND FINANCE AUTHORITY" in this Supplement.



The Mortgage Purchase Agreement requires all originating Mortgage Lenders to sell to the Authority all of the loan servicing rights to the Mortgage Loans. In that connection, the Authority will in most cases retain an annual servicing fee of 30/100 of one percent (0.30%) of the outstanding balance of the First and Second Mortgage Loans (except that no servicing fee will be charged for Zero Interest Second Mortgage Loans and only a nominal administrative fee will be charged for Zero Interest First Mortgage Loans). In addition, the Authority plans to retain any and all investment earnings on the loan payments which accrue after such payments are received by the Authority but before the date the Authority is required by the Indenture to remit such payments to the Trustee.

The Authority begins servicing the Mortgage Loans after they have been purchased by the Authority. The Seller's Guide also gives the Authority the right to not purchase or transfer the servicing of certain Mortgage Loans back to the Mortgage Lender if the Mortgage Loan is not purchased within the time frames established by the Authority.

### **Loss Mitigation**

For Mortgagors in default, the Authority actively seeks alternatives to foreclosure. The Authority is making use of HUD's loss mitigation procedures (see **Appendix I – "INSURANCE AND GUARANTEE PROGRAMS; FORECLOSURE – FHA Insurance"** to this Supplement) for all HUD loans, and follows the loss mitigation procedures for all other loan types as applicable. These loss mitigation alternatives include an informal or formal forbearance plan (depending on the length of the repayment period), a forbearance with a partial claim (FHA-insured loans only), loan modification, a pre-foreclosure sale, or a deed in lieu of foreclosure. The Authority also refers all Mortgagors in default to HUD-approved counseling agencies for assistance. HUD evaluates loss mitigation efforts by loan servicers on a quarterly basis, six months in arrears. HUD assigns a tier ranking of one to four, with one being the highest ranking. The Authority's most recent ranking as a loan servicer is Tier 2.

### **Hazard Insurance**

Each Mortgagor must maintain a hazard insurance policy covering loss against fire and hazards included within the term extended coverage.

In general, the standard form of fire and extended coverage policy covers physical damage to or destruction of a residence by fire, lightning, smoke, windstorm and hail, riot, strike and civil commotion, subject to the conditions and exclusions particularized in each policy. Although the policies relating to the Mortgage Loans may be underwritten by different insurers and therefore will not contain identical terms and conditions, the basic terms thereof are dictated by Colorado law. Most such policies typically do not cover any "physical damage" resulting from the following: war, revolution, governmental actions, earthquake, floods and other water-related causes, nuclear reactions, wet or dry rot, vermin, rodents, insects or domestic animals, theft and, in certain cases, vandalism. The foregoing list is merely indicative of certain kinds of uninsured risks and is not intended to be all-inclusive.

Most hazard insurance policies typically contain a "coinsurance" clause which will require the Mortgagor at all times to carry insurance of a specified percentage (generally 80% to 90%) of the full replacement value of the improvements on the residence in order to recover the full amount of any partial loss. If the coverage falls below the specified percentage, the insurer's liability in the event of partial loss would not exceed the larger of (i) the actual cash value of the improvements damaged or destroyed or (ii) such proportion of the loss as the amount of insurance carried bears to the specified percentage of the full replacement cost of such improvements. The effect of coinsurance in the event of partial loss may be that hazard insurance proceeds will be insufficient to restore fully the damage to the Eligible Property.

## Special Program Features

### *Zero Interest First Mortgage Loans*

The Authority may use amounts in the Acquisition Account to acquire as Mortgage Loans certain loans referred to as "**Zero Interest First Mortgage Loans.**" Zero Interest First Mortgage Loans are loans which have been made by a non-profit organization to Borrowers in principal amounts equal to the cost of construction of the dwelling, with no interest. The Borrowers are expected to contribute over 400 hours of "sweat equity" into the construction of the dwelling in lieu of a down payment. The annual repayment obligation of Zero Interest First Mortgage Loans will be based on 25% of the respective Borrower's gross annual household income and the respective maturities of the Zero Interest First Mortgage Loans will be derived as a result of the repayment terms. The Zero Interest First Mortgage Loans will not be insured or guaranteed and do not need to meet any loan-to-value ratios. However, in the event of default, the non-profit organization is required to substitute the defaulted Zero Interest First Mortgage Loan with a comparable performing Zero Interest First Mortgage Loan. Zero Interest First Mortgage Loans are purchased by the Authority, and they may have cash assistance or a second mortgage loan from other entities. Terms of the Zero Interest First Mortgage Loans may be amended from time to time and the level of such Zero Interest First Mortgage Loans so acquired may be determined by the Authority, to the extent consistent with the then current Cash Flow Statement and Authority Certification required by the related Series Indenture to demonstrate that the Class I Asset Requirement, the Class II Asset Requirement and the Class III Asset Requirement for the particular Series of Bonds will be met after taking into account such terms and level. The Authority charges a small one-time, up-front administrative fee for each Zero Interest First Mortgage Loan.

### *HomeAccess Program*

The Authority may use amounts in the Acquisition Account to acquire Mortgage Loans originated under the Authority's HomeAccess Program, which is intended to assist very low-income persons with disabilities or the parents of a child with a disability to achieve homeownership. These Borrowers may receive First Mortgage Loans (referred to herein as "**HomeAccess Loans**") at current market rates. A Mortgage Loan in the HomeAccess Program will be made only to a Borrower who makes a cash contribution of at least \$750 or \$500 with automatic checking account payments and who meets certain income limits lower than those established for Borrowers of other First Mortgage Loans. The Authority may provide certain Borrowers under the HomeAccess Program with a Second Mortgage Loan for downpayment and closing cost assistance of up to \$25,000. The HomeAccess Second Mortgage Loans bear interest at an annual interest rate of 0% with repayment deferred for three-hundred sixty (360) months, then repaid at two hundred dollars (\$200) per month thereafter. Terms of the Mortgage Loans made under the HomeAccess Program may be amended from time to time and the level of such Mortgage Loans so acquired may be determined by the Authority, to the extent consistent with the then current Cash Flow Statement and Authority Certification required by the related Series Indenture to demonstrate that the Class I Asset Requirement, the Class II Asset Requirement and the Class III Asset Requirement for the particular Series of Bonds will be met after taking into account such terms and level.

### *SectionEight and SectionEight Plus Programs*

The Authority may use amounts in the Acquisition Account to acquire Mortgage Loans originated under the Authority's SectionEight and SectionEight Plus Programs. Under its SectionEight Program, the Authority may make 30-year Mortgage Loans to first time homebuyers that meet certain income limit requirements, for eligible property not exceeding certain purchase price limits, and subject to certain other restrictions. Persons who receive Housing Assistance Payments ("**HAP**") from Public Housing Authorities ("**PHA**") and who are approved to participate in a PHA's homeownership programs

may be eligible to participate in the Authority's SectionEight and SectionEight Plus Programs. Under the SectionEight Plus Program, the Authority may make Second Mortgage Loans to eligible borrowers to finance a down payment and/or closing costs.

### *Second Mortgage Loans*

Proceeds of certain Bonds have in the past been and may in the future be used by the Authority to acquire Second Mortgage Loans made to Borrowers of First Mortgage Loans, including such Second Mortgage Loans made to Borrowers of First Mortgage Loans as well as Second Mortgage Loans originated under the Master Indenture in connection with first mortgage loans purchased and pledged to repay certain GNMA Securities expected to be issued by the Authority. Under most programs, Second Mortgage Loans have been and will be originated for three percent (3%) of the first mortgage loan amount on an interest-bearing basis, with a term of thirty (30) or forty (40) years. See **Appendix B-2** to this Supplement for information regarding the outstanding Second Mortgage Loans under the Master Indenture. Generally, Second Mortgage Loans are due in full upon the sale of the property, the refinance of the related First Mortgage Loan, payment in full of the related First Mortgage Loan, default of the related First Mortgage Loan, transfer of title, or if the property is no longer the Borrower's principal residence. Under certain specialty programs, the second mortgage rate is zero percent (0%) and repayment of the entire balance of the Second Mortgage Loan is due in month three-hundred sixty (360) or four-hundred eighty (480) (after repayment of the thirty (30) or forty (40) year first mortgage loan). The Second Mortgage Loan can be prepaid in full or in part at any time without penalty. The Second Mortgage Loan is not assumable.

The percentage and aggregate amounts available from Bond proceeds for acquisition of such Second Mortgage Loans from time to time must be at levels consistent with the then current Cash Flow Statements and Authority Certification required by the related Series Indenture to demonstrate that the Class I Asset Requirement, the Class II Asset Requirement and the Class III Asset Requirement for the particular Series of Bonds will be met after taking into account such levels for Second Mortgage Loans.

### *Refinancing Programs*

Proceeds of the Bonds (or amounts exchanged therefor) provide funding for the Authority's mortgage purchase activities under the Single Family Mortgage Programs. The Authority is using, and in the future plans to use, such proceeds and exchanged amounts to fund mortgage refinancing activities. Any such refinancing programs as part of the Program may result in the prepayment of outstanding mortgage loans, including the Mortgage Loans, with a corresponding redemption at par of Bonds secured by such Mortgage Loans in accordance with the redemption provisions of the related Series Indenture. See "Part II – CERTAIN BONDOWNERS' RISKS – Considerations Regarding Redemption" in the Official Statement.

### *Community Land Trust Program*

The Authority uses proceeds of Bonds to acquire First Mortgage Loans with a first lien on residences built on leased ground in connection with a Community Land Trust. The remaining term of the ground leases will not be less than the term for repayment of the Bonds secured by the First Mortgage Loans. The Community Land Trust's ground lease may include certain resale restrictions to limit future property purchasers to low and moderate families or to limit the maximum sales price of the property. The Authority will require appropriate recorded documentation such as a Land Lease Rider (the "**Rider**") among the Borrower, the Authority and the Community Land Trust which will provide that such restrictions will terminate automatically on foreclosure of, or acceptance of a deed-in-lieu of foreclosure for, the leasehold mortgage. The documentation will also provide that in no event shall the leasehold

terminate except for (1) nonpayment of amounts due under the lease; (2) violation of the restrictions on sale; and (3) violation of the requirement that the Borrower occupy the land as their primary residence. The documentation shall give the Authority the prior right to cure any such default without terminating the lease or to foreclose its mortgage, at which point a new lease between the Authority and the Community Land Trust will be automatically created.

#### *Payment of Recapture Tax*

The Authority has established a reimbursement program for certain current and new Borrowers that may be subject to paying a recapture tax under the Internal Revenue Code (the "**Recapture Tax**"). The Internal Revenue Code mandates, under certain circumstances, a "recapture" of some of the subsidy received by a Borrower through borrowing under the Authority's tax-exempt mortgage revenue bond funded loan programs. A payment of Recapture Tax may be required if (i) the Authority financed property ceases to be the Borrower's principal residence in the first full nine years of ownership; (ii) there is a profit on the sale of the home; and (iii) the Borrower's household income increases significantly (generally more than five percent (5%) per year). Upon receipt of proof that a Borrower who was subject to a Recapture Tax actually paid to the IRS the Recapture Tax, the Authority will reimburse the Borrower the amount paid upon satisfaction of certain conditions. The reimbursement will be paid from general funds of the Authority. The Authority has evaluated the risks associated with this reimbursement program and determined that the likelihood is relatively low that a Borrower will be required to pay a Recapture Tax and that the Authority will subsequently have to reimburse such Borrower.

## **REMARKETING AGENTS**

### **Remarketing Agreement for Remarketed Bonds**

RBC Capital Markets, LLC has entered a Master Remarketing Agreement with the Authority which will be amended to apply to the Remarketed Bonds (the "**Remarketing Agreement**"). If Remarketed Bonds are tendered or deemed tendered for purchase as described under the caption "Part I – TERMS OF THE 2007 SERIES B BONDS – Optional Tender and Purchase" and "– Mandatory Purchase" in the Official Statement, RBC Capital Markets, LLC is required to use its best efforts to remarket such Remarketed Bonds in accordance with the terms of the Indenture and the Remarketing Agreement at a price equal to the principal amount thereof plus accrued interest, if any, thereon to the applicable purchase date. RBC Capital Markets, LLC is also responsible for determining the rates of interest for such Remarketed Bonds in accordance with the Series Indenture. So long as the 2007B-3 Facility is in effect, RBC Capital Markets, LLC has agreed to use its best efforts at all times to remarket the Remarketed Bonds (including, without limitation, Bank Bonds) at interest rates up to the maximum rate permitted under the Series Indenture. RBC Capital Markets, LLC is to transfer any proceeds of remarketing of the Remarketed Bonds it receives to the Paying Agent for deposit in accordance with the Series Indenture.

RBC Capital Markets, LLC may at any time resign and be discharged of its duties and obligations with respect to the Remarketed Bonds under the Remarketing Agreement upon providing the Authority, the Trustee, the Paying Agent and the 2007B-3 Facility Provider with thirty (30) days' prior written notice, except that such resignation shall not take effect until the appointment of a successor remarketing agent under the Series Indenture. RBC Capital Markets, LLC may be removed with respect to the Remarketed Bonds at any time, at the direction of the Authority upon thirty (30) days' prior written notice, except that the Authority shall not remove RBC Capital Markets, LLC until the appointment of a successor remarketing agent under the Series Indenture. The appointment of any successor remarketing agent shall be subject to the prior written consent of the 2007B-3 Facility Provider. The 2007B-3 Facility Provider may direct the Authority to remove RBC Capital Markets, LLC and appoint a successor

remarketing agent with respect to the Remarketed Bonds if (i) an event of default has occurred and is continuing under the 2007B-3 Facility or (ii) RBC Capital Markets, LLC has failed to fulfill any of its duties and obligations under the Indenture or the Remarketing Agreement. Upon the resignation or removal of RBC Capital Markets, LLC, the Authority is to promptly cause the Paying Agent to give notice thereof by mail to all Owners and to any rating agency which has assigned a rating to the Remarketed Bonds. RBC Capital Markets, LLC shall pay over, deliver and assign any monies and Remarketed Bonds held by it in such capacity to its successor.

### Remarketing Agents for Adjustable Rate Bonds

In connection with the Adjustable Rate Bonds outstanding under the Master Indenture, the Authority has entered into remarketing agreements (the "**Remarketing Agreements**") with the respective remarketing agents (including the Remarketing Agreement with RBC Capital Markets, LLC relating to the Remarketed Bonds) set forth in the following table (the "**Remarketing Agents**"):

#### Remarketing Agents under Master Indenture as of February 1, 2012

| <u>Series of Bonds</u> | <u>Remarketing Agent</u>    |
|------------------------|-----------------------------|
| 2001 Series AA-1       | RBC Capital Markets, LLC    |
| 2001 Series AA-2       | RBC Capital Markets, LLC    |
| 2001 Series AA-3       | RBC Capital Markets, LLC    |
| 2002 Series A-1        | D.A. Davidson & Co.         |
| 2002 Series A-2        | George K. Baum & Company    |
| 2002 Series A-3        | George K. Baum & Company    |
| 2002 Series B-2        | J.P. Morgan Securities Inc. |
| 2002 Series B-3        | J.P. Morgan Securities Inc. |
| 2002 Series C-3        | Barclays Capital Inc.       |
| 2003 Series A-1        | D.A. Davidson & Co.         |
| 2003 Series A-2        | RBC Capital Markets, LLC    |
| 2003 Series B-1        | Barclays Capital Inc.       |
| 2003 Series B-2        | J.P. Morgan Securities Inc. |
| 2003 Series B-3        | J.P. Morgan Securities Inc. |
| 2003 Series C-1        | J.P. Morgan Securities Inc. |
| 2003 Series C-2        | RBC Capital Markets, LLC    |
| 2004 Series A-2        | RBC Capital Markets, LLC    |
| 2004 Series B-2        | RBC Capital Markets, LLC    |
| 2005 Series A-2        | RBC Capital Markets, LLC    |
| 2005 Series B-2        | Barclays Capital Inc.       |
| 2006 Series A-1        | George K. Baum & Company    |
| 2006 Series A-2        | D.A. Davidson & Co.         |
| 2006 Series A-3        | George K. Baum & Company    |
| 2006 Series B-1        | Barclays Capital Inc.       |
| 2006 Series B-2        | RBC Capital Markets, LLC    |
| 2006 Series B-3        | RBC Capital Markets, LLC    |
| 2006 Series C-1        | Barclays Capital Inc.       |
| 2006 Series C-2        | RBC Capital Markets, LLC    |
| 2007 Series A-1        | Barclays Capital Inc.       |
| 2007 Series A-2        | Loop Capital Markets, LLC   |
| 2007 Series B-1        | J.P. Morgan Securities Inc. |
| 2007 Series B-2        | RBC Capital Markets, LLC    |
| 2007 Series B-3*       | RBC Capital Markets, LLC    |
| 2008 Series A-1        | J.P. Morgan Securities Inc. |
| 2008 Series A-2        | Barclays Capital Inc.       |
| 2008 Series A-3        | J.P. Morgan Securities Inc. |

\* These are the Remarketed Bonds described in this Supplement.

### **The Remarketing Agents are Paid by the Authority**

The Remarketing Agents' responsibilities include determining the interest rate from time to time and remarketing the Bonds that are optionally tendered by the owners thereof, all as further described in the Official Statement. The Remarketing Agents are appointed by the Authority and are paid by the Authority for their services. As a result, the interests of the Remarketing Agents may differ from those of existing holders and potential purchasers of Bonds.

### **The Remarketing Agents May Purchase Bonds for their Own Account**

The Remarketing Agents are permitted, but not obligated, to purchase the tendered Bonds for their own account. The Remarketing Agents, in their sole discretion, may acquire tendered Bonds for their own inventory in order to achieve a successful remarketing of the Bonds (i.e., because there otherwise are not enough buyers to purchase the Bonds) or for other reasons. However, the Remarketing Agents are not obligated to purchase Bonds, and may cease doing so at any time without notice. The Remarketing Agents may also make a market in the Bonds by purchasing and selling such Bonds other than in connection with an optional tender and remarketing. Such purchases and sales may be at or below par. However, the Remarketing Agents are not required to make a market in the Bonds. If the Remarketing Agents purchase Bonds for their own account, they may offer those Bonds at a discount to par to some investors. The Remarketing Agents may also sell any Bonds they have purchased to one or more affiliated investment vehicles for collective ownership or enter into derivative arrangements with affiliates or others in order to reduce its exposure to the Bonds. The purchase of Bonds by the Remarketing Agents may create the appearance that there is greater third party demand for the Bonds in the market than is actually the case. The practices described above also may reduce the supply of Bonds that may be tendered in a remarketing.

### **Bonds may be Offered at Different Prices on any Date**

The Remarketing Agents are required to determine on the rate determination date the applicable rate of interest that, in their judgment, is the lowest rate that would permit the sale of the respective Bonds at par plus accrued interest, if any, on the date the rate becomes effective (the "**Effective Date**"). The interest rate will reflect, among other factors, the level of market demand for such Bonds (including whether the Remarketing Agents are willing to purchase such Bonds for their own account). The Remarketing Agreements require that the Remarketing Agents use their best efforts to sell respective tendered Bonds at par, plus accrued interest. There may or may not be Bonds tendered and remarketed on a rate determination date or an Effective Date, a Remarketing Agent may or may not be able to remarket any Bonds tendered for purchase on such date at par and a Remarketing Agent may sell such Bond at varying prices to different investors on such date or any other date. The Remarketing Agents are not obligated to advise purchasers in a remarketing if they do not have third party buyers for all of the Bonds at the remarketing price.

### **The Ability to Sell the Bonds other than through Tender Process may be Limited**

While the Remarketing Agents may buy and sell the Bonds, they are not obligated to do so and may cease doing so at any time without notice. Thus, investors who purchase the Bonds, whether in a remarketing or otherwise, should not assume that they will be able to sell their Bonds other than by tendering the Bonds in accordance with the tender process.



## RATINGS

Moody's Investors Service ("**Moody's**") and Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("**S&P**"), are expected to give the Remarketed Bonds ratings of "Aa2/VMIG 1" and "AA/A-1+," respectively, based on the delivery of the 2007B-3 Facility by the 2007B-3 Facility Provider. Moody's and S&P have given the Remarketed Bonds the underlying long-term ratings of "Aa2" and "AA", respectively. Such ratings reflect only the views of Moody's and S&P, respectively, at the time such ratings are given, and are not a recommendation to buy, sell or hold the Remarketed Bonds. The Authority makes no representation as to the appropriateness of such ratings. An explanation of the significance of the ratings given by Moody's and S&P, respectively, may be obtained from Moody's and S&P, respectively. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance that any such rating will continue for any given period of time or that any such rating will not be revised downward or withdrawn entirely by Moody's or S&P, respectively, if, in the judgment of the issuing rating agency, circumstances so warrant. Any such downward revision or withdrawal of any such rating may have an adverse effect on the marketability or market price of the Remarketed Bonds. The Authority has no obligation to oppose, or to provide Owners of the Remarketed Bonds with notice of, any such revision or withdrawal of a rating.

## LITIGATION

In connection with the remarketing of the Remarketed Bonds, the Authority will deliver an opinion of its General Counsel, Charles L. Borgman, Esq., to the effect that no litigation before any court is pending or, to his knowledge, threatened against the Authority in any way affecting the existence of the Authority or the titles of its officers to their respective offices, or seeking to restrain or to enjoin the remarketing of the Remarketed Bonds, or which would materially adversely affect the financial condition of the Authority, or in any way contesting or affecting the validity or enforceability of the Remarketed Bonds, the Indenture or the Remarketing Agreement.

## CERTAIN RELATIONSHIPS OF PARTIES

RBC Capital Markets, LLC is acting as the Remarketing Agent of the Remarketed Bonds. RBC Capital Markets, LLC also acts as the remarketing agent for other Bonds under the Master Indenture, as described in "REMARKETING AGENTS" in this Supplement. Royal Bank of Canada, the parent company of RBC Capital Markets, LLC, has acted as a counterparty to the Authority under an Interest Rate Contract as described in **Appendix B-1** to this Supplement and under agreements described in footnote (8) of the audited 2011 financial statements of the Authority, included in this Supplement as **Appendix G**. Royal Bank of Canada has also entered into an investment agreement with the Trustee in connection with the 2006B debt service reserve account, and is the provider of numerous liquidity facilities in connection with the Bonds, including the 2007B-3 Facility relating to the Remarketed Bonds, as described in **Appendix B-1** to this Supplement.

## LEGAL MATTERS

In connection with the remarketing of the Remarketed Bonds, Sherman & Howard L.L.C., as Bond Counsel to the Authority, will deliver the opinion described in "TAX MATTERS UPON REMARKETING" of this Supplement. Hogan Lovells US LLP has represented the Authority as Disclosure Counsel in connection with the Remarketed Bonds. Certain legal matters will be passed upon for the Authority by Charles L. Borgman, Esq., its General Counsel. The Remarketing Agent is being represented by its counsel, Dorsey & Whitney LLP. Certain legal matters will be passed upon for the 2007B-3 Facility Provider by its internal counsel, by Canadian counsel Norton Rose Canada LLP and by Kutak Rock LLP.

Neither Sherman & Howard L.L.C., Hogan Lovells US LLP nor Dorsey & Whitney LLP has participated in any independent verification of the information concerning the financial condition or capabilities of the Authority contained in this Supplement.

## FINANCIAL ADVISOR

The Authority has retained CSG Advisors Incorporated as its financial advisor (the "**Financial Advisor**") in connection with the remarketing of the Remarketed Bonds. The Financial Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness, or fairness of the information contained in this Supplement. The Financial Advisor will act as an independent advisory firm and will not be engaged in the business of remarketing, underwriting, trading or distributing the Remarketed Bonds.

## TAX MATTERS UPON REMARKETING

The form of opinion of Bond Counsel delivered in connection with the issuance of the Remarketed Bonds is contained as Appendix E to the Official Statement. Bond Counsel has not undertaken to update its approving opinion delivered in connection with the issuance of the Remarketed Bonds. However, in connection with the remarketing of the Remarketed Bonds, Bond Counsel will deliver its opinion to the effect that the delivery of the 2007B-3 Facility is permitted under the Act and the Indenture and will not, in and of itself, adversely affect the exclusion from gross income of interest on the Remarketed Bonds for federal tax purposes; provided, that in such opinion Bond Counsel will not be opining on whether the interest on the Remarketed Bonds is excluded from gross income for federal income tax purposes.

The opinion expressed by Bond Counsel in connection with the issuance of the Remarketed Bonds were based on existing law as of the respective delivery dates of the Remarketed Bonds. No opinion was or is expressed as of any subsequent date nor was or is any opinion expressed with respect to pending or proposed legislation. Amendments to the federal or state tax laws may be pending now or could be proposed in the future that, if enacted into law, could adversely affect the value of the Remarketed Bonds, the exclusion of interest on the Remarketed Bonds from gross income from the date of issuance of the Remarketed Bonds or any other date, or that could result in other adverse tax consequences. Owners of the Remarketed Bonds are advised to consult with their own tax advisors with respect to such matters.



The Tax Code contains numerous provisions which may affect an investor's decision to purchase the Remarketed Bonds. Under Section 3406 of the Tax Code, backup withholding may be imposed on payments on the Remarketed Bonds made to any owner who fails to provide certain required information, including an accurate taxpayer identification number, to certain persons required to collect such information pursuant to the Tax Code. Backup withholding may also be applied if the owner underreports "reportable payments" (including interest and dividends) as defined in Section 3406, or fails to provide a certificate that the owner is not subject to backup withholding in circumstances where such a certificate is required by the Tax Code.

## **FORWARD-LOOKING STATEMENTS**

**This Supplement contains statements relating to future results that are "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995. When used in this Supplement, the words "estimate," "forecast," "intend," "expect," "project," "budget," "plan" and similar expressions identify forward-looking statements.**

THE ACHIEVEMENT OF CERTAIN RESULTS OR OTHER EXPECTATIONS CONTAINED IN SUCH FORWARD-LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS DESCRIBED TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. THE AUTHORITY DOES NOT PLAN TO ISSUE ANY UPDATES OR REVISIONS TO THOSE FORWARD-LOOKING STATEMENTS IF OR WHEN ITS EXPECTATIONS, OR EVENTS, CONDITIONS OR CIRCUMSTANCES ON WHICH SUCH STATEMENTS ARE BASED OCCUR.

## **AVAILABILITY OF CONTINUING INFORMATION**

In connection with the remarketing of the Remarketed Bonds, the Authority will deliver a Continuing Disclosure Undertaking, in the form attached as **Appendix J** to this Supplement, by which the Authority is agreeing to make available, in compliance with Rule 15c2-12 of the Securities Exchange Act of 1934 ("**Rule 15c2-12**"), certain Annual Financial Information and audited financial statements and notice of certain events.

For the fiscal years ended as of and prior to December 31, 2010, the Authority had filed quarterly reports including all components of the Annual Financial Information and operating data with respect to certain of its outstanding bonds under the related continuing disclosure undertakings of the Authority. However, this information had been reported as of dates other than December 31, which is technically required by the Authority's continuing disclosure undertakings. So, while such financial information and operating data of the nature required to be provided annually had been provided more frequently to the market by posting on the Authority's website and, in many cases, by filing with the national repositories, there had been a technical non-compliance by the Authority with its continuing disclosure obligations.

The Authority has filed with EMMA Annual Financial Information and operating data as of December 31 for the fiscal years ended as of December 31, 2009 and 2010, and has implemented measures to ensure that Annual Financial Information for future fiscal years will be provided as of December 31 and will be timely filed with EMMA in accordance with the requirements of the related Continuing Disclosure Undertakings.

**MISCELLANEOUS**

This Supplement speaks only as of its date, and the information contained herein is subject to change. All quotations from, and summaries and explanations of the statutes, regulations and documents referenced herein do not purport to be complete and review should be made of said laws, regulations and documents for full and complete statements of their provisions.

Any statements in this Supplement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Supplement is not to be construed as an agreement or contract between the Authority and the purchasers or owners of any Remarketed Bonds.

**COLORADO HOUSING AND FINANCE  
AUTHORITY**

By: /s/ Cris A. White  
Executive Director

## APPENDIX A

### Summary of Certain Provisions of the Indenture

The Master Indenture and the 2007 Series B Indenture, copies of which are available from the Authority and the Trustee, contain various covenants and security provisions, some of which are summarized below.

#### Definitions of Certain Terms

"Accreted Value" means, with respect to each compound interest Bond as of any date of calculation, an amount equal to the sum of (i) the principal amount of such Bond, plus (ii) any interest that has been compounded, i.e., any interest amount that is itself then bearing interest, all determined as of such date.

"Acquisition Account" means the Account so designated, which is created and established in the Program Fund by the Master Indenture. See "Program Fund; Acquisition Account" under this caption.

"Act" means the Colorado Housing and Finance Authority Act, being Part 7, Article 4, Title 29 of Colorado Revised Statutes.

"Adjustable Rate Bonds" means Bonds the interest rate on which is not fixed to maturity.

"Aggregate Debt Service" means for any particular period, Bonds and Auxiliary Obligations, the Debt Service Payments becoming due and payable on all Payment Dates during such period with respect to such Bonds and such Auxiliary Obligations.

"Aggregate Principal Amount" means as of any date of calculation, the principal amount or Accreted Value of the Bonds referred to.

"Alternate Tax-Exempt Term Rate" means on any Rate Determination Date for a Tax-Exempt Bond in the Term Rate Mode, an index published or provided by Kenny Information Systems, which index is based on yield evaluations at par of bonds the interest on which is excluded from gross income for purposes of Federal income taxation and are not subject to a "minimum tax" or similar tax under the Code (unless all tax-exempt bonds are subject to such tax). The bonds upon which the index is based shall include not less than five "high grade" component issuers selected by Kenny Information Systems which shall include, without limitation, issuers of general obligation bonds. The specific issuers included among the component issuers may be changed from time-to-time by Kenny Information Systems in its discretion. The yield evaluation period for the index shall be a one year evaluation.

"Amortized Value" means, when used with respect to an Investment Security purchased at a premium above or at a discount below par, the value as of any given date obtained by dividing the total amount of the premium or the discount at which such Investment Security was purchased by the number of days remaining to the first call date (if callable) or the maturity date (if not callable) of such Investment Securities at the time of such purchase and by multiplying the amount so calculated by the number of days having passed from the date of such purchase; and (a) in the case of an Investment Security purchased at a premium, by deducting the product thus obtained from the purchase price and (b) in the case of an Investment Security purchased at a discount, by adding the product thus obtained to the purchase price.

"Authority" means the Colorado Housing and Finance Authority, the body corporate and political subdivision of the State or any successor thereto under or with respect to the Act.

"Authority Certificate" means, as the case may be, a document signed by the Chair, Vice Chair or an Authorized Officer either (a) attesting to or acknowledging the circumstances, representations or other matters therein stated or set forth or (b) setting forth matters to be determined by such Authorized Officer pursuant to the Indenture.

"Authorized Officer" means the Chair, Chair pro tem or Executive Director of the Authority, and any other officer designated from time to time as an Authorized Officer by resolution of the Authority and, when used with reference to any act or document, also means any other person authorized by resolution of the Authority to perform such act or sign such document.

"Auxiliary Agreements" means Interest Rate Contracts and Liquidity Facilities.

"Auxiliary Agreement Providers" means Interest Rate Contract Providers and Liquidity Facility Providers.

"Auxiliary Obligations" means obligations of the Authority for the payment of money under Auxiliary Agreements.

"Bond" or "Bonds" means any of the bonds, notes or other financial obligations (however denominated) of the Authority authorized and issued under the Indenture, including any Refunding Bonds.

"Bond Counsel" means any attorney or firm of attorneys of nationally recognized standing in the field of municipal law whose opinions are generally accepted by purchasers of municipal bonds, appointed from time to time by the Authority.

"Bondowner" or "Owner" or "Owner of Bonds" or similar term, when used with respect to a Bond or Bonds, means the registered owner of any Outstanding Bond.

"Bond Year" means, with respect to each Series, the twelve-month period designated as such by the Related Series Indenture, except that the first Bond Year for any Bonds may commence on the date of issuance thereof and end on the date specified by such Series Indenture.

"Borrower" means the maker of, and any other party obligated on, a Mortgage Loan in connection with the acquisition or rehabilitation of Residential Housing, who is a person or family of "low or moderate income" qualifying as such under the Act and the Rules and Regulations and in accordance with the Code.

"Business Day" means, except as set forth in a Series Indenture, any day (a) on which banks in the cities in which the respective principal offices of the Paying Agent, the Bond Registrar, the Trustee and Related Auxiliary Obligation Providers are located are not required or authorized by law to be closed and (b) on which the New York Stock Exchange is open. For purposes of this definition, the principal office of a Liquidity Facility Provider shall be the office to which demands for payment are delivered.

"Cash Flow Statement" means, with respect to any particular Bonds and Auxiliary Obligations, an Authority Certificate (a) setting forth, for the then current and each future Bond Year during which such Bonds and Auxiliary Obligations will be Outstanding, and taking into account (i) any such Bonds expected to be issued or redeemed or purchased for cancellation in each such Bond Year upon or in

connection with the filing of such Certificate, (for which purpose, if such Authority Certificate is delivered as of a date prior to a scheduled mandatory tender date for any Adjustable Rate Bonds, the Purchase Price of all such Adjustable Rate Bonds subject to mandatory tender on such tender date shall be assumed to be due and payable on such mandatory tender date), (ii) any such Auxiliary Obligations expected to be incurred upon or in connection with the filing of such Certificate, (iii) the interest rate, purchase price, discount points and other terms of any Related Mortgage Loans, and (iv) the application, withdrawal or transfer of any moneys expected to be applied, withdrawn or transferred upon or in connection with the filing of such Certificate:

(A) the amount of Mortgage Repayments and Prepayments reasonably expected to be received by the Authority in each such Bond Year from Related Mortgage Loans, together with Related Investment Revenues, Related Interest Rate Contract Revenues and other moneys (including without limitation moneys in any special escrows established with the Trustee) that are reasonably expected to be available to make Related Debt Service Payments, to pay Related Program Expenses and to pay the Purchase Price of any such Adjustable Rate Bonds subject to mandatory tender on any such tender date; and

(B) the Aggregate Debt Service for each such Bond Year on all such Bonds and Auxiliary Obligations reasonably expected to be Outstanding, together with the Related Program Expenses reasonably estimated for each such Bond Year;

and (b) showing that in each such Bond Year the aggregate of the amounts set forth in clause (a)(iv)(A) of this definition exceeds the aggregate of the amounts set forth in clause (a)(iv)(B) of this definition. Reference to a Cash Flow Statement with respect to a Series shall be taken to mean a Cash Flow Statement with respect to such Series and any Related Auxiliary Obligations and any other Series and Related Auxiliary Obligations to which such Series has been linked for Cash Flow Statement purposes.

"Class I Auxiliary Obligations" means Auxiliary Obligations which the Authority designates as Class I Auxiliary Obligations in the Related Series Indenture.

"Class I Bonds" means the Colorado Housing and Finance Authority Single Family Mortgage Class I Bonds authorized by, and at any time Outstanding pursuant to, the Indenture.

"Class I Obligations" means the Class I Bonds and the Class I Auxiliary Obligations and, with respect to a Series of Bonds, the Related Class I Bonds and any Related Class I Auxiliary Obligations.

"Class I Sinking Fund Installment" means the amount designated for any particular due date in the Related Series Indenture for the retirement of Class I Bonds on an unconditional basis, less any amount credited pursuant to the Master Indenture.

"Class II Auxiliary Obligations" means Auxiliary Obligations which the Authority designates as Class II Auxiliary Obligations in the Related Series Indenture.

"Class II Bonds" means the Colorado Housing and Finance Authority Single Family Mortgage Class II Bonds authorized by, and at any time Outstanding pursuant to, the Indenture.

"Class II Obligations" means the Class II Bonds and the Class II Auxiliary Obligations and, with respect to a Series of Bonds, the Related Class II Bonds and any Related Class II Auxiliary Obligations.

"Class II Sinking Fund Installment" means the amount designated for any particular due date for the retirement of Class II Bonds, as set forth in the Related Series Indenture, which amount may be

conditioned upon the transfer of sufficient moneys to the Class II Debt Service Fund, plus all such amounts specified for any prior date or dates, to the extent such amounts have not been paid or discharged, less any amounts credited pursuant to the Master Indenture.

"Class III Auxiliary Obligations" means Auxiliary Obligations which the Authority designates as Class III Auxiliary Obligations in the Related Series Indenture.

"Class III Bonds" means the Colorado Housing and Finance Authority Single Family Mortgage Class III Bonds authorized by, and at any time Outstanding pursuant to, the Indenture.

"Class III Obligations" means the Class III Bonds and the Class III Auxiliary Obligations and, with respect to a Series of Bonds, the Related Class III Bonds and any Related Class III Auxiliary Obligations.

"Class III Sinking Fund Installment" means the amount designated for any particular due date for the retirement of Class III Bonds, as set forth in the Related Series Indenture, which amount may be conditioned upon the transfer of sufficient moneys to the Class III Debt Service Fund, plus all such amounts specified for any prior date or dates, to the extent such amounts have not been paid or discharged, less any amounts credited pursuant to the Master Indenture.

"Class IV Auxiliary Obligations" means Auxiliary Obligations which the Authority designates as Class IV Auxiliary Obligations in the Related Series Indenture.

"Class IV Bonds" means the Colorado Housing and Finance Authority Single Family Mortgage Class IV Bonds authorized by, and at any time Outstanding pursuant to, the Indenture.

"Class IV Obligations" means the Class IV Bonds and the Class IV Auxiliary Obligations and, with respect to a Series of Bonds, the Related Class IV Bonds and any Related Class IV Auxiliary Obligations.

"Code" means the Internal Revenue Code of 1986, as amended, with respect to a Series, to the date of initial issuance of such Series, and the regulations of the United States Treasury Department promulgated thereunder.

"Conventional Mortgage Loan" means a Mortgage Loan, other than an FHA Insured Mortgage Loan, a VA Mortgage Loan or other Mortgage Loan insured or guaranteed by a Governmental Insurer, which meets the requirements of Fannie Mae or Freddie Mac, as applicable.

"Costs of Issuance" means the items of expense payable or reimbursable directly or indirectly by the Authority and other costs incurred by the Authority, all related to the authorization, sale and issuance of Bonds, the execution and delivery of Auxiliary Agreements and the establishment of the Program, which costs and items of expense shall include, but not be limited to, underwriters' compensation, printing costs, costs of developing, reproducing, storing and safekeeping documents and other information processing or storage of materials, equipment and software related to the Bonds, filing and recording fees, travel expenses incurred by the Authority in relation to such issuance of Bonds or for the Program, initial fees, charges and expenses (including counsel's fees and expenses) of the Authority, the Trustee, the Bond Registrar and the Paying Agent, initial premiums with respect to insurance required by the Indenture to be paid by the Authority or by the Trustee, legal fees and charges (including, without limitation, the fees and expenses of Bond Counsel, the Authority's disclosure counsel, counsel to the underwriter and counsel to the Authority), professional consultants' fees, accountants' fees, mortgagor counseling fees, costs of bond ratings, fees and charges for execution, transportation and safekeeping of the Bonds, accrued interest paid

in connection with the purchase of any Investment Securities with the proceeds of Bonds and any other costs, charges and fees in connection with the foregoing.

"Debt Service Payment" means, when used with respect to any Payment Date, the sum of the (a) interest, if any, and (b) Principal Installments, if any, and (c) Auxiliary Obligations, if any, due and payable on such date with respect to the Bonds and Auxiliary Agreements referred to.

"Debt Service Reserve Fund" means the Fund so designated, which is created and established by the Master Indenture. See "Debt Service Reserve Fund" under this caption.

"Debt Service Reserve Fund Requirement" with respect to each Series of Bonds, shall have the meaning set forth in the Related Series Indenture.

"Defeasance Securities" means any Investment Securities used to effect defeasance of Bonds in accordance with the Master Indenture if upon such defeasance the Bonds so defeased are rated in the highest rating category by each Rating Agency rating such Bonds, and which are not subject to redemption by the issuer thereof prior to their maturity.

"Depository" means any bank, trust company, or savings and loan association (including any Fiduciary) selected by the Authority and approved by the Trustee as a depository of moneys, Mortgage Loans, MBS or Investment Securities held under the provisions of the Indenture, and its successor or successors.

"Eligible Borrower" means a person or a family qualifying as a mortgagor for a Mortgage Loan under determinations made by the Authority in accordance with the Act.

"Escrow Payment" means all payments made by or on behalf of the obligor of a Mortgage Loan in order to obtain or maintain mortgage insurance or guaranty coverage of, and fire and other hazard insurance with respect to, a Mortgage Loan, and any payments required to be made with respect to such Mortgage Loan for taxes, other governmental charges and other similar charges required to be escrowed under the Mortgage.

"Excess Earnings" means, with respect to Mortgage Loans and MBS held in any subaccount of the Acquisition Account or the Loan Recycling Account established in connection with a Series of Tax-exempt Bonds, the "excess earnings," as defined in Treasury Regulations § 1.148-10T, with respect thereto.

"Fannie Mae" means Fannie Mae, a corporation organized and existing under the Federal National Mortgage Association Charter Act, 12 U.S.C., Section 1716 et seq., and its successors and assigns.

"Fannie Mae Certificate" means a single pool, guaranteed mortgage, pass-through certificate, bearing interest at the Pass-Through Rate, issued by Fannie Mae, guaranteed as to timely payment of interest and principal by Fannie Mae and backed by Conventional Mortgage Loans, which will mature not later than the date set forth in the applicable Series Indenture.

"Fannie Mae Certificate Purchase Price" means 100% of the principal balance of the applicable pool of Mortgage Loans on record at Fannie Mae on the first day of the month of purchase, or such other percentage of such principal balance as may be reported by the Authority to the Trustee upon the acquisition of the related Fannie Mae Certificate.

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

"FHA Insured Mortgage Loan" means a Mortgage Loan insured by FHA.

"Fiduciary" means the Trustee, the Bond Registrar, the Paying Agent or a Depository or any or all of them, as may be appropriate.

"Fiduciary Expenses" means the fees and expenses of Fiduciaries, including fees and expenses of Fiduciary's counsel, but not including Servicing Fees payable to such Persons.

"Freddie Mac" means the Federal Home Loan Mortgage Corporation or any successor thereto.

"Freddie Mac Certificate" means a mortgage participation certificate issued by Freddie Mac and representing an undivided interest in a pool of Conventional Mortgage Loans identified by a particular alphanumeric number and CUSIP number, guaranteed as to timely payment of principal and interest by Freddie Mac and bearing interest at the Pass-Through Rate, which will mature not later than the date set forth in the applicable Series Indenture.

"Freddie Mac Certificate Purchase Price" means 100% of the principal balance of the applicable pool of Mortgage Loans on record at Freddie Mac on the first day of the month of purchase, or such other percentage of such principal balance as may be reported by the Authority to the Trustee upon the acquisition of the related Freddie Mac Certificate.

"General Obligation Bond" means a Bond, the payment of principal of and interest on which is a General Obligation of the Authority.

"General Obligations" means Bonds or Auxiliary Obligations secured or additionally secured, as provided in the Related Series Indenture, by a pledge of general revenues or moneys of the Authority legally available therefor, subject only to agreements made or to be made with owners of notes, bonds or other obligations pledging particular revenues or moneys for the payment thereof and subject to the Authority's right at any time to apply such revenues and moneys to any lawful purpose.

"Ginnie Mae" means the Government National Mortgage Association, a wholly owned corporate instrumentality of the United States within the Department of Housing and Urban Development or any successor to its functions.

"Ginnie Mae Certificate" means a fully modified, mortgage backed security (which may be issued under either the GNMA I Program or the GNMA II Program) bearing interest at the Pass-Through Rate, issued by the Authority, registered in the name of the Trustee and guaranteed as to timely payment of principal and interest by Ginnie Mae pursuant to Section 306(g) of Title III of the National Housing Act of 1934 and the regulations promulgated thereunder backed by FHA Insured Mortgage Loans, VA Guaranteed Mortgage Loans or other Mortgage Loans insured or guaranteed by an eligible Governmental Insurer, which will mature not later than the date set forth in the applicable Series Indenture.

"Ginnie Mae Certificate Purchase Price" means 100% of the percentage of the principal balance of the applicable pool of Mortgage Loans on record at Ginnie Mae on the first day of the month of purchase, or such other percentage of such principal balance as may be by the Authority to the Trustee upon the acquisition of the related Ginnie Mae Certificate.



"Governmental Insurer" means FHA, VA, the U.S. Department of Housing and Urban Development, the Rural Housing Service (formerly, the Rural Housing and Community Development Service, the successor to the Farmers Home Administration), and any other governmental agency which insures or guarantees mortgage loans that can be backed by a Ginnie Mae Certificate.

"Indenture" means the Master Indenture authorized, executed and issued by an Authorized Officer and any amendments or supplements made in accordance with its terms, including all Series Indentures.

"Interest Payment Date" means, for each Bond, any date upon which interest on such Bond is due and payable in accordance with the Related Series Indenture.

"Interest Rate Contract" means an interest rate exchange or swap contract, a cash flow exchange or swap contract, any derivative of such contracts, including forward swaps and options to enter into swaps, and interest rate floors, caps or collars, entered into between the Authority and an Interest Rate Contract Provider.

"Interest Rate Contract Provider" means a Person that is a party to an Interest Rate Contract with the Authority with respect to specified Bonds and who satisfies the applicable requirements of the Interest Rate Exchange Agreements Act, being Article 59.3, Title 11 of Colorado Revised Statutes, and whose credit rating by each nationally recognized Rating Agency then rating the Class I Bonds is sufficiently high to maintain the then current rating on such Bonds by such Rating Agency or the equivalent of such rating by virtue of guarantees or insurance arrangements.

"Interest Rate Contract Revenues" means all payments and receipts received by the Authority under an Interest Rate Contract.

"Investment Provider" means any commercial bank or trust company, bank holding company, investment company or other entity (which may include the Trustee, the Bond Registrar or the Paying Agent), whose credit rating (or the equivalent of such rating by virtue of guarantees or insurance arrangements) by each nationally recognized Rating Agency then rating the Class I Bonds or Class II Bonds is sufficiently high to maintain the then current rating on such Bonds by such Rating Agency or is otherwise acceptable to each such Rating Agency in order to maintain the then current rating on such Bonds by such Rating Agency, which Investment Providers shall be approved by the Agency for the purpose of providing investment agreements.

"Investment Revenues" means amounts earned on investments (other than Mortgage Loans and MBS) credited to any Fund or Account pursuant to the Indenture (including gains upon the sale or disposition of such investments) except the Rebate Requirement and any Excess Earnings.

"Investment Securities" means and includes any of the following securities, if and to the extent the same are at the time legal for investment of the Authority's funds:

- (i) Direct, general obligations, or obligations the timely payment of principal and interest of which are unconditionally guaranteed by, the United States of America;
- (ii) Obligations, debentures, notes, collateralized mortgage obligations, mortgage backed securities or other evidence of indebtedness issued or guaranteed by any of the following: Cooperatives; Federal Farm Credit Banks; Federal Home Loan Bank System; Export-Import Bank of the United States; Federal Land Banks; Fannie Mae (excluding "interest only" mortgage strip securities, and excluding other mortgage strip securities which are valued greater than par); Farmers Home Administration; Federal

Home Loan Mortgage Corporation (including participation certificates only if they guarantee timely payment of principal and interest); Government National Mortgage Association (excluding "interest only" mortgage strip securities, and excluding other mortgage strip securities which are valued greater than par); Federal Financing Bank; Federal Housing Administration; or any other agency or instrumentality of the United States of America (created by an Act of Congress) substantially similar to the foregoing in its legal relationship to the United States of America;

(iii) Repurchase agreements, collateralized by Investment Securities described in clause (i) or clause (ii) of this definition, with any institution, any registered broker/dealer subject to the Securities Investors' Protection Corporation jurisdiction or any commercial bank rated by each Rating Agency rating the Bonds sufficiently high to maintain the then current rating on such Bonds by such Rating Agency, and collateralized in such manner to meet all requirements for collateralized repurchase agreements of each Rating Agency rating the Bonds in order to maintain the then current rating on such Bonds by such Rating Agency;

(iv) General obligations or revenue obligations (including bonds, notes or participation certificates) of, or "private activity bonds" (within the meaning of the Code) issued by any state of the United States of America or any political subdivision thereof, or any agency or instrumentality of any state of the United States of America or any political subdivision thereof, which obligations are rated by each Rating Agency then rating the Bonds sufficiently high to maintain the then current rating on such Bonds by such Rating Agency, or any money market or short term investment fund investing substantially in or consisting substantially of and secured by obligations described above in this item (iv), which fund is rated by each Rating Agency then rating the Bonds sufficiently high to maintain the then current rating on such Bonds by such Rating Agency and which fund, if the income from such investment is intended to be excluded from gross income for federal income tax purposes, is included in the definition of "tax-exempt bond" set forth in Treasury Regulation § 1.150-1(b);

(v) General obligations of Investment Providers under the investment agreement described under "Assumptions Regarding Revenues, Debt Service Requirements, Operating Expenses and Certain Other Matters" or other investment agreements having substantially similar terms;

(vi) Certificates of deposit, interest-bearing time deposits, or other similar banking arrangements with a bank or banks (a) rated by each Rating Agency rating Bonds sufficiently high to maintain the then current rating on such Bonds by such Rating Agency or (b) collateralized in such manner to meet all requirements for collateralized agreements of each Rating Agency rating the Bonds in order to maintain the then current rating on such Bonds by such Rating Agency;

(vii) Commercial paper rated by each Rating Agency rating the Bonds sufficiently high to maintain the then current rating on such Bonds by such Rating Agency;

(viii) Shares in the statutory law trust known as the Colorado Local Government Liquid Asset Trust (COLOTRUST), created pursuant to Part 7 of Article 75 of Title 24, Colorado Revised Statutes; and

(ix) Units of a money market fund or a money market mutual fund which has a rating from each Rating Agency then rating the Bonds sufficiently high to maintain the then current rating on such Bonds by such Rating Agency;

provided, that it is expressly understood that the definition of Investment Securities shall be, and be deemed to be, expanded, or new definitions and related provisions shall be added to the Indenture, thus permitting investments with different characteristics from those listed above which the Authority deems

from time to time to be in the interest of the Authority to include as Investment Securities if at the time of inclusion the Trustee shall have received written confirmation from the Rating Agencies that such inclusion will not, in and of itself, impair, or cause any of the Bonds to fail to retain, the then existing rating assigned to them by the Rating Agencies.

"Liquidity Facility" means a letter of credit, standby bond purchase agreement, security bond, reimbursement agreement or other agreement between the Authority and a Liquidity Facility Provider with respect to specified Bonds issued under the Master Indenture.

"Liquidity Facility Provider" means a Person that is a party to a Liquidity Facility with the Authority with respect to specified Bonds and whose credit rating by each nationally recognized Rating Agency then rating the Class I Bonds is sufficiently high to maintain the then current rating on such Bonds by such Rating Agency or the equivalent of such rating by virtue of guarantees or insurance arrangements.

"MBS" means, collectively, the Ginnie Mae Certificates, the Fannie Mae Certificates and the Freddie Mac Certificates. In the event that only a portion of or interest in an MBS is acquired under the Indenture, references herein to such MBS shall be interpreted and applied to relate to such portion or interest.

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

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

"Mortgage Loan" means a permanent loan secured by a Mortgage for the purchase or rehabilitation of Residential Housing made to a Borrower either by the Authority or by an originating Mortgage Lender which is purchased by the Authority pursuant to a Mortgage Purchase Agreement and which loan satisfies the requirements of the Master Indenture. In the event that only a portion of or interest in a Mortgage Loan is purchased under the Indenture, references herein to such Mortgage Loan shall be interpreted and applied to relate to such portion or interest.

"Mortgage Repayments" means, with respect to any Mortgage Loan or the related MBS, the amounts received by or for the account of the Authority as scheduled payments of principal and interest (if any) on such Mortgage Loan or related MBS by or on behalf of the Borrower to or for the account of the Authority and does not include Prepayments, Servicing Fees or Escrow Payments.

"Mortgage Revenues" means all Revenues other than Investment Revenues and Interest Rate Contract Revenues.

"Outstanding" means, when used with respect to all Bonds as of any date, all Bonds theretofore authenticated and delivered under the Indenture except:

- (a) any Bond cancelled or delivered to the Bond Registrar for cancellation on or before such date;
- (b) any Bond (or any portion thereof) (i) for the payment or redemption of which there shall be held in trust under the Indenture and set aside for such payment or redemption, moneys

and/or Defeasance Securities maturing or redeemable at the option of the holder thereof not later than such maturity or redemption date which, together with income to be earned on such Defeasance Securities prior to such maturity or redemption date, will be sufficient to pay the principal or Redemption Price thereof, as the case may be, together with interest thereon to the date of maturity or redemption, and (ii) in the case of any such Bond (or any portion thereof) to be redeemed prior to maturity, notice of the redemption of which shall have been given in accordance with the Indenture or provided for in a manner satisfactory to the Bond Registrar;

(c) any Bond in lieu of or in exchange for which another Bond shall have been authenticated and delivered pursuant to the Indenture; and

(d) any Bond deemed to have been paid as provided in the Master Indenture;

and, with respect to any Auxiliary Obligations, means Auxiliary Obligations which have not been paid or otherwise satisfied.

"Participant" means a broker-dealer, bank or other financial institution from time to time for which the Securities Depository effects book-entry transfers and pledges of securities deposited with the Securities Depository.

"Pass-Through Rate" means the rate of interest on an MBS reported by the Authority to the Trustee upon the acquisition of such MBS, equal to the rate of interest on the Mortgage Loans underlying such MBS less authorized Servicing Fees (including the guarantee fee charged by Ginnie Mae, Fannie Mae or Freddie Mac, as applicable).

"Payment Date" means for each Bond, each date on which interest or a Principal Installment or both are payable on such Bond; and for each Auxiliary Obligation, each date on which an amount is payable with respect to such Auxiliary Obligation, and, unless limited, means all such dates.

"Person" means an individual, partnership, corporation, trust or unincorporated organization or a government or any agency, instrumentality, program, account, fund, political subdivision or corporation thereof.

"Prepayment" means any moneys received or recovered by or for the account of the Authority from any unscheduled payment of or with respect to principal (including any penalty, fee, premium or other additional charge for prepayment of principal which may be provided by the terms of a Mortgage Loan or MBS, but excluding any Servicing Fees with respect to the collection of such moneys) on any Mortgage Loan or MBS prior to the scheduled payments of principal called for by such Mortgage Loan, whether (a) by voluntary prepayment made by the Borrower or (b) as a consequence of the damage, destruction or condemnation of the mortgaged premises or any part thereof or (c) by the sale, assignment, endorsement or other disposition of such Mortgage Loan or MBS by the Authority or (d) in the event of a default thereon by the Borrower, by the acceleration, sale, assignment, endorsement or other disposition of such Mortgage Loan or MBS by the Authority or by any other proceedings taken by the Authority.

"Principal Installment" means, as of any date of calculation, and for any Payment Date, (a) the principal amount or Accreted Value of all Bonds due and payable on such date, plus (b) any Class I, Class II, Class III and Class IV Sinking Fund Installments due and payable on such date.

"Program" means the Authority's Single Family Mortgage Program pursuant to which the Authority has determined to purchase Mortgage Loans in accordance with the Act, the Rules and Regulations and the Indenture.

"Program Expenses" means all the Authority's expenses of administering the Program under the Indenture and the Act and shall include without limiting the generality of the foregoing; salaries, supplies, utilities, labor, materials, office rent, maintenance, furnishings, equipment, machinery and apparatus, including information processing equipment; software, insurance premiums, credit enhancement fees, legal, accounting, management, consulting and banking services and expenses; Fiduciary Expenses; remarketing fees; Costs of Issuance not paid from proceeds of Bonds; payments to pension, retirement, health and hospitalization funds; and any other expenses required or permitted to be paid by the Authority.

"Qualified Mortgage Loan Mortgage Backed Securities" means Investment Securities which constitute collateralized mortgage obligations issued by Fannie Mae, the Government National Mortgage Association or the Federal Home Loan Mortgage Corporation, underlying mortgages of which would constitute Mortgage Loans for purposes of the Indenture if acquired by the Trustee from moneys in the Acquisition Account.

"Qualified Surety Bond" means any surety bond, letter of credit, insurance policy or other instrument which has liquidity features equivalent to a letter of credit, deposited in the Debt Service Reserve Fund in lieu of or in partial substitution for moneys on deposit therein, which shall have no adverse impact on the rating assigned to any Bonds by any Rating Agency.

"Rating Agency" means, at any particular time, any nationally recognized credit rating service designated by the Authority, if and to the extent such service has at the time one or more outstanding ratings of Bonds. The Authority shall at all times have designated at least one such service as a Rating Agency under the Indenture.

"Rebate Requirement" means the amount of arbitrage profits earned from the investment of gross proceeds of Tax-exempt Bonds in nonpurpose investments described in Section 148(f)(2) of the Code and defined as "Rebate Amount" in Section 1.148-3 of the Treasury Regulations, which is payable to the United States at the times and in the amounts specified in such provisions.

"Record Date" means, except as otherwise provided in a Series Indenture (i) with respect to each Payment Date, with respect to Bonds which are not Adjustable Rate Bonds the Bond Registrar's close of business on the fifteenth day of the month immediately preceding such Payment Date or, if any such date is not a Business Day, the next preceding day which is a Business Day, and with respect to Adjustable Rate Bonds the Bond Registrar's close of business on the Business Day immediately preceding such Payment Date; and (ii) in the case of each redemption, such Record Date as shall be specified by the Bond Registrar in the notice of redemption, provided that such Record Date shall not be less than fifteen (15) calendar days before the transmission of such notice of redemption.

"Redemption Price" means, when used with respect to a Bond or portion thereof to be redeemed, the principal amount or Accreted Value of such Bond or such portion thereof plus the applicable premium, if any, payable upon redemption thereof as determined by the Series Indenture authorizing the Series of Bonds.

"Related" (whether capitalized or not) means, with respect to any particular Bond, Class, Series, Series Indenture, Supplemental Indenture, Cash Flow Statement, Fund, Account, Mortgage Loan (or portion thereof), Auxiliary Agreement, MBS (or portion thereof), moneys, Investment Securities, Mortgage Repayment or Prepayment, having been created in connection with the issuance of, or having been derived from the proceeds of, or having been reallocated to, or concerning, the same Series, as the case may be.

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

"Revenue Fund" means the Fund so designated, which is created and established by the Master Indenture. See "Revenue Fund" under this caption.

"Revenues" means (a) all Mortgage Repayments, Prepayments and, except insofar as such payments may constitute Servicing Fees, any penalty payments on account of overdue Mortgage Repayments, (b) Investment Revenues, (c) Interest Rate Contract Revenues, and (d) all other payments and receipts received by the Authority with respect to Mortgage Loans and MBS, but shall not include (i) Escrow Payments, (ii) Servicing Fees, unless such fees are specifically pledged to the Trustee, (iii) any commitment, reservation, extension, or application fees charged by the Authority in connection with a Mortgage Loan or Mortgage Purchase Agreement, (iv) any commitment, reservation, extension or application fees charged by a Mortgage Lender in connection with a Mortgage Loan or (v) accrued interest received in connection with the purchase of any Investment Securities.

"Rules and Regulations" means the Authority's Single Family Mortgage Program Rules and Regulations adopted by the Authority pursuant to the Act governing the activities authorized by the Act as the same may be amended and supplemented from time to time.

"Second Mortgage Loan" means a Mortgage Loan secured by a Mortgage constituting a second lien on real property.

"Securities Depository" means The Depository Trust Company, New York, New York, and its successors and assigns, or any additional or other securities depository designated in a Series Indenture, or (i) if the then Securities Depository resigns from its functions as depository of the Bonds, or (ii) if the Authority discontinues use of the Securities Depository pursuant to the Master Indenture, then any other securities depository which agrees to follow the procedures required to be followed by a securities depository in connection with the Bonds and which is selected by the Authority with the consent of the Trustee.

"Series" means and refers to all of the Bonds designated as such in the Related Series Indenture and authenticated and delivered on original issuance in a simultaneous transaction, regardless of variations in Class, dated date, maturity, interest rate or other provisions, and any Bond thereafter delivered in lieu of or substitution for any of such Bonds pursuant to the Master Indenture and a Related Series Indenture.

"Servicer" means a state-chartered bank or national banking association, state or federal savings and loan association or mortgage banking or other financial institution which has been approved by the Authority as experienced and qualified to service Loans, and any successor thereto.

"Servicing Agreement" means a written agreement between the Authority and a Servicer (other than the Authority) providing for the servicing of Mortgage Loans on behalf of the Authority.

"Servicing Fees" means (a) any fees paid to or retained by a Servicer in connection with the servicing obligations undertaken by the Servicer in accordance with the Related Servicing Agreement and (b) any fees and ancillary income retained by or expenses reimbursed to the Authority with respect to Mortgage Loans serviced by the Authority.

"Short-Term Bonds" means any Bonds for which the denominator of the Class I Asset Requirement, the Class II Asset Requirement and/or Class III Asset Requirement, as applicable, is calculated based on 100% of the Aggregate Principal Amount of such Bonds.

"Supplemental Indenture" means any supplemental indenture (including a Series Indenture) approved by the Agency in accordance with the Master Indenture amending or supplementing the Indenture.

"Targeted Area" means a "targeted area" within the meaning of Section 143 of the Code.

"Targeted Area Residence" means a "targeted area residence" within the meaning of Section 143 of the Code.

"Tax-exempt Bonds" means Bonds the interest on which is intended to be excluded from gross income of the owner thereof for federal income tax purposes.

"Trust Estate" means the property, rights, moneys, securities and other amounts pledged and assigned to the Trustee pursuant to the Granting Clauses of the Master Indenture.

"Unrelated" (whether capitalized or not) means not "Related," within the meaning of that term.

"VA" means the Veterans Administration, an agency of the United States, or any successors to its functions.

"VA Mortgage Loan" means a Mortgage Loan guaranteed by VA.

"Zero Interest First Mortgage Loans" means Mortgage Loans made to certain Purchasers under specific terms as described in "SINGLE FAMILY MORTGAGE PROGRAM – Special Program Features – Zero Interest First Mortgage Loans" in this Supplement.

### **Purchase in Lieu of Redemption**

If Bonds of any particular Series, Class and maturity are called for redemption, upon Authority Request the Bonds so called shall be purchased in lieu of such redemption by the Trustee or Paying Agent for the account of the Authority on the date upon which such Bonds were to have been redeemed, at a purchase price not to exceed the applicable Redemption Price thereof, plus accrued interest, if any, thereon to, but not including, such date, or at any higher purchase price consistent with the most recent Cash Flow Statement. At the election of the Authority, but not otherwise, such Bonds shall be canceled by the Trustee upon such purchase in lieu of redemption. The Authority shall deliver any such Authority Request not later than the Business Day preceding the date upon which such Bonds were to have been redeemed, which Authority Request shall state the aggregate principal amount of each Series, Class and maturity of Bonds for which an election to purchase in lieu of redemption pursuant to this Master Indenture is being made, and the source of payment for such purchase in lieu of redemption. Any such purchase in lieu of redemption may be made from any moneys designated by the Authority, and, upon receipt thereof if such moneys are not already held in the Trust Estate, the Trustee shall use such moneys for such purpose. The Authority is expressly authorized, to tender, and to direct the Trustee and the Paying Agent to purchase from the Authority, any Bonds for cancellation in lieu of redemption. Neither the Trustee nor the Paying Agent shall be required to advance any of their own money to make any such purchase or purchases.

Unless the Authority shall designate a different source, the Trustee shall apply, or cause the Paying Agent to apply, available moneys in the Redemption Fund in lieu of redemption to pay the purchase price (exclusive of accrued interest) of Bonds purchased in lieu of redemption pursuant to the Master Indenture. Unless the Authority shall designate a different source, the Trustee shall apply, or cause the Paying Agent to apply, available moneys from the Revenue Fund in accordance with the Master Indenture, from the Class I Debt Service Fund in accordance with the Master Indenture, from the Class II Debt Service Fund in accordance with the Master Indenture, from the Class III Debt Service Fund in accordance with the Master Indenture, or from the Class IV Debt Service Fund in accordance with the Master Indenture to pay accrued interest on such Bonds purchased pursuant to the Master Indenture.

Unless the Authority shall designate a different source, the Trustee shall apply, or cause the Paying Agent to apply, available moneys from the Class I Debt Service Fund in accordance with the Master Indenture to pay the purchase price (inclusive of accrued interest) of Class I Term Bonds purchased in lieu of redemption by Class I Sinking Fund Installment pursuant to the Master Indenture and, upon such purchase, shall credit the principal amount of any such Class I Term Bonds against such Class I Sinking Fund Installment in accordance with the Master Indenture.

Unless the Authority shall designate a different source, the Trustee shall apply, or cause the Paying Agent to apply, available moneys from the Class II Debt Service Fund in accordance with the Master Indenture to pay the purchase price (inclusive of accrued interest) of Class II Bonds purchased in lieu of redemption by Class II Sinking Fund Installment pursuant to the Master Indenture and, upon such purchase, shall credit the principal amount of any such Class II Bonds against such Class II Sinking Fund Installment in accordance with the Master Indenture.

Unless the Authority shall designate a different source, the Trustee shall apply, or cause the Paying Agent to apply, available moneys from the Class III Debt Service Fund in accordance with the Master Indenture to pay the purchase price (inclusive of accrued interest) of Class III Bonds purchased in lieu of redemption by Class III Sinking Fund Installment pursuant to paragraph (a) of the Master Indenture and, upon such purchase, shall credit the principal amount of any such Class III Bonds against such Class III Sinking Fund Installment in accordance with the Master Indenture.

Unless the Authority shall designate a different source, the Trustee shall apply, or cause the Paying Agent to apply, available moneys from the Class IV Debt Service Fund in accordance with the Master Indenture to pay the purchase price (inclusive of accrued interest) of Class IV Bonds purchased in lieu of redemption by Class IV Sinking Fund Installment pursuant to the Master Indenture and, upon such purchase, shall credit the principal amount of any such Class IV Bonds against such Class IV Sinking Fund Installment in accordance with the Master Indenture.

Unless the Authority shall designate a different source, the Trustee shall apply, or cause the Paying Agent to apply, available moneys in the Revenue Fund in the order of priority and in amounts which do not exceed the amounts expected to be transferred to the respective Funds and Accounts pursuant to the Master Indenture prior to the next Payment Date to purchase Bonds in the manner provided in the Master Indenture. Any Bonds so purchased shall be credited in an amount equal to par plus accrued interest against amounts which would otherwise be required to be transferred pursuant to the Master Indenture to the various Funds and Accounts.

#### **Funds and Accounts Established by the Indenture**

The Indenture establishes the following Funds and Accounts to be held by the Trustee for application in accordance with the Indenture:



- (a) the Program Fund, consisting of:
  - (i) the Acquisition Account
  - (ii) the Short Term Bond Account;
  - (iii) the Cost of Issuance Account; and
  - (iv) the Loan Recycling Account;
- (b) the Revenue Fund;
- (c) the Debt Service Reserve Fund, which shall include the Interest Reserve Account;
- (d) the Class I Debt Service Fund which may include an Authority Payment Account;
- (e) the Class II Debt Service Fund which may include an Authority Payment Account;
- (f) the Class III Debt Service Fund which may include an Authority Payment Account;
- (g) the Class IV Debt Service Fund which may include an Authority Payment Account;
- (h) the Redemption Fund, consisting of:
  - (i) the Class I Special Redemption Account;
  - (ii) the Class II Special Redemption Account;
  - (iii) the Class III Special Redemption Account; and
  - (iv) the Class IV Special Redemption Account;
- (i) the Rebate Fund; and
- (j) the Excess Earnings Fund.

Subaccounts shall be created in all Funds and Accounts described in the Master Indenture for each Series of Bonds. Except as otherwise provided in the Master Indenture or in a Series Indenture, bond proceeds and other moneys relating to a Series of Bonds shall be deposited in the Related subaccounts created with respect to such Series of Bonds.

The Authority may reallocate moneys, investments, Mortgage Loans and MBS (or portions thereof or interests therein) among Series under any of the following circumstances:

- (a) if and to the extent required by the Indenture;
- (b) if and to the extent necessary to enable the Authority to deliver a Cash Flow Statement with respect to one or more Series;
- (c) in connection with an Authority Request filed pursuant to the Indenture;

(d) upon Authority Request, accompanied by an opinion of Bond Counsel, to assure that the interest on Tax-exempt Bonds remains excludable from the gross income of the owners thereof for federal income tax purposes; and

(e) if and to the extent that the aggregate amount of moneys, investments, Mortgage Loans and MBS allocated to any particular Series exceeds the aggregate amount of Outstanding Bonds of such Series.

If the Authority determines to make such a reallocation of moneys, investments, Mortgage Loans and MBS (or portions thereof or interests therein) among Series, the Authority shall deliver to the Trustee an Authority Request specifying such reallocations. Upon receipt of such request, the Trustee shall transfer moneys, investments, Mortgage Loans and/or MBS (or portions thereof or interests therein) among subaccounts Related to each Series as requested. Mortgage Loans and MBS (or portions thereof or interests therein) reallocated among Series are not required to meet the requirements of the Series Indenture Related to the Series to which such Mortgage Loans and MBS (or portions thereof or interests therein) are being reallocated, if such Mortgage Loans (or Mortgage Loans Related to such MBS) at the time of their original acquisition or origination by the Authority met the requirements of the Master Indenture and the applicable requirements of the Series Indenture Related to such Mortgage Loans and MBS at the time of their purchase.

Special temporary accounts in the Program Fund and the Debt Service Reserve Fund may be created and established to facilitate the refunding of the Authority's bonds and any exchange of funds related thereto.

#### **Program Fund; Acquisition Account**

There shall be paid into the Related subaccount of the Acquisition Account established within the Program Fund the respective amount of the proceeds of the Bonds and other moneys specified in each Series Indenture and any amounts transferred pursuant to the Master Indenture. There may also be paid into the Acquisition Account, at the option of the Authority, any moneys received by the Authority from any other source, unless required to be otherwise applied as provided by the Indenture. Except as otherwise required or permitted by the Master Indenture, Mortgage Loans and MBS made or purchased in connection with a Series of Bonds shall be allocated to such Series. Mortgage Loans and MBS (or portions thereof) allocated to a Series of Bonds shall be held in the subaccount of the Acquisition Account which was created in connection with such Series of Bonds.

Proceeds of the Bonds and other moneys deposited in the Acquisition Account shall be applied to make or purchase Mortgage Loans or to acquire MBS (or portions thereof or interests therein) in accordance with the provisions of the Indenture; provided, however, that such Mortgage Loans (or Mortgage Loans Related to such MBS) must satisfy the terms and conditions set forth in the Master Indenture and applicable provisions of the Related Series Indenture, and the Authority shall not use such proceeds or other moneys to finance a Mortgage Loan or MBS providing a yield that, in the aggregate with other Mortgage Loans or MBS credited or expected to be credited to the Acquisition Account or the Loan Recycling Account, exceeds any limitation on yield required by Section 103 or Section 143 of the Code, unless there shall be filed with the Trustee an opinion of Bond Counsel to the effect that the financing of Mortgage Loans or MBS providing a higher yield will not cause the interest on the Related Tax-exempt Bonds to be included in the gross income of the recipient thereof for federal income tax purposes.

The Trustee shall withdraw moneys from the Acquisition Account for the purchase of a Mortgage Loan pursuant to the Master Indenture upon receipt of an Authority Request stating (i) the name of the

Person to be paid, (ii) the amount to be paid, including principal, premium, if any, unpaid accrued interest and prepaid discount fees, if any, and (iii) that all conditions precedent to the purchase of such Mortgage Loan have been fulfilled. The Trustee shall withdraw moneys from the Acquisition Account for the acquisition of MBS pursuant to the Master Indenture upon receipt of an Authority Request. The purchase price of each Ginnie Mae Certificate shall be the Ginnie Mae Certificate Purchase Price, the purchase price of each Fannie Mae Certificate shall be the Fannie Mae Certificate Purchase Price and the purchase price of each Freddie Mac Certificate shall be the Freddie Mac Certificate Purchase Price. If the Trustee receives an interest payment on an MBS representing interest accrued prior to the date such MBS was purchased by the Trustee with amounts on deposit in the Acquisition Account, the Trustee shall remit such amount to the Authority when received. The Trustee shall not disburse moneys from the Acquisition Account for the acquisition of an MBS unless (i) such MBS shall be acquired in accordance with the Master Indenture, (ii) such MBS will bear interest at the applicable Pass-Through Rate and (iii) the MBS will be held by the Trustee as described in the Master Indenture.

Any moneys deposited in the Acquisition Account that the Authority certifies from time to time will not be used to purchase Mortgage Loans or MBS in accordance with the Master Indenture and the Related Series Indenture shall be withdrawn by the Trustee on the date specified in the Related Series Indenture or such other date or dates on or after such date as may be specified by the Authority, and transferred to the Related subaccount of the Redemption Fund for application in accordance with the Related Series Indenture; provided, however, that such transfer or transfers may be made on a later date as to all or any part of such moneys, if the Authority shall have filed with the Trustee an Authority Request specifying a later date or dates for such withdrawal, and certifying that such Authority Request is consistent with the most recently filed Cash Flow Statement and the Related Series Indenture.

When no Bonds of a particular Series or Related Auxiliary Obligations remain Outstanding, upon receipt of an Authority Request to withdraw all or any portion of the Related moneys, investments, Mortgage Loans and/or MBS from the Related Funds, Accounts and subaccounts, the Trustee shall make such withdrawal and shall transfer such moneys, investments, Mortgage Loans and/or MBS, as the case may be, to or upon the order of, the Authority; provided, however, that the Authority Request must certify that such withdrawal is consistent with the most recently filed Cash Flow Statement for all Bonds and the most recently filed Cash Flow Statement for any Series to which such retired Series has been linked.

The Authority may determine that a Mortgage Loan or an MBS (or portions thereof or interest therein) will be financed or refinanced with proceeds of more than one Series of Bonds. In such event, all provisions of the Indenture which relate to a Mortgage Loan, an MBS, Mortgage Repayments and Prepayments, and moneys in any Fund or Account, shall be interpreted and applied to relate such Mortgage Loan, MBS, Mortgage Repayments, Prepayments and moneys to each Series furnishing proceeds for such Mortgage Loan or MBS in proportion to the respective principal amounts of Bonds of each such Series the proceeds of which were or will be used to finance or refinance such Mortgage Loan or MBS or by such other method as shall be provided in an Authority Request, accompanied by an opinion of Bond Counsel that such method will not adversely affect the exclusion from gross income of interest on Tax-exempt Bonds.

The Ginnie Mae Certificates acquired by the Trustee shall be held at all times by the Trustee in trust for the benefit of the Owners and shall be registered in the name of the Trustee or its nominee or held in book entry form as described in this subsection. A Ginnie Mae Certificate will be issued in book entry form through a book entry system of the Federal Reserve System and transferred to the Trustee. If the Trustee does not receive payment with respect to a Ginnie Mae Certificate when due by the close of business on the twentieth day of any month (or the next business day if the twentieth day is not a Business Day), the Trustee shall demand by telephone payment from Ginnie Mae in immediately available funds in

connection with the guaranty of timely payments of principal and interest by Ginnie Mae in accordance with the terms of the Ginnie Mae Certificates.

The Fannie Mae Certificates acquired by the Trustee shall be held at all times by the Trustee or its nominee in trust for the benefit of the Owners and shall be held in book entry form as described in this subsection. A Fannie Mae Certificate will be issued in book entry form through a book entry system of the Federal Reserve System and transferred to the Trustee. If the Trustee does not receive payment or advice from the depository of payment with respect to a Fannie Mae Certificate when due by the close of business on the twenty-fifth day of any month (or the next business day if the twenty-fifth day is not a business day), the Trustee shall demand by telephone payment from Fannie Mae in immediately available funds in connection with the guaranty of timely payments of principal and interest by Fannie Mae in accordance with the terms of the Fannie Mae Certificates.

The Freddie Mac Certificates acquired by the Trustee shall be held at all times by the Trustee or its nominee in trust for the benefit of the Owners and shall be held in book entry form as described in this subsection. A Freddie Mac Certificate will be issued in book entry form through a book entry system of the Federal Reserve System and transferred to the Trustee. If the Trustee does not receive payment or advice from the depository of payment with respect to a Freddie Mac Certificate when due by the close of business on the twenty-fifth day of any month (or the next business day if the twenty-fifth day is not a business day), the Trustee shall demand by telephone payment from Freddie Mac in immediately available funds in connection with the guaranty of timely payments of principal and interest by Freddie Mac in accordance with the terms of the Freddie Mac Certificates.

#### **Cost of Issuance Account**

Upon the issuance, sale and delivery of Bonds, certain moneys as specified in the Related Series Indenture shall be deposited in the Related subaccount of the Cost of Issuance Account. There may also be paid into the Cost of Issuance Account, at the option of the Authority, any moneys received by the Authority from any source, unless required to be otherwise applied as provided by the Indenture. Moneys in such Account shall be used to pay Costs of Issuance and for no other purpose except that any excess remaining upon payment of all Costs of Issuance shall be transferred by the Trustee to the Authority or to the Related subaccount in the Acquisition Account.

In the event that the moneys deposited in the Cost of Issuance Account are not sufficient to pay all Costs of Issuance, Costs of Issuance may be paid from any available moneys of the Authority.

#### **Program Fund; Loan Recycling Account**

There shall be paid into the Related subaccount of the Loan Recycling Account established within the Program Fund any amounts transferred pursuant to the Master Indenture. Except as otherwise required or permitted by the Master Indenture, Mortgage Loans (or portions thereof) allocated to a Series of Bonds and financed or refinanced with moneys in the Related subaccount of the Loan Recycling Account shall be held in such subaccount of the Loan Recycling Account.

Before any moneys are transferred to the Loan Recycling Account pursuant to the Master Indenture, the Authority shall file with the Trustee (a) a Cash Flow Statement, (b) an Authority Certificate demonstrating that the Related Class I Asset Requirement, Class II Asset Requirement, Class III Asset Requirement or Class IV Asset Requirement, as applicable, will be met, and (c) a letter from each Rating Agency then rating any Bonds confirming that such transfer will not, in and of itself, result in a lowering, suspension, or withdrawal of the ratings then applicable to any Bonds, except to the extent a previous

Cash Flow Statement, Authority Certificate and rating confirmation shall apply to such transfer and the Mortgage Loans to be made with such amounts.

Amounts deposited in the Loan Recycling Account shall be applied, upon Authority Request, to finance or refinance Mortgage Loans that satisfy the requirements of the Master Indenture and applicable provisions of the Related Series Indenture with respect to the Mortgage Loans to be financed or refinanced. The Trustee shall withdraw moneys from the Related subaccount of the Loan Recycling Account for the financing of a Mortgage Loan upon receipt of an Authority Request stating (i) the name of the Person to be paid, and (ii) the amount to be paid.

Moneys remaining in the Related subaccount of the Loan Recycling Account on the date set forth in the Cash Flow Statement in connection with which such moneys were deposited in such subaccount shall be withdrawn therefrom by the Trustee on such date (or such earlier date or dates as may be specified by the Authority), and shall be transferred to the Revenue Fund.

### **Revenue Fund**

The Authority shall pay all Revenues or cause all Revenues to be paid to the Trustee at least once each month. Except as otherwise provided in the Master Indenture or in a Series Indenture, all Revenues Related to each Series of Bonds shall be deposited by the Trustee in the Related subaccount of the Revenue Fund amounts transferred thereto from the Related subaccount of the Loan Recycling Account pursuant to the Master Indenture, from the Related subaccount of the Class I Debt Service Fund pursuant to the Master Indenture, from the Related subaccount of the Debt Service Reserve Fund pursuant to the Master Indenture, from the Related subaccount of the Class I Special Redemption Account pursuant to the Master Indenture, from the Related subaccount of the Class II Special Redemption Account pursuant to the Master Indenture, from the Related subaccount of the Class III Special Redemption Account pursuant to the Master Indenture, from the Related subaccount of the Class IV Special Redemption Account pursuant to the Master Indenture, from the Related subaccount of the Class II Debt Service Fund pursuant to the Master Indenture, from the Related subaccount of the Class III Debt Service Fund pursuant to the Master Indenture, from the Related subaccount of the Class IV Debt Service Fund pursuant to the Master Indenture, from the Related subaccount of the Rebate Fund pursuant to the Master Indenture, and from the Related subaccount of the Excess Earnings Fund pursuant to the Master Indenture.

There may also be deposited in the Revenue Fund, at the option of the Authority, any other moneys of the Authority, unless required to be otherwise applied as provided by the Indenture.

Promptly upon receipt of interest on a Mortgage Loan with respect to which moneys were withdrawn from the Acquisition Account to pay for interest accrued on such Mortgage Loan at the time of purchase from a Mortgage Lender, the Trustee shall withdraw from the Related subaccount of the Revenue Fund and transfer to the Related subaccount of the Acquisition Account an amount equal to such accrued interest paid. Alternatively, accrued interest on Mortgage Loans at the time of purchase may be paid from the Related subaccount of the Revenue Fund as the Authority shall direct in an Authority Request.

The Trustee shall pay or transfer from the Related subaccount of the Revenue Fund (i) directly to the Fiduciaries, all Fiduciary Expenses, when and as payable and (ii) to the Authority or to its order other reasonable and necessary Program Expenses, respectively, only to the extent, if any, provided in the following paragraphs.

On the last Business Day prior to each Payment Date or more frequently if required by a Series Indenture, or on other dates specifically provided below, the Trustee shall withdraw from each subaccount

of the Revenue Fund and deposit into the Related subaccounts of the following Funds or Accounts and shall pay to the following parties the following amounts, in the following order of priority, the requirements of each such Fund, Account or party (including the making up of any deficiencies in any such Fund or Account resulting from lack of Revenues sufficient to make any earlier required deposit) at the time of deposit to be satisfied, and the results of such satisfaction being taken into account, before any payment or transfer is made subsequent in priority:

(A) On each August 1, into the Related accounts of the Rebate Fund, an amount to be calculated by the Authority which, when added to the amount already within such respective accounts, will equal the Rebate Requirement Related to the Tax-exempt Bonds of each respective Series, as determined by the Authority;

(B) On each August 1, into the Related accounts of the Excess Earnings Fund, an amount to be calculated by the Authority which, when added to the amount already within such respective accounts, will equal the amount determined by the Authority to be required to be on deposit therein;

(C) Into the Related subaccount of the Class I Debt Service Fund (x) the amount, if any, needed to increase the amount in such subaccount to include the aggregate amount of interest becoming due and payable on such Payment Date upon all Class I Bonds of the Related Series then Outstanding; plus (y) the amount, if any, needed to increase the amount in such subaccount to include the aggregate amount of Principal Installments becoming due and payable on the Outstanding Related Class I Bonds on such Payment Date; plus (z) the amount, if any, needed to increase the amount in such subaccount to include the aggregate amount becoming due and payable on Outstanding Related Class I Auxiliary Obligations on such Payment Date; provided however, that if such Payment Date is not a date for the payment of a Principal Installment on Related Class I Bonds, such transfer shall include an amount equal to that, if made in substantially equal installments on each subsequent Payment Date to and including the next Payment Date that is a date for the Payment of a Principal Installment on Related Class I Bonds, will equal the amount of the Principal Installments becoming due and payable on Outstanding Related Class I Bonds on the next Payment Date;

(D) Into each Unrelated subaccount of the Class I Debt Service Fund, after making any transfer into such subaccount required by the Master Indenture, on a proportionate basis with all other such Unrelated subaccounts or as otherwise directed by Authority Request, any deficiency in such subaccount resulting from the lack of moneys sufficient to make the deposit required by paragraph (C) as of such date;

(E) Into (1) the Related subaccount of the Loan Recycling Account, at the election of the Authority evidenced by an Authority Certificate filed with the Trustee, but subject to the requirements of the Master Indenture, or (2) the Related subaccount of the Class I Special Redemption Account, or any combination of (1) and (2) above at the election of the Authority evidenced by an Authority Certificate filed with the Trustee, the amount, if any, needed to ensure that the Class I Asset Requirement of the Related Series of Bonds will be met on such Payment Date following such transfer;

(F) Into each Unrelated subaccount of the Class I Special Redemption Account, on a proportionate basis with all other such Unrelated subaccounts or as otherwise directed by Authority Request, any deficiency in such subaccount resulting from the lack of moneys sufficient to make the deposit required by paragraph (E) as of such date;

(G) Into the Related subaccount of the Class II Debt Service Fund (x) the amount, if any, needed to increase the amount in such subaccount to include the aggregate amount of interest becoming due and payable on such Payment Date upon all Class II Bonds of the Related Series then Outstanding; plus (y) the amount, if any, needed to increase the amount in such subaccount to include the aggregate amount of Principal Installments becoming due and payable on Outstanding Related Class II Bonds on such Payment Date; plus (z) the amount, if any, needed to increase the amount in such subaccount to include the aggregate amount becoming due and payable on Outstanding Related Class II Auxiliary Obligations on such Payment Date; provided however, that if such Payment Date is not a date for the payment of a Principal Installment on Related Class II Bonds, such transfer shall include an amount equal to that, if made in substantially equal installments on each subsequent Payment Date to and including the next Payment Date that is a date for the payment of a Principal Installment on Related Class II Bonds, will equal the amount of the Principal Installments becoming due and payable on Outstanding Related Class II Bonds on the next following Payment Date;

(H) Into each Unrelated subaccount of the Class II Debt Service Fund, after making any transfer into such subaccount required by the Master Indenture, on a proportionate basis with all other such Unrelated subaccounts or as otherwise directed by Authority Request, any deficiency in such subaccount resulting from the lack of moneys sufficient to make the deposit required by paragraph (G) as of such date;

(I) Into the Related subaccount of the Debt Service Reserve Fund, the amount, if any, needed to increase the amount in such subaccount (including the Related Interest Reserve Account), together with the available amount of any Qualified Surety Bond therein, to the Debt Service Reserve Fund Requirement of the Related Series of Bonds;

(J) Into each Unrelated subaccount of the Debt Service Reserve Fund, on a proportionate basis with all other such Unrelated subaccounts or as otherwise directed by Authority Request, any deficiency in such subaccount resulting from the lack of Related Revenues sufficient to make the deposit required by paragraph (I) as of such date;

(K) Into (1) the Related subaccount of the Loan Recycling Account, at the election of the Authority evidenced by an Authority Certificate filed with the Trustee, but subject to the requirements of the Master Indenture, or (2) the Related subaccount of the Class II Special Redemption Account, or any combination of (1) and (2) above at the election of the Authority evidenced by an Authority Certificate filed with the Trustee, the amount, if any, needed to ensure that the Class II Asset Requirement of the Related Series of Bonds will be met on such Payment Date following such transfer;

(L) Into each Unrelated subaccount of the Class II Special Redemption Account, on a proportionate basis with all other such Unrelated subaccounts or as otherwise directed by Authority Request, any deficiency in such subaccount resulting from the lack of moneys sufficient to make the deposit required by paragraph (K) as of such date;

(M) To the Authority, the amount of any reasonable and necessary Fiduciary Expenses with respect to the Related Series of Bonds previously incurred but not reimbursed to the Authority or reasonably anticipated to be payable in the following six months (or directly to the Fiduciaries, Fiduciary Expenses with respect to the Related Series of Bonds, when and as payable); provided, however, that in no event shall the aggregate of all Fiduciary Expenses with respect to the Related Series of Bonds paid directly to Fiduciaries or to the Authority under this paragraph (M) exceed any limitation set forth in the Related Series Indenture for any period;

(N) To the Authority, the amount of any reasonable and necessary Fiduciary Expenses with respect to Unrelated Series of Bonds, on a proportionate basis with all other Unrelated Series of Bonds or as otherwise directed by Authority Request, any deficiency resulting from the lack of moneys sufficient to make the deposit required by subsection (M) as of such date;

(O) Into the Related subaccount of the Class III Debt Service Fund (x) the amount, if any, needed to increase the amount in such subaccount to the aggregate amount of interest becoming due and payable on such Payment Date upon all Class III Bonds of the Related Series then Outstanding; plus (y) the amount, if any, needed to increase the amount in such subaccount to include the aggregate amount of Principal Installments required to be paid for the Outstanding Related Class III Bonds on such Payment Date; plus (z) the amount, if any, needed to increase the amount in such subaccount to include the aggregate amount becoming due and payable on Outstanding Related Class III Auxiliary Obligations on such Payment Date; provided however, that if such Payment Date is not a date for the payment of a Principal Installment on Related Class III Bonds, such transfer shall include an amount that, if made in substantially equal installments on each subsequent Payment Date to and including the next Payment Date that is a date for the payment of a Principal Installment on Related Class III Bonds, will equal the amount of the Principal Installments becoming due and payable on Outstanding Related Class III Bonds on the next following Payment Date;

(P) Into each Unrelated subaccount of the Class III Debt Service Fund, after making any transfer into such subaccount required by the Master Indenture, on a proportionate basis with all other such Unrelated subaccounts or as otherwise directed by Authority Request, any deficiency in such subaccount resulting from the lack of moneys sufficient to make the deposit required by subsection (O) as of such date;

(Q) To the Authority, the amount of any reasonable and necessary Program Expenses with respect to the Related Series of Bonds previously incurred but not reimbursed to the Authority or reasonably anticipated to be payable in the following six months; provided, however, that in no event shall the aggregate of such amounts paid to the Authority, plus amounts paid to the Authority with respect to such Series of Bonds pursuant to subsections (M) and (N) above and plus all Fiduciary Expenses with respect to the Related Series of Bonds paid directly to Fiduciaries exceed any limitations set forth in the Related Series Indenture;

(R) To the Authority, the amount of any reasonable and necessary Program Expenses with respect to Unrelated Series of Bonds, on a proportionate basis with all other Unrelated Series of Bonds or as otherwise directed by Authority Request, any deficiency resulting from the lack of moneys sufficient to make the deposit required by subsection (Q) as of such date;

(S) Into (1) the Related subaccount of the Loan Recycling Account, at the election of the Authority evidenced by an Authority Certificate filed with the Trustee, but subject to the requirements of the Master Indenture, or (2) the Related subaccounts of the Redemption Fund, or any combination of (1) and (2) above at the election of the Authority evidenced by an Authority Certificate filed with the Trustee, the amount, if any, necessary to satisfy the Class III Asset Requirement of the Related Series of Bonds, calculated as of such next succeeding Payment Date and giving effect to such transfer, which amount shall be allocated to the Related subaccounts of the Class I Special Redemption Account, the Class II Special Redemption Account and the Class III Special Redemption Account on the basis of the relative ratios represented by the Aggregate Principal Amounts Outstanding of the Related Class I Bonds, Class II Bonds and Class III Bonds,



respectively, to the Aggregate Principal Amount of all Related Class I, Class II and Class III Bonds Outstanding;

(T) Into each Unrelated subaccount of the Redemption Fund, on a proportionate basis with all other such Unrelated subaccounts or as otherwise directed by Authority Request, the additional amount, if any, necessary (after the deposits required by subsection (S) for the Related Series of Bonds) to satisfy the Class III Asset Requirement of such Unrelated Series of Bonds, calculated as of such next succeeding Payment Date and giving effect to such transfer, which amount shall be allocated to the applicable subaccount of the Class I Special Redemption Account, the Class II Special Redemption Account and the Class III Special Redemption Account on the basis of the relative ratios represented by the Aggregate Principal Amount Outstanding of the applicable Class I Bonds, Class II Bonds and Class III Bonds, respectively, to the Aggregate Principal Amount of all applicable Class I, Class II, and Class III Bonds Outstanding (for purposes of this subsection (T), "applicable" means Related to such Unrelated Series);

(U) Into the Related subaccount of the Class IV Debt Service Fund (x) the amount, if any, needed to increase the amount in such subaccount to the aggregate amount of interest becoming due and payable on such Payment Date upon all Class IV Bonds of the Related Series then Outstanding; plus (y) the amount, if any, needed to increase the amount in such subaccount to include the aggregate amount of Principal Installments required to be paid for the Outstanding Related Class IV Bonds on such Payment Date; plus (z) the amount, if any, needed to increase the amount in such subaccount to include the aggregate amount becoming due and payable on Outstanding Related Class IV Auxiliary Obligations on such Payment Date;

(V) Into each Unrelated subaccount of the Class IV Debt Service Fund, after making the transfer into such subaccount required by the Master Indenture, on a proportionate basis with all other such Unrelated subaccounts or as otherwise directed by Authority Request, any deficiency in such subaccounts resulting from the lack of moneys sufficient to make the deposit required by subsection (U) as of such date; and

(W) Upon Authority Request, to the Related subaccount of the Loan Recycling Account, in order to finance or refinance Loans or Authority Projects, to the extent permitted by the applicable Series Indenture.

The Authority may direct the Trustee to make any of the above transfers more frequently than on the last Business Day prior to Payment Dates, in amounts proportionate to the frequency of transfers so directed.

Following such transfers, the balance, if any, in each subaccount of the Revenue Fund, or such lesser amount thereof as shall be requested by the Authority shall be paid to the Authority for the payment of Program Expenses or for any other purposes free and clear of the lien and pledge of the Indenture upon receipt of an Authority Request made within 30 days of such Payment Date. Any amount in each subaccount of the Revenue Fund not so paid to the Authority shall be transferred to the Related subaccounts of the Redemption Fund and allocated among the Related subaccounts of the Class I Special Redemption Account, the Class II Special Redemption Account and the Class III Special Redemption Account as provided in the Related Series Indenture.

Prior to, but as close as practicable to, the latest date on which the Trustee would be permitted to give notice of a redemption to occur on a Payment Date from amounts deposited in the Redemption Fund, the Trustee shall calculate the amounts then on deposit in each subaccount of the Revenue Fund which would be transferred to the Related subaccounts of the Class I Debt Service Fund, the Class II Debt

Service Fund, the Class III Debt Service Fund and the Class IV Debt Service Fund, and the Related subaccounts of the Redemption Fund, in accordance with the priorities and provisions of such subsection. Such amounts may be withdrawn from such subaccount of the Revenue Fund for application on or prior to the next succeeding Payment Date (A) upon receipt of an Authority Request, to the purchase in lieu of redemption of the Related Class I Bonds, Class II Bonds, Class III Bonds or Class IV Bonds, (B) to the payment of accrued interest on Bonds being purchased pursuant to or redeemed pursuant to the Indenture, or (C) to the redemption of Related Class I Bonds, Class II Bonds, Class III Bonds and Class IV Bonds on such Payment Date.

In the event Bonds are to be redeemed on a date other than a Payment Date, and to the extent moneys are not available in the Related subaccounts of the Class I Debt Service Fund, the Class II Debt Service Fund, the Class III Debt Service Fund or the Class IV Debt Service Fund to pay accrued interest on such redemption date for such Class I Bonds, Class II Bonds, Class III Bonds and Class IV Bonds, respectively, the Trustee shall apply or cause the Paying Agent to apply available moneys in the Related subaccount of the Revenue Fund for the payment of such interest.

### **Class I Debt Service Fund**

Amounts in each subaccount of the Class I Debt Service Fund shall be used and withdrawn by the Trustee solely for transfer to the Paying Agent (i) on each Payment Date for the purpose of paying the interest and Principal Installments on the Related Class I Bonds as the same shall become due and payable (including accrued interest on any Class I Bonds purchased or redeemed prior to maturity pursuant to the Indenture), (ii) on each Payment Date for the purpose of paying amounts due under Related Class I Auxiliary Obligations as the same shall become due and payable or (iii) on each purchase date for the purpose of paying the purchase price of Related Class I Bonds purchased in lieu of redemption by Related Class I Sinking Fund Installments.

Amounts remaining in each subaccount of the Class I Debt Service Fund after all the Related Class I Obligations have been paid or funds have been set aside and held in trust for such payment shall be transferred to the Related subaccount of the Revenue Fund.

### **Debt Service Reserve Fund**

Upon the issuance, sale and delivery of a Series of Bonds pursuant to the Indenture, the Trustee shall deposit in the Related subaccount of the Debt Service Reserve Fund and in the Related subaccount of the Interest Reserve Account therein such amounts, if any, as shall be required by the provisions of the Related Series Indenture, which aggregate amount, together with the available amount of any Qualified Surety Bond or Bonds in the Debt Service Reserve Fund, shall be at least sufficient to equal the Debt Service Reserve Fund Requirement relating to such Series of Bonds, calculated after giving effect to the issuance of such Bonds. Moneys on deposit in the Related subaccount of the Interest Reserve Account shall at all times be deemed to be a part of the Related subaccount of the Debt Service Reserve Fund. Additional moneys may be deposited in the Related subaccount of the Debt Service Reserve Fund in accordance with the provision relating to the allocation of moneys in the Revenue Fund described in "Revenue Fund" under this caption.

On or prior to each Payment Date, the Trustee shall calculate the amount of the Debt Service Reserve Fund Requirement for each Series of Bonds as of the next succeeding Payment Date and shall determine the amount, if any, which would then be in the Related subaccount of the Debt Service Reserve Fund (other than amounts attributable to accrued, but unrealized interest purchased on Investment Securities) is in excess of such Requirement, shall notify the Authority of such excess amount and shall, unless otherwise instructed by an Authority Request, transfer such excess amount from the Related

subaccount of the Debt Service Reserve Fund, other than the Related subaccount of the Interest Reserve Account therein, to the Related subaccount of the Revenue Fund; provided, however, that if such excess is attributable to amounts invested in Qualified Mortgage Loan Backed Securities, such excess may, at the option of the Authority, be retained in the Debt Service Reserve Fund. The transfer of such amounts may result in the redemption of Bonds.

On the last Business Day prior to each Payment Date or more frequently if required by a Series Indenture, and in each case in conjunction with the transfers, deposits and payments to be made from the Revenue Fund, the Trustee shall transfer from each subaccount of the Debt Service Reserve Fund (including from the Interest Reserve Account as provided below) to the specified subaccounts of other Funds or Accounts the following amounts (from any cash, Investment Securities or Qualified Surety Bonds therein), in the following order of priority, the requirements of each such transfer to be satisfied, and the results of such satisfaction being taken into account, before any payment or transfer is made subsequent in priority:

(i) In the event that the amount transferred to any subaccount of the Class I Debt Service Fund is insufficient to pay the interest and Principal Installments, if any, and other amounts, if any, due on Related Class I Obligations on the next succeeding Payment Date, the Trustee shall transfer first from the Related subaccount of the Interest Reserve Account, and then if and to the extent necessary from the Related subaccount of the Debt Service Reserve Fund, to such subaccount of the Class I Debt Service Fund the amount of such insufficiency.

(ii) In the event that the amount transferred to any subaccount of the Class I Debt Service Fund is insufficient to pay the interest and Principal Installments, if any, and other amounts, if any, due on Related Class I Obligations on the next succeeding Payment Date, the Trustee shall transfer from Unrelated subaccounts in the Debt Service Reserve Fund on a proportionate basis or as otherwise directed by Authority Request, first from subaccounts of the Interest Reserve Account, and then if and to the extent necessary from subaccounts of the Debt Service Reserve Fund, to such subaccount of the Class I Debt Service Fund the amount of such insufficiency.

(iii) In the event that the amount transferred to any subaccount of the Class II Debt Service Fund is insufficient to pay the interest and Principal Installments, if any, and other amounts, if any, due on Related Class II Obligations on the next succeeding Payment Date, the Trustee shall transfer first from the Related subaccount of the Interest Reserve Account, and then if and to the extent necessary from the Related subaccount of the Debt Service Reserve Fund, to such subaccount of the Class II Debt Service Fund the amount of such insufficiency.

(iv) In the event that the amount transferred to any subaccount of the Class II Debt Service Fund is insufficient to pay the interest and Principal Installments, if any, and other amounts, if any, due on Related Class II Obligations on the next succeeding Payment Date, the Trustee shall transfer from Unrelated subaccounts in the Debt Service Reserve Fund, on a proportionate basis or as otherwise directed by Authority Request, first from subaccounts of the Interest Reserve Account, and then if and to the extent necessary from subaccounts in the Debt Service Reserve Fund, to such subaccount of the Class II Debt Service Fund, the amount of such insufficiency.

(v) In the event that the amount transferred to any subaccount of the Class III Debt Service Fund is insufficient to pay the interest and Principal Installments, if any, and other amounts, if any, due on Related Class III Obligations on the next succeeding Payment Date, the Trustee shall transfer first from the Related subaccount of the Interest Reserve Account and then

if and to the extent necessary from the Related subaccount of the Debt Service Reserve Fund to such subaccount of the Class III Debt Service Fund the amount of such insufficiency; provided, however, that no such transfer may result in (A) the amount on deposit in the Related subaccount of the Debt Service Reserve Fund being reduced to an amount less than any minimum deposit specified in the Related Series Indenture or (B) a failure to meet the Related Class II Asset Requirement.

(vi) In the event that the amount transferred to any subaccount of the Class III Debt Service Fund is insufficient to pay the interest and Principal Installments, if any, and other amounts, if any, due on Related Class III Obligations on the next succeeding Payment Date, the Trustee shall transfer from Unrelated subaccounts in the Debt Service Reserve Fund on a proportionate basis or as otherwise directed by Authority Request, first from subaccounts in the Interest Reserve Account, and then if and to the extent necessary from subaccounts in the Debt Service Reserve Fund, to such subaccount of the Class III Debt Service Fund the amount of such insufficiency; provided, however, that no such transfer may result in (A) the amount on deposit in a subaccount of the Debt Service Reserve Fund being reduced to an amount less than any minimum deposit specified in the Related Series Indenture or (B) a failure to meet the Related Class II Asset Requirement.

(vii) In the event that the amount transferred to any subaccount of the Class IV Debt Service Fund is insufficient to pay the interest and Principal Installments, if any, and other amounts, if any, due on Related Class IV Obligations on the next succeeding Payment Date, the Trustee shall transfer from first the Related subaccount of the Interest Reserve Account and then if and to the extent necessary the Related subaccount of the Debt Service Reserve Fund to such subaccount of the Class IV Debt Service Fund the amount of such insufficiency; provided, however, that no such transfer may result in (A) the amount on deposit in the Related subaccount of the Debt Service Reserve Fund being reduced to an amount less than any minimum deposit specified in the Related Series Indenture or (B) a failure to meet the Related Class III Asset Requirement.

(viii) In the event that the amount transferred to any subaccount of the Class IV Debt Service Fund is insufficient to pay the interest and Principal Installments, if any, and other amounts, if any, due on Related Class IV Obligations on the next succeeding Payment Date, the Trustee shall transfer from Unrelated subaccounts in the Debt Service Reserve Fund on a proportionate basis or as otherwise directed by Authority Request, first from subaccounts in the Interest Reserve Account, and then if and to the extent necessary from subaccounts in the Debt Service Reserve Fund to such subaccount of the Class IV Debt Service Fund the amount of such insufficiency; provided, however, that no such transfer may result in (A) the amount on deposit in a subaccount of the Debt Service Reserve Fund being reduced to an amount less than any minimum deposit specified in the Related Series Indenture or (B) a failure to meet the Related Class III Asset Requirement.

## **Class II Debt Service Fund**

Amounts in each subaccount of the Class II Debt Service Fund shall be used and withdrawn by the Trustee for transfer to the Paying Agent (i) on each Payment Date for the purpose of paying first the interest and then Principal Installments on the Related Class II Bonds as the same become due and payable (including accrued interest on any such Class II Bonds redeemed or purchased prior to maturity pursuant to the Indenture), (ii) on each Payment Date for the purpose of paying amounts due under Related Class II Auxiliary Obligations as the same shall become due and payable or (iii) on each purchase

date for the purpose of paying the purchase price of Related Class II Bonds purchased in lieu of redemption by Class II Sinking Fund Installments.

Amounts remaining in each subaccount of the Class II Debt Service Fund after all the Related Class II Obligations have been paid or funds have been set aside and held in trust for such payment shall be transferred to the Related subaccount of the Revenue Fund.

### **Class III Debt Service Fund**

Amounts in each subaccount of the Class III Debt Service Fund shall be used and withdrawn by the Trustee for transfer to the Paying Agent (i) on each Payment Date for the purpose of paying first the interest and then Principal Installments on the Related Class III Bonds as the same become due and payable (including accrued interest on any such Class III Bonds redeemed or purchased prior to maturity pursuant to the Indenture), (ii) on each Payment Date for the purpose of paying amounts due under Related Class III Auxiliary Obligations as the same shall become due and payable or (iii) on each purchase date for the purpose of paying the purchase price of Related Class III Bonds purchased in lieu of redemption by Class III Sinking Fund Installments.

Amounts remaining in each subaccount of the Class III Debt Service Fund after all the Related Class III Obligations have been paid or funds have been set aside and held in trust for such payment shall be transferred to the Related subaccount of the Revenue Fund.

### **Class IV Debt Service Fund**

Amounts in each subaccount of the Class IV Debt Service Fund shall be used and withdrawn by the Trustee for transfer to the Paying Agent (i) on each Payment Date for the purpose of paying first the interest and then Principal Installments on the Related Class IV Bonds as the same become due and payable (including accrued interest on any such Class IV Bonds redeemed or purchased prior to maturity pursuant to the Indenture), (ii) on each Payment Date for the purpose of paying amounts due under Related Class IV Auxiliary Obligations as the same shall become due and payable or (iii) on each purchase date for the purpose of paying the purchase price of Related Class IV Bonds purchased in lieu of redemption by Class IV Sinking Fund Installments.

Amounts remaining in each subaccount of the Class IV Debt Service Fund after all the Related Class IV Obligations have been paid or funds have been set aside and held in trust for such payment shall be transferred to the Related subaccount of the Revenue Fund.

### **Rebate Fund**

To the extent required by the Master Indenture, all amounts on deposit in the Related subaccounts of the Funds and Accounts with respect to Tax-exempt Bonds and all amounts pledged to Debt Service Payments on the Related Series of Tax-exempt Bonds pursuant to the Indenture, (i) shall be invested in compliance with the procedures established by the Related Series Indentures and Authority Certificates delivered in connection therewith, and (ii) to the extent required by such Authority Certificates, the investment earnings thereon shall be deposited from time to time into the Related subaccount of the Rebate Fund for timely payment of the Related Rebate Requirement. Amounts on deposit in the Rebate Fund shall not be subject to the lien and pledge of the Indenture to the extent such amounts constitute the Rebate Requirement. The Authority shall verify or cause to be verified at least annually from the date of delivery of each Series of Tax-exempt Bonds that (i) all of the requirements of this section have been met on a continuing basis, (ii) the proper amounts are deposited into each subaccount of the Rebate Fund, and (iii) the timely payment of the Rebate Requirement from each subaccount of the Rebate Fund has been

made. Upon receipt of an opinion of Bond Counsel that the balance in any subaccount of the Rebate Fund is in excess of the amount required to be included therein, such excess shall be transferred to the Revenue Fund.

### **Excess Earnings Fund**

All amounts in a subaccount of the Excess Earnings Fund, including all investment earnings thereon, shall remain therein until transferred or paid by the Trustee to such other Fund or the United States Department of the Treasury or for such other purpose, as the Authority shall specify, upon receipt by the Trustee of (a) an Authority Request directing the Trustee to so transfer or pay a specified amount, and (b) a written opinion of Bond Counsel to the effect that any such transfer or payment, upon satisfaction of any conditions set forth in such opinion, would not cause interest on such Bonds to be includable in the gross income of the Owners thereof for federal income tax purposes. Upon receipt of an opinion of Bond Counsel that the balance in a subaccount of the Excess Earnings Fund is in excess of the amount required to be included therein, such excess shall be transferred to the Revenue Fund.

Moneys in a subaccount of the Excess Earnings Fund may be used to purchase Mortgage Loans in the Related subaccount of the Acquisition Account or the Loan Recycling Account, at a purchase price equal to the unpaid balances of the principal amounts of such Mortgage Loans plus accrued interest, if any, thereon, and any unamortized premium, and any such Mortgage Loans so purchased shall be credited to such subaccount of the Excess Earnings Fund. Mortgage Loans in a subaccount of the Excess Earnings Fund may be exchanged for Mortgage Loans in the Related subaccount of the Acquisition Account or the Loan Recycling Account having an aggregate principal balance not less than the aggregate principal balance of such Mortgage Loans in such subaccount of the Excess Earnings Fund, upon receipt by the Trustee of an Authority Request specifying the Mortgage Loans to be so exchanged.

If, on the final maturity of all of a Series, there is a balance in a subaccount of the Excess Earnings Fund which is allocated to payments related to such Series, and the Trustee has not received directions meeting the requirements described above for the disposition of such balance, the Trustee shall obtain an opinion of Bond Counsel as to the purposes, if any, to which such balance may be applied without adversely affecting the federal income tax status of interest on such Bonds, and shall thereafter dispose of such balance in accordance with such opinion.

### **Application of Authority Payment Accounts**

If, following transfers made from the Revenue Fund and the Debt Service Reserve Fund, there are not sufficient moneys, or any moneys allocated, to pay all interest or any other required payment due and payable on any General Obligation or to pay any Principal Installment on any General Obligation, the Trustee shall immediately notify the Authority in writing of the amount of such insufficiency and shall request from the Authority an immediate deposit of legally available funds equal to such insufficiency. The Authority shall pay to the Trustee (from the Authority's other general revenues or moneys legally available therefor, subject only to agreements made or to be made with holders of notes, bonds or other obligations pledging particular revenues or moneys for the payment thereof) for deposit in the Related subaccounts of the Authority Payment Account the amount of such insufficiency. If the amount provided by the Authority is less than the amount of such insufficiency, any shortfall shall be allocated pro rata among the holders of the Related General Obligations in proportion to the amounts then due and payable on such Bonds.

Amounts deposited with the Trustee by the Authority as described above shall be deposited into the respective subaccounts of the Authority Payment Accounts for the General Obligations for which such amounts are provided. Amounts in such subaccounts shall only be used to pay interest or Principal

Installments or other amounts due and payable on the Related General Obligations and may not be transferred to any Debt Service Fund for Bonds or Auxiliary Obligations which are not General Obligations or to any other Fund or Account for any reason.

### **Redemption Fund**

Moneys deposited in the subaccounts of the Redemption Fund shall be applied by the Trustee to the purchase or applied by the Paying Agent (if directed by the Trustee) to the redemption of Bonds in accordance with the provisions of the Master Indenture and each Related Series Indenture.

Except as set forth in the Master Indenture or in the Related Series Indenture, moneys deposited in a subaccount of the Class I Special Redemption Account pursuant to the Master Indenture or pursuant to the Related Series Indenture, shall be applied to the extent practicable by the Paying Agent on the earliest practicable date to redeem Related Class I Bonds. Any amounts remaining in such Class I Special Redemption Account after all Class I Bonds of the Related Series have been paid shall be transferred to the Related subaccount of the Revenue Fund.

Except as set forth in the Master Indenture or in the Related Series Indenture, moneys deposited in a subaccount of the Class II Special Redemption Account pursuant to the Master Indenture or pursuant to the Related Series Indenture shall be applied to the extent practicable by the Paying Agent on the earliest practicable date to redeem Related Class II Bonds. Any amounts remaining in such Class II Special Redemption Account after all Class II Bonds of the Related Series have been paid shall be transferred to the Related subaccount of the Revenue Fund.

Except as set forth in the Master Indenture or in the Related Series Indenture, moneys deposited in a subaccount of the Class III Special Redemption Account pursuant to the Master Indenture or pursuant to the Related Series Indenture shall be applied to the extent practicable by the Paying Agent on the earliest practicable date to redeem Related Class III Bonds. Any amounts remaining in such Class III Special Redemption Account after all Class III Bonds of the Related Series have been paid shall be transferred to the Revenue Fund.

Except as set forth in the Master Indenture or in the Related Series Indenture, moneys deposited in a subaccount of the Class IV Special Redemption Account pursuant to the Master Indenture or pursuant to the Related Series Indenture shall be applied to the extent practicable by the Paying Agent on the earliest practicable date to redeem Related Class IV Bonds. Any amounts remaining in such Class IV Special Redemption Account after all Class IV Bonds of the Related Series have been paid shall be transferred to the Revenue Fund.

Notwithstanding anything contained in the Master Indenture to the contrary, the Authority may by the delivery of an Authority Request to the Trustee at any time prior to the mailing of notices of redemption, instruct the Trustee to transfer moneys on deposit in a subaccount of an Account in the Redemption Fund to another subaccount of the same Account in the Redemption Fund to be applied to the redemption of the same Class of Bonds of a different Series. Each such Authority Request (i) shall certify that it is consistent with the most recently filed Related Cash Flow Statement (which may, if necessary, link the Related Series) and not prohibited by the Related Series Indentures and (ii) shall be accompanied by evidence of the satisfaction of all Asset Requirements for the Related Series.

In addition, notwithstanding anything contained in the Master Indenture to the contrary, the Authority may by the delivery of an Authority Request to the Trustee at any time prior to the giving of notice of redemption, instruct the Trustee to transfer moneys on deposit in a subaccount of an Account in the Redemption Fund to a Related or an Unrelated subaccount of the Acquisition Account to be applied to

make or purchase Mortgage Loans. Each such Authority Request (i) shall certify that it is consistent with the most recently filed Related Cash Flow Statement and not prohibited by the Related Series Indenture and (ii) shall be accompanied by evidence of the satisfaction of all Asset Requirements for the Related Series.

### **Investment of Moneys Held by the Trustee; Limitation on Investment Yields**

Moneys in all Funds and Accounts held by the Trustee shall be invested to the fullest extent possible in Investment Securities, in accordance with directions given to the Trustee in an Authority Request or Certificate; provided that the maturity date or the date on which such Investment Securities may be redeemed at the option of the holder thereof shall coincide as nearly as practicable with (but in no event later than) the date or dates on which moneys in the Funds or Accounts for which the investments were made will be required for the purposes of the Indenture.

Amounts credited to any Fund or Account may be invested, together with amounts credited to one or more other Funds or Accounts, in the same Investment Security or Investment Securities, provided that each such investment complies in all respects with the provisions of the Master Indenture as they apply to each Fund or Account for which the joint investment is made, the Trustee maintains separate records for each Fund and Account and such investments are accurately reflected therein and amounts credited to the Rebate Fund and the Excess Earnings Fund may be invested together with amounts credited to any other Fund or Account. The maturity date or the date on which Investment Securities may be redeemed at the option of holder thereof shall coincide as nearly as practicable with (but in no event shall be later than) the date or dates on which moneys in the Funds or Accounts for which the investments were made will be required for the purposes provided in the Indenture.

Except as otherwise specifically provided for in the Indenture, the income or interest earned by, or gain to, all Funds and Accounts due to the investment thereof shall be transferred by the Trustee upon receipt thereof to the Related subaccount of the Revenue Fund, in accordance with the Indenture, except that no such transfer shall be made from, and such income, interest or gain (as described above) shall be retained in, the Debt Service Reserve Fund, unless after giving effect to the transfer the amount therein at least equals the aggregate Debt Service Reserve Fund Requirement.

### **Program Covenants; Enforcement of Mortgage Loans and Servicing Agreements**

The Authority covenants in the Indenture that:

(a) It shall use and apply the proceeds of the Bonds and other moneys deposited in the Acquisition Account and any moneys deposited in the Loan Recycling Account for the purposes provided in the Indenture, and consistent with sound banking practices and principles shall do all such acts and things necessary to receive and collect Revenues and shall diligently enforce, and take all steps, actions and proceedings reasonably necessary in the judgment of the Authority for the enforcement of all terms, covenants and conditions of Mortgage Loans.

(b) It shall file with the Trustee with each direction to purchase Mortgage Loans, a schedule of Mortgage Loans to be made or purchased by the Trustee identifying the same by reference to the Authority loan number, the party (if applicable) from whom the Mortgage Loan will be purchased, the name of the Borrower, the principal amount due on the Mortgage Loan and the date through which the interest has been paid by the Borrower, the interest rate on the Mortgage Loan and the term of the Mortgage Loan.



(c) It shall maintain an account for each Mortgage Lender having entered into a Mortgage Purchase Agreement with the Authority and shall record therein a description of each Mortgage Loan purchased from such Mortgage Lender.

(d) It shall enforce diligently and take or cause to be taken all reasonable steps, actions and proceedings necessary for the enforcement of all terms, covenants and conditions of all Mortgage Loans and MBS consistent with sound lending practices and principles and applicable requirements under the Code, including the prompt payment of all Mortgage Repayments and all other amounts due the Authority thereunder. The Authority shall not without good cause release the obligations of any Borrower under any Mortgage Loan, or of the Servicer under the Servicing Agreement and shall not consent or agree to or permit any amendment or modification of the economic terms of any Mortgage Loan except with respect to a Mortgage Loan in default (or which, with the giving of notice or the passage of time or both, would be in default), and to the extent permitted by law, at all times shall defend, enforce, preserve and protect the rights and privileges of the Authority, the Trustee and the Bondowners under or with respect to all Mortgage Loans and MBS, the obligations evidencing such Mortgage Loans and the agreements securing such Mortgage Loans and MBS and the Servicing Agreement relating thereto; provided, however, that nothing in this subparagraph (d) or in subparagraph (e) or (f) below shall be construed to prevent the Authority from (i) settling a default on any Mortgage Loan on such terms as the Authority shall determine to be in the best interests of the Authority and the Bondowners; (ii) releasing any Borrower, Servicer or any other Person from, or waiving, any of such Person's obligations under the respective Mortgage Loan, any agreement with respect to security therefor or Servicing Agreement to the extent necessary to comply with the provisions of the Master Indenture or to the extent required by the governmental or private insurer or guarantor, if any, of such Mortgage Loan; or (iii) releasing any mortgagor in connection with an assumption of a Mortgage Loan as permitted in accordance with the requirements of any governmental or private insurer or guarantor.

(e) Whenever it shall be necessary in order to protect and enforce the rights of the Authority under a Mortgage Loan and to protect and enforce the rights and interests of the Trustee and Bondowners under the Indenture, the Authority shall take necessary actions to realize on any applicable mortgage insurance on such Mortgage Loan and to collect, sell or otherwise dispose of the property secured by the Mortgage and, if the Authority deems such to be advisable, shall bid for and purchase the property secured by the Mortgage at any sale thereof and take possession of such property. As an alternative to foreclosure proceedings, the Authority may take such other action as may be appropriate to acquire and take possession of the mortgaged property, including, without limitation, acceptance of a conveyance in lieu of foreclosure.

(f) It shall request payment of governmental insurance or guaranty benefits in cash and not in debentures of such governmental insurer or guarantor in any case where, under government regulations, it is permitted to request such debentures as payment with respect to a defaulted Loan, provided that the Authority may request payment in debentures if it files with the Trustee a Cash Flow Statement. The Authority shall take all necessary actions so as to receive payment from any governmental insurer or guarantor of the maximum amount of insurance or guaranty benefits on the earliest possible date.

#### **Assignment or Disposition of Mortgage Loans; Amendment of Mortgage Loan**

Following the acquisition of a Mortgage Loan by the Trustee, the Authority shall not sell, assign, transfer, pledge or otherwise dispose of or encumber any Mortgage Loan or any of the rights of the Authority with respect to any Mortgage Loan or arising out of the Mortgage or the other obligations

evidencing or securing any Mortgage Loan except a Mortgage Loan in default, unless the Authority determines that such sale, assignment, transfer or other disposition would not have a material adverse effect on the ability of the Authority to pay the principal of and interest on the Outstanding Bonds. No Bonds shall be redeemed from the proceeds of the sale of Mortgage Loans, other than Mortgage Loans in default, except in accordance with the optional redemption provisions with respect to such Bonds.

The Authority shall not consent or agree to or permit any amendment or modification of the financial terms of any Mortgage Loan in any manner which would have a material adverse effect on the ability of the Authority to pay the principal of and interest on the Outstanding Bonds.

### **Tax Covenants**

The Authority covenants for the benefit of the Owners of each Series of Bonds the interest on which is intended to be excluded from the gross income of the Owners thereof for federal income tax purposes that it will not take any action or omit to take any action with respect to such Bonds, the proceeds thereof, or any other funds of the Authority if such action or omission would cause the interest on such Bonds to lose its exclusion from gross income for federal income tax purposes under Section 103 of the Code, would subject the Authority to any penalties under Section 148 of the Code, or would cause such Bonds to be "federally guaranteed" within the meaning of Section 149(b) of the Code. The foregoing covenants shall remain in full force and effect notwithstanding the payment in full or defeasance of such Bonds until the date all obligations of the Authority in fulfilling the above covenant under the Code have been met. The Authority shall execute and deliver from time to time such certificates, instruments and documents as shall be deemed necessary or advisable to evidence compliance by the Authority with said Sections and the regulations thereunder with respect to the use of the proceeds of such Bonds and any other funds of the Authority. Such certificates, instruments and documents may contain stipulations as shall be necessary or advisable in connection with the stated purpose of this section and the foregoing provisions hereof, and the Authority and the Trustee hereby covenant and agree to comply with the provisions of any such stipulation throughout the term of such Bonds.

### **Creation of Liens**

The Authority covenants that it shall not issue any bonds or other evidences of indebtedness, other than the Bonds and Auxiliary Obligations, secured by a pledge of the Revenues or of the moneys, securities, rights and interests pledged or held or set aside by the Authority or by any Fiduciary under the Indenture and shall not create or cause to be created, other than by the Indenture, any lien or charge on the Revenues or such moneys, securities, rights or interests; provided, however, that nothing in the Indenture shall prevent the Authority from issuing (i) evidences of indebtedness secured by a pledge of Revenues to be derived after the pledge of the Revenues provided in the Indenture shall be discharged and satisfied as provided in the Master Indenture; or (ii) notes or bonds or other obligations of the Authority not secured under the Indenture; or (iii) notes, bonds or other obligations which are general obligations of the Authority under the Act.

### **Events of Default**

Each of the following constitutes an "Event of Default" under the Indenture:

- (a) The Authority shall fail to pay any Principal Installment of any Class I Bond when and as the same shall become due and payable, whether at maturity or by call for redemption or otherwise;

(b) The Authority shall fail to pay any installment of interest on any Class I Bond or fail to pay any Class I Auxiliary Obligation when and as the same shall become due and payable, and such failure shall continue for a period of 5 days;

(c) The Authority shall fail to pay any Principal Installment or interest on any Class II Bond or fail to pay any Class II Auxiliary Obligation when and as the same shall become due and payable, provided that sufficient moneys for such payment are available in the Class II Debt Service Fund;

(d) The Authority shall fail to pay any Principal Installment or interest on any Class III Bond or fail to pay any Class III Auxiliary Obligation when and as the same shall become due and payable, provided that sufficient moneys for such payment are available in the Class III Debt Service Fund;

(e) The Authority shall fail to pay any Principal Installment or interest on any Class IV Bond or fail to pay any Class IV Auxiliary Obligation when and as the same shall become due and payable, provided that sufficient moneys for such payment are available in the Class IV Debt Service Fund;

(f) The Authority shall fail to perform or observe any other covenant, agreement or condition on its part contained in the Indenture (except the requirement that a Cash Flow Statement satisfy the requirements of clause (b) of the definition thereof and the requirement that the Authority pay amounts to the Trustee from its other revenues, moneys or assets in connection with General Obligations), or in the Bonds and such failure shall continue for a period of 60 days after written notice thereof to the Authority by the Trustee or to the Authority and to the Trustee by the Owners of not less than 10% in Aggregate Principal Amount of the Bonds Outstanding; or

(g) The Authority shall file a petition seeking a composition of indebtedness under the federal bankruptcy laws, or under any other applicable law or statute of the United States of America or of the State.

## **Remedies**

Upon the occurrence of an Event of Default, the Trustee may, and upon the written request of the Owners of not less than 25% in Aggregate Principal Amount of Outstanding Bonds following an Event of Default shall, give 30 days notice in writing to the Authority of its intention to declare the Aggregate Principal Amount of all Bonds Outstanding immediately due and payable. At the end of such 30-day period the Trustee may, and upon such written request of Owners of a majority (except as provided in the following paragraph) in Aggregate Principal Amount of Outstanding Bonds shall, by notice in writing to the Authority, declare the Aggregate Principal Amount of all Bonds Outstanding immediately due and payable; and the Aggregate Principal Amount of such Bonds shall become and be immediately due and payable, anything in the Bonds or in the Indenture to the contrary notwithstanding. In such event, there shall be due and payable on the Bonds an amount equal to the total principal amount of all such Bonds, plus all interest which will accrue thereon to the date of payment.

Notwithstanding the preceding paragraph, following an Event of Default described in paragraph (f) or (g) in "Events of Default" under this caption (except for a failure which could adversely affect the exclusion from gross income for federal income tax purposes of interest on any Tax-exempt Bonds), the Trustee shall not declare the Aggregate Principal Amount of all Bonds Outstanding immediately due and payable unless the Trustee is so directed by the written request of Owners of 100% in Aggregate Principal Amount of Outstanding Bonds.

At any time after the Aggregate Principal Amount of the Bonds shall have been so declared to be due and payable and before the entry of final judgment or decree in any suit, action or proceeding instituted on account of such default, or before the completion of the enforcement of any other remedy under the Indenture, the Trustee may (and, at the direction of the Owners of a majority in Aggregate Principal Amount of the Outstanding Bonds, shall) annul such declaration and its consequences with respect to any Bonds not then due by their terms if (i) moneys shall have been deposited in the Revenue Fund sufficient to pay all matured installments of interest and principal or Redemption Price (other than principal then due only because of such declaration) of all Outstanding Bonds; (ii) moneys shall have been deposited with the Trustee sufficient to pay the charges, compensation, expenses, disbursements, advances and liabilities of the Trustee; (iii) all other amounts then payable under the Indenture as described in "Events of Default" under this caption, including amounts due pursuant to Auxiliary Agreements, shall have been paid or a sum sufficient to pay the same shall have been deposited with the Trustee; and (iv) every Event of Default known to the Trustee (other than a default in the payment of the principal of such Bonds then due only because of such declaration) shall have been remedied to the satisfaction of the Trustee. No such annulment shall extend to or affect any subsequent Event of Default or impair any right consequent thereon.

Upon the occurrence and continuance of any Event of Default, the Trustee may, and upon the written request of the Owners of not less than 25% in Aggregate Principal Amount of the Bonds Outstanding, together with indemnification of the Trustee to its satisfaction therefor, shall, proceed forthwith to protect and enforce its rights and the rights of the Bondowners under the Act, the Bonds and the Indenture by such suits, actions or proceedings as the Trustee, being advised by counsel, shall deem expedient.

Regardless of the happening of an Event of Default, the Trustee, if requested in writing by the Owners of not less than 25% in Aggregate Principal Amount of the Bonds then Outstanding, shall, upon being indemnified to its satisfaction therefor, institute and maintain such suits and proceedings as it may be advised shall be necessary or expedient (i) to prevent any impairment of the security under the Indenture by any acts which may be unlawful or in violation of the Indenture; or (ii) to preserve or protect the interests of the Bondowners and Auxiliary Agreement Providers, provided that such request is in accordance with law and the provisions of the Indenture and, in the sole judgment of the Trustee, is not unduly prejudicial to the interests of the Owners of Bonds not making such request or the interests of Auxiliary Agreement Providers.

During the continuance of an Event of Default, the Trustee shall apply, or cause the Paying Agent to apply, all moneys and securities held in any Fund or Account (except the Rebate Fund, the Excess Earnings Fund, the Bond Purchase Fund, the Short Term Bond Account and, with respect to any Bonds or Auxiliary Obligations that are not General Obligations, any Authority Payment Account) (moneys and securities in the Short Term Bond Account and any Authority Payment Account are to be applied only to the payment of interest and Principal Installments on Bonds and payments on Auxiliary Obligations with respect to which such moneys and securities have been pledged), Revenues, payments and receipts and the income therefrom as follows and in the following order:

- (i) To the payment of the reasonable and proper Fiduciary Expenses;
- (ii) To the payment of the interest, Principal Installments and other amounts then due and payable on the Class I Obligations, subject to the provisions of the Master Indenture; as follows:
  - (A) Unless the Aggregate Principal Amount of all of the Class I Bonds shall have become or have been declared due and payable.

First: To the payment to the persons entitled thereto of all installments of interest then due and payable on the Class I Obligations in the order of the maturity of such installments, and, if the amount available shall not be sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon to the persons entitled thereto, without any discrimination or preference; and

Second: To the payment to the persons entitled thereto of the unpaid Principal Installments of any Class I Obligations and any other required payment on the Class I Obligations which shall have become due and payable, whether at maturity or by call for redemption, in the order of their due dates, and if the amounts available shall not be sufficient to pay in full all the Class I Obligations due and payable on any date, then to the payment thereof ratably, according to the amounts of Principal Installments due on such date, to the persons entitled thereto, without any discrimination or preference.

(B) If the Aggregate Principal Amount of all of the Class I Obligations shall have become or have been declared due and payable, to the payment of the principal, interest and other amounts then due and unpaid upon the Class I Obligations without preference or priority of principal over interest or other amounts or of interest over principal or other amounts, or of other amounts over principal or interest or of any installment of interest over any other installment of interest, or of any Class I Obligation over any other Class I Obligation, ratably, according to the amounts due respectively for principal and interest and other amounts, to the persons entitled thereto without any discrimination or preference.

(iii) To the payment of the Principal Installments of and interest and other amounts then due on the Class II Obligations in accordance with the provisions of paragraph (ii) above as if such paragraph referred to the Class II Obligations rather than the Class I Obligations.

(iv) To the payment of the Principal Installments of and interest and other amounts then due on the Class III Obligations in accordance with the provisions of paragraph (ii) above as if such paragraph referred to the Class III Obligations rather than the Class I Obligations.

(v) To the payment of the Principal Installments of and interest and other amounts then due on the Class IV Obligations in accordance with the provisions of paragraph (ii) above as if such paragraph referred to the Class IV Obligations rather than the Class I Obligations.

(vi) To the payment of the amounts required for reasonable and necessary Program Expenses.

No remedy by the terms of the Indenture conferred upon or reserved to the Trustee or the Bondowners is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given under the Indenture or existing at law or in equity or by statute (including the Act) on or after the date of adoption of the Indenture.

### **Majority Bondowners Control Proceedings**

If an Event of Default shall have occurred and be continuing, notwithstanding anything in the Indenture to the contrary, the Owners of at least a majority in Aggregate Principal Amount of Bonds then Outstanding shall have the right, at any time, by an instrument in writing executed and delivered to the

Trustee, to direct the method and place of conducting any proceeding to be taken in connection with the enforcement of the terms and conditions of the Indenture or for the appointment of a receiver or to take any other proceedings under the Indenture, provided that such direction is in accordance with law and the provisions (in particular, those relating to the priority of the Class I Obligations over Class II, III and IV Obligations, Class II Obligations over Class III and IV Obligations and Class III Obligations over Class IV Obligations) of the Indenture (including indemnity to the Trustee as provided in the Master Indenture) and, in the sole judgment of the Trustee, is not unduly prejudicial to the interests of Bondowners not joining in such direction and provided further that nothing shall impair the right of the Trustee in its discretion to take any other action under the Indenture which it may deem proper and which is not inconsistent with such direction by Bondowners.

### **General Obligation Bond Default**

If the Authority shall fail to pay interest on any General Obligation Bond when due or shall fail to pay any Principal Installment on any General Obligation Bond when due, provided that such failure shall not constitute an Event of Default under the Master Indenture, such failure is declared a "General Obligation Bond Default" under the Indenture. A General Obligation Bond Default shall not constitute an Event of Default under the Indenture and shall not affect the priority of the lien on and pledge granted to Owners of Bonds or Auxiliary Agreement Providers under the Indenture.

Upon the occurrence of a General Obligation Bond Default, the Trustee may and, upon the written request of the Owners of not less than 25% in Aggregate Principal Amount of Outstanding General Obligation Bonds shall, give 30 days notice in writing to the Authority of its intention to declare the Aggregate Principal Amount of all General Obligation Bonds Outstanding immediately due and payable. At the end of such 30-day period the Trustee may, and upon such written request of Owners of a majority in Aggregate Principal Amount of Outstanding General Obligation Bonds shall, by notice in writing to the Authority, declare the Aggregate Principal Amount of all General Obligation Bonds Outstanding immediately due and payable; and the Aggregate Principal Amount of such General Obligation Bonds shall become and be immediately due and payable. In such event, there shall be due and payable on the General Obligation Bonds an amount equal to the total principal amount of all such Bonds, plus all interest which will accrue thereon to the date of payment.

At any time after the Aggregate Principal Amount of the General Obligation Bonds shall have been so declared to be due and payable and before the entry of final judgment or decree in any suit, action or proceeding instituted on account of such default, or before the completion of the enforcement of any other remedy under the Indenture, the Trustee may (and, at the direction of the Owners of a majority in Aggregate Principal Amount of the Outstanding General Obligation Bonds, shall) annul such declaration and its consequences with respect to any General Obligation Bonds not then due by their terms if (i) moneys shall have been deposited in the Related Authority Payment Account sufficient to pay all matured installments of interest and principal or Redemption Price (other than principal then due only because of such declaration) of all Outstanding General Obligation Bonds; and (ii) moneys shall have been deposited with the Trustee sufficient to pay the charges, compensation, expenses, disbursements, advances and liabilities of the Trustee. No such annulment shall extend to or affect any subsequent General Obligation Bond Default or impair any right consequent thereon.

Upon the occurrence and continuance of a General Obligation Bond Default, the Trustee may, and upon the written request of the Owners of not less than 25% in Aggregate Principal Amount of the General Obligation Bonds Outstanding, together with indemnification of the Trustee to its satisfaction therefor, shall, proceed forthwith to protect and enforce the rights of the General Obligation Bondowners under the Act, the General Obligation Bonds and the Indenture by such suits, actions or proceedings as

the Trustee, being advised by counsel, shall deem expedient and consistent with the limitations specified below, including but not limited to:

- (i) Suit upon all or any part of the General Obligation Bonds;
- (ii) Civil action to enjoin any acts or things which may be unlawful or in violation of the rights of the Owners of General Obligation Bonds; and
- (iii) Enforcement of any other right of the General Obligation Bondowners conferred by law or by the Indenture.

Regardless of the happening of a General Obligation Bond Default, the Trustee, if requested in writing by the Owners of not less than 25% in Aggregate Principal Amount of the General Obligation Bonds then Outstanding, shall, upon being indemnified to its satisfaction therefor, institute and maintain such suits and proceedings as it may be advised shall be necessary or expedient (i) to prevent any impairment of the security under the Indenture by any acts which may be unlawful or in violation of the Indenture; or (ii) to preserve or protect the interests of the Holders of the General Obligation Bonds, provided that such request is in accordance with law and the provisions of the Indenture and, in the sole judgment of the Trustee, is not unduly prejudicial to the interests of the Owners of General Obligation Bonds not making such request.

The rights and remedies of Owners of General Obligation Bonds upon the occurrence of a General Obligation Bond Default shall be limited to the enforcement of the Authority's general obligation covenant with respect thereto and to the disbursement of amounts available to Owners of General Obligation Bonds from time to time in the Related Debt Service Fund, the Related Special Redemption Account and the Related Debt Service Reserve Fund after provision is made for, and after taking into account the rights of, Owners of Bonds other than General Obligation Bonds and the rights of Auxiliary Agreement Providers as provided in the Indenture. The exercise of remedies upon the occurrence of a General Obligation Bond Default shall not in any manner affect, disturb or prejudice the security and rights of such Owners of Bonds or Auxiliary Agreement Providers under the Indenture.

If the Authority shall fail to pay any amount on any Auxiliary Obligation which constitutes a General Obligation when due, provided that such failure shall not also constitute an Event of Default under the Master Indenture, such failure shall not constitute an Event of Default under the Indenture and shall not affect the priority of the lien and pledge on the Trust Estate granted to Owners of Bonds or Auxiliary Agreement Providers under the Indenture. The rights and remedies of Auxiliary Agreement Providers having Auxiliary Obligations which constitute General Obligations shall be governed by the Related Auxiliary Agreement; however, such rights and remedies shall be limited to the enforcement of the Authority's general obligation covenant with respect thereto and to the disbursement of amounts available with respect to Related Auxiliary Obligations from time to time in the Related Debt Service Fund, the Related Special Redemption Account and the Related Debt Service Reserve Fund based on the lien priority of such Auxiliary Obligation after provision is made for, and after taking into account the rights of, Owners of Bonds or Auxiliary Agreement Providers having a prior lien on the Trust Estate as provided in the Indenture and such exercise of remedies upon shall not in any manner affect, disturb or prejudice the security and rights of such Owners of Bonds or such Auxiliary Agreement Providers under the Indenture.

### **Modification of Indenture and Outstanding Bonds**

The Indenture provides procedures whereby the Authority may amend the Indenture by execution and delivery of a Supplemental Indenture. Amendments that may be made without consent of

Bondowners or the Trustee must be for only the following purposes: (a) to add to the covenants and agreements of the Authority in the Indenture, other covenants and agreements to be observed by the Authority which are not contrary to or inconsistent with the Indenture as theretofore in effect; (b) to add to the limitations and restrictions in the Indenture, other limitations and restrictions to be observed by the Authority which are not contrary to or inconsistent with the Indenture as theretofore in effect; (c) to confirm, as further assurance, any pledge under, and the subjection to any lien or pledge created or to be created by the Indenture of the Revenues or of any other moneys, securities or funds; (d) to modify any provisions of the Indenture in any respect whatever, provided that the modification, in the sole judgment of the Authority, is reasonably necessary to assure that the interest on Tax-exempt Bonds remains excludable from the gross income of the owners thereof for federal income tax purposes; or (e) to provide for the issuance of Bonds pursuant to the Indenture and to provide for the terms and conditions pursuant to which such Bonds may be issued, paid or redeemed.

With the consent of the Trustee, a Supplemental Indenture may be executed and delivered by the Authority: (a) to cure any ambiguity, supply any omission, or cure or correct any defect or inconsistent provision in the Indenture, or to insert such provisions clarifying matters or questions arising under the Indenture as are necessary or desirable, provided such action shall not adversely affect the interest of the Owners under the Indenture and are not contrary to or inconsistent with the Indenture theretofore in effect; (b) to grant to or confer upon the Trustee for the benefit of the Owners any additional rights, remedies, powers, authority or security that may lawfully be granted to or conferred upon the Owners or the Trustee; (c) to add to the covenants and agreements of the Authority in the Indenture other covenants and agreements thereafter to be observed by the Authority; (d) to surrender any right, power or privilege reserved to or conferred upon the Authority by the terms of the Indenture, provided that the loss of such right, power or privilege shall not adversely impact the Revenues available to pay the Outstanding Bonds; (e) to include as pledged revenues or money under, and subject to the provisions of, the Indenture any additional revenues or money legally available therefor; (f) to provide for additional duties of the Trustee in connection with the Mortgage Loans; (g) to modify any of the provisions of the Indenture in any respect whatever; provided, however, that (1) such modification shall be, and be expressed to be, effective only after all Bonds of any Series Outstanding at the date of the execution by the Authority of such Supplemental Indenture shall cease to be Outstanding, and (2) such Supplemental Indenture shall be specifically referred to in the text of all Bonds of any Series authenticated and delivered after the date of the execution by the Authority of such Supplemental Indenture and of Bonds issued in exchange therefor or in place thereof; (h) to modify, eliminate and/or add to the provisions of the Indenture to such extent as shall be necessary to effect the qualification of the Indenture under the Trust Indenture Act of 1939, as then amended, or under any similar federal statute hereafter enacted, and to add to the Indenture such other provisions as may be expressly permitted by said Trust Indenture Act of 1939; (i) to make any change as shall be necessary in order to maintain the rating(s) on any of the Bonds from any Rating Agency; or (j) to make any other amendment or change that will not materially adversely affect the interest of Owners of Outstanding Bonds.

Any modification or amendment of the Indenture and of the rights and obligations of the Authority and of the Bondowners, in any particular, may be made by a Supplemental Indenture, with the written consent given as provided in the Master Indenture of the Owners of at least a majority in Aggregate Principal Amount of the Bonds Outstanding at the time such consent is given. No such modification or amendment shall permit a change in the terms of redemption or maturity of the principal of any Outstanding Bonds or of any installment of interest thereon or a reduction in the principal amount or the Redemption Price thereof or in the rate of interest thereon without the consent of the Owners of all such Bonds, or shall reduce the percentages of Bonds the consent of the Owners of which is required to effect any such modification or amendment without the consent of the Owners of all Bonds then Outstanding or shall change the provisions of the Indenture relating to the ability to declare the Aggregate Principal Amount of Bonds to be due and payable without the consent of the Owners of all Bonds then



Outstanding or shall materially adversely affect the rights of the Owners of Class II Bonds without the consent of the Owners of a majority in Aggregate Principal Amount of Class II Bonds Outstanding, or shall materially adversely affect the rights of the Owners of Class III Bonds without the consent of the Owners of a majority in Aggregate Principal Amount of Class III Bonds then Outstanding, or shall materially adversely affect the rights of the Owners of Class IV Bonds without the consent of the Owners of a majority in Aggregate Principal Amount of Class IV Bonds then Outstanding; or shall change or modify any of the rights or obligations of any Fiduciary without its written assent thereto. If any such modification or amendment will, by its terms not take effect so long as any Bonds of any particular maturity remain Outstanding, the consent of the Owners of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Bonds under this Section. The Trustee, relying upon a Counsel's Opinion, may determine whether or not in accordance with the foregoing powers of amendment Bonds of any particular maturity would be affected by any modification or amendment of the Indenture, and any such determination shall be binding and conclusive on the Authority and the Bondowners.

### **Defeasance**

If the Authority shall pay or cause to be paid, or there shall otherwise be paid, to the Bondowners of all Bonds the principal or Redemption Price, if applicable, and interest due or to become due thereon, at the times and in the manner stipulated therein and in the Indenture and if the Authority shall pay or cause to be paid to all Auxiliary Agreement Providers all amounts due and payable under all Auxiliary Agreements, then the pledge of any Revenues, and other moneys and securities pledged under the Indenture and all covenants, agreements and other obligations of the Authority to the Bondowners, shall thereupon cease, terminate and become void and be discharged and satisfied. In such event, the Trustee shall cause an accounting for such period or periods as shall be requested by the Authority to be prepared and filed with the Authority and, upon the request of the Authority, shall execute and deliver to the Authority all such instruments as may be desirable to evidence such discharge and satisfaction, and the Fiduciaries shall pay over or deliver to or upon the order of the Authority all moneys or securities held by them pursuant to the Indenture that are not required for the payment of principal, or Redemption Price, if applicable, of or interest on Bonds not theretofore surrendered to them for such payment or redemption. If the Authority shall pay or cause to be paid, or there shall otherwise be paid, to the Owners of all Outstanding Bonds of a particular Series, the principal or Redemption Price, if applicable, and interest due or to become due thereon, such Bonds shall cease to be entitled to any lien, benefit or security hereunder and all covenants, agreements and obligations of the Authority to the Owners of such Bonds shall thereupon cease, terminate and become void and be discharged and satisfied.

Bonds or interest installments for the payment or redemption of which moneys shall have been set aside and shall be held in trust by the Trustee or the Paying Agent (through deposit by the Authority of moneys for such payment or redemption or otherwise) at the maturity or redemption date thereof shall be deemed to have been paid within the meaning and with the effect expressed in the Master Indenture. Outstanding Bonds shall be deemed, prior to the maturity or redemption date thereof, to have been paid within the meaning and with the effect expressed in the Master Indenture if (i) in case any of said Bonds are to be redeemed on any date prior to their maturity, the Authority shall have given to the Bond Registrar in form satisfactory to it irrevocable instructions to transmit a notice of redemption of such Bonds on said date; (ii) there shall have been deposited with the Trustee either moneys in an amount sufficient, or Defeasance Securities the principal of and the interest on which when due (whether at maturity or the prior redemption thereof at the option of the holder thereof) will provide moneys in an amount that, together with the moneys, if any, deposited with the Trustee at the same time, shall be sufficient to pay when due the principal or Redemption Price of and interest due and to become due on said Bonds on and prior to the redemption date or maturity date thereof, as the case may be, (iii) in the event said Bonds are not by their terms subject to redemption within the next succeeding 60 days, the

Authority shall have given to the Bond Registrar in form satisfactory to it irrevocable instructions to transmit, as soon as practicable, a notice to the Bondowners of such Bonds that the deposit required by (ii) above has been made with the Trustee and that said Bonds are deemed to have been paid and stating such maturity or redemption date upon which moneys are to be available for the payment of the principal or Redemption Price of and interest on said Bonds, and (iv) except in the event of a full cash defeasance or a current refunding of less than ninety days to maturity or redemption date, the sufficiency of such moneys or Defeasance Securities shall have been confirmed to the Authority in an opinion signed by a certified public accountant or firm of such accountants duly licensed to practice and practicing as such under the laws of the State, selected by the Authority.

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## APPENDIX B-1

### The Outstanding Bonds and Auxiliary Obligations

#### The Outstanding Bonds

As of February 1, 2012, the Authority had issued and outstanding the following Series of Bonds under the Master Indenture in the Classes as indicated:

| <u>Title of Bonds</u>                         | <u>Principal<br/>Amount Issued</u> | <u>Outstanding<br/>Principal Amount<br/>(February 1, 2012)</u> |
|---|------------------------------------|--|
| <b>2001 Series AA:</b>                        |                                    |  |
| Taxable Adjustable 2001 Series AA-1 (Class I) | \$50,000,000                       | \$30,000,000   |
| Adjustable 2001 Series AA-2 (Class I)         | 46,840,000                         | 46,840,000   |
| Adjustable 2001 Series AA-3 (Class I)         | 25,000,000                         | 25,000,000   |
| 2001 Series AA-4 (Class II)                   | 10,000,000                         | 10,000,000   |
| <b>2002 Series A:</b>                         |                                    |  |
| Adjustable 2002 Series A-1 (Class I)          | \$41,000,000                       | \$ 7,385,000   |
| Adjustable 2002 Series A-2 (Class I)          | 12,990,000                         | 3,960,000  |
| Adjustable 2002 Series A-3 (Class I)          | 23,075,000                         | 18,605,000   |
| 2002 Series A-4 (Class I)                     | 4,545,000                          | 1,490,000  |
| 2002 Series A-5 (Class II)                    | 12,455,000                         | 2,455,000  |
| <b>2002 Series B:</b>                         |                                    |  |
| Taxable Adjustable 2002 Series B-2 (Class I)  | \$60,000,000                       | \$ 8,525,000   |
| Adjustable 2002 Series B-3 (Class I)          | 40,000,000                         | 23,240,000   |
| <b>2002 Series C:</b>                         |                                    |  |
| Adjustable 2002 Series C-3 (Class I)          | \$40,000,000                       | \$35,630,000   |
| 2002 Series C-4 (Class II)                    | 10,000,000                         | 2,800,000  |
| 2002 Series C-5 (Class III)                   | 17,000,000                         | 1,055,000  |
| <b>2003 Series A:</b>                         |                                    |  |
| Adjustable 2003 Series A-1 (Class I)          | \$42,000,000                       | \$ 4,620,000   |
| Adjustable 2003 Series A-2 (Class I)          | 20,000,000                         | 19,455,000   |
| 2003 Series A-3 (Class II)                    | 7,000,000                          | 3,000,000  |
| 2003 Series A-4 (Class III)                   | 9,000,000                          | 1,990,000  |
| <b>2003 Series B:</b>                         |                                    |  |
| Taxable Adjustable 2003 Series B-1 (Class I)  | \$40,000,000                       | \$28,970,000   |
| Taxable Adjustable 2003 Series B-2 (Class I)  | 80,000,000                         | 13,625,000   |
| Adjustable 2003 Series B-3 (Class I)          | 60,000,000                         | 60,000,000   |
| 2003 Series B-4 (Class III)                   | 20,000,000                         | 250,000  |
| <b>2003 Series C:</b>                         |                                    |  |
| Taxable Adjustable 2003 Series C-1 (Class I)  | \$70,000,000                       | \$ 9,535,000   |
| Adjustable 2003 Series C-2 (Class I)          | 40,000,000                         | 32,290,000   |
| 2003 Series C-3 (Class III)                   | 13,000,000                         | 1,300,000  |
| <b>2004 Series A:</b>                         |                                    |  |
| Adjustable 2004 Series A-2 (Class I)          | \$50,000,000                       | \$40,340,000   |
| 2004 Series A-3 (Class III)                   | 13,000,000                         | 1,850,000  |

| <u>Title of Bonds</u>  | <u>Principal<br/>Amount Issued</u> | <u>Outstanding<br/>Principal Amount<br/>(February 1, 2012)</u> |
|--|------------------------------------|--|
| <b>2004 Series B:</b>  |                                    |  |
| Adjustable 2004 Series B-2 (Class I)                         | \$40,000,000                       | \$32,290,000   |
| 2004 Series B-3 (Class III)                                  | 11,000,000                         | 2,295,000  |
| <b>2005 Series A:</b>  |                                    |  |
| Adjustable 2005 Series A-2 (Class I)                         | \$40,000,000                       | \$36,010,000   |
| 2005 Series A-3 (Class III)                                  | 10,000,000                         | 2,085,000  |
| <b>2005 Series B:</b>  |                                    |  |
| Adjustable 2005 Series B-2 (Class I)                         | \$80,000,000                       | \$36,650,000   |
| 2005 Series B-1A (Class I)                                   | 40,000,000                         | 15,920,000   |
| 2005 Series B-1B (Class I)                                   | 40,000,000                         | 15,920,000   |
| <b>2006 Series A:</b>  |                                    |  |
| Taxable Adjustable 2006 Series A-1 (Class I)                 | \$30,000,000                       | \$ 4,550,000   |
| Adjustable 2006 Series A-2 (Class I)                         | 20,590,000                         | 17,590,000   |
| Adjustable 2006 Series A-3 (Class I)                         | 40,000,000                         | 40,000,000   |
| 2006 Series A-4 (Class II)                                   | 19,410,000                         | 15,210,000   |
| <b>2006 Series B:</b>  |                                    |  |
| Taxable Adjustable 2006 Series B-1 (Class I)                 | \$60,000,000                       | \$ 3,250,000   |
| Adjustable 2006 Series B-2 (Class I)                         | 49,325,000                         | 49,325,000   |
| Adjustable 2006 Series B-3 (Class I)                         | 62,945,000                         | 62,945,000   |
| <b>2006 Series C:</b>  |                                    |  |
| Taxable Adjustable 2006 Series C-1 (Class I)                 | \$60,000,000                       | \$ 3,230,000   |
| Adjustable 2006 Series C-2 (Class I)                         | 70,700,000                         | 70,700,000   |
| 2006 Series C-3 (Class II)                                   | 29,300,000                         | 23,900,000   |
| <b>2007 Series A:</b>  |                                    |  |
| Taxable Adjustable 2007 Series A-1 (Class I)                 | \$70,000,000                       | \$ 7,595,000   |
| Adjustable 2007 Series A-2 (Class I)                         | 70,000,000                         | 70,000,000   |
| 2007 Series A-3 (Class III)                                  | 35,000,000                         | 22,700,000   |
| <b>2007 Series B:</b>  |                                    |  |
| Taxable Adjustable 2007 Series B-1 (Class I)                 | \$120,000,000                      | \$36,370,000   |
| Adjustable 2007 Series B-2 (Class I)                         | 50,000,000                         | 50,000,000   |
| Adjustable 2007 Series B-3 (Class II) <sup>(1)</sup>         | 50,000,000                         | 50,000,000   |
| <b>2008 Series A:</b>  |                                    |  |
| Taxable Adjustable 2008 Series A-1 (Class I)                 | \$ 60,000,000                      | \$40,040,000   |
| Taxable Adjustable 2008 Series A-2 (Class I)                 | 170,000,000                        | 50,960,000   |
| Adjustable 2008 Series A-3 (Class I)                         | 80,000,000                         | 80,000,000   |
| 2008 Series A-4 (Class II)                                   | 15,000,000                         | 3,835,000  |
| 2008 Series A-5 (Class III)                                  | 23,955,000                         | 19,955,000   |
| <b>2009 Series A:</b>  |                                    |  |
| 2009 Series A-1 (Class I)                                    | \$90,000,000                       | \$69,570,000   |
| <b>2011 Series B:</b>  |                                    |  |
| Adjustable 2011 Series B-1 (Class I) <sup>(2)</sup>          | \$32,530,000                       | \$32,530,000   |
| Adjustable 2011 Series B-2 (Class I) <sup>(2)</sup>          | 31,650,000                         | 31,650,000   |
| <b>2011 Series C:</b>  |                                    |  |
| Taxable Adjustable 2011 Series C (Class I) <sup>(2)(3)</sup> | \$108,970,000                      | \$108,970,000  |

| <u>Title of Bonds</u>                                  | <u>Principal<br/>Amount Issued</u> | <u>Outstanding<br/>Principal Amount<br/>(February 1, 2012)</u> |
|--|------------------------------------|--|
| <b>2011 Series D:</b>                                  |                                    |  |
| Adjustable 2011 Series D-1 (Class I) <sup>(2)(4)</sup> | \$29,955,000                       | \$29,955,000   |
| Adjustable 2011 Series D-2 (Class I) <sup>(2)(4)</sup> | 24,130,000                         | 24,130,000   |
| Total Class I Bonds:                                   | \$2,256,245,000                    | \$1,429,660,000  |
| Total Class II Bonds:                                  | 153,165,000                        | 111,200,000  |
| Total Class III Bonds:                                 | 151,955,000                        | 53,480,000   |
| Total Class IV Bonds:                                  | <u>0</u>                           | <u>0</u>   |
| <b>TOTAL</b>   | <b><u>\$2,561,365,000</u></b>      | <b><u>\$1,594,340,000</u></b>                                  |

<sup>(1)</sup> These are the Remarketed Bonds under this Supplement.

<sup>(2)</sup> All of the Bonds indicated as "Adjustable" in this table, other than these Bonds, are in a weekly interest rate mode, with the interest rate adjusted by the related Remarketing Agent each week as described in the Official Statement. See "REMARKETING AGENTS" in this Supplement. These Bonds are index rate bonds, which bear interest at an adjustable rate determined monthly by a calculation agent based on one-month LIBOR plus an established spread.

<sup>(3)</sup> The Taxable Single Family Mortgage Class I Adjustable Index Rate Note, 2011 Series C, was issued by the Authority to evidence the obligation of the Authority to repay a loan by JPMorgan Chase Bank, National Association, made to the Authority under a Loan and Security Agreement dated as of November 1, 2011. The 2011 Series C Note matures on May 1, 2013 and is subject to mandatory sinking fund redemption payments on each May 1 and November 1 prior to that maturity date.

<sup>(4)</sup> The Single Family Class I Adjustable Index Rate Bonds, 2011 Series D, were issued by the Authority directly to Wells Fargo Bank, National Association ("Wells"), as the purchaser. In connection with such issuance and purchase, the Authority and Wells entered into a Continuing Covenant Agreement dated as of November 1, 2011. The 2011 Series D-1 Bonds mature on November 1, 2014, and the 2011 Series D-2 Bonds mature on November 1, 2016. The 2011 Series D-1 Bonds are subject to mandatory sinking fund redemption payments on each May 1 and November 1 prior to their maturity date, and mandatory sinking fund redemption payments are due on such dates for the 2011 Series D-2 Bonds commencing on May 1, 2015 through their maturity date.

## **The Outstanding Auxiliary Obligations**

The Auxiliary Obligations under the Master Indenture are the obligations of the Authority for the payment of money under Liquidity Facilities and Interest Rate Contracts.

### *Outstanding Liquidity Facilities*

The Authority has previously entered into standby bond purchase agreements (constituting Liquidity Facilities under the Master Indenture) among the Authority, the Paying Agent and a Liquidity Facility Provider. The following table describes the Liquidity Facilities in effect as of February 1, 2012 except as noted (or to be in effect as a result of the remarketing of the Remarketed Bonds) with respect to the outstanding Series of Adjustable Rate Bonds under the Master Indenture, the name of the respective Liquidity Facility Providers, the expiration dates (unless earlier terminated or, in some cases as permitted, extended), the Bank Bond rates, terms for accelerated payments and liens. As of February 1, 2012, the aggregate principal amount of Bonds for which Fannie Mae and Freddie Mac provided Temporary Credit and Liquidity Facilities was \$466,885,000, for which the Federal Home Loan Bank of Topeka provided Liquidity Facilities was \$405,060,000 and for which Barclays Bank PLC provided a Liquidity Facility was \$36,650,000. Upon the effectiveness of the 2007B-3 Facility, the aggregate principal amount of Bonds for which Royal Bank of Canada provides Liquidity Facilities will be \$240,930,000.

The Authority's obligations to repay the Liquidity Facility Providers prior to stated maturity or any mandatory sinking fund redemption date for any principal amounts due on any Bank Bonds outstanding under a Liquidity Facility constitute in some cases Class III Obligations under the Master Indenture and also constitute general obligations of the Authority and, for other Series including the Remarketed Bonds, constitute Class I Obligations under the Master Indenture. See "CERTAIN BONDOWNERS' RISKS – Risks Related to the Liquidity Facility Providers and the Liquidity Facilities" in this Supplement.

## Outstanding Liquidity Facilities and Providers <sup>(1)</sup>

| <u>Series of<br/>Adjustable Rate Bonds</u> | <u>Related Liquidity<br/>Facility Provider</u> | <u>Expiration Date<br/>of Liquidity Facility</u> | <u>Bank Bond Rate/<br/>Accelerated<br/>Payments/Lien</u> |
|--|--|--|--|
| 2001AA-1, AA-2, and AA-3                   | Fannie Mae and Freddie Mac                     | December 31, 2015                                | (5)  |
| 2002A-1, A-2, and A-3                      | Federal Home Loan Bank of Topeka               | April 25, 2014 <sup>(2)</sup>                    | (6)  |
| 2002B-1, B-2, and B-3                      | Fannie Mae and Freddie Mac                     | December 31, 2012 <sup>(3)</sup>                 | (5)  |
| 2002C-3                                    | Fannie Mae and Freddie Mac                     | December 31, 2012 <sup>(3)</sup>                 | (5)  |
| 2003A-1 and A-2                            | Fannie Mae and Freddie Mac                     | December 31, 2012 <sup>(3)</sup>                 | (5)  |
| 2003B-1                                    | Fannie Mae and Freddie Mac                     | December 31, 2012 <sup>(3)</sup>                 | (5)  |
| 2003B-2                                    | Fannie Mae and Freddie Mac                     | December 31, 2012 <sup>(3)</sup>                 | (5)  |
| 2003B-3                                    | Federal Home Loan Bank of Topeka               | December 16, 2013                                | (6)  |
| 2003C-1                                    | Fannie Mae and Freddie Mac                     | December 31, 2012 <sup>(3)</sup>                 | (5)  |
| 2003C-2                                    | Royal Bank of Canada                           | October 12, 2014                                 | (7)  |
| 2004A-2                                    | Royal Bank of Canada                           | October 12, 2014                                 | (7)  |
| 2004B-2                                    | Royal Bank of Canada                           | October 12, 2014                                 | (7)  |
| 2005A-2                                    | Royal Bank of Canada                           | October 12, 2014                                 | (7)  |
| 2005B-2                                    | Barclays Bank PLC                              | September 6, 2012                                | (8)  |
| 2006A-1, A-2 and A-3                       | Federal Home Loan Bank of Topeka               | May 6, 2014                                      | (6)  |
| 2006B-1                                    | Fannie Mae and Freddie Mac                     | December 16, 2012 <sup>(3)</sup>                 | (5)  |
| 2006B-2 and B-3                            | Federal Home Loan Bank of Topeka               | June 3, 2014                                     | (6)  |
| 2006C-1                                    | Fannie Mae and Freddie Mac                     | December 16, 2012 <sup>(3)</sup>                 | (5)  |
| 2006C-2                                    | Federal Home Loan Bank of Topeka               | June 24, 2014                                    | (6)  |
| 2007A-1                                    | Fannie Mae and Freddie Mac                     | December 16, 2012 <sup>(3)</sup>                 | (5)  |
| 2007A-2                                    | Federal Home Loan Bank of Topeka               | June 24, 2014                                    | (6)  |
| 2007B-1                                    | Fannie Mae and Freddie Mac                     | December 31, 2012 <sup>(3)</sup>                 | (5)  |
| 2007B-2                                    | Royal Bank of Canada                           | October 12, 2014                                 | (7)  |
| 2007B-3                                    | Royal Bank of Canada                           | May 16, 2015 <sup>(4)</sup>                      | (9)  |
| 2008A-1, A-2 and A-3                       | Fannie Mae and Freddie Mac                     | December 31, 2015                                | (5)  |

<sup>(1)</sup> As of February 1, 2012 (except as noted).

<sup>(2)</sup> Effective March 1, 2012.

<sup>(3)</sup> Fannie Mae and Freddie Mae have announced that the expiration date for these Temporary Credit and Liquidity Facilities may be extended to December 31, 2015 based on a plan submitted to the issuer and approved by Fannie Mae and Freddie Mac. The Authority has submitted a plan in connection with its request for such an extension, and is waiting for approval.

<sup>(4)</sup> Effective in connection with the remarketing of these Remarketed Bonds on May 16, 2012.

<sup>(5)</sup> (a) Bank Rate: prime rate (based on JPMorgan Prime Rate) plus 1.00%.

(b) Term out provisions: accelerated principal payment due in full on tenth anniversary of the purchase date. Class I lien.

<sup>(6)</sup> (a) Bank Rate: One-Month LIBOR plus 2.00% (1.50% for 2003 Series B-3 Bonds).

(b) Term out provisions: repayments due 90 days following purchase date in equal semiannual installments until fifth anniversary of the purchase date. Class III lien/General Obligation.

<sup>(7)</sup> (a) Bank Rate: for the first 90 days following the purchase date, the "Base Rate" which equals the highest of (i) the prime rate plus 2.50%, (ii) the Fed funds rate plus 3.00% and (iii) 8.00%; then for the period 91-180 days following the purchase date, the Base Rate plus 1.00%; then for the period 181 days and higher following the purchase date, the Base Rate plus 2.00%.

(b) Term out provisions: repayments due on the first business day of February, May, August or November on or following 90 days following purchase date and thereafter quarterly on each such dates in equal installments to the third anniversary of such purchase date. Class I lien.

<sup>(8)</sup> (a) Bank Rate: for the first 30 days following the purchase date, the "Base Rate" which equals the highest of the Fed funds plus 5%, prime rate plus 5% and Three-Month LIBOR plus 5%; then for the period 31-90 days following the purchase date, the Base Rate plus 2.00%; then for the period 91 days and higher following the purchase date, 12%.

(b) Term out provisions: accelerated principal payment due in full on the date which is three years following the purchase date. Class III lien/General Obligation.

<sup>(9)</sup> See **Appendix C-1** to this Supplement.

### *Outstanding Interest Rate Contracts*

In connection with the issuance of certain outstanding Adjustable Rate Bonds under the Master Indenture, the Authority has previously entered into the Interest Rate Contracts listed in the following table. As of February 1, 2012, the total notional amount of Interest Rate Contracts provided by Barclays Bank PLC was \$390,335,000; by Bank of America, N.A. was \$342,970,000; by AIG Financial Products Corp. was \$285,850,000; by JPMorgan Chase Bank, N.A. was \$179,240,000; by BNY Mellon was \$80,100,000; by Royal Bank of Canada was \$20,915,000; and by UBS Investment Bank was \$8,880,000; and by Bayerische Landesbank was \$6,405,000.

| <b><u>Outstanding Interest Rate Contracts</u></b> <sup>(2)</sup> | <b><u>Amount</u></b> <sup>(1)</sup> | <b><u>Counterparty</u></b> <sup>(2)</sup> |
|--|-------------------------------------|---|
| <b>2001 Series AA Interest Rate Contracts:</b>                   |                                     |   |
| Taxable Adjustable 2001 Series AA-1 (Class I)                    | \$30,000,000                        | Barclays Bank PLC                         |
| Adjustable 2001 Series AA-2 (Class I)                            | 46,840,000                          | Barclays Bank PLC                         |
| Adjustable 2001 Series AA-3 (Class I)                            | 15,340,000                          | Barclays Bank PLC                         |
| <b>2002 Series A Interest Rate Contract:</b>                     |                                     |   |
| Adjustable 2002 Series A-3 (Class I)                             | 17,815,000                          | Barclays Bank PLC                         |
| <b>2002 Series B Interest Rate Contract:</b>                     |                                     |   |
| Adjustable 2002 Series B-3 (Class I)                             | 38,125,000                          | Barclays Bank PLC                         |
| <b>2002 Series C Interest Rate Contract:</b>                     |                                     |   |
| Adjustable 2002 Series C-3 (Class I)                             | 40,000,000                          | Barclays Bank PLC                         |
| <b>2003 Series A Interest Rate Contract:</b>                     |                                     |   |
| Adjustable 2003 Series A-2 (Class I)                             | 19,455,000                          | Barclays Bank PLC                         |
| <b>2003 Series B Interest Rate Contracts:</b>                    |                                     |   |
| Taxable Adjustable 2003 Series B-1 (Class I)                     | 32,760,000                          | Barclays Bank PLC                         |
| Taxable Adjustable 2003 Series B-2 (Class I)                     | 20,915,000                          | Royal Bank of Canada                      |
| Adjustable 2003 Series B-3 (Class I)                             | 60,000,000                          | Barclays Bank PLC                         |
| <b>2003 Series C Interest Rate Contracts:</b>                    |                                     |   |
| Adjustable 2003 Series C-1 (Class I)                             | 3,585,000                           | Bayerische Landesbank                     |
| Adjustable 2003 Series C-2 (Class I)                             | 40,000,000                          | Barclays Bank PLC                         |
| <b>2004 Series A Interest Rate Contracts:</b>                    |                                     |   |
| Adjustable 2004 Series A-1 (Class I)                             | 2,820,000                           | Bayerische Landesbank                     |
| Adjustable 2004 Series A-2 (Class I)                             | 50,000,000                          | AIG Financial Products Corp.              |
| <b>2004 Series B Interest Rate Contracts:</b>                    |                                     |   |
| Adjustable 2004 Series B-1 (Class I)                             | 2,170,000                           | UBS Investment Bank                       |
| Adjustable 2004 Series B-2 (Class I)                             | 40,000,000                          | AIG Financial Products Corp.              |
| <b>2005 Series A Interest Rate Contracts:</b>                    |                                     |   |
| Adjustable 2005 Series A-1 (Class I)                             | 6,710,000                           | UBS Investment Bank                       |
| Adjustable 2005 Series A-2 (Class I)                             | 40,000,000                          | AIG Financial Products Corp.              |
| <b>2005 Series B Interest Rate Contract:</b>                     |                                     |   |
| Adjustable 2005 Series B-2 (Class I)                             | 75,850,000                          | AIG Financial Products Corp.              |
| <b>2006 Series A Interest Rate Contracts:</b>                    |                                     |   |
| Taxable Adjustable 2006 Series A-1 (Class I)                     | 4,550,000                           | JPMorgan Chase Bank, N.A.                 |
| Adjustable 2006 Series A-3 (Class I)                             | 40,000,000                          | Bank of America, N.A.                     |
| <b>2006 Series B Interest Rate Contracts:</b>                    |                                     |   |
| Taxable Adjustable 2006 Series B-1 (Class I)                     | 21,440,000                          | JPMorgan Chase Bank, N.A.                 |
| Adjustable 2006 Series B-2 (Class I)                             | 49,325,000                          | Bank of America, N.A.                     |
| Adjustable 2006 Series B-3 (Class I)                             | 62,945,000                          | Bank of America, N.A.                     |



| <u>Outstanding Interest Rate Contracts</u> <sup>(2)</sup> | <u>Amount</u> <sup>(1)</sup> | <u>Counterparty</u> <sup>(2)</sup> |
|---|------------------------------|------------------------------------|
| <b>2006 Series C Interest Rate Contracts:</b>             |                              |                                    |
| Taxable Adjustable 2006 Series C-1 (Class I)              | 21,420,000                   | JPMorgan Chase Bank, N.A.          |
| Adjustable 2006 Series C-2 (Class I)                      | 70,700,000                   | Bank of America, N.A.              |
| <b>2007 Series A Interest Rate Contracts:</b>             |                              |                                    |
| Taxable Adjustable 2007 Series A-1 (Class I)              | 30,045,000                   | JPMorgan Chase Bank, N.A.          |
| Adjustable 2007 Series A-2 (Class I)                      | 70,000,000                   | Bank of America, N.A.              |
| <b>2007 Series B Interest Rate Contracts:</b>             |                              |                                    |
| Taxable Adjustable 2007 Series B-1 (Class I)              | 58,985,000                   | JPMorgan Chase Bank, N.A.          |
| Adjustable 2007 Series B-2 (Class I)                      | 50,000,000                   | Bank of America, N.A.              |
| Adjustable 2007 Series B-3 (Class II) <sup>(3)</sup>      | 50,000,000 <sup>(3)</sup>    | Barclays Bank PLC <sup>(3)</sup>   |
| <b>2008 Series A Interest Rate Contracts:</b>             |                              |                                    |
| Taxable Adjustable 2008 Series A-1 (Class I)              | 42,800,000                   | JPMorgan Chase Bank, N.A.          |
| Taxable Adjustable 2008 Series A-2 (Class I)              | 80,100,000                   | BNY Mellon                         |
| Adjustable 2008 Series A-3 (Class I)                      | 80,000,000                   | AIG Financial Products Corp.       |
| <b>Total Outstanding Class I Interest Rate Contracts</b>  | <b>\$1,264,695,000</b>       |                                    |
| <b>Total Outstanding Class II Interest Rate Contracts</b> | <b>\$50,000,000</b>          |                                    |

<sup>(1)</sup> As of February 1, 2012.

<sup>(2)</sup> In November 2011, the Authority issued its 2011 Series B Bonds, 2011 Series C Note and 2011 Series D Bonds (collectively, the "2011 Bonds"), the proceeds of which were used to refund all or a portion of certain outstanding Bonds. In connection with the refunding of such Bonds, certain of these Interest Rate Contracts have been allocated in whole or in part to the 2011 Bonds. These allocations are not shown separately in this table.

<sup>(3)</sup> This Interest Rate Contract relates to the Remarketed Bonds.

Any payments or receipts received by the Authority under the Interest Rate Contracts are pledged under the Master Indenture as Revenues, as described in "SECURITY FOR THE BONDS AND AUXILIARY OBLIGATIONS – Revenues" and "– Interest Rate Contracts" in this Supplement. Other than in the case of the Interest Rate Contract relating to the Remarketed Bonds which is a Class II Obligation, the Authority's obligation to make regular interest payments to the counterparties under each of the Interest Rate Contracts constitutes a Class I Obligation under the Master Indenture, secured on parity with the lien on the Trust Estate of the other Class I Obligations. The Authority's obligation to make termination payments under each of the Interest Rate Contracts in the event of early termination is a general obligation of the Authority and is not secured by the Trust Estate under the Master Indenture. See "CERTAIN BONDOWNERS' RISKS – Risks Related to Interest Rate Contracts" and "COLORADO HOUSING AND FINANCE AUTHORITY – Obligations of the Authority" in this Supplement.

**See footnote (8) to the audited 2011 financial statements of the Authority, included in this Supplement as Appendix G, for a description of the key terms of the outstanding Interest Rate Contracts, including the fair values and the counterparty credit ratings, as of December 31, 2011.**

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## APPENDIX B-2

### The Mortgage Loan Portfolio

As of February 1, 2012, First Mortgage Loans with an outstanding aggregate principal balance of \$1,249,308,580 and Second Mortgage Loans with an outstanding aggregate principal balance of \$30,047,105 had been acquired in the Acquisition Account as a part of the Trust Estate. The following information with respect to such outstanding Mortgage Loans has been provided as of the dates so indicated:

| <b>INFORMATION CONCERNING THE MORTGAGE LOANS<br/>AS OF<br/>FEBRUARY 1, 2012</b> |   |  |   |  |   |  |   |  |
|---|---|--|---|--|---|--|---|--|
| Series of Bonds <sup>(1)</sup>  | Outstanding Aggregate Principal Balance of First Mortgage Loans | Aggregate Number of Outstanding First Mortgage Loans | Average Principal Balance per First Mortgage Loan | Average Coupon of First Mortgage Loans | Weighted Average Maturity of First Mortgage Loans | Outstanding Aggregate Principal Balance of Second Mortgage Loans | Aggregate Number of Outstanding Second Mortgage Loans | Average Principal Balance per Second Mortgage Loan |
| 2001AA  | \$65,994,474  | 669  | \$98,646  | 6.03%                                  | 22.44   | \$15,891,162   | 4,087   | \$3,888  |
| 2002A   | 26,598,330  | 296  | 89,859  | 5.80                                   | 21.05   |  |   |  |
| 2002B   | 40,455,423  | 398  | 101,647   | 6.00                                   | 21.70   | 441,111  | 118   | 3,738  |
| 2002C   | 52,785,911  | 509  | 103,705   | 5.80                                   | 21.58   | 572,082  | 155   | 3,691  |
| 2003A   | 25,135,756  | 243  | 103,439   | 5.53                                   | 21.35   |  |   |  |
| 2003B   | 76,851,400  | 745  | 103,156   | 5.48                                   | 21.63   | 1,126,979  | 319   | 3,533  |
| 2003C   | 46,843,883  | 466  | 100,523   | 5.50                                   | 21.89   |  |   |  |
| 2004A   | 44,310,227  | 410  | 108,074   | 5.21                                   | 22.42   |  |   |  |
| 2004B   | 41,047,849  | 332  | 123,638   | 5.23                                   | 22.83   |  |   |  |
| 2005A   | 49,583,027  | 414  | 119,766   | 5.46                                   | 23.11   |  |   |  |
| 2005B   | 86,119,486  | 735  | 117,169   | 5.46                                   | 23.41   |  |   |  |
| 2006A   | 58,174,681  | 511  | 113,845   | 5.37                                   | 23.80   |  |   |  |
| 2006B   | 96,289,659  | 805  | 119,614   | 5.69                                   | 24.32   | 2,380,242  | 602   | 3,954  |
| 2006C   | 78,072,642  | 635  | 122,949   | 6.12                                   | 24.78   | 6,877,412  | 1,731   | 3,973  |
| 2007A   | 99,570,580  | 795  | 125,246   | 5.73                                   | 25.14   | 2,708,116  | 713   | 3,798  |
| 2007B   | 121,508,681   | 972  | 125,009   | 6.05                                   | 25.50   |  |   |  |
| 2008A   | 179,970,123   | 1,338  | 134,507   | 6.21                                   | 27.13   | 50,000   | 2   | 25,000   |
| 2009A   | 59,996,448  | 513  | 116,952   | 5.55                                   | 26.41   |  |   |  |
| Total   | \$1,249,308,580   | 10,786   | \$115,827   | 5.76%                                  | 24.10   | \$30,047,105   | 7,727   | \$3,889  |
| Average for Portfolio   | \$69,406,032  | 599  | \$115,827   | 5.76%                                  | 24.10   | \$1,669,284  | 429   | \$3,889  |

<sup>(1)</sup> Proceeds of the Authority's 2011 Bonds were used to refund all or a portion of certain outstanding Bonds. In connection with the refunding of such Bonds, the Mortgage Loans originally financed with the proceeds of a Series of the refunded Bonds have been deemed under the Indenture to have been financed by both the refunded Bonds and the 2011 Bonds used to redeem the refunded Bonds of such Series. All of such Mortgage Loans deemed to relate to the 2011 Bonds continue to be shown in this table within the original Series.

**MORTGAGE INSURANCE INFORMATION FOR MORTGAGE LOANS**

**AS OF FEBRUARY 1, 2012**

**First Mortgage Loans**

| Series of Bonds <sup>(1)</sup> | Private Mortgage Insurance | FHA – Insured | VA – Guaranteed | RHCDS-Guaranteed | Uninsured | Second Mortgage Loans - Uninsured |
|--------------------------------|----------------------------|---------------|-----------------|------------------|-----------|-----------------------------------|
| 2001AA                         | 14.2%                      | 51.2%         | 4.3%            | 3.5%             | 7.4%      | 19.4%                             |
| 2002A                          | 2.3                        | 86.3          | 4.9             | 3.2              | 3.3       | 0.0                               |
| 2002B                          | 8.2                        | 76.5          | 5.3             | 3.5              | 5.4       | 1.1                               |
| 2002C                          | 7.3                        | 77.3          | 6.7             | 2.7              | 5.0       | 1.1                               |
| 2003A                          | 2.1                        | 86.3          | 7.5             | 1.0              | 3.1       | 0.0                               |
| 2003B                          | 4.1                        | 82.2          | 4.6             | 3.1              | 4.6       | 1.4                               |
| 2003C                          | 1.3                        | 87.7          | 4.3             | 2.6              | 4.1       | 0.0                               |
| 2004A                          | 6.4                        | 71.2          | 8.7             | 4.0              | 9.7       | 0.0                               |
| 2004B                          | 3.3                        | 77.1          | 14.8            | 2.0              | 2.7       | 0.0                               |
| 2005A                          | 3.8                        | 78.6          | 9.3             | 2.6              | 5.7       | 0.0                               |
| 2005B                          | 6.5                        | 74.0          | 10.8            | 3.4              | 5.4       | 0.0                               |
| 2006A                          | 10.3                       | 67.3          | 11.5            | 2.3              | 8.5       | 0.0                               |
| 2006B                          | 22.3                       | 54.3          | 7.3             | 3.1              | 10.6      | 2.4                               |
| 2006C                          | 24.6                       | 56.9          | 4.0             | 2.0              | 4.4       | 8.1                               |
| 2007A                          | 42.1                       | 40.7          | 4.3             | 1.9              | 8.4       | 2.6                               |
| 2007B                          | 42.9                       | 43.5          | 4.6             | 1.5              | 7.5       | 0.0                               |
| 2008A                          | 37.2                       | 54.0          | 4.1             | 1.5              | 3.2       | 0.0                               |
| 2009A                          | 0.9                        | 83.5          | 4.0             | 1.4              | 10.3      | 0.0                               |
| Average for Portfolio          | 19.3%                      | 63.6%         | 6.2%            | 2.4%             | 6.2%      | 2.3%                              |

<sup>(1)</sup> Proceeds of the Authority's 2011 Bonds were used to refund all or a portion of certain outstanding Bonds. In connection with the refunding of such Bonds, the Mortgage Loans originally financed with the proceeds of a Series of the refunded Bonds have been deemed under the Indenture to have been financed by both the refunded Bonds and the 2011 Bonds used to redeem the refunded Bonds of such Series. All of such Mortgage Loans deemed to relate to the 2011 Bonds continue to be shown in this table within the original Series.

**INFORMATION CONCERNING PROPERTY TYPES FOR FIRST MORTGAGE LOANS**

**AS OF FEBRUARY 1, 2012**

| Series of Bonds <sup>(1)</sup> | Single Family Detached | Condo/Townhome | Other |
|--------------------------------|------------------------|----------------|-------|
| 2001AA                         | 78.8%                  | 16.1%          | 5.1%  |
| 2002A                          | 73.1                   | 24.5           | 2.4   |
| 2002B                          | 68.5                   | 28.2           | 3.3   |
| 2002C                          | 67.5                   | 28.2           | 4.3   |
| 2003A                          | 63.8                   | 32.0           | 4.3   |
| 2003B                          | 68.7                   | 28.4           | 2.9   |
| 2003C                          | 67.3                   | 28.4           | 4.3   |
| 2004A                          | 69.4                   | 26.7           | 4.0   |
| 2004B                          | 71.2                   | 25.1           | 3.7   |
| 2005A                          | 71.5                   | 25.0           | 3.4   |
| 2005B                          | 68.0                   | 27.5           | 4.5   |
| 2006A                          | 70.6                   | 24.8           | 4.7   |
| 2006B                          | 71.6                   | 23.2           | 5.2   |
| 2006C                          | 67.5                   | 23.2           | 9.3   |
| 2007A                          | 65.9                   | 21.3           | 12.8  |
| 2007B                          | 66.8                   | 24.2           | 9.0   |
| 2008A                          | 74.8                   | 16.4           | 8.8   |
| 2009A                          | 69.6%                  | 18.8%          | 11.5% |

<sup>(1)</sup> Proceeds of the Authority's 2011 Bonds were used to refund all or a portion of certain outstanding Bonds. In connection with the refunding of such Bonds, the Mortgage Loans originally financed with the proceeds of a Series of the refunded Bonds have been deemed under the Indenture to have been financed by both the refunded Bonds and the 2011 Bonds used to redeem the refunded Bonds of such Series. All of such Mortgage Loans deemed to relate to the 2011 Bonds continue to be shown in this table within the original Series.

| FORECLOSURE AND DELINQUENCY STATISTICS<br>FOR FIRST AND SECOND MORTGAGES <sup>(1)</sup><br>AS OF FEBRUARY 1, 2012 |                          |                                 |                                    |                             |                                      |   |                                      |  |                                |                               |                                     |   |
|---|--------------------------|---------------------------------|------------------------------------|-----------------------------|--------------------------------------|---|--------------------------------------|--|--------------------------------|-------------------------------|-------------------------------------|---|
| Series of Bonds <sup>(2)</sup>  | Number of Loans Financed | Number of Loans Prepaid in Full | Number of Loans Foreclosed to Date | Number of Real Estate Owned | Number of Mortgage Loans Outstanding | Number of Loan Delinquencies 60-90 Days | Value of Loans Delinquent 60-90 Days | Percentage of Total Loans Delinquent 60-90 Days* | Number of Loans in Foreclosure | Value of Loans in Foreclosure | Percentage of Loans in Foreclosure* | Percentage of All Loans Delinquent and Foreclosure* |
| 2001AA  | 10,677                   | 5,732                           | 195                                | 4                           | 4,756                                | 31                                      | \$1,689,388                          | 2.06%  | 13                             | \$1,895,786                   | 2.32%                               | 4.38%   |
| 2002A   | 1,148                    | 737                             | 115                                | 2                           | 296                                  | 5                                       | 562,980                              | 2.12   | 6                              | 645,288                       | 2.43                                | 4.54  |
| 2002B   | 1,761                    | 1,071                           | 175                                | 1                           | 516                                  | 10                                      | 895,088                              | 2.19   | 15                             | 1,291,618                     | 3.16                                | 5.35  |
| 2002C   | 2,065                    | 1,255                           | 147                                | 3                           | 664                                  | 15                                      | 1,549,239                            | 2.90   | 12                             | 1,167,085                     | 2.19                                | 5.09  |
| 2003A   | 668                      | 343                             | 82                                 | 0                           | 243                                  | 6                                       | 720,502                              | 2.87   | 13                             | 1,378,179                     | 5.48                                | 8.35  |
| 2003B   | 2,563                    | 1,322                           | 178                                | 3                           | 1,064                                | 17                                      | 1,722,318                            | 2.21   | 25                             | 2,900,925                     | 3.72                                | 5.93  |
| 2003C   | 939                      | 377                             | 96                                 | 1                           | 466                                  | 13                                      | 1,148,671                            | 2.45   | 10                             | 851,569                       | 1.82                                | 4.27  |
| 2004A   | 820                      | 303                             | 107                                | 3                           | 410                                  | 17                                      | 1,823,496                            | 4.12   | 11                             | 985,971                       | 2.23                                | 6.34  |
| 2004B   | 622                      | 212                             | 77                                 | 1                           | 332                                  | 4                                       | 670,778                              | 1.63   | 12                             | 1,348,916                     | 3.29                                | 4.92  |
| 2005A   | 699                      | 203                             | 82                                 | 2                           | 414                                  | 5                                       | 632,894                              | 1.28   | 11                             | 1,200,410                     | 2.42                                | 3.70  |
| 2005B   | 1,228                    | 351                             | 142                                | 5                           | 735                                  | 15                                      | 1,964,540                            | 2.28   | 26                             | 3,519,836                     | 4.09                                | 6.37  |
| 2006A   | 770                      | 183                             | 76                                 | 1                           | 511                                  | 12                                      | 1,650,345                            | 2.84   | 18                             | 2,056,087                     | 3.53                                | 6.37  |
| 2006B   | 2,251                    | 710                             | 135                                | 7                           | 1,407                                | 17                                      | 1,954,248                            | 1.98   | 34                             | 4,062,456                     | 4.12                                | 6.10  |
| 2006C   | 3,456                    | 994                             | 98                                 | 9                           | 2,366                                | 19                                      | 2,052,966                            | 2.42   | 25                             | 3,402,776                     | 4.01                                | 6.42  |
| 2007A   | 2,125                    | 516                             | 102                                | 5                           | 1,508                                | 22                                      | 2,914,557                            | 2.85   | 40                             | 5,544,433                     | 5.42                                | 8.27  |
| 2007B   | 1,415                    | 329                             | 114                                | 9                           | 972                                  | 26                                      | 3,041,575                            | 2.50   | 33                             | 4,694,513                     | 3.86                                | 6.37  |
| 2008A   | 1,947                    | 442                             | 165                                | 18                          | 1,340                                | 45                                      | 6,041,459                            | 3.36   | 71                             | 9,974,244                     | 5.54                                | 8.90  |
| 2009A   | 655                      | 117                             | 27                                 | 0                           | 513                                  | 17                                      | 1,705,810                            | 2.84   | 15                             | 1,915,623                     | 3.19                                | 6.04  |
| Total   | 35,809                   | 15,197                          | 2,113                              | 74                          | 18,513                               | 296                                     | \$32,740,854                         | 2.56%  | 390                            | \$48,835,714                  | 3.82%                               | 6.38%   |

<sup>(1)</sup> Estimated

<sup>(2)</sup> Proceeds of the Authority's 2011 Bonds were used to refund all or a portion of certain outstanding Bonds. In connection with the refunding of such Bonds, the Mortgage Loans originally financed with the proceeds of a Series of the refunded Bonds have been deemed under the Indenture to have been financed by both the refunded Bonds and the 2011 Bonds used to redeem the refunded Bonds of such Series. All of such Mortgage Loans deemed to relate to the 2011 Bonds continue to be shown in this table within the original Series.

\*Percentages are based on outstanding principal amount of the Mortgage Loans.

As of February 1, 2012, the following balances were held in the respective subaccounts under the Master Indenture:

| <u>Accounts</u>                        | <u>Amounts on Deposit</u><br><u>(as of February 1, 2012)</u> |
|--|--|
| <u>2001AA Subaccount:</u>              | \$6,318,951  |
| Loan Recycling Account                 | 347  |
| Loan Recycling Account (Non-Qualified) |  |
| <u>2002A Subaccount:</u>               |  |
| Loan Recycling Account                 | 2,442  |
| <u>2002B Subaccount:</u>               |  |
| Loan Recycling Account                 | 3,755  |
| Loan Recycling Account (Non-Qualified) | 3,966  |
| <u>2002C Subaccount:</u>               |  |
| Loan Recycling Account                 | 678  |
| <u>2003A Subaccount:</u>               |  |
| Loan Recycling Account                 | 2,751  |
| <u>2003B Subaccount:</u>               |  |
| Loan Recycling Account                 | 1,986,585  |
| Loan Recycling Account (Non-Qualified) | 32,106   |
| <u>2004A Subaccount:</u>               |  |
| Loan Recycling Account                 | 272  |
| <u>2006B Subaccount:</u>               |  |
| Loan Recycling Account                 | 3,450,810  |
| <u>2006C Subaccount:</u>               |  |
| Loan Recycling Account                 | 3,405,032  |
| <u>2007A Subaccount:</u>               |  |
| Loan Recycling Account                 | 751  |
| <u>2008A Subaccount:</u>               |  |
| Acquisition Account                    | <u>520</u>   |
| Total:                                 | <u>\$15,208,967</u>  |

## APPENDIX C-1

### Summary of Certain Provisions of the 2007B-3 Facility

The Standby Bond Purchase Agreement by and among Colorado Housing and Finance Authority (the "**Authority**"), Zions First National Bank, as trustee and paying agent (the "**Trustee**"), and Royal Bank of Canada (the "**Facility Provider**") relating to \$50,000,000 Colorado Housing and Finance Authority Single Family Mortgage Class II Adjustable Rate Bonds, 2007 Series B-3 (AMT) (the "**Bonds**") (the "**Facility**") provides liquidity support only for the Bonds.

This Appendix contains a brief summary of certain provisions of the Facility and does not purport to be comprehensive or definitive and is subject to all the terms and provisions of the Facility to which reference is made hereby. Investors are urged to obtain and review a copy of the Facility in order to understand all of the terms of that document. A copy of the Facility may be obtained from the Authority. Capitalized terms used in this Appendix and not otherwise defined in this Appendix have the meanings given said terms in the Facility.

The Facility may be amended at any time without the consent of or notice to the owners of the Bonds. Any Substitute Liquidity Facility may have terms substantially different from those of the Facility.

*For information regarding the Facility Provider, see **Appendix D-1** to this Supplement.*

Pursuant to the Facility, the Facility Provider agrees, subject to the terms and conditions therein, to purchase Eligible Bonds not remarketed by the Remarketing Agent.

**THE FACILITY PROVIDES FUNDS ONLY FOR PAYMENT OF THE PURCHASE PRICE OF THE BONDS, DOES NOT SECURE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE BONDS AND MAY BE TERMINATED OR SUSPENDED AS DESCRIBED BELOW.**

#### **Defined Terms**

"Act" means the Colorado Housing and Finance Authority Act, being Part 7, Article 4, Title 29 of Colorado Revised Statutes.

"Authorized Denominations" has the meaning assigned to such term in the Series Indenture.

"Available Commitment" as of any day means the sum of the Available Principal Commitment and the Available Interest Commitment, in each case, as of such day.

"Available Interest Commitment" means an amount equal to one hundred eighty-seven (187) days' interest on the Bonds, computed as if such Bonds bore interest at the rate of ten percent (10%) per annum and on the basis of a 365-day year. The Available Interest Commitment may be adjusted from time to time as follows:

(a) downward by an amount that bears the same proportion to the Available Interest Commitment prior to such reduction as the amount of the related reduction in the Available Principal Commitment pursuant to the definition in the Facility of "Available Principal Commitment" bears to the Available Principal Commitment prior to such reduction; and

(b) upward by an amount that bears the same proportion to the Available Interest Commitment prior to such increase as the amount of the related increase in the Available Principal Commitment pursuant to clause (c) of the definition in the Facility of "Available Principal Commitment" bears to the Available Principal Commitment prior to such increase;

provided that after giving effect to such adjustment, the Available Interest Commitment with respect to a Facility shall never exceed the amount listed in the definition of "Available Interest Commitment" in such Facility. Any adjustment to the Available Interest Commitment pursuant to clause (a) or (b) above shall occur simultaneously with the event requiring such adjustment.

"Available Principal Commitment" means, initially, the aggregate principal amount of the Bonds Outstanding (as detailed on the cover page hereof) and, thereafter, means such initial amount adjusted from time to time as follows:

(a) downward by the amount of any mandatory reduction of the Available Principal Commitment pursuant to the Facility;

(b) downward by the principal amount of the Bonds purchased by the Facility Provider pursuant to the Facility; and

(c) upward by the principal amount of the Bonds previously purchased by the Facility Provider pursuant to the Facility that a Bank Bondholder elects to retain pursuant to such Facility or that are sold or deemed sold by a Bank Bondholder pursuant to such Facility (regardless of the Purchase Price received for such Bonds).

Any adjustment to the Available Principal Commitment as described in clauses (a), (b) or (c) above shall occur simultaneously with the occurrence of the events described in such clauses.

"Bank Bond" means any Bond purchased by the Facility Provider pursuant to the Facility and held by or for the account of a Bank Bondholder in accordance with the terms of the Facility, until purchased from the Bank Bondholder or retained by the Bank Bondholder or redeemed in accordance with the Facility or otherwise.

"Bank Bondholder" means the Facility Provider (but only in its capacity as owner (which as used herein shall mean the beneficial owner if at the relevant time Bank Bonds are held in book entry form) of Bank Bonds pursuant to the Facility) and any other person to which a Bank Bondholder has sold Bank Bonds pursuant to the Facility.

"Bank Rate" has the meaning assigned to such term in the Facility.

"Business Day" has the meaning assigned to such term in the Series Indenture.

"Covered Rate" means the Weekly Rate (as defined in the Series Indenture).

"Debt" has the meaning assigned to such term in the Facility.

"Defaulted Interest" means accrued interest on the Bonds which was not paid when due under the terms of the Indenture and any amounts accruing on amounts owed on such Bonds by reason of such amounts being not paid when due.

"Effective Date" has the meaning assigned to such term in the Facility.



"Eligible Bonds" means any Bonds Outstanding that bear interest at the Covered Rate and that are tendered or deemed tendered for purchase pursuant to the Series Indenture other than any such Bond which (a) is a Bank Bond or (b) is owned by or on behalf of or is held for the account or for the benefit of the Authority or any affiliate of the Authority.

"Event of Taxability" with respect to any Bond, has the meaning assigned to such term in the Facility.

"Expiration Date" means May 16, 2015, as such date may be extended from time to time by the Facility Provider pursuant to the terms of the Facility.

"Fee Letter" means the Fee Letter dated May 16, 2012, between the Authority and the Facility Provider relating to the Bonds.

"Governmental Authority" means any national, state or local government (whether domestic or foreign), any political subdivision thereof, any other governmental, quasi governmental, judicial, public or statutory instrumentality, authority, body, tribunal, court, agency, bureau or entity (including any zoning authority, the Federal Deposit Insurance Corporation, the Federal Reserve Board, any central bank and any comparable authority), or any arbitrator with authority to bind a party at law.

"Indenture" means, collectively, the Master Indenture and the Series Indenture.

"Interest Component" has the meaning assigned to such term in the Facility.

"Interest Payment Date" has the meaning assigned to such term in the Series Indenture.

"Interest Rate Protection Agreement" means an interest rate swap, cap or collar agreement or similar arrangement between any person and a financial institution providing for the transfer or mitigation of interest rate risks either generally or under specific contingencies and shall include all Interest Rate Contracts (as defined in the Master Indenture).

"Master Indenture" means the Master Indenture of Trust dated as of October 1, 2001, by and between the Authority and the Trustee and the Master Indenture Amendments (as defined in the Facility).

"Material Debt" means (a) the Bonds, or (b) any other obligation which is secured by a lien on the Trust Estate on a parity with or senior to the lien which secures such Bonds, including Class I Obligations and Class II Obligations (as such terms are defined in the Master Indenture).

"Maximum Rate" means the lower of (a) 25% per annum and (ii) the maximum rate of interest on the relevant obligation permitted by law without regard to any filing made by a lender with respect to notice of rates in excess of any statutory or regulatory threshold interest rate.

"Moody's" means Moody's Investors Service, Inc. or any successor thereto.

"Notice of Bank Purchase" shall have the meaning assigned to such term in the Facility.

"Notice of Termination Date" shall have the meaning assigned to such term in the Facility.

"Outstanding" has the meaning assigned to such term in the Master Indenture.

"Parity Debt" means (a) the Bonds (other than Bank Bonds) and (b) any other obligation of the Authority secured by a lien on the Trust Estate on a parity with the lien which secures the Bonds (other than Bank Bonds).

"Paying Agent" means Zions First National Bank, in its capacity as paying agent under the Indenture, and any permitted successors as paying agent under the Indenture.

"Purchase Date" means any Business Day during the Purchase Period on which the Facility Provider is required to purchase Eligible Bonds pursuant to the Facility.

"Purchase Period" means the period from the Effective Date of the respective Facility to and including the close of business on the earliest of (a) May 16, 2015 (as such date may be extended from time to time by the Facility Provider under the Facility), (b) the day immediately succeeding the date on which no Bonds are Outstanding, and (c) the date on which the Available Commitment and the Facility Provider's obligation to purchase Eligible Bonds has been terminated in their entirety pursuant to the Facility.

"Purchase Price" means, with respect to any Eligible Bond as of any date, 100% of the principal amount of such Eligible Bond plus accrued and unpaid interest thereon to the Purchase Date but in no event to exceed the Available Commitment; provided, however, that if the Purchase Date for any Eligible Bond is also an Interest Payment Date for such Eligible Bond, the Purchase Price for such Eligible Bond shall not include accrued but unpaid interest on such Eligible Bond; and provided, further, that in no event shall the Purchase Price of any Bond include Defaulted Interest accrued on such Bond or any premium owed with respect to such Bond.

"Purchaser" has the meaning assigned to such term in the Facility.

"Related Documents" shall have the meaning assigned to such term in the Facility.

"Remarketing Agent" shall have the meaning assigned to such term in the Facility.

"Sale Date" has the meaning assigned to such term in the Facility.

"S&P" means Standard and Poor's Ratings Service, a Standard & Poor's Financial Services LLC business, or any successor thereto.

"Series Indenture" has the meaning assigned to such term in the Facility.

"State" means the State of Colorado.

"Substitute Liquidity Facility" means a replacement standby bond purchase agreement or other liquidity facility which is delivered to the Trustee pursuant to the Series Indenture in replacement of the Facility.

"Tax Event" with respect to any Bond, has the meaning assigned to such term in the Facility.

"Trust Estate" has the meaning assigned to such term in the Master Indenture.

### **More Favored Provisions Covenant**

In the event that the Authority has entered into or shall, directly or indirectly, enter into or otherwise consent to any contract or agreement (or any amendment, supplement or modification thereto)

under which, directly or indirectly, any person undertakes to purchase any Debt of the Authority secured by the Trust Estate or to make, loan or provide funds, liquidity or credit enhancement to the Authority with respect to any such Debt, or under which, directly or indirectly, the obligation of the Authority to reimburse such person is secured by the Trust Estate (each, an "**Other Facility**"), which Other Facility (or amendment, supplement or modification thereto) gives or grants to such person (a) covenants (excluding covenants of the Authority to pay a specific price or fee for such Other Facility but including, without limitation, all other covenants such as financial covenants, financial covenant levels or financial covenant testing periods) which are more restrictive or more favorable to the person which is a party to such Other Facility or (b) additional or greater rights or remedies (including, without limitation, more stringent or shorter periods of time that must elapse prior to such person's right to exercise remedies under such Other Facility upon the occurrence of a default or event of default thereunder) (such more favorable covenants or greater rights or remedies in (a) and (b), each a "**More Favorable Provision**"), in each case than are given or granted to the Facility Provider under the Facilities, then simultaneously with the execution of such Other Facility, the Authority has agreed to provide the Facility Provider a copy of such Other Facility, and the More Favorable Provision(s) therein (as determined by the Facility Provider and communicated to the Authority in writing within 60 days of the Facility Provider's receipt of such Other Facility) shall automatically be incorporated into the Facility for so long as such Other Facility remains in effect; provided, however, that if at the time such More Favorable Provision(s) would have been so incorporated the Facility Provider has failed to honor a Notice of Bank Purchase delivered in accordance with the terms of the Facility, such More Favorable Provision(s) shall not be automatically incorporated into such Facility for so long as such failure continues to exist. At the request of the Facility Provider, the Authority shall promptly enter into amendments to the Facility to include such More Favorable Provision(s) for so long as such Other Facility remains in effect (provided that the Facility Provider shall maintain the benefit of the More Favorable Provision(s) even if the Authority fails to provide such amendment). Upon receipt by the Facility Provider of a copy of such Other Facility, the Facility Provider may elect, in its sole discretion, that any More Favorable Provision therein shall not be incorporated into the Facility and, upon such determination, any incorporation of such More Favorable Provision into the Facility shall be deemed to be void ab initio and of no force and effect. Notwithstanding anything to the contrary contained in the provision described under this caption, the Authority and the Facility Provider have agreed that (i) to the extent that the incorporation of any More Favorable Provision adds any Immediate Termination Event (as defined in the Facility) or Immediate Suspension Event (as defined in the Facility) or changes any existing Immediate Termination Event or Immediate Suspension Event, such More Favorable Provision shall only become effective upon an amendment to the Facility pursuant to the terms thereof, and (ii) no More Favorable Provision shall be deemed incorporated into the Facility if (a) such incorporation would cause the interest on any of the Bonds to be includable in the gross income of the owners thereof for federal tax purposes or (b) such incorporation would affect provisions related to automatic termination or suspension of the obligation to advance funds for the purchase of Eligible Bonds or the conditions precedent to the Facility Provider's obligation to make such advances unless prior to such provisions being incorporated, the rating agencies then providing a rating on the Bonds have confirmed that the incorporation of such provisions will not, by themselves, cause a reduction, suspension or withdrawal of the rating they assign to the Bonds.

Notwithstanding the provisions described in the immediately preceding paragraph, the Authority may appeal the incorporation of any More Favorable Provision(s) by delivering written notice to the Facility Provider within fifteen (15) days after the incorporation of such More Favorable Provision(s) pursuant to the provisions described in the immediately preceding paragraph, which written notice shall (1) specify the reason or reasons for the Authority's appeal of said incorporation and (2) request that said More Favorable Provision(s) not be incorporated for the reason or reasons specified pursuant to clause (1) or request that the Authority and the Facility Provider negotiate in good faith an amendment to the Facility in connection with said More Favorable Provision(s). If the Authority does not deliver the written notice as provided above, the Authority shall be deemed to have waived its right to appeal the

incorporation of such More Favorable Provision(s). If the Authority delivers the written notice as described above, then the Authority and the Facility Provider shall promptly negotiate, in good faith, an amendment to the Facility to include the More Favorable Provision(s) with such changes specified by the Authority in such written notice as the parties agree (it being understood that any such agreement by the Facility Provider shall be in the Facility Provider's sole discretion), but, prior to the effective date of any such amendment and whether or not the Facility Provider and the Authority ultimately agree to the terms of any amendment to a Facility, the Facility Provider shall have and maintain the benefit of the More Favorable Provision(s).

### **Events of Default not Permitting Immediate Termination**

The occurrence of any of the following events shall constitute an "Event of Default" under the Facility.

(a) Payments. The Authority shall fail to pay (i) when due certain amounts owed by the Authority to the Facility Provider pursuant to the Facility or any General Obligations (as defined in the Master Indenture) of the Authority (other than as specified under the caption "Events of Default Permitting Immediate Suspension or Termination" below); or (ii) within five (5) Business Days after the same shall become due any amount owed to the Facility Provider pursuant to certain other provisions of the Facility (other than as specified under the caption "Events of Default Permitting Immediate Suspension or Termination" below) or the Fee Letter.

(b) Representations. Any representation or warranty made by or on behalf of the Authority in the Facility or in any other Related Documents or in any certificate or statement delivered thereunder shall prove to have been incorrect or untrue in any material respect when made or deemed to have been made.

(c) Covenants. The Authority shall fail to observe or perform certain covenants in the Facility.

(d) Other Covenants. The Authority shall fail to perform or observe any term, covenant or agreement (other than ones described in any other paragraph under this caption) contained in the Facility or any other Related Documents on its part to be performed or observed which failure continues for 30 days or more after receipt of written notice of such failure from the Facility Provider.

(e) Other Documents. Any event of default under any of the other Related Documents shall occur.

(f) Downgrade. The rating assigned to the Bonds or to any other Parity Debt (without regard to third party credit enhancement) by Moody's or S&P shall be withdrawn or suspended or fall below "A2" by Moody's or "A" by S&P.

(g) Cross Acceleration. Any act or omission by the Authority shall occur under any mortgage, agreement or other instrument under or pursuant to which any Material Debt is incurred or issued which results in such Material Debt becoming, or being capable of becoming, immediately due and payable.

(h) Cross Default. The Authority shall default under any mortgage, agreement or other instrument under or pursuant to which any Material Debt is incurred or issued, and such default shall continue beyond the period of grace, if any, allowed with respect thereto.

(i) Invalidity or Contest of Validity. Other than as described under the below caption "Events of Default Permitting Immediate Suspension or Termination," (i) the Facility, any other Related Documents or any provision thereof shall at any time for any reason cease to be valid and binding on the Authority or shall be declared in a final, non appealable judgment by any court of competent jurisdiction to be null and void, invalid or unenforceable or (ii) the Authority, the State or any other Governmental Authority with appropriate jurisdiction shall contest the validity or enforceability of the Authority's obligations under the Facility or under the other Related Documents or deny that the Authority has any further liability or obligation under the Facility or under the other Related Documents.

(j) Taxability. A Tax Event or an Event of Taxability shall have occurred under the Facility.

(k) Default. The Authority shall default in the payment of any regularly scheduled amount due in respect of any Interest Rate Protection Agreement with the Facility Provider or in the payment due in respect of any principal of or interest on any Debt owed to the Facility Provider.

### **Events of Default Permitting Immediate Suspension or Termination**

The occurrence of any of the following events shall constitute an "Event of Default" under the Facility.

(a) Event of Insolvency. Any of the following shall have occurred with respect to the Authority:

- i. the issuance, under the laws of any state or under the laws of the United States of America, of an order for relief, rehabilitation, liquidation or dissolution of the Authority;
- ii. the commencement by or against the Authority of a case or other proceeding seeking an order for relief, liquidation, reorganization or other relief with respect to the Authority or its debts under any bankruptcy, insolvency, reorganization or other similar state or federal law now or hereafter in effect, including, without limitation, the appointment of a trustee, receiver, liquidator, custodian or other similar official for the Authority or any substantial part of its property or the appointment, or the designation with respect to it, of an entity such as an organization, board, commission, authority, agency or body to monitor, review, oversee, recommend or declare a financial emergency or similar state of financial distress with respect to it or the declaration of, or the introduction or proposal for consideration by it or by any legislative or regulatory body with competent jurisdiction over it of, the existence of a state of financial emergency or similar state of financial distress in respect of it;
- iii. the making of an assignment for the benefit of creditors by the Authority;
- iv. the Authority is "insolvent" as defined in Section 101(32) of the United States Bankruptcy Code;
- v. the declaration of a moratorium with respect to the payment of the debts of the Authority which means that a debt moratorium, debt restructuring, debt

adjustment or comparable extraordinary restriction is declared by, or imposed on, Material Debt as a result of a finding or ruling of a Governmental Authority with jurisdiction over the Authority;

- vi. the admission by the Authority in writing of its inability to pay its debts when due; or
- vii. the initiation of any actions to authorize any of the foregoing by or on behalf of the Authority.

(b) Payment Default. Any principal or interest due with respect to the Bonds (including regularly scheduled payments of principal and interest on Bank Bonds) is not paid when due or the Authority fails to make or otherwise defaults in any payment of regularly scheduled principal of or interest on any other Material Debt beyond any grace period provided with respect thereto.

(c) Invalidity. (i) The Act, the Bonds (including Bank Bonds), the Facility, the Indenture, any Material Debt, or any material provision thereof relating to the payment of principal of or interest on the Bonds or other Material Debt, shall at any time for any reason cease to be valid and binding on the Authority or shall be declared in a final, non appealable judgment by any court of competent jurisdiction to be null and void, invalid or unenforceable; (ii) the pledge of and lien on the Trust Estate shall at any time for any reason cease to be valid and binding on the Authority or shall be declared in a final, non appealable judgment by any court of competent jurisdiction to be null and void, invalid or unenforceable; or (iii) any Governmental Authority with jurisdiction to rule on the validity of the Facility, the Act, the Bonds (including Bank Bonds), the Indenture or any Material Debt shall find or rule that any of the Act, the Facility, the Bonds (including Bank Bonds), the Indenture or any Material Debt, as the case may be, or any provision hereof or thereof relating to (A) the payment of principal of or interest on the Bonds (including Bank Bonds) or any Material Debt or (B) the pledge of and lien on the Trust Estate is not valid or not binding on the Authority or is null and void.

(d) Contest of Validity. The Authority or any Governmental Authority with appropriate jurisdiction (i) shall repudiate or deny that the Authority has any further liability or obligation under the Facility, the Bonds (including Bank Bonds), the Act, the Indenture or any Material Debt or (ii) shall claim that any of the provisions that provide (A) for the payment of principal of or interest on the Bonds (including Bank Bonds) or any Material Debt or (B) for the pledge of and lien on the Trust Estate, in the Indenture, the Bonds (including Bank Bonds) or the Facility, is not valid or not binding on the Authority; or (iii) shall initiate any legal proceedings to seek an adjudication that any of the provisions that provide (A) for the payment of principal of or interest on the Bonds (including Bank Bonds) or any Material Debt or (B) for the pledge of and lien on the Trust Estate, in the Indenture, the Bonds (including Bank Bonds) or the Facility is not valid or not binding on the Authority; (iv) shall have taken or permitted to be taken any official action, or shall have duly enacted any statute, which would materially adversely affect the enforceability of any of the provisions that provide (A) for the payment of principal of or interest on the Bonds (including Bank Bonds) or any Material Debt or (B) for the pledge of and lien on the Trust Estate, in the Indenture, the Bonds (including Bank Bonds) or the Facility.

(e) Investment Grade Rating. The unenhanced rating of the Bonds or any other Material Debt shall be (i) withdrawn or suspended for credit-related reasons or reduced below "Baa3" by Moody's and (ii) withdrawn or suspended for credit-related reasons or reduced below "BBB-" by S&P.

(f) Judgment. (i) One or more final, non appealable judgments or orders in an amount in excess of \$5,000,000 in the aggregate shall be rendered against the Authority and (ii) such judgments or orders shall not have been paid in accordance with the terms of such judgments or orders or discharged, vacated, satisfied or stayed within 60 days after entry thereof or if, after the expiration of any such stay, such judgments or orders shall not have been paid in accordance with the terms of such judgments or orders or discharged.

## Remedies

(a) Immediate Termination. Upon the occurrence of any Event of Default described in (a), (b), (c)(i), (c)(ii), (d), (e) or (f) under the caption "Events of Default Permitting Immediate Suspension or Termination" (each an "**Immediate Termination Event**"), the Available Commitment, the Purchase Period and the obligation of the Facility Provider to purchase Eligible Bonds under the Facility shall immediately terminate without notice or demand, and thereafter the Facility Provider shall be under no obligation to purchase Eligible Bonds under the Facility. Upon an Immediate Termination Event, the Facility Provider shall promptly give written notice of the same to the Authority, the Trustee, the Paying Agent and the Remarketing Agent; provided that the Facility Provider shall incur no liability of any kind by reason of its failure to give such notice, and such failure shall in no way affect the termination of the Available Commitment, the Purchase Period and the Facility Provider's obligation to purchase Eligible Bonds pursuant to the Facility.

(b) Termination with Notice. Upon the occurrence of any Event of Default described under the caption "Events of Default not Permitting Immediate Termination," the Facility Provider may terminate the Available Commitment and the Purchase Period by giving a Notice of Termination Date to the Authority, the Paying Agent, the Trustee and the Remarketing Agent, specifying the date on which such Available Commitment and Purchase Period shall terminate, which date shall be not less than thirty (30) days after the date of receipt of such Notice of Termination Date by the Trustee. On and after the date specified in a Notice of Termination Date, the Available Commitment and the Purchase Period shall terminate and the Facility Provider shall be under no further obligation to purchase Eligible Bonds under the Facility.

(c) Suspension Events. In the case of an Event of Default specified in clause (c)(iii) under the caption "Events of Default Permitting Immediate Suspension or Termination" (following the entry of a judgment subject to further proceedings and prior to the entry of a final, non appealable judgment) (an "**Immediate Suspension Event**"), the Facility Provider's obligation under the Facility to purchase Eligible Bonds shall be immediately suspended without notice or demand and thereafter the Facility Provider shall be under no obligation to purchase Eligible Bonds until such obligation is reinstated pursuant to such clause. Promptly upon the Facility Provider obtaining knowledge of any such Immediate Suspension Event, the Facility Provider shall give written notice to the Authority, the Paying Agent, the Trustee and the Remarketing Agent of such suspension; provided that the Facility Provider shall incur no liability or responsibility whatsoever by reason of its failure to give such notice and such failure shall in no way affect the suspension of the Facility Provider's obligation to purchase Eligible Bonds pursuant to the Facility. If a court with jurisdiction to rule on the validity of the provisions described in such clause (c)(iii) shall enter a final, non appealable judgment that any such provision is not valid and binding on the Authority, then the Purchase Period, the Available Commitment and the Facility Provider's obligation to purchase Eligible Bonds under the Facility shall immediately terminate. If a court with jurisdiction to rule on the validity of the provisions described in such clause (c)(iii) shall thereafter find or rule that such provisions are valid and binding on the Authority, the Facility Provider's obligation to purchase Eligible Bonds under the

Facility shall be automatically reinstated and the terms of such Facility will continue in full force and effect (unless the obligation of the Facility Provider to purchase Eligible Bonds under such Facility shall otherwise have terminated or been suspended as provided in such Facility). Notwithstanding the foregoing, if, upon the earlier of the expiration of the Purchase Period and the date which is two (2) years after the effective date of suspension of the Facility Provider's obligation pursuant to the provision described in this clause (c), litigation is still pending and a judgment regarding the validity of the provisions described in such clause (c)(iii) that are the cause of such Immediate Suspension Event has not been obtained, then the Available Commitment, the Purchase Period and the obligation of the Facility Provider to purchase Eligible Bonds pursuant to the Facility shall at such time immediately terminate and thereafter the Facility Provider shall be under no obligation to purchase Eligible Bonds under the Facility.

(d) Other Remedies. In addition to the rights and remedies described in clauses (a), (b) and (c) under this caption "Remedies," upon the occurrence of any Event of Default specified in the Facility, upon the election of the Facility Provider: (i) all amounts payable under the Facility, under the Fee Letter and under the Bank Bonds shall, upon demand by the Facility Provider given to the Authority and the Trustee, become immediately due and payable without other presentment, demand, protest or further notice of any kind, all of which are expressly waived by the Authority in the Facility; and (ii) all Bank Bonds shall, upon demand by the Facility Provider made to the Authority and the Trustee, become subject to immediate mandatory redemption. Upon the occurrence of any Event of Default specified in the Facility, the Facility Provider shall have all the rights and remedies available to it under the Facility, the other Related Documents or otherwise pursuant to law or equity; provided, however, that the Facility Provider shall not have the right to terminate its obligation to purchase Eligible Bonds or to declare any amount due under the Facility due and payable except as expressly provided in the Facility.

(e) Remedies Non-Exclusive. The remedies described above shall only be exclusive with respect to Events of Default to the extent described above and to the extent they are obtained by the Facility Provider. If, for any reason whatsoever, the Facility Provider is not able to obtain all such remedies, then the Facility Provider reserves the right and shall have the right to pursue any other available remedies, whether provided by law, equity, or any Related Documents.

Notwithstanding the provisions described above, if, upon the occurrence of an Event of Default under the caption "Events of Default not Permitting Immediate Termination", the Facility Provider exercises its rights under the Facility to declare the amounts owed thereunder, under the Fee Letter and under the Bank Bonds to be immediately due and payable or to have the Bank Bonds become subject to immediate mandatory redemption, the failure by the Authority to pay such accelerated amounts shall not, by itself, permit the immediate termination of the Available Commitment, the Purchase Period or the Facility Provider's obligation to purchase Eligible Bonds pursuant to the Facility.

### **Bank Bonds; Accelerated Payments**

Notwithstanding anything to the contrary contained in any Bank Bond, the Authority agrees in the Facility that (a) the Authority shall pay the Facility Provider interest at the Bank Rate on the Interest Component, if any, included in the Purchase Price from the Purchase Date until, and the Interest Component (together with interest thereon at the Bank Rate) shall be due and payable on, the earliest of (i) the Interest Payment Date next succeeding the Purchase Date, (ii) the Sale Date or the date such Bank Bond is paid at maturity or redeemed and (iii) the last day of the Purchase Period and (b)(i) interest on the unpaid principal amount of each Bank Bond from and including the Purchase Date shall be computed at a rate per annum equal to the Bank Rate, subject to the provisions of the Facility, and (ii) interest payable as described in clause (b)(i) above shall be payable (each date described in this clause (b)(ii) being a "**Bank**



**Bond Interest Payment Date")** (A) on the first Business Day of each February, May, August and November, (B) upon redemption or purchase in lieu of redemption of such Bank Bond pursuant to the respective Series Indenture (to the extent of the interest accrued on the amount being redeemed), (C) on each Sale Date (to the extent of the interest accrued on the amount being sold or deemed sold after a credit for any interest included in the Sale Price and as provided in the Facility), (D) on the date the Purchase Period is terminated pursuant to the terms of the Facility and (E) at maturity (whether by acceleration or otherwise). In the event any Bank Bond is remarketed or otherwise transferred by the Facility Provider before payment in full of the funds advanced by the Facility Provider under the Facility with respect thereto, together with interest thereon at the Bank Rate, the provisions of the Facility shall continue to apply to such indebtedness until all sums owing for all periods during which the same was a Bank Bond are paid. All or any portion of the Bank Bonds may be optionally redeemed at any time without penalty, but only in Authorized Denominations. The obligation of the Authority to make the payments described under this caption shall be reduced to the extent that such obligations are paid pursuant to the Series Indenture or as part of the Sale Price.

Subject to the conditions that (a) no Event of Default shall have occurred and be continuing and (b) the representations and warranties contained in the Facility are true and correct (except for representations and warranties which relate to a specific date, in which case such representations and warranties will be true as of such date), in each case on the Term-Out Commencement Date (as defined below) immediately following a Purchase Date, Bank Bonds purchased on such Purchase Date shall not be subject to mandatory redemption on such Term-Out Commencement Date and, instead, shall be subject to mandatory redemption as described in the immediately succeeding sentence. If the conditions described in the preceding sentence are satisfied on such Term-Out Commencement Date, such Bank Bonds shall be subject to mandatory redemption in equal quarterly principal installments, the first such installment being payable on the first Business Day of February, May, August or November, whichever first occurs on or following the earlier of (i) the Expiration Date and (ii) 90 days after the Purchase Date (the "**Term Out Commencement Date**"), and on the first Business Day of each February, May, August and November thereafter so that such Bank Bonds are paid in full no later than the third (3rd) anniversary of such Purchase Date (the date of each such redemption being a "**Bank Bond Redemption Date**"). If the conditions of the first sentence of this paragraph are not satisfied on such Term-Out Commencement Date, such Bank Bonds shall be subject to mandatory redemption on such Term-Out Commencement Date. Interest on such Bank Bonds shall be payable as provided in the Facility. Notwithstanding the foregoing, the Authority may optionally redeem any Bank Bond without penalty. All Authority obligations with respect to all Bank Bonds (including the payment of the Interest Component with interest) shall be due and payable in full on the earliest of (a) the date such Bank Bonds are remarketed and sold or deemed sold by the Facility Provider or a Bank Bondholder to a Purchaser pursuant to the Facility, (b) the date the interest rate borne by the Bonds is converted to a rate other than a Covered Rate, (c) the date of the delivery of a Substitute Liquidity Facility in substitution for the Facility, (d) the date such Bank Bonds are purchased in lieu of redemption in accordance with the Master Indenture and (e) any date determined pursuant to the Facility.

If the amount of interest payable on any Bank Bond for any period in accordance with terms of the Facility exceeds the amount of interest that would be payable for such period had interest for such period been calculated at the Maximum Rate, then interest for such period shall be payable in an amount calculated at the Maximum Rate for such period.

Any interest that would have been due and payable for any period but for the operation of terms in the Facility shall accrue and be payable as provided in the Facility and shall, less interest actually paid to the Facility Provider for such period, constitute the "Excess Interest Amount." If there is any accrued and unpaid Excess Interest Amount as of any date, then the principal amount under the Facility with

respect to which interest is payable, together with the Bank Bonds, if any, shall bear interest at the Maximum Rate until payment to the Facility Provider of the entire Excess Interest Amount.

Notwithstanding the foregoing, on the date on which no principal amount under the Facility remains unpaid and no Bank Bonds are outstanding, the Authority shall pay to the Facility Provider a fee equal to any accrued and unpaid Excess Interest Amount to the extent such payment may be made without violating law.

### **Amendments and Waivers**

No amendment or waiver of any provision of the Facility nor consent to any departure by the Authority from any such provision shall in any event be effective unless the same shall be in writing and signed by the Facility Provider in the case of waivers and signed by the parties thereto in the case of amendments; provided, however, that the Expiration Date may be extended in accordance with the Facility by instruments in writing signed solely by the Facility Provider and with written notice to the Trustee, the Paying Agent, the Remarketing Agent, the Authority, S&P and Moody's; provided, further, that no amendment to any Immediate Termination Event or Immediate Suspension Event (each, an "**EMMA Amendment**") shall become effective for (a) ten (10) calendar days after the Authority has posted such EMMA Amendment on Electronic Municipal Market Access ("**EMMA**") (or such other service or services of the Municipal Securities Rulemaking Board ("**MSRB**"), or any successor to the MSRB, that may replace EMMA) and (b) fifteen (15) calendar days after the Trustee has provided notice of such EMMA Amendment to the holders of the Bonds. Additionally, the Authority will use its best efforts to post such EMMA Amendment on Bloomberg ten (10) calendar days prior to the effective date of such EMMA Amendment. In the event that the Authority and the Facility Provider enter into any EMMA Amendment, the Authority has covenanted (1) to post a final draft of such EMMA Amendment on EMMA ten (10) calendar days prior to the effective date of such EMMA Amendment (such effective date to be a date as determined by the Authority and the Facility Provider) and (2) to cause the Trustee to provide notice of such EMMA Amendment to the holders of the Bonds fifteen (15) calendar days prior to the effective date of such EMMA Amendment (such effective date to be a date as determined by the Authority and the Facility Provider). Failure of the Authority to comply with the covenants described in the preceding sentence shall be considered a covenant default under the Facility. Notwithstanding anything set forth in the provision described above, any amendment to any provision of the Facility other than an EMMA Amendment, whether or not contained in an amendment to the Facility which includes an EMMA Amendment, shall become effective on the date set forth in such amendment whether or not the Authority has complied with the third to last sentence of this paragraph prior to the effective date of such amendment.

Any waiver of or amendment to any provision of the Facility shall be effective only in the specific instance and for the specific purpose for which given. In the event any agreement contained in the Facility should be breached by the Authority and thereafter waived by the Facility Provider, such waiver shall be limited to the particular breach so waived for the specific period set out in such waiver and such waiver shall not constitute a waiver of such breach for any other period and shall not waive any other or similar breach under the Facility.

## APPENDIX D-1

### Certain Information Concerning 2007B-3 Facility Provider

*The following information has been obtained from the 2007B-3 Facility Provider for inclusion herein. Such information is not guaranteed as to accuracy or completeness by the Authority or the Remarketing Agent and is not to be construed as a representation by the Authority or the Remarketing Agent. Neither the Authority nor the Remarketing Agent has verified this information, and no representation is made by them as to the accuracy or adequacy of such information or as to the absence of material adverse changes in such information subsequent to its date or the date hereof.*

Royal Bank of Canada (referred to in this section as "**Royal Bank**") is a Schedule I bank under the Bank Act (Canada), which constitutes its charter and governs its operations. Royal Bank's corporate headquarters are located at Royal Bank Plaza, 200 Bay Street, Toronto, Ontario M5J 2J5, Canada, and its head office is located at 1 Place Ville Marie, Montreal, Quebec H3C 3A9, Canada. Royal Bank is the parent company of RBC Capital Markets, LLC, the Remarketing Agent.

Royal Bank and its subsidiaries operate under the master brand name RBC. Royal Bank is Canada's largest bank as measured by assets and market capitalization and is among the largest banks in the world based on market capitalization. Royal Bank is one of North America's leading diversified financial services companies and provides personal and commercial banking, wealth management services, insurance, corporate and investment banking and transaction processing services on a global basis. Royal Bank and its subsidiaries employ approximately 74,000 full- and part-time employees who serve close to 16 million personal, business, public sector and institutional clients through offices in Canada, the U.S. and 51 other countries.

Royal Bank had, on a consolidated basis, as at January 31, 2012, total assets of C\$815 billion (approximately US\$813 billion\*), equity attributable to shareholders of C\$41 billion (approximately US\$41 billion\*), and total deposits of C\$502 billion (approximately US\$501 billion\*). The foregoing figures were prepared in accordance with International Financial Reporting Standards and have been extracted and derived from, and are qualified by reference to, Royal Bank's unaudited Interim Condensed Consolidated Financial Statements included in Royal Bank's Report to Shareholders for the fiscal period ended January 31, 2012.

The senior long-term unsecured debt of Royal Bank has been assigned ratings of AA- (stable outlook) by Standard & Poor's Ratings Services, Aa1 by Moody's Investors Service and AA (stable outlook) by Fitch Ratings. Moody's Investors Service has placed all long-term ratings of Royal Bank on review for possible downgrade. Royal Bank's common shares are listed on the Toronto Stock Exchange, the New York Stock Exchange and the Swiss Exchange under the trading symbol "RY." Its preferred shares are listed on the Toronto Stock Exchange.

Upon written request, and without charge, Royal Bank will provide a copy of its most recent publicly filed Annual Report on Form 40-F, which includes audited Consolidated Financial Statements, to any person to whom this Supplement is delivered. Requests for such copies should be directed to Investor Relations, Royal Bank of Canada, by writing to 200 Bay Street, 4th Floor, North Tower, Toronto, Ontario M5J 2W7, Canada, or by calling (416) 955-7802, or by visiting [rbc.com/investorrelations/](http://rbc.com/investorrelations/).

The delivery of this Supplement shall not create any implication that there has been no change in the affairs of Royal Bank since the date hereof or that the information contained or referred to herein is correct as at any time subsequent to its date.

\* As at January 31, 2012: C\$1.00 = US\$0.997

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## APPENDIX F

### Class Asset Requirements for Bonds

The "*Class I Asset Requirement*" means the requirement that, as of any date of calculation, the sum of:

(a) amounts held in the related subaccount or subaccounts of the Acquisition Account, the related subaccount of the Loan Recycling Account, the related subaccount of the Class I Debt Service Fund (to the extent such amounts are required to be used to pay principal of the related series of Class I Bonds), the related subaccounts of the Redemption Fund (to the extent such amounts are required to be used to redeem the related series of Class I Bonds), the related subaccount of the Debt Service Reserve Fund and the related subaccount of the Revenue Fund after all transfers and payments made pursuant to the Master Indenture,

(b) in the case of certain series of Bonds, the amounts held in the respective subaccounts of the Accounts and Funds noted in clause (a) above that are unrelated to such series of Bonds (including amounts in such subaccounts of the Class I Debt Service Fund and the Redemption Fund only to the extent such amounts are required to be used to pay principal of or to redeem Class I Bonds) plus the aggregate unpaid principal balance of Mortgage Loans Unrelated to such series of Bonds to the extent the aggregate amount held in such subaccounts for each series of such Unrelated Bonds and the aggregate unpaid principal balance of such Mortgage Loans exceeds the percentage of the aggregate principal amount of the Class I Bonds of such series of Unrelated Bonds then Outstanding as shall be approved or required by each Rating Agency in writing, but only to the extent that such amounts have not been or are not being taken into account in satisfying the "*Class I Asset Requirement*" for any other series of Bonds Unrelated to such series of Bonds other than the Series of Bonds to which each respective "*Class I Asset Requirement*" relates, and

(c) the aggregate unpaid principal balance of Mortgage Loans Related to the related series of Bonds, be at least equal to the percentage set forth in the Series Indenture of the aggregate principal amount of related series of Class I Bonds then Outstanding, or such different percentage as shall be approved or required by each Rating Agency in writing.

The "*Class II Asset Requirement*" means the requirement that, as of any date of calculation, the sum of:

(a) amounts in the related subaccount or subaccounts of the Acquisition Account, the related subaccount of the Loan Recycling Account, the related subaccounts of the Class I Debt Service Fund and the Class II Debt Service Fund (to the extent such amounts are required to be used to pay principal of the related series of Class I Bonds or Class II Bonds), the related subaccounts of the Redemption Fund (to the extent such amounts are required to be used to redeem the related series of Class I Bonds or Class II Bonds), the related subaccount of the Debt Service Reserve Fund and the related subaccount of the Revenue Fund after all transfers and payments made pursuant to the Master Indenture,

(b) the amounts held in the respective subaccounts of the Accounts and Funds listed in clause (a) above that are Unrelated to such series of Bonds (including amounts in such subaccounts of the Class I Debt Service Fund, the Class II Debt Service Fund and the Redemption Fund only to the extent such amounts are required to be used to pay principal of or to

redeem Class I Bonds or Class II Bonds) plus the aggregate unpaid principal balance of Mortgage Loans Unrelated to such series of Bonds to the extent the aggregate amount held in such subaccounts for each series of such Unrelated Bonds and the aggregate unpaid principal balance of such Mortgage Loans exceeds the percentage of the aggregate principal amount of the Class I Bonds of such series of Unrelated Bonds then Outstanding plus the percentage of the aggregate principal amount of the Class II Bonds of such series of Unrelated Bonds then Outstanding as such percentages shall be approved or required by each Rating Agency in writing, but only to the extent that such amounts have not been or are not being taken into account in satisfying the "Class II Asset Requirement" for any other series of Bonds Unrelated to such series of Bonds other than the series of Bonds to which each respective "Class II Asset Requirement" relates, and

(c) the aggregate unpaid principal balance of Mortgage Loans Related to the related series of Bonds, be at least equal to the percentage set forth in the Series Indenture of the aggregate principal amount of the related series of Class I Bonds then Outstanding plus the percentage set forth in the Series Indenture of the aggregate principal amount of the related series of Class II Bonds then Outstanding, or such different percentages as shall be approved or required by each Rating Agency in writing.

The "*Class III Asset Requirement*" means the requirement that, as of any date of calculation, the sum of:

(a) amounts held in the related subaccount or subaccounts of the Acquisition Account, the related subaccount of the Loan Recycling Account, the related subaccount of the Class I Debt Service Fund (to the extent such amounts are required to be used to pay principal of related Series of Class I Bonds), the related subaccount of the Class II Debt Service Fund (to the extent such amounts are required to be used to pay principal of related series of Class II Bonds) and the related subaccount of the Class III Debt Service Fund, the related subaccounts of the Redemption Fund, the related subaccount of the Debt Service Reserve Fund and the related subaccount of the Revenue Fund after all transfers and payments made pursuant to the Master Indenture,

(b) the amounts held in the respective subaccounts of the Accounts and Funds listed in clause (a) above that are Unrelated to such series of Bonds plus the aggregate unpaid principal balance of Mortgage Loans Unrelated to such series of Bonds to the extent the aggregate amount held in such subaccounts for each Series of such Unrelated Bonds and the aggregate unpaid principal balance of such Mortgage Loans exceeds the percentage of the aggregate principal amount of the Class I Bonds of such series of Unrelated Bonds then Outstanding plus the percentage of the aggregate principal amount of the Class II Bonds of such series of Unrelated Bonds then Outstanding plus the percentage of the aggregate principal amount of the Class III Bonds of such Series of Unrelated Bonds then Outstanding as such percentages shall be approved or required by each Rating Agency in writing, but only to the extent that such amounts have not been or are not being taken into account in satisfying the "Class III Asset Requirement" for any other series of Bonds Unrelated to such series of Bonds other than the series of Bonds to which each respective "Class III Asset Requirement" relates, and

(c) the aggregate unpaid principal balance of Mortgage Loans Related to the related series of Bonds, be at least equal to the percentage set forth in the Series Indenture of the aggregate principal amount of the related series of Class I Bonds then Outstanding plus the percentage set forth in the Series Indenture of the aggregate principal amount of the related series of Class II Bonds then Outstanding plus the percentage set forth in the Series Indenture of the aggregate principal amount of the related series of Class III Bonds then Outstanding, or such different percentages as may be approved or required by each Rating Agency in writing.

The Class I Asset Requirement, Class II Asset Requirement and Class III Asset Requirement, respectively, with respect to a series of Bonds shall include the percentages set forth in the Related Series Indenture. The percentages for the Class Asset Requirements for each series of the Outstanding Bonds, approved at this time by each Rating Agency are 113.75% for the Class I Asset Requirement, 106% for the Class II Asset Requirement and 102% for the Class III Asset Requirement (except, in each case, with respect to the Short-Term Bonds, for which the applicable Class Asset Requirement is 100%). These percentages are subject to change and reevaluation upon the issuance of each series of Bonds and from time to time as reviewed by the Rating Agencies.

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**APPENDIX G**

**Annual Financial Report  
(With Independent Auditors' Report Thereon)  
For the Year Ended December 31, 2011  
(With comparative financial information for 2010)**

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**COLORADO HOUSING AND FINANCE AUTHORITY**  
**ANNUAL FINANCIAL REPORT**  
**(With Independent Auditors' Report Thereon)**  
**For the Year Ended December 31, 2011**  
**(With comparative financial information for 2010)**



*Prepared by:*  
*Accounting Division*

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# COLORADO HOUSING AND FINANCE AUTHORITY – Annual Financial Report

## Table of Contents

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|   | <b>Page(s)</b> |
|---|----------------|
| EXECUTIVE LETTER  | 1 – 3          |
| MANAGEMENT’S DISCUSSION AND ANALYSIS (Unaudited)                      | 4 – 11         |
| INDEPENDENT AUDITORS’ REPORT  | 12 – 14        |
| BASIC FINANCIAL STATEMENTS  | 15 – 56        |
| Statements of Net Position  | 16             |
| Statements of Revenues, Expenses and Changes in Net Position          | 17             |
| Statements of Cash Flows  | 18 – 19        |
| Notes to Basic Financial Statements                                   | 20 – 56        |
| SUPPLEMENTAL INFORMATION  | 57 – 61        |
| 1 Combining Schedule – Statement of Net Position                      | 58             |
| 2 Combining Schedule – Revenues, Expenses and Changes in Net Position | 59             |
| 3 Combining Schedule – Statement of Cash Flows                        | 60 – 61        |



**EXECUTIVE LETTER**

**Message from Cris White,  
Executive Director and CEO  
March, 2012**

Since the economic decline of 2008, Colorado's community and business leaders have been focused on restoring economic stability through job creation, collaboration, and innovation. These efforts have begun to show results. By year end, Colorado's unemployment was 7.9 percent, down one percent from the previous year. And while the median single family home sales price decreased by 2 percent; the number of units sold increased by 2 percent. CHFA has worked to assist these efforts by furthering our mission of affordable housing and economic development finance.

In 2011, CHFA's Home Finance Division delivered over \$394 million in loan production serving 2,609 households. Nearly one-fourth of our home finance customers purchased foreclosed or abandoned properties, helping restore stability to Colorado neighborhoods. Additionally, CHFA continued its tradition of supporting home buyer education by providing free in-person and online classes to 7,100 Colorado households. We updated our homebuyer education course curriculum to address legal and process changes facing today's first time buyers. Greater emphasis has been placed on helping prospective buyers understand the Good Faith Estimate and Truth in Lending forms. Additionally, the course now provides proactive information about the availability of free-HUD approved foreclosure prevention counseling should payment difficulties arise. The new curriculum was launched with a promotional Tool Kit that includes marketing and teaching resources to help our 27 housing counseling partner agencies promote classes in their communities, and ensure course consistency between providers.

CHFA's Commercial Lending Division also experienced significant activity over the past year. Requests for Low Income Housing Tax Credits (LIHTC) outpaced credit availability by 5 to 1. The growing demand for 9 percent LIHTCs has placed greater emphasis on CHFA's commitment to transparency and predictability in the allocation process. As we developed the 2012 Qualified Allocation Plan (QAP), CHFA added more opportunities for stakeholder input through surveys and public hearings. Based on feedback received, we expanded our LIHTC Allocation Committee membership to include two members of the public. Additionally, we've noted several housing and market priorities in the QAP to assist the development community in better understating our areas of emphasis.

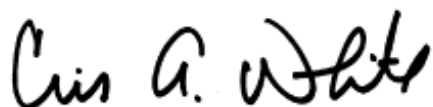
Likewise, CHFA's Business Finance team expanded existing partnerships to make new resources available to Colorado's lending and business communities. In conjunction with the Colorado Office of Economic Development and International Trade (OEDIT), CHFA launched the Colorado Capital Access and the Cash Collateral Support programs utilizing \$17.2 million in funding authorized through the Small Business Jobs Act of 2010. These programs will help Colorado's small and medium sized businesses access capital by providing incentives designed to leverage private bank financing. Colorado Capital Access was modeled after our existing Colorado Credit Reserve program, which utilizes funds provided by the Colorado General Assembly in 2009. Through 2011, Colorado Credit Reserve has assisted 433 businesses obtain \$16.82 million in financing and supported nearly 3,000 new and existing jobs. Eleven percent of Colorado Credit Reserve customers are minority owned businesses, and 42 percent are women-owned businesses.

Last year, I also was pleased to welcome CHFA's new Chief Financial Officer Patricia Hippe. Patricia joins us from the Minnesota Housing Finance Agency where she raised over \$5.4 billion in capital to support their single family and multifamily finance programs. She is a strong addition to our team, and brings a wealth of experience in for-profit, nonprofit, and government finance. In 2011, CHFA also continued to implement our Diversity and Inclusion Initiative. This effort is designed to create a more inclusive environment at CHFA by breaking down

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departmental silos, and creating a culture where we embrace the contributions of diverse perspectives. When we operate with an emphasis on inclusion, we enrich the dialogue and ensure cross-collaborative decision making occurs. I believe that cross-collaborative decision making, when done correctly, results in better decisions, is more efficient, and actually saves time in the long run. This approach has assisted us not only as we work internally, but as we look externally at how we can best achieve our mission. As the year ahead continues, we will keep looking at new opportunities for the organization. Whether we can achieve success by expanding partnerships, refining programs, or launching new initiatives - CHFA remains dedicated to financing the places where Coloradans live and work.

Sincerely,

A handwritten signature in black ink that reads "Cris A. White". The signature is written in a cursive, flowing style.

Cris A. White  
Executive Director and CEO



**MANAGEMENT'S DISCUSSION AND ANALYSIS  
(UNAUDITED)**





This section of the Colorado Housing and Finance Authority's (the Authority) annual financial report presents management's discussion and analysis of the financial position and results of operations at and for the fiscal years ended December 31, 2011 and 2010. This information is being presented to provide additional information regarding the activities of the Authority and to meet the disclosure requirements of Government Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (GASB No. 34).

The Authority is a public enterprise that finances affordable housing, business and economic growth opportunities for residents and businesses of Colorado. Its dual mission is to increase the availability of affordable, decent and accessible housing for lower- and moderate-income Coloradans, and to strengthen the state's development by providing financial assistance to business.

Established by the Colorado General Assembly in 1973, the Authority raises funds through the public and private sale of bonds and notes, which are not obligations of the State of Colorado. The proceeds are loaned to eligible borrowers, primarily through private lending institutions across the state under sound fiscal practices established by the Authority. As a self-sustaining organization, the Authority's operating revenues come from loan and investment income, program administration fees, loan servicing and gains on sales of loans. The Authority receives no tax appropriations, and its net revenues are reinvested in its programs.

In addition, the Authority participates in the Government National Mortgage Association (Ginnie Mae or GNMA) Mortgage-Backed Securities (MBS) Programs. Through the MBS Programs, Ginnie Mae guarantees securities that are issued by the Authority and backed by pools of mortgage loans. Holders of the securities receive a "pass-through" of the principal and interest payments on a pool of mortgage loans, less amounts required to cover servicing costs and Ginnie Mae guaranty fees. The Ginnie Mae guaranty ensures that the holder of the security issued by the Authority receives the timely payment of scheduled monthly principal and any unscheduled recoveries of principal on the underlying mortgage loans, plus interest at the rate provided for in the securities. All loans pooled under the Ginnie Mae MBS Programs are either insured by the Federal Housing Administration or United States Department of Agriculture Rural Development, or are guaranteed by the Veterans Administration.

### **Overview of the Financial Statements**

The basic financial statements consist of a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Net Position, a Statement of Cash Flows and the notes thereto. The Authority, a corporate body and political subdivision of the State of Colorado, is a public purpose financial enterprise and therefore follows enterprise fund accounting. The financial statements offer information about the Authority's activities and operations.

The Statement of Net Position includes all of the Authority's assets and liabilities, presented in order of liquidity, along with the hedging deferred outflows and deferred inflows. The resulting net position presented in these statements is displayed as invested in capital assets, net of related debt, restricted or unrestricted. Net position is restricted when its use is subject to external limits such as bond indentures, legal agreements or statutes. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial assets of the Authority are improving or deteriorating.

All the Authority's current year revenues and expenses are recorded in the Statement of Revenues, Expenses and Changes in Net Position. This statement measures the activities of the Authority's operations over the past year and presents the resulting change in net position - calculated as revenues less expenses.

The final required financial statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about the Authority's cash receipts and cash payments during the reporting period. This statement reports cash receipts, cash payments and net changes in cash resulting from operating, noncapital financing, capital financing and



investing activities. The statement provides information regarding the sources and uses of cash and the change in the cash balance during the reporting period.

The notes to the financial statements provide additional information that is essential for a full understanding of the information provided in the financial statements. The notes follow the Statement of Cash Flows.

### **Debt Activity**

CHFA issued \$39.2 million in Single Family Series 2011AA market bonds, and \$58.8 million of converted Series 2009AA NIBP program bonds in April, 2011. The \$98 million in bond proceeds were used to provide permanent financing for loans originated under the Authority's qualified single family loan programs and securitized into Ginnie Mae mortgage backed securities. The Authority does not plan to issue more NIBP bonds in 2012, favoring the funding of loan purchases through the securitization and MBS sale process. In July, 2011, CHFA restructured mandatory sinking fund payments in the Single Family Series 2006B-2 bonds in order to provide more flexibility and also realize savings to the indenture.

During 2011, CHFA renewed \$129 million in expiring liquidity agreements with Barclays Capital and \$56 million with FHLBank Topeka. The Authority put in place a new \$200 million liquidity facility with the Royal Bank of Canada in November, 2011 as a replacement bank for facilities provided by Dexia. In an effort to reduce liquidity facility needs, the Authority refunded just over \$227 million in outstanding single family variable rate demand obligations (VRDOs) into floating rate notes (FRNs). The November, 2011 refunding consisted of two direct placement transactions and one public market sale and resulted in a direct reduction of liquidity facilities related to VRDOs. In 2012, CHFA plans to continue pursuing liquidity facility replacements and renewals as well as FRN transactions which eliminate the overall need for such facilities.

CHFA novated (transferred) an \$80 million swap agreement from Citibank NA to BNY Mellon in December, 2011. The novated swap retained the same terms as the original agreement and was undertaken to eliminate the weaker credit counterparty, Citibank, in favor of a stronger one, BNY Mellon. The Authority will evaluate additional novation and replacement opportunities that may arise in 2012.

**Programs** – The financial statements present the activities of the Authority's housing and lending programs. Combining schedules for these programs are provided in the supplemental schedules.

### **Financial Highlights**

- Total net loans receivable as of December 31, 2011 were \$2.3 billion, a decrease of \$346.4 million, or 13.1%, compared to the amount outstanding as of December 31, 2010. Loan repayments occurred without a corresponding increase in new loans retained as the Authority continued to issue Ginnie Mae securities during the year. During 2011, \$404.2 million in loans were sold through the issuance of Ginnie Mae securities.
- Total investments as of December 31, 2011 were \$884.7 million, an increase of \$11.8 million, or 1.4%, compared to the amount outstanding as of December 31, 2010. Offsetting the reduction of investments was a significant increase to the fair value of investments due to declining interest rates.
- Total deferred outflows as of December 31, 2011 was \$267.4 million, an increase of \$87.2 million, or 48.4%, compared to the amount outstanding as of December 31, 2010, which reflects a decline in market expectations of future interest rates (decline in forward yield curve).
- As of December 31, 2011, total debt outstanding was \$2.9 billion, a decrease of \$368.2 million, or 11.1%, compared to the balance at December 31, 2010. Payments of loans have been used to reduce bond balances rather than recycled into new loans.



- Net position as of December 31, 2011, was \$270.5 million, an increase of \$16.9 million, or 6.7%, compared to net position of \$253.6 million as of December 31, 2010, increasing the Authority's capital position. Net position as a percent of total assets increased from 6.8% as of December 31, 2010 to 8.0% as of December 31, 2011.
  
- As reflected in the Statement of Revenues, Expenses and Changes in Net Position, net position increased by \$16.9 million for 2011 as compared to a \$281 thousand decrease during 2010. The \$16.9 million, or 6.7%, increase was primarily composed of the following:
  - An \$8.5 million decrease in net interest income as a result of lower investment rates and higher bond expenses.
  - A \$13.8 million increase in other operating revenues is a result of the following:
    - \$502 thousand decrease in real estate owned (REO) rental income.
    - \$3.0 million decrease in gain/sale of loans.
    - \$1.2 million increase in investment derivative activity loss.
    - \$18.6 million increase in fair value of investments.
    - \$43 thousand decrease in loan servicing and other revenues.
  - A \$12.0 million decrease in operating expense primarily as a result of an increase in salaries and related benefits due to increased staffing and benefit costs, a decrease in general operating expenses due to reduced Lehman swap termination costs and an increase in provision for loan losses due to increased delinquencies and foreclosures.



## Analysis of Financial Activities

## Condensed Summary of Net Position

(in thousands of dollars)

| For the years ended December 31,                          | 2011              | 2010 Restated     | 2009 Restated     |
|---|-------------------|-------------------|-------------------|
| <b>Assets</b>   |                   |                   |                   |
| Cash  | \$ 89,292         | \$ 91,981         | \$ 35,900         |
| Investments   | 884,670           | 872,861           | 575,994           |
| Loans receivable  | 2,264,846         | 2,601,982         | 2,880,823         |
| Loans receivable held for sale                            | 38,206            | 47,478            | 67,356            |
| Capital assets, net                                       | 24,160            | 26,741            | 28,586            |
| Other assets  | 70,365            | 79,061            | 76,619            |
| <b>Total assets</b>                                       | <b>3,371,539</b>  | <b>3,720,104</b>  | <b>3,665,278</b>  |
| <b>Deferred Outflows</b>                                  |                   |                   |                   |
| Accumulated decrease in fair value of hedging derivatives | 267,410           | 180,245           | 137,632           |
| <b>Liabilities</b>  |                   |                   |                   |
| Bonds and notes payable, net                              | 2,935,507         | 3,303,668         | 3,278,881         |
| Derivative instruments and related borrowings             | 335,558           | 243,572           | 204,498           |
| Other liabilities   | 97,362            | 99,531            | 63,213            |
| <b>Total liabilities</b>                                  | <b>3,368,427</b>  | <b>3,646,771</b>  | <b>3,546,592</b>  |
| <b>Deferred Inflows</b>                                   |                   |                   |                   |
| Accumulated increase in fair value of hedging derivatives | -                 | -                 | 2,458             |
| <b>Net position:</b>                                      |                   |                   |                   |
| Invested in capital assets                                | 24,160            | 26,741            | 28,586            |
| Restricted by bond indentures                             | 137,096           | 113,252           | 163,809           |
| Unrestricted  | 109,266           | 113,586           | 61,465            |
| <b>Total net position</b>                                 | <b>\$ 270,522</b> | <b>\$ 253,579</b> | <b>\$ 253,860</b> |

The deferred outflows, deferred inflows and net position for December 31, 2010 and 2009 were adjusted due to the early adoption of GASB No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions* (GASB No. 64), which designates specific circumstances where hedge accounting may continue after the termination of the hedging derivative instrument. The early adoption of GASB No. 64 resulted in the following adjustments to the Statement of Net Position as of December 31, 2010; deferred outflows increased by \$36,462,000, deferred inflows decreased by \$6,168,000, beginning net position increased by \$44,778,000, and ending net position decreased by \$42,630,000. The early adoption of GASB No. 64 resulted in the following adjustments to the Statement of Net Position as of December 31, 2009 deferred outflows increased by \$24,873,000, deferred inflows decreased by \$19,905,000, beginning net position increased by \$46,865,000, and ending net position decreased by \$44,778,000.

## Comparison of Years Ended December 31, 2011 and 2010

Total assets decreased \$348.6 million, or 9.4%, from the prior year. Cash and cash equivalents, and investments, combined, increased \$9.1 million thousand, or 1.0%. Mortgage and other loans receivable decreased by \$346.4 million, or 13.1%, as a result of loan repayments occurring without a corresponding increase in new loans retained as the Authority continued to issue Ginnie Mae securities during the year. Total deferred outflows increased \$87.2 million, or 48.4%, from the prior year, due to a decline in market expectations of future interest rates (decline in the forward yield curve).



Total liabilities decreased \$278.3 million, or 7.6% from the prior. Notes and bond payable decreased \$368.2 million, or 11.1%, primarily due to scheduled bond payments and additional unscheduled redemptions. Derivative instruments and related borrowings fair value increased \$92.0 million, or 37.8% from prior year due to declining market interest rates.

**Comparison of Years Ended December 31, 2010 and 2009:**

Total assets increased \$54.8 million, or 1.5% from the prior year. Cash and cash equivalents, and investments, combined, increased \$352.9 million, or 57.7%. Mortgage and other loans receivable decreased by \$298.7 million, or 10.1%, as a result of loan repayments occurring without a corresponding increase in new loans retained, as the Authority continued to issue Ginnie Mae securities during the year. Total deferred outflows increased \$42.6 million, or 31.0% from the prior year, due to declining interest rates.

Total liabilities increased \$100.2 million, or 2.8% from the prior year. Notes and bond payable increased \$24.8 million, or 0.8% primarily due to the reduction of bonds payable from the collection of mortgage payments. Derivative instruments and related borrowings increased \$39.1 million, or 19.1% from prior year.

**Subsequent Events:**

In March of 2012, the Authority completed the sale of the real estate for all Blended Component Units, which encompass the Rental Assistance Program ("RAP") - Hyland Park Centre Corporation ("Hyland Park"), Tanglewood Oaks Apartments Corporation ("Tanglewood"), and Village of Yorkshire Corporation ("Yorkshire"). In addition, the Authority completed the sale of real estate for Maple Tree Settlement, which is not a Blended Component Unit, but is part of RAP. Each of these properties was sold at a gain. These properties contributed a total increase to net operating income in 2011 and 2010 of \$1.5 million and \$498 thousand respectively.

The Authority paid in full the outstanding Lehman swap termination settlement as of March 2012.

Also in March, the Authority redeemed \$106,325,000 of NIPB bonds.

**Condensed Summary of Revenues, Expenses and Changes in Net Position***(in thousands of dollars)*

| <b>For the years ended December 31,</b>        | <b>2011</b>   | <b>2010 Restated</b> | <b>2009 Restated</b> |
|--|---------------|----------------------|----------------------|
| <b>Interest income and expense:</b>            |               |                      |                      |
| Interest on loans receivable                   | \$ 134,597    | \$ 151,319           | \$ 173,009           |
| Interest on investments                        | 23,423        | 18,094               | 15,053               |
| Interest on debt                               | (138,545)     | (141,458)            | (173,971)            |
| Net interest income                            | 19,475        | 27,955               | 14,091               |
| <b>Other operating income:</b>                 |               |                      |                      |
| Rental income                                  | 8,804         | 9,306                | 7,460                |
| Gain on sale of loans                          | 16,792        | 19,817               | 8,528                |
| Investment derivative activity loss            | (1,715)       | (473)                | (2,882)              |
| Net increase in the fair value of investments  | 25,887        | 7,324                | (10,396)             |
| Other revenues                                 | 19,443        | 19,400               | 18,430               |
| Total other operating income                   | 69,211        | 55,374               | 21,140               |
| Total operating income                         | 88,686        | 83,329               | 35,231               |
| <b>Operating expenses:</b>                     |               |                      |                      |
| Salaries and related benefits                  | 18,210        | 17,808               | 16,180               |
| General operating                              | 40,783        | 55,636               | 17,815               |
| Depreciation                                   | 3,684         | 3,773                | 3,159                |
| Provision for loan losses                      | 9,036         | 6,521                | 14,404               |
| Total operating expenses                       | 71,713        | 83,738               | 51,558               |
| <b>Net operating income (loss)</b>             | <b>16,973</b> | <b>(409)</b>         | <b>(16,327)</b>      |
| Federal grant receipts                         | 134,491       | 134,613              | 112,458              |
| Federal grant payments                         | (134,491)     | (134,613)            | (112,458)            |
| Gain (loss) on sale of capital assets          | (30)          | 128                  | -                    |
| <b>Nonoperating revenues and expenses, net</b> | <b>(30)</b>   | <b>128</b>           | <b>-</b>             |
| <b>Change in net position</b>                  | <b>16,943</b> | <b>(281)</b>         | <b>(16,327)</b>      |
| <b>Net position:</b>                           |               |                      |                      |
| Beginning of year                              | 253,579       | 253,860              | 270,187              |
| End of year                                    | \$ 270,522    | \$ 253,579           | \$ 253,860           |

**Comparison of Years Ended December 31, 2011 and 2010**

Total operating income increased by \$5.4 million in 2011 to \$88.7 million, an increase of 6.4%, compared to 2010. The following contributed to the increase:

- Interest income decreased by \$11.4 million in 2011 as a result of higher prepayments without a corresponding new loan investment.
- Interest expense related to debt decreased by \$2.9 million due to lower outstanding balances.
- Gain on sale of loans decreased by \$3.0 million in 2011 related primarily to the reduced amount of issuance of GNMA securities.



- The fair value of investments increased by \$18.6 million due primarily to a decrease in market interest rates during 2011.

Total operating expenses decreased \$12.0 million in 2011 to \$71.7 million, a decrease of 14.4%, compared to 2010. The decrease was primarily due to an increase in salaries and related benefits due to increased staffing, merit increases and health insurance costs, a decrease in general operating costs related to Lehman swap termination settlements, a decrease in depreciation expense due to assets becoming fully depreciated and an increase in provision for loan losses due to increasing delinquencies and foreclosures.

Total nonoperating revenues and expenses consist primarily of pass-through amounts related to the Authority's role as a contract administrator of the U.S. Department of Housing and Urban Development's Section 8 subsidy program. Under the Section 8 subsidy program, tenants pay 30% of their income toward rent and the balance is paid by federal subsidy.

### **Comparison of Years Ended December 31, 2010 and 2009**

Total operating income increased by \$49.3 million in 2010 to \$83.3 million, an increase of 144.8%, compared to 2009. The following contributed to the increase:

- Interest income decreased by \$18.6 million in 2010 as a result of reduced loans receivable balances.
- Interest expense related to debt decreased by \$33.7 million due to the normalization of interest rates and lower outstanding debt.
- Gain on sale of loans increased by \$11.3 million in 2010 due primarily to gains on the sale of GNMA securities.
- The fair value of investments increased by \$17.7 million due primarily to a decrease in market rates in 2010.

Total operating expenses increased \$33.4 million in 2010 to \$83.7 million, an increase of 66.2%, compared to 2009. The following contributed to the decrease:

- Salaries and related benefits increased by \$1.6 million, or 10.1%, due to increased staffing, merit increases and health insurance costs.
- General operating costs increased by \$39.0, million or 234.6%, due to expenses related to the Lehman swap termination settlements and costs associated with the Rental Acquisition Program and Other Real Estate Owned including management fees, repairs and maintenance, utilities, personal and administrative costs.
- Depreciation expense increased \$614 thousand, or 19.4%, due to purchase, implementation, and development and computer software.
- Offsetting these increases is a \$7.9 million decrease to the provision for loan losses due to a change in accounting estimate for reserves related to government-insured loans to better reflect credit risk considering economic programs, borrower factors, and collateral values.



AUDITORS' REPORT





**KPMG LLP**  
Suite 2700  
707 Seventeenth Street  
Denver, CO 80202-3499

## **Independent Auditors' Report**

Board of Directors  
Colorado Housing and Finance Authority  
Denver, Colorado:

We have audited the accompanying financial statements of the Colorado Housing and Finance Authority (the Authority), as of and for the year ended December 31, 2011, which comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit. The accompanying basic financial statements of the Authority as of December 31, 2010, were audited by other auditors whose report thereon dated June 27, 2011, expressed an unqualified opinion on those statements, before the restatement to reflect the retroactive application of an accounting principle and change in accounting described in note 1(c) to the basic financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of December 31, 2011, and the respective changes in financial position, and cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

We also audited the adjustments described in note 1(c) that were applied to restate the 2010 basic financial statements to reflect the retroactive application of an accounting principle and change in accounting. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 2010 basic financial statements of the Authority other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2010 basic financial statements taken as a whole.



U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 4 through 11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information included in Schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

As discussed in note 1(c) to the financial statements, during 2011, the Authority adopted Governmental Accounting Standards Board (GASB) Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions*. The adoption required retroactive application to prior periods.

KPMG LLP

March 29, 2012



**BASIC FINANCIAL STATEMENTS**

**Colorado Housing and Finance Authority**  
**Statements of Net Position**

For the years ended December 2011 and 2010

(in thousands of dollars)

|   | 2011              | 2010<br>Restated, note 1 |
|---|-------------------|--------------------------|
| <b>Assets</b>   |                   |                          |
| Current assets:   |                   |                          |
| Cash  |                   |                          |
| Restricted  | \$ 56,011         | \$ 75,483                |
| Unrestricted  | 33,281            | 16,498                   |
| Investments (partially restricted, see note 2)            | 646,232           | 652,878                  |
| Loans receivable (partially restricted, see note 3)       | 113,701           | 134,211                  |
| Loans receivable held for sale                            | 38,206            | 47,478                   |
| Other current assets                                      | 25,049            | 30,394                   |
| Current assets  | 912,480           | 956,942                  |
| Noncurrent assets:  |                   |                          |
| Investments (partially restricted, see note 2)            | 238,438           | 219,983                  |
| Loans receivable, net (partially restricted, see note 3)  | 2,151,145         | 2,467,772                |
| Capital assets, net                                       | 24,160            | 26,741                   |
| Other assets  | 45,316            | 48,667                   |
| Total noncurrent assets                                   | 2,459,059         | 2,763,163                |
| <b>Total assets</b>                                       | <b>3,371,539</b>  | <b>3,720,105</b>         |
| <b>Deferred Outflows</b>                                  |                   |                          |
| Accumulated decrease in fair value of hedging derivatives | 267,410           | 180,245                  |
| <b>Liabilities</b>  |                   |                          |
| Current liabilities:                                      |                   |                          |
| Short-term debt   | 46,100            | 87,900                   |
| Bonds payable   | 321,512           | 299,187                  |
| Notes payable   | 104               | 79                       |
| Other current liabilities                                 | 73,421            | 90,764                   |
| Current liabilities                                       | 441,137           | 477,930                  |
| Noncurrent liabilities:                                   |                   |                          |
| Bonds and notes payable, net                              | 2,567,791         | 2,916,502                |
| Derivative instruments                                    | 281,951           | 183,600                  |
| Hybrid instrument borrowing                               | 53,607            | 59,972                   |
| Other liabilities   | 23,941            | 8,767                    |
| Total noncurrent liabilities                              | 2,927,290         | 3,168,841                |
| <b>Total liabilities</b>                                  | <b>3,368,427</b>  | <b>3,646,771</b>         |
| <b>Net position</b>                                       |                   |                          |
| Invested in capital assets                                | 24,160            | 26,741                   |
| Restricted by bond indentures                             | 137,096           | 113,252                  |
| Unrestricted  | 109,266           | 113,586                  |
| <b>Total net position</b>                                 | <b>\$ 270,522</b> | <b>\$ 253,579</b>        |

See accompanying notes to basic financial statements.

**Colorado Housing and Finance Authority**  
**Statements of Revenues, Expenses and Changes in Net Position**  
For the years ended December 2011 and 2010  
*(in thousands of dollars)*

|  | 2011          | 2010<br>Restated, note 1 |
|--|---------------|--------------------------|
| <b>Interest income and expense:</b>            |               |                          |
| Interest on loans receivable                   | \$ 134,597    | \$ 151,319               |
| Interest on investments                        | 23,423        | 18,094                   |
| Interest on debt                               | (138,545)     | (141,458)                |
| Net interest income                            | 19,475        | 27,955                   |
| <b>Other operating revenue:</b>                |               |                          |
| Rental income                                  | 8,804         | 9,306                    |
| Gain on sale of loans                          | 16,792        | 19,817                   |
| Investment derivative activity loss            | (1,715)       | (473)                    |
| Net increase in the fair value of investments  | 25,887        | 7,324                    |
| Other revenues                                 | 19,443        | 19,400                   |
| Total other operating income                   | 69,211        | 55,374                   |
| Total operating income                         | 88,686        | 83,329                   |
| <b>Operating expenses:</b>                     |               |                          |
| Salaries and related benefits                  | 18,210        | 17,808                   |
| General operating                              | 40,783        | 55,636                   |
| Depreciation                                   | 3,684         | 3,773                    |
| Provision for loan losses                      | 9,036         | 6,521                    |
| Total operating expenses                       | 71,713        | 83,738                   |
| <b>Net operating income (loss)</b>             | <b>16,973</b> | <b>(409)</b>             |
| Federal grant receipts                         | 134,491       | 134,613                  |
| Federal grant payments                         | (134,491)     | (134,613)                |
| Gain (loss) on sale of capital assets          | (30)          | 128                      |
| <b>Nonoperating revenues and expenses, net</b> | <b>(30)</b>   | <b>128</b>               |
| <b>Change in net position</b>                  | <b>16,943</b> | <b>(281)</b>             |
| <b>Net position:</b>                           |               |                          |
| Beginning of year                              | 253,579       | 253,860                  |
| End of year                                    | \$ 270,522    | \$ 253,579               |

See accompanying notes to basic financial statements.

**Colorado Housing and Finance Authority**  
**Statements of Cash Flows**

For the years ended December 2011 and 2010

(in thousands of dollars)

|  | 2011           | 2010             |
|--|----------------|------------------|
|  |                | Restated, note 1 |
| <b>Cash flows from operating activities:</b>                     |                |                  |
| Principal payments received on loans receivable                  |                |                  |
| and receipts from dispositions of other real estate owned        | \$ 303,302     | \$ 320,375       |
| Interest payments received on loans receivable                   | 138,083        | 154,818          |
| Payments for loans receivable                                    | (367,983)      | (428,218)        |
| Receipts from sales of Ginnie Mae securities                     | 420,989        | 417,478          |
| Receipts from rental operations                                  | 8,748          | 9,346            |
| Receipts from other revenues                                     | 19,391         | 19,173           |
| Payments for salaries and related benefits                       | (18,775)       | (17,109)         |
| Payments for goods and services                                  | (41,362)       | (19,213)         |
| All other, net   | 1,503          | (1,185)          |
| Net cash provided by operating activities                        | 463,896        | 455,465          |
| <b>Cash flows from noncapital financing activities:</b>          |                |                  |
| Net increase (decrease) in short-term debt                       | (41,800)       | 14,650           |
| Proceeds from issuance of bonds                                  | 266,435        | 275,210          |
| Proceeds from issuance of notes payable                          | 1,388          | 125              |
| Receipts from federal grant programs                             | 135,352        | 134,308          |
| Payments for federal grant programs                              | (134,491)      | (134,613)        |
| Principal paid on bonds  | (583,898)      | (247,064)        |
| Principal paid on notes payable                                  | (105)          | (17,415)         |
| Interest paid on short-term debt                                 | (271)          | (226)            |
| Interest rate swap settlements                                   | (92,102)       | (95,330)         |
| Interest paid on bonds   | (49,000)       | (52,336)         |
| Interest paid on notes payable                                   | (756)          | (1,004)          |
| Bond issuance costs paid   | (1,728)        | (1,365)          |
| Net cash used by noncapital financing activities                 | (500,976)      | (125,060)        |
| <b>Cash flows from capital and related financing activities:</b> |                |                  |
| Purchase of capital assets                                       | (1,133)        | (2,148)          |
| Proceeds from the disposal of capital assets                     | -              | 347              |
| Net cash used by capital and related financing activities        | (1,133)        | (1,801)          |
| <b>Cash flows from investing activities:</b>                     |                |                  |
| Proceeds from maturities and sales of investments                | 3,089,608      | 2,897,006        |
| Purchase of investments  | (3,075,530)    | (3,186,689)      |
| Income received from investments                                 | 21,446         | 17,160           |
| Net cash provided (used) by investing activities                 | 35,524         | (272,523)        |
| <b>Net increase (decrease) in cash</b>                           | <b>(2,689)</b> | <b>56,081</b>    |
| Cash at beginning of year  | 91,981         | 35,900           |
| Cash at end of year  | \$ 89,292      | \$ 91,981        |
| Restricted   | 56,011         | 75,483           |
| Unrestricted   | 33,281         | 16,498           |
| Cash, end of year  | \$ 89,292      | \$ 91,981        |

See accompanying notes to basic financial statements.

Continued on the next page

## Colorado Housing and Finance Authority

### Statements of Cash Flows *(continued)*

For the years ended December 2011 and 2010

*(in thousands of dollars)*

|   | 2011       | 2010             |
|---|------------|------------------|
|   |            | Restated, note 1 |
| <b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b> |            |                  |
| Net operating income (loss)   | \$ 16,973  | \$ (409)         |
| Adjustments to reconcile operating income (loss) to net cash used by operating activities:            |            |                  |
| Depreciation expense  | 3,684      | 3,773            |
| Amortization of service release premiums  | 3,538      | 2,946            |
| Amortization of deferred loan fees/costs, net   | 65         | 115              |
| Amortization of derivatives related borrowings  | (6,364)    | (6,469)          |
| Provision for loan losses   | 9,036      | 6,521            |
| Gain on sale of capital assets  | 30         | -                |
| Interest on investments   | (23,418)   | (18,087)         |
| Interest on debt  | 144,909    | 147,927          |
| Unrealized loss on investment derivatives   | 1,715      | 473              |
| Unrealized gain on investments  | (25,887)   | (7,324)          |
| Loss on sale of REO   | 1,631      | 413              |
| Gain on sale of loans receivable held for sale  | (16,792)   | (19,817)         |
| Changes in assets and liabilities:  |            |                  |
| Loans receivable and other real estate owned  | 350,818    | 306,083          |
| Accrued interest receivable on loans and investments  | 3,742      | 3,505            |
| Other assets  | 1,446      | (3,983)          |
| Accounts payable and other liabilities  | (1,230)    | 39,798           |
| Net cash provided by operating activities   | \$ 463,896 | \$ 455,465       |

See accompanying notes to basic financial statements.



**NOTES TO BASIC FINANCIAL STATEMENTS**





## 1) Organization and Summary of Significant Accounting Policies

### (a) Authorizing Legislation and Reporting Entity

**Authorizing Legislation** - The Colorado Housing and Finance Authority (the "Authority") is a body corporate and a political subdivision of the State of Colorado (the "State") established pursuant to the Colorado Housing and Finance Authority Act, Title 29, Article 4, Part 7 of the Colorado Revised Statutes, as amended (the "Act"). The Authority is not a state agency and is not subject to administrative direction by the State. The governing body of the Authority is its board of directors. Operations of the Authority commenced in 1974. The Authority is not a component unit of the State or any other entity.

The Authority was created for the purpose of making funds available to assist private enterprise and governmental entities in providing housing facilities for lower- and moderate-income families. Under the Act, the Authority is also authorized to finance projects and working capital loans to industrial and commercial enterprises (both for-profit and nonprofit) of small and moderate size.

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

In 2001, the Colorado state legislature repealed the limitation on the amount of debt that the Authority can issue as well as removed the moral obligation of the State on future debt issues of the Authority. The bonds, notes and other obligations of the Authority do not constitute debt of the State.

**Blended Component Units – Rental Acquisition Program ("RAP")** - Hyland Park Centre Corporation ("Hyland Park"), Tanglewood Oaks Apartments Corporation ("Tanglewood"), and Village of Yorkshire Corporation ("Yorkshire") have been designated as blended component units and included in the Authority's financial statements. Hyland Park, Tanglewood and Yorkshire are public, nonprofit instrumentalities of the Authority, each of which owns and operates a single, separate multi-family rental housing project. The Authority is financially accountable for these units because they have the same board of directors and management personnel, and their surplus assets are relinquished to the Authority. Separate financial statements for the individual component units may be obtained through the Authority.

**Lending and Housing Programs** – The Authority accounts for its lending and operating activities in the following groups:

**General Program** – The General Program is the Authority's primary operating program. It accounts for assets, liabilities, revenues and expenses not directly attributable to a bond program. Most of the bond resolutions of the programs permit the Authority to make cash transfers to the general accounts after establishing reserves required by the bond resolutions. The general accounts financially support the bond programs when necessary. The general accounts include proprietary loan programs developed by the Authority to meet the needs of low- and moderate-income borrowers not served by traditional lending programs. The general accounts also include administrative activities related to the federal government's Section 8 housing assistance payments program.

**Single Family Program** – The Single Family Program includes bonds issued and assets pledged for payment of the bonds under the related indentures. Loans acquired under this program with the proceeds of single family bond issues include FHA, conventional, USDA Rural Development and VA loans made under various loan programs.

**Multi-Family/Business Program** – The Multi-Family/Business Program includes bonds issued and assets pledged for payment of the bonds under the related indentures. Loans acquired under this program with the proceeds of multi-family and business (sometimes referred to as project) bond issues include loans made for the purchase, construction or rehabilitation of multi-family rental housing. In addition, business loans are made to both for-profit and nonprofit organizations primarily for the purpose of acquisition or expansion of their facilities or for the purchase of equipment.



**(b) Basis of Accounting**

The Authority presents its financial statements in accordance with U.S generally accepted accounting standards as established by the Governmental Accounting Standards Board (GASB). For financial purposes, the Authority is considered a special-purpose government engaged in business-type activities. The financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when incurred. All significant intra-entity transactions have been eliminated.

**(c) Summary of Significant Accounting Policies**

**Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reported period. Significant estimates to the Authority's financial statements include the allowance for loan losses and fair value estimates. Actual results could differ from those estimates.

**Cash and Restricted Cash** – The Authority's cash and cash equivalents are considered to be cash on hand and demand deposits held in banks.

**Restricted Assets** – Essentially all investments and loans receivable are restricted assets. Restricted assets are held for the benefit of respective bond holders and accounted for by program. Certain other assets are held on behalf of various governmental housing initiatives or regulations.

**Investments** – Investments of the Authority, with the exception of nonparticipating investment agreements, which are reported at cost, are reported at fair value based on values obtained from third-party pricing services. The values are based on quoted market prices when available or on adjusted value in relation to observable prices on similar investments. Investments with an initial maturity of one year or less are valued at amortized cost, which approximates fair value. Virtually all investments are restricted.

**Loans Receivable** – Mortgage loans receivable are reported at their unpaid principal balance net of deferred down payment assistance expense, deferred fee income, loan origination costs and an allowance for estimated loan losses. Deferred down payment assistance expense, deferred fee income and loan origination costs are capitalized and amortized over the contractual life of the loan using the effective interest method. Virtually all mortgage loans receivable are serviced by the Authority and are restricted.

**Loans Receivable Held for Sale** – Loans originated or acquired and intended for sale in the secondary market are carried at the lower of cost or fair value. Gains and losses on loan sales (sales proceeds minus carrying value) are reported in noninterest income.

**Allowance for Loan Losses** – The allowance for loan losses is a reserve against current operations based on management's estimate of expected loan losses. Management's estimate considers such factors as the payment history of the loans, the projected cash flows of the borrowers, estimated value of the collateral, subsidies, guarantees, mortgage insurance, historical loss experience for each loan type, additional guarantees provided by the borrowers and economic conditions. Based on the review of these factors, a total reserve amount is calculated and a provision is made against current operations to reflect the estimated balance.

**Troubled Debt Restructuring** – A restructuring of a debt constitutes a troubled debt restructuring if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not



**Notes to Basic Financial Statements**  
*(tabular dollar amounts are in thousands)*

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otherwise consider. Whatever the form of concession granted by the creditor to the debtor in a troubled debt restructuring, the creditor's objective is to make the best of a difficult situation. That is, the creditor expects to obtain more cash or other value from the debtor, or to increase the probability of receipt, by granting the concession than by not granting it.

Interest income is recognized using the new interest rate after restructuring, which approximates the effective interest rate. Additional information is disclosed in the loans receivable see note 3.

**Capital Assets** – The Authority's capital assets consist of two groups. Corporate capital assets include those capital assets other than those used in its RAP activities. The Authority commenced its RAP operations in 1988 when the Board authorized the acquisition, rehabilitation and operation of multi-family properties to provide affordable housing to lower- and moderate-income families. The Authority has acquired and rehabilitated these properties with a combination of sources of funds, including (1) general obligation and multi-family bond proceeds, (2) seller-carry notes, and (3) contributions from the Authority's general operating account. As of December 31, 2011, the Authority owned a total of four RAP projects, including its three component units, containing 917 units. These properties were sold subsequent to year-end, see note 15.

Capital assets are defined by the Authority as assets with an initial, individual cost of \$2,500 in the case of corporate capital assets and \$1,500 in the case of RAP capital assets. Capital assets are depreciated or amortized using the straight-line method over their estimated useful lives, which are 30 years for buildings and from 3 to 10 years for furniture and equipment.

**Other Assets** – The major other assets are:

- *Mortgage servicing rights (servicing release premiums)*: amortized over the life of the related loans using the effective interest method. Unamortized costs totaling \$21,520,000 and \$21,705,000 were outstanding at December 31, 2011 and 2010, respectively. Included in these amounts are mortgage servicing rights of \$9,502,000 and \$6,765,000, as of December 31, 2011 and 2010, respectively, related to loans sold by the Authority for which the Authority retained the mortgage servicing rights. These mortgage servicing rights are reported at the lower of cost or fair value. In 2011, the Authority recognized an impairment loss of \$635,000. The impairment loss is reported in general operating expense on the Statement of Revenues, Expenses and Changes in Net Position. No impairment was recognized in 2010.
- *Other real estate owned (REO)*: represents real estate acquired through foreclosure and in-substance foreclosures. Other real estate owned is recorded at the lower of the investment in the loan or the estimated net realizable value, which equals estimated fair value minus closing costs.
- *Bond and note issuance costs*: costs of debt issuance are deferred and amortized to interest expense over the lives of the bond issues using the effective interest method.

**Bonds** – Bonds payable are limited obligations of the Authority, and are not a debt or liability of the State or any subdivisions thereof. Each bond issue is secured, as described in the applicable trust indenture, by all revenues, moneys, investments, mortgage loans, and other assets in the accounts of the program. Substantially all of the Authority's loans and investments are pledged as security for the bonds. The provisions of the applicable trust indentures require or allow for redemption of bonds through the use of unexpended bond proceeds and excess funds accumulated primarily through prepayment of mortgage loans and program certificates. All outstanding bonds are subject to redemption at the option of the Authority, in whole or in part at any time after certain dates, as specified in the respective series indentures.

The Authority issues fixed rate and variable rate bonds. The rate on the fixed rate bonds is set at bond closing. The variable rate bonds bear interest at either a monthly or a weekly rate until maturity or earlier redemption. For bonds that pay weekly rates, the remarketing agent for each bond issue establishes the weekly rate according to each indenture's remarketing agreement. The weekly rates are communicated to the various bond trustees for preparation of debt service payments. The weekly rate, as set by the remarketing agent, allows the bonds to trade in the secondary market at a price



**Notes to Basic Financial Statements**  
*(tabular dollar amounts are in thousands)*

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equal to 100% of the principal amount of the bonds outstanding, with each rate not exceeding maximum rates permitted by law. The variable rate bonds that bear interest monthly are based on the 1-month London Interbank Offered Rate (LIBOR).

Variable rate bonds have an assumed Stand-by Purchase Agreement (SBPA), which states that the issuer of the SBPA will purchase the bonds in the event the remarketing agent is unsuccessful in marketing the bonds. In this event, the interest rate paid by the Authority will be calculated using a defined rate from the SBPA. If the bonds remain unsold for a period of 90 days, they are deemed to be "bank bonds" and the Authority is required to repurchase the bonds from the SBPA issuer. The timing of this repurchase, or term out, will vary by issuer from two years to ten years.

**Bond Discounts and Premiums** – Discounts and premiums on bonds payable are amortized to interest expense over the lives of the respective bond issues using the effective interest method.

**Debt Refundings** – For current refundings and advance refundings resulting in defeasance of debt, the difference between the reacquisition price and the net carrying amount of the old debt is deferred and amortized as a component of interest expense over the remaining life of the old or new debt, whichever is shorter, using the effective interest method, with the exception of the amount relating to deferred loss on interest rate swap hedging relationship termination, which are amortized on a straight-line basis. The deferred refunding amounts are classified as a component of bonds payable in the financial statements.

**Derivative Instruments** – Derivative instruments, as defined in GASB No. 53, *Accounting and Financial Reporting for Derivative Instruments*, are measured on the Statement of Net Position at fair value. Changes in fair value for those derivative instruments that meet the criteria for hedging instruments under GASB No. 53 are reported as deferred inflows and outflows. Changes in fair value of investment derivative instruments, which are ineffective derivative instruments, are reported within investment derivative activity loss in the period of change.

**Derivative Instruments - Interest Rate Swap Agreements** – The Authority enters into interest rate swap agreements ("Swap") with rated swap counterparties in order to (1) provide lower cost fixed rate financing for its loan production needs through synthetic fixed rate structures; and (2) utilize synthetic fixed rate structures with refunding bonds in order to generate cash flow savings. The interest differentials to be paid or received under such swaps are recognized as an increase or decrease in interest expense of the related bond liability. The Authority enters into fixed payor swaps, where it pays a fixed interest rate in exchange for receiving a variable interest rate from the counterparty. The variable interest rate may be based on either a taxable or tax-exempt index. By entering into a swap agreement, the Authority hedges its interest rate exposure on the associated variable rate bonds. With the exception of one swap, all of the swaps are considered hedging derivatives. Additional information about the swap agreements is provided in note 8.

**Derivative Instruments - Forward Sales Contracts** – Forward sales securities commitments and private investor sales commitments are utilized to hedge changes in fair value of mortgage loan inventory and commitments to originate mortgage loans. At December 31, 2011, the Authority had executed 34 forward sales transactions with an \$82,392,000 notional amount with three counterparties with concentrations and ratings (Standard and Poor's / Moody's Investors Service) as shown in note 8. The forward sales will all settle by March 19, 2012. These contracts are considered investment derivative instruments.

**Hybrid Instrument Borrowings** – Hybrid instrument borrowings represent cash premiums received on interest rate swaps that had a fair value other than zero at the date of execution, generally because the fixed rates were different than market rates at that date. Interest expense is imputed on these borrowings, which is reported at amortized cost.

**Other Liabilities** – The major other liabilities are:

- *Servicing escrow*: the net amount of collected escrow funds currently being held to pay future obligations of property taxes and insurance premiums due on real properties. The Authority has a corresponding asset that is recorded in restricted cash.



**Notes to Basic Financial Statements**  
*(tabular dollar amounts are in thousands)*

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- *Alternative Dispute Resolution*: amounts due to Lehman Brothers Financial Products, Inc. and Lehman Brothers Special Financing, Inc. (the "Lehman Debtors") to resolve a dispute relating to the termination value of certain derivative contracts between the Authority and the Lehman Debtors. It is anticipated that the amounts will be paid in full during 2012.
- *Deferred Low Income Housing Tax Credit (LIHTC) Income*: compliance monitoring fees collected in advance on multi-family properties that have been awarded low-income housing tax credits to be used over a 15-year period. These fees cover the ongoing cost the Authority incurs to certify that these properties remain low-income compliant during the 15-year period and continue to be eligible to use the tax credits awarded.
- *Compensated Absences*: employees accrue paid time off at a rate based on length of service. Employees may accrue and carry over a maximum of 150% of their annual paid time off benefit. The liability for compensated absences is based on current salary rates and is reported in the Statement of Net Position.

**Classification of Revenues and Expenses** - The Authority distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the Authority's ongoing operations. The principal operating revenues of the Authority are interest income on loans and investment income. The Authority also recognizes revenues from rental operations and other revenues, which include loan servicing fees and other administrative fees. Operating expenses include interest expense, administrative expenses, depreciation, and the provision for loan losses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The Authority's nonoperating revenues and expenses consist primarily of pass-through amounts related to the Authority's role as a contract administrator of the U.S. Department of Housing and Urban Development's Section 8 subsidy program. Under the Section 8 subsidy program, tenants pay 30% of their income toward rent and the balance is paid to the Authority by federal subsidy.

In addition, under the federal government's American Recovery and Reinvestment Act (ARRA), passed in February 2009, the Authority became the allocator of the Tax Credit Assistance Program (TCAP) and the Tax Credit Exchange Program (TCEP). The two programs were created to assist developers holding allocations of federal LIHTC. In 2009, the Authority received an allocation of over \$60 million in federal funds to distribute to projects already underway across the State. As of December 31, 2011, all TCEP and TCAP funds have been distributed, and the Authority has no remaining obligations under the program.

**New Accounting Principles** - The Authority has evaluated the financial statement impact and adopted several new Statements issued by the Governmental Accounting Standards Board (GASB) in its current fiscal year ended December 31, 2011.

GASB issued GASB Statement No. 62, which improves financial reporting by incorporating into GASB's authoritative literature certain accounting and financial reporting guidance that is included in FASB and the American Institute of Certified Public Accountants ("AICPA") pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. GASB No. 62 will supersede Statement No. 20. The requirements of GASB No. 62 are effective for financial statements for periods beginning after December 15, 2011, although earlier application is encouraged. There was no material impact to the Authority's financial statements from the early adoption of this standard in 2011.

GASB issued GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* ("GASB No. 63"), which provides guidance for reporting deferred outflows of resources and deferred inflows of resources within the financial statements of governmental entities. These elements were previously identified and defined in GASB Concepts Statement No. 4, *Elements of Financial Statements*. Deferred outflows of resources are defined as a consumption of net assets by the government that is applicable to a future reporting period. They are required to be reported in the statement of financial position in a separate section following assets. Similarly,





**Notes to Basic Financial Statements**  
*(tabular dollar amounts are in thousands)*

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deferred inflows of resources are defined as an acquisition of net assets by a government that is applicable to a future reporting period. They should be reported in the statement of financial position in a separate section following liabilities. Additionally, GASB No. 63 renames the statement of net assets as the statement of net position. The statement of net position should report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. There was no material impact to the Authority's financial statements from the early adoption of this standard in 2011.

GASB issued GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions* ("GASB No. 64"), which designates specific circumstances where hedge accounting may continue after the termination of the hedging derivative instrument. Under the provisions of GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* (GASB No. 53), a government is to cease hedge accounting upon the termination of the hedging derivative instrument, resulting in the immediate recognition of the deferred outflows or inflows of resources as a component of investment income. However, in many instances, governments have managed to replace their swap counterparty or swap counterparty's credit support providers by amending existing swap agreements or by entering into new swap agreements. Therefore, GASB No. 64 was issued to clarify the circumstances in which an effective hedging relationship continues after these events occur.

Under GASB No. 64, a hedging derivative instrument is considered terminated unless an effective hedging relationship continues when all of the following criteria are met: 1) collectability of swap payments is considered to be probable, 2) the swap counterparty of the interest rate swap or commodity swap, or the swap counterparty's credit support provider, is replaced with an assignment or in-substance assignment, and 3) the government enters into the assignment or in-substance assignment in response to the swap counterparty, or the swap counterparty's credit support provider, either committing or experiencing an act of default or a termination event as both are described in the swap agreement. The early adoption of this statement in 2011 required adjustment to prior periods.

The early adoption of GASB No. 64, in 2011 allowed the Authority to continue hedge accounting on certain interest rate swaps that were replaced in prior years. Prior to the adoption of GASB No. 64, the hedging associations for these interest rate swaps were considered terminated. Upon adoption of GASB No. 64, the Statement of Net Position as of December 31, 2010 was retroactively restated as follows: deferred outflows increased by \$36,462,000, deferred inflows decreased by \$6,168,000, beginning net position increased by \$44,778,000, and ending net position increased by a net \$42,630,000. Hybrid instrument borrowing amortization, which is reported in interest on debt on the 2010 Statement of Revenues, Expenses and Changes in Net Position, decreased by \$2,148,000.

**Change in Accounting** – Prior to the year ended December 31, 2011, the Authority presented three separate funds along with the combined total thereof in its basic financial statements. In the current year, the Authority has changed the presentation to include only the combined total of its programs, along with comparative prior year information. The total amounts are otherwise unchanged, from the prior year presentation as a result of this accounting change.

**Reclassifications** – Certain prior year amounts have been reclassified to conform to current year presentation.

## **(2) Cash and Investments**

The Authority is authorized by means of a Board-approved investment policy to invest in notes, bonds and other obligations issued or guaranteed by the U.S. government and certain governmental agencies. Additionally, the Authority is permitted to invest, with certain restrictions as to concentration of risk, collateralization levels, maximum periods to maturity, and/or underlying rating levels applied, in revenue or general obligations of states and their agencies, certificates of deposits, U.S. dollar denominated corporate or bank debt, commercial paper, repurchase agreements backed by U.S. government or agency securities, money market mutual funds and investment agreements. The Authority is also subject to permissible investments as authorized by Title 24, Article 75, Part 6 of the Colorado Revised Statutes (CRS). Permissible investments pursuant to the CRS are either identical to or less restrictive than the Authority's investment policy. In addition, each of the trust indentures established under the Authority's bond programs contain requirements as to permitted investments of bond



**Notes to Basic Financial Statements**  
*(tabular dollar amounts are in thousands)*

fund proceeds, which may be more or less restrictive than the Authority's investment policy. These investments are included in the disclosures below under State and political subdivision obligations.

**Interest Rate Risk**

As of December 31, 2011, the Authority had the following investment maturities:

| Investment Type                             | Investment Maturities (In Years) |                  |                  |                   | Total             |
|---|----------------------------------|------------------|------------------|-------------------|-------------------|
|   | Less Than 1                      | 1-5              | 6-10             | More Than 10      |                   |
| Certificates of Deposits                    | \$ 2,700                         | \$ -             | \$ -             | \$ -              | \$ 2,700          |
| External investment pool (COLOTRUST)        | 100,336                          | -                | -                | -                 | 100,336           |
| Investment agreements - uncollateralized    | 105,364                          | -                | -                | 33,481            | 138,845           |
| Money market mutual fund                    | 275,372                          | -                | -                | -                 | 275,372           |
| Repurchase agreements                       | 52,369                           | -                | -                | 15,107            | 67,476            |
| State and political subdivision obligations | -                                | -                | -                | 2,587             | 2,587             |
| U.S. government agencies                    | 110,091                          | 13,852           | 56,212           | 116,541           | 296,696           |
| U.S. Treasury                               | -                                | -                | -                | 658               | 658               |
| <b>Total</b>                                | <b>\$ 646,232</b>                | <b>\$ 13,852</b> | <b>\$ 56,212</b> | <b>\$ 168,374</b> | <b>\$ 884,670</b> |

As of December 31, 2010, the Authority had the following investment maturities:

| Investment Type                             | Investment Maturities (In Years) |                 |                  |                   | Total             |
|---|----------------------------------|-----------------|------------------|-------------------|-------------------|
|   | Less Than 1                      | 1-5             | 6-10             | More Than 10      |                   |
| Certificate of Deposit                      | \$ 47,200                        | \$ -            | \$ -             | \$ -              | \$ 47,200         |
| External investment pool (COLOTRUST)        | 105,079                          | 16              | -                | -                 | 105,095           |
| Investment agreements - collateralized      | 23,967                           | -               | -                | 6,875             | 30,842            |
| Investment agreements - uncollateralized    | 121,991                          | -               | -                | 40,277            | 162,268           |
| Money market mutual fund                    | 318,150                          | 507             | -                | -                 | 318,657           |
| Repurchase agreements                       | 2,162                            | -               | -                | 2,151             | 4,313             |
| State and political subdivision obligations | -                                | -               | -                | 3,038             | 3,038             |
| U.S. government agencies                    | 22,561                           | 6,897           | 65,961           | 105,441           | 200,860           |
| U.S. Treasury                               | -                                | -               | -                | 588               | 588               |
| <b>Total</b>                                | <b>\$ 641,110</b>                | <b>\$ 7,420</b> | <b>\$ 65,961</b> | <b>\$ 158,370</b> | <b>\$ 872,861</b> |

General Program investments of \$9,716,000 include investments pledged as of December 31, 2011 as follows: a \$2,700,000 certificate of deposit pledged to the FHLB line of credit and COLOTRUST investments of RDLP, RDLP II & RDLP V in the amounts of \$152,000, \$511,000 and \$18,000, respectively; each pledged as collateral for the Rural Development Loan Program (RDLP) notes payable.



**Notes to Basic Financial Statements**  
(tabular dollar amounts are in thousands)

General Program investments of \$75,900,000 include investments pledged as of December 31, 2010 as follows: a \$47,200,000 certificate of deposit pledged to the FHLB line of credit, \$3,581,000 GNMA security, COLOTRUST investments of RDLP, RDLP II & RDLP V in the amounts of \$247,000, \$482,000 and \$5,325, respectively; each pledged as collateral for the of Rural Development Loan Program (RDLP) notes payable.

All Single-Family and Multi-Family/Business Program investments, which total \$874,954,000, are restricted under bond indentures or other debt agreements, or otherwise pledged as collateral for borrowings.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Authority's investment policy requires 1) staggered maturities to avoid undue concentrations of assets in a specific maturity sector, 2) stable income, 3) adequate liquidity to meet operations and debt service obligations, and 4) diversification to avoid overweighting in any one type of security.

**Credit Risk** – The following table provides credit ratings of the Authority's investments as determined by Standard and Poor's and/or Moody's Investors Service.

| Investment Type                             | 2011                 |                   | 2010              |                   |
|---|----------------------|-------------------|-------------------|-------------------|
|   | Rating               | Total             | Rating            | Total             |
| Certificate of Deposit                      | Not Rated            | \$ 2,700          | Not Rated         | \$ 47,200         |
| External investment pool                    | AAA                  | 100,336           | AAA/Aaa           | 105,095           |
| Investment agreements - collateralized      | -                    | -                 | Not Rated         | 30,842            |
| Investment agreements - uncollateralized    | AA/Aa                | 49,840            | N/A               | -                 |
| Investment agreements - uncollateralized    | A/Aa                 | 45,533            | N/A               | -                 |
| Investment agreements - uncollateralized    | AAA/Aaa              | 27,970            | N/A               | -                 |
| Investment agreements - uncollateralized    | AA/Aaa/Aa/Baa/NR     | 15,502            | Not Rated         | 162,268           |
| Money market mutual fund                    | AAA/Aaa/NR           | 275,372           | AAA/Aaa/Aa/NR     | 318,657           |
| Repurchase agreements                       | Not Rated            | 67,476            | Not Rated         | 4,313             |
| State and political subdivision obligations | AAA/Aaa/AA           | 2,587             | AAA/Aaa/AA/Baa/Aa | 3,038             |
| U.S. government agencies                    | AA/Aaa/U.S. Treasury | 296,696           | AAA/Aaa           | 200,860           |
| U.S. Treasury                               | AA/Aaa               | 658               | AAA/Aaa           | 588               |
| <b>Total</b>                                |                      | <b>\$ 884,670</b> |                   | <b>\$ 872,861</b> |

Of the investments in securities issued by state and political subdivisions, 47% are rated AAA. Investment agreements meet the requirements of the rating agency providing the rating on the related debt issue and of the Board's investment policy.

As of December 31, 2011 and 2010, the Authority had invested in the Colorado Local Government Liquid Asset Trust (COLOTRUST), an investment vehicle established for local governmental entities in Colorado to pool funds available for investment. COLOTRUST is reflected in the above tables as an external investment pool. The State Securities Commissioner administers and enforces all State statutes governing COLOTRUST. COLOTRUST operates similarly to a money market fund and each share's fair value is \$1.00.





**Notes to Basic Financial Statements**  
*(tabular dollar amounts are in thousands)*

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**Concentration of Credit Risk** – The Authority has various maximum investment limits both by type of investment and by issuer to prevent inappropriate concentration of credit risk. The following table provides information on issuers in which the Authority has investments representing more than 5% of its total investments or of the respective funds, as of December 31, 2011 and 2010.

| <b>Issuer</b>                                      | <b>2011</b> | <b>2010</b> |
|--|-------------|-------------|
| Certificate of deposit - FHLB                      | 2.79%       | 7.82%       |
| U.S. government agencies - FHLMC                   | 6.76%       | 5.94%       |
| U.S. government agencies - FNMA                    | 5.93%       | 5.50%       |
| Investment agreements - uncollateralized - IXIS    | 14.01%      | 10.83%      |
| Investment agreements - uncollateralized - Trinity | 4.74%       | 6.30%       |

**Custodial Credit Risk – Investments** – Custodial credit risk is the risk that, in the event of the failure of the custodian, the Authority will not be able to recover the value of its investment or collateral securities that are in the possession of the custodian. All securities owned by the Authority are either in the custody of the related bond indenture trustees or held in the name of the Authority by a party other than the issuer of the security.

**Custodial Credit Risk – Cash Deposits** – In the case of cash deposits, custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. All deposit accounts were either covered by the Federal Deposit Insurance Corporation or collateralized in accordance with the State of Colorado's Division of Banking's Public Deposit Protection Act.

Included in cash deposits are escrow deposits in the amount of \$24,652,000 and \$25,586,000 held in a fiduciary capacity as of December 31, 2011 and 2010, respectively. These escrow deposits are primarily held for the payment of property taxes and insurance on behalf of the mortgagors whose loans are owned or serviced by the Authority.



**Notes to Basic Financial Statements**  
*(tabular dollar amounts are in thousands)*

**(3) Loans Receivable, Related Allowances and Troubled Debt Restructuring**

Loans receivable and loans receivable held for sale at December 31, 2011 and 2010 consist of the following:

|   | 2011         | 2010         |
|---|--------------|--------------|
| General Programs  | \$ 222,249   | \$ 233,313   |
| Single Family Programs:   |              |              |
| Program Senior and Subordinate                                  | 54,300       | 63,267       |
| Mortgage  | 1,285,980    | 1,569,295    |
| Total Single Family Program loans                               | 1,340,280    | 1,632,562    |
| Multi-Family/Business Programs:                                 |              |              |
| Insured Mortgage Revenue  | 49,697       | 74,039       |
| Multi-Family/Project  | 727,057      | 751,656      |
| Total Multi-Family/Business Program loans                       | 776,754      | 825,695      |
| Less intercompany loans, included in Multi-Family/Project above | (16,852)     | (17,640)     |
| Total   | 2,322,431    | 2,673,930    |
| Payments in process   | 111          | (2,407)      |
| Deferred cash assistance expense                                | 6,082        | 6,635        |
| Deferred fee income   | (8,150)      | (8,960)      |
| Allowance for loan losses                                       | (17,423)     | (19,737)     |
| Total loans receivable, net and loans receivable held for sale  | \$ 2,303,051 | \$ 2,649,461 |

Substantially all loans are restricted by bond indentures or other debt agreements.

Loans in the Single-Family Program and the Multi-Family/Business Program in the table above are grouped based on the related bond type (see note 6 for additional information).

During 2011, the Authority securitized and sold \$46.6 million single family loans for a gain. The gain is reported in gain on sale of loans in the accompanying statement of revenue, expense and changes in net position.

General Program loans include single-family, multi-family and business finance loans acquired under various programs of the General Program, loans to be sold through the issuance of GNMA securities, loans held as investments, and loans backed by bonds within the General Program. These loans are typically collateralized by mortgages on real property and improvements. Certain of these loans are also guaranteed by agencies of the U.S. government.

Single-family bond program loans are collateralized by mortgages on applicable real property, and in the case of loans with an initial loan-to-value ratio of 80% or more, are generally either insured by the Federal Housing Administration (FHA) or guaranteed by the Veterans Administration (VA) or Rural Economic and Community Development Department (RD) or insured by private mortgage insurance.

The single-family loan portfolio included in the general and single-family programs as of December 31, 2011 comprised of \$926 million of FHA insured loans, \$84 million of VA guaranteed loans, \$39 million of RD loans, \$249 million of conventional insured loans with the balance of \$168 million made up of uninsured conventional and second mortgage loans. The single-



**Notes to Basic Financial Statements**  
*(tabular dollar amounts are in thousands)*

family loan portfolio included in the general and single-family programs as of December 31, 2010 comprised of \$1.1 billion of FHA insured loans, \$110 million of VA guaranteed loans, \$46 million of RD loans and \$292 million of conventional insured loans with the balance of \$202 million made up of uninsured conventional and second mortgage loans. The Authority is exposed to operational risk, which makes it subject to loss or repurchase of insured FHA loans if specific guidelines are not met. In 2011, the Authority recorded a reserve of \$458 thousand for claim refunds to be paid to the U.S. Department of Housing and Urban Development ("HUD"). No reserve was recorded in 2010.

As of December 31, 2011 and 2010, single-family mortgage loans with pending foreclosure actions have aggregate principal balances of approximately \$96.6 million and \$61.7 million, respectively. As of December 31, 2011 and 2010, the aggregate principal balance of single-family mortgage loans delinquent 60 days or greater, excluding REOs, was approximately \$136.6 million and \$137.3 million, respectively.

The Multi-family/Business Program loans and a portion of General Program loans are commercial loans. Commercial loans are collateralized by mortgages on applicable real estate and, in some cases, are insured by an agency of the U.S. government, which reduces the credit risk exposure for that type of insured loan.

As of December 31, 2011, approximately \$530 million, or 75%, of the commercial loan balances are not covered by insurance. As of December 31, 2011, the insured loans comprised of \$240 million of Section 542(c) risk share loans, which are 50% insured, and \$40 million of Sections 221(d) and 223(f) new construction and rehabilitation loans, which are 99% insured.

As of December 31, 2010, the insured loans are comprised of \$253 million of Section 542(c) risk share loans, which are 50% insured, and \$58 million of Sections 221(d) and 223(f) new construction and rehabilitation loans, which are 99% insured. The remaining balances were uninsured.

As of December 31, 2011 and 2010, commercial loans with pending foreclosure actions have aggregate principal balances of approximately \$0.0 million and \$4.5 million, respectively. As of December 31, 2011 and 2010, commercial loans delinquent 60 days or greater aggregate principal balances were approximately \$4.1 million and \$6.1 million, respectively.

Activity in the allowance for loan loss for the years ended December 31, 2011 and 2010 was as follows:

|                       | <u>2011</u>      | <u>2010</u>      |
|-----------------------|------------------|------------------|
| Beginning balance     | \$ 19,737        | \$ 20,759        |
| Provision             | 9,036            | 6,521            |
| Net charge-offs       |                  |                  |
| Single-family         | (8,568)          | (3,840)          |
| Multi-family/Business | (2,782)          | (3,703)          |
| Ending balance        | <u>\$ 17,423</u> | <u>\$ 19,737</u> |

The Authority services loans on the behalf of others, primarily for Ginnie Mae, which are not reported on the Statement of Net Position. As of December 31, 2011 and 2010, these outstanding loan balances were \$1.0 billion and \$695.3 million, respectively.



**Notes to Basic Financial Statements**  
*(tabular dollar amounts are in thousands)*

The Authority has granted terms and interest rate concessions to Debtors, which are considered troubled debt restructuring, as of December 31, 2011 and 2010, as summarized below:

| <b>Single Family Program Loans:</b>                       | <b>2011</b> | <b>2010</b> |
|---|-------------|-------------|
| Aggregate Recorded Balance - TDRs                         | \$51,775    | \$15,368    |
| Number of TDR Loans                                       | 347         | 116         |
| Gross Interest Revenue<br>if Receivables had been current | \$3,124     | \$957       |
| Interest Revenue included in<br>Changes in Net Position   | \$1,936     | \$855       |

Single Family Program TDRs increased due to continuing difficult economic conditions for borrowers.

| <b>Multi-Family/Business Program Loans:</b>               | <b>2011</b> | <b>2010</b> |
|---|-------------|-------------|
| Aggregate Recorded Balance - TDRs                         | \$29,008    | \$42,711    |
| Number of TDR Loans                                       | 35          | 37          |
| Gross Interest Revenue<br>if Receivables had been current | \$1,803     | \$2,922     |
| Interest Revenue included in<br>Changes in Net Position   | \$1,748     | \$2,681     |

Multi-Family/Business Program TDRs decreased primarily due to loan payoffs.



Notes to Basic Financial Statements  
(tabular dollar amounts are in thousands)

(4) Capital Assets and Rental Acquisition Program (RAP)

Capital asset activity for the year ended December 31, 2011 was as follows:

|  | Beginning<br>Balance | Additions  | Reductions | Ending<br>Balance |
|--|----------------------|------------|------------|-------------------|
| <b>Non-depreciable capital assets:</b> |                      |            |            |                   |
| Land                                   | \$ 4,785             | \$ -       | \$ -       | \$ 4,785          |
| Construction in progress               | 762                  | 619        | (1,140)    | 241               |
| Total non-depreciable capital assets   | 5,547                | 619        | (1,140)    | 5,026             |
| <b>Depreciable capital assets:</b>     |                      |            |            |                   |
| Computer equipment/software            | 12,416               | 1,107      | -          | 13,523            |
| Furniture and equipment                | 995                  | 72         | -          | 1,067             |
| Rental property - non-building related | 2,021                | 421        | (271)      | 2,171             |
| Buildings and related improvements     | 27,718               | 54         | -          | 27,772            |
| Total depreciable capital assets       | 43,150               | 1,654      | (271)      | 44,533            |
| Less accumulated depreciation:         |                      |            |            |                   |
| Computer equipment/software            | (7,571)              | (2,226)    | -          | (9,797)           |
| Furniture and equipment                | (398)                | (115)      | -          | (513)             |
| Rental property - non-building related | (816)                | (242)      | 241        | (817)             |
| Buildings and related improvements     | (13,171)             | (1,101)    | -          | (14,272)          |
| Total accumulated depreciation         | (21,956)             | (3,684)    | 241        | (25,399)          |
| Total depreciable capital assets, net  | 21,194               | (2,030)    | (30)       | 19,134            |
| Total capital assets, net              | \$ 26,741            | \$ (1,411) | \$ (1,170) | \$ 24,160         |



*Notes to Basic Financial Statements*  
*(tabular dollar amounts are in thousands)*

Capital asset activity for the year ended December 31, 2010 was as follows:

|  | <b>Beginning<br/>Balance</b> | <b>Additions</b> | <b>Reductions</b> | <b>Ending<br/>Balance</b> |
|--|------------------------------|------------------|-------------------|---------------------------|
| <b>Non-depreciable capital assets:</b> |                              |                  |                   |                           |
| Land                                   | \$ 4,785                     | \$ -             | \$ -              | \$ 4,785                  |
| Construction in progress               | 196                          | 1,250            | (684)             | 762                       |
| Total non-depreciable capital assets   | 4,981                        | 1,250            | (684)             | 5,547                     |
| <b>Depreciable capital assets:</b>     |                              |                  |                   |                           |
| Computer equipment/software            | 11,694                       | 722              | -                 | 12,416                    |
| Furniture and equipment                | 1,091                        | 53               | (149)             | 995                       |
| Rental property - non-building related | 2,087                        | 173              | (239)             | 2,021                     |
| Buildings and related improvements     | 27,568                       | 634              | (484)             | 27,718                    |
| Total depreciable capital assets       | 42,440                       | 1,582            | (872)             | 43,150                    |
| Less accumulated depreciation:         |                              |                  |                   |                           |
| Computer equipment/software            | (5,367)                      | (2,204)          | -                 | (7,571)                   |
| Furniture and equipment                | (408)                        | (139)            | 149               | (398)                     |
| Rental property - non-building related | (790)                        | (265)            | 239               | (816)                     |
| Buildings and related improvements     | (12,270)                     | (1,165)          | 264               | (13,171)                  |
| Total accumulated depreciation         | (18,835)                     | (3,773)          | 652               | (21,956)                  |
| Total depreciable capital assets, net  | 23,605                       | (2,191)          | (220)             | 21,194                    |
| Total capital assets, net              | \$ 28,586                    | \$ (941)         | \$ (904)          | \$ 26,741                 |



**Notes to Basic Financial Statements**  
*(tabular dollar amounts are in thousands)*

As discussed in note 1(c), the Authority's capital assets consist of two groups; corporate capital assets and RAP capital assets. Summary of capital asset activity for these two groups for the year ended December 31, 2011 was as follows:

|                              | Beginning<br>Balance | Additions  | Reductions | Ending<br>Balance |
|------------------------------|----------------------|------------|------------|-------------------|
| <b>Corporate activities:</b> |                      |            |            |                   |
| Cost                         | \$ 23,501            | \$ 1,834   | \$ (1,140) | \$ 24,195         |
| Accumulated depreciation     | (11,216)             | (2,745)    | -          | (13,961)          |
| Net                          | 12,285               | (911)      | (1,140)    | 10,234            |
| <b>RAP activities:</b>       |                      |            |            |                   |
| Cost                         | 25,196               | 439        | (271)      | 25,364            |
| Accumulated depreciation     | (10,740)             | (939)      | 241        | (11,438)          |
| Net                          | 14,456               | (500)      | (30)       | 13,926            |
| Total capital assets, net    | \$ 26,741            | \$ (1,411) | \$ (1,170) | \$ 24,160         |

Summary of capital asset activity for these two components for the year ended December 31, 2010 was as follows:

|                              | Beginning<br>Balance | Additions | Reductions | Ending<br>Balance |
|------------------------------|----------------------|-----------|------------|-------------------|
| <b>Corporate activities:</b> |                      |           |            |                   |
| Cost                         | \$ 22,344            | \$ 2,072  | \$ (915)   | \$ 23,501         |
| Accumulated depreciation     | (8,696)              | (2,749)   | 229        | (11,216)          |
| Net                          | 13,648               | (677)     | (686)      | 12,285            |
| <b>RAP activities:</b>       |                      |           |            |                   |
| Cost                         | 25,077               | 760       | (641)      | 25,196            |
| Accumulated depreciation     | (10,139)             | (1,024)   | 423        | (10,740)          |
| Net                          | 14,938               | (264)     | (218)      | 14,456            |
| Total capital assets, net    | \$ 28,586            | \$ (941)  | \$ (904)   | \$ 26,741         |



**Notes to Basic Financial Statements**  
*(tabular dollar amounts are in thousands)*

Summary of financial information for the Authority's RAP activities as of December 31, 2011 and 2010 was as follows:

| <b>For the years ended December 31,</b>   | <b>2011</b> | <b>2010</b> |
|---|-------------|-------------|
| Property, net of accumulated depreciation | \$ 13,926   | \$ 14,456   |
| Total assets                              | 19,334      | 18,210      |
| Total liabilities                         | 14,348      | 14,754      |
| Net position                              | 4,986       | 3,456       |

| <b>For the years ended December 31,</b> | <b>2011</b> | <b>2010</b> |
|---|-------------|-------------|
| Rental income                           | \$ 8,096    | \$ 7,656    |
| Gain (loss) on sale of capital assets   | (30)        | 128         |
| Interest income                         | 7           | 7           |
| General operating expenses              | (4,544)     | (5,176)     |
| Depreciation expense                    | (939)       | (1,024)     |
| Interest expense                        | (1,060)     | (1,093)     |
| Operating income                        | \$ 1,530    | \$ 498      |

#### **(5) Short-Term Debt**

The Authority has agreements with the Federal Home Loan Bank of Topeka (FHLB) for collateralized borrowings in an amount not to exceed the lending limit internally established by the FHLB, which is 40% of the Authority's total assets, or \$1.3 billion. As of December 31, 2011 and 2010, the Authority had \$46.1 million and \$87.9 million of short-term debt outstanding with the FHLB, respectively. Borrowings under these agreements are used to support the Authority's various lending programs, to purchase loans to be sold through the issuance of GNMA securities and activities related to the Authority's private activity bond volume cap preservation program. Amounts drawn under the agreements bear interest at the same rates charged by the FHLB to its member banks and are collateralized by certain mortgage loans and investments. There are no commitment fees associated with these agreements.

The Authority also has a revolving, unsecured, commercial bank line of credit agreement for borrowings of up to \$30.0 million. Amounts drawn under the agreement bear interest fixed at 1.95% per annum above the daily One-Month LIBOR. This line of credit agreement terminates on September 30, 2012. The Authority pays an unused line fee at the rate of 0.25% per annum, payable in arrears on the first business day after each calendar quarter. The fee is based upon the amount by which the daily average of the aggregate principal amount of the borrowings outstanding is less than the line of credit.





**Notes to Basic Financial Statements**  
*(tabular dollar amounts are in thousands)*

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Short-term debt activity for the years ended December 31, 2011, and 2010 was as follows:

|                   | <u>2011</u>        | <u>2010</u>        |
|-------------------|--------------------|--------------------|
| Beginning Balance | \$ 87,900          | \$ 73,250          |
| Additions         | 5,228,735          | 4,467,100          |
| Repayments        | <u>(5,270,535)</u> | <u>(4,452,450)</u> |
| Ending Balance    | <u>\$ 46,100</u>   | <u>\$ 87,900</u>   |

**(6) Bonds, Notes Payable and Other Liabilities**

The Authority issues bonds and notes payable to finance its lending programs. Proceeds from long-term debt of the Single Family and Multi-Family/Business bonds are used for funding of single-family, multi-family and business loans. Long-term debt of the General Programs (including notes payable) is used to finance single-family and business loans related to various private placements, the Authority's RAP activities and general corporate purposes. The aggregate principal amounts of bonds and notes payable outstanding as of December 31, 2011 and 2010, are shown in the table on the following pages. Interest is payable semi-annually unless otherwise noted. Interest rates on most of the variable rate debt reset on a weekly basis by the remarketing agents. At December 31, 2011 these rates ranged from 0.08% to 1.85%. At December 31, 2010 these rates ranged from 0.27% to 0.54%. Three of the bond series reset on a monthly basis based on LIBOR, and one bond sub-series resets monthly based on the Securities Industry Financial Markets Association Municipal Swap Index (SIFMA).



**Notes to Basic Financial Statements**  
(tabular dollar amounts are in thousands)

| Description and Maturity Date  | Interest rate (%) | 2011          | 2010          |
|--|-------------------|---------------|---------------|
| <b>Bonds payable:</b>  |                   |               |               |
| <b>General Programs - All General Program bonds carry the Authority's general obligation pledge:</b> |                   |               |               |
| Single Family:   |                   |               |               |
| Taxable Mortgage Revenue Bonds: (* principal and interest payable monthly)                           |                   |               |               |
| 2000 Series A* 2012 - 2020   | 6.91              | \$ 358        | \$ 384        |
| 2001 Series AP* 2012 - 2021  | 6.14              | 1,220         | 1,287         |
| 2004 Series A* 2012 - 2024   | 4.95              | 815           | 1,043         |
| 2004 Series B* 2012 - 2035   | 4.98              | 2,075         | 2,337         |
| 2004 Series CV* 2012 - 2035  | 5.14              | 1,146         | 1,494         |
| 2005 Series A* 2012 - 2035   | 5.17              | 5,135         | 6,252         |
| 2005 Series B* 2012 - 2036   | 5.32              | 4,651         | 5,353         |
| 2006 Series A* 2012 - 2036   | 5.92              | 5,774         | 6,786         |
| 2007 Series A* 2012 - 2037   | 5.50              | 4,672         | 5,704         |
| 2011 Series A* 2012 - 2031   | 2.92              | 4,678         | -             |
| <b>Total Single Family</b>   |                   | <b>30,524</b> | <b>30,640</b> |
| Multi-Family/Business Finance:   |                   |               |               |
| Guaranteed Loan Participation Purchase Bonds: (* principal and interest payable monthly)             |                   |               |               |
| 1999 Series A 2012-2024  | 5.71              | 491           | 521           |
| 2003 Series A* 2012-2023   | 5.00              | 193           | 1,539         |
| 2004 Series A* 2012-2024   | 4.62              | 935           | 1,995         |
| 2004 Series B* 2012-2024   | 4.88              | 4,652         | 5,991         |
| 2005 Series A* 2012-2025   | 4.81              | 2,241         | 2,524         |
| 2006 Series A* 2012-2026   | 5.98              | 2,366         | 3,158         |
| 2007 Series A* 2012-2027   | 5.89              | 1,933         | 3,290         |
| <b>Total Guaranteed Loan Participation Purchase Bonds</b>  |                   | <b>12,811</b> | <b>19,018</b> |
| Project Loan Participation Purchase Bonds: (* principal and interest payable monthly)                |                   |               |               |
| 2004 Series AP* 2012-2024  | 4.90              | 3,556         | 4,497         |
| Taxable Rental Project Revenue Bonds: (* principal and interest payable monthly)                     |                   |               |               |
| 2000 Series A 2012-2020  | 6.15              | 3,799         | 3,844         |
| 2002 Series AV* 2012-2022  | 5.55              | 5,176         | 5,476         |
| 2003 Series AV* 2012-2024  | 5.19              | 3,332         | 3,428         |
| 2004 Series A* 2012-2024   | 4.90              | 11,087        | 11,483        |
| <b>Total Taxable Rental Project Revenue Bonds</b>  |                   | <b>23,394</b> | <b>24,231</b> |
| <b>Total Multi-Family/Business Finance</b>   |                   | <b>39,761</b> | <b>47,746</b> |
| <b>Total General Programs</b>  |                   | <b>70,285</b> | <b>78,386</b> |

Table continued on following page.



**Notes to Basic Financial Statements**  
(tabular dollar amounts are in thousands)

| Description and Maturity Date  | Interest rate (%)                          | 2011             | 2010             |
|--|--|------------------|------------------|
| <b>Single Family Program:</b>  |  |                  |                  |
| Single Family Program Senior and Subordinate Bonds:  |  |                  |                  |
| 1998 Series A 2012 - 2029  | 6.50 - 6.60                                | 1,820            | 2,365            |
| 1998 Series B 2012 - 2029  | 5.50                                       | 2,198            | 2,748            |
| 1998 Series C 2012 - 2029  | 5.63                                       | 3,698            | 3,900            |
| 1998 Series D 2012 - 2029  | 6.13 - 6.35                                | 2,935            | 3,815            |
| 1999 Series A 2012 - 2030  | 6.05 - 6.45                                | 3,340            | 4,300            |
| 1999 Series B 2012 - 2030  | 6.50 - 6.80                                | 1,075            | 1,660            |
| 1999 Series C 2012 - 2031  | 6.75 - 7.05                                | 2,810            | 3,715            |
| 2000 Series A 2012 - 2031  | 7.35 - 7.50                                | 1,480            | 1,730            |
| 2000 Series B 2012 - 2031  | 6.70 - 7.25                                | 1,630            | 1,905            |
| 2000 Series C 2012 - 2031  | 5.70 - 8.40                                | 1,040            | 1,355            |
| 2000 Series D 2012 - 2032  | 5.40 - 6.90                                | 1,905            | 2,620            |
| 2000 Series E 2012 - 2032  | 5.38 - 7.00                                | 1,780            | 1,980            |
| 2001 Series A 2012 - 2032  | 5.00 - 6.50                                | 4,345            | 4,715            |
| 2001 Series B 2012 - 2033  | 5.00 - 6.80                                | 5,160            | 5,870            |
| 2001 Series C 2012 - 2033  | 4.88 - 6.60                                | 6,505            | 7,610            |
| <b>Total Single Family Program Senior and Subordinate Bonds</b>  |  | <b>41,721</b>    | <b>50,288</b>    |
| Single Family Mortgage Bonds: (* rates on the 2011 Series D bonds increase if the bond rating is downgraded) |  |                  |                  |
| 2001 Series AA 2012 - 2041   | Variable & 5.25                            | 111,840          | 111,840          |
| 2002 Series A 2012 - 2032  | Variable & 5.00 - 5.65                     | 33,895           | 36,190           |
| 2002 Series B 2012 - 2032  | Variable & 4.80 - 5.40                     | 31,765           | 58,400           |
| 2002 Series C 2012 - 2036  | Variable & 4.40 - 4.95                     | 39,485           | 67,550           |
| 2003 Series A 2012 - 2032  | Variable & 4.75 - 5.15                     | 29,065           | 33,170           |
| 2003 Series B 2012 - 2033  | Variable & 5.00                            | 102,845          | 120,385          |
| 2003 Series C 2012 - 2032  | Variable & 5.00                            | 43,125           | 62,765           |
| 2004 Series A 2012 - 2034  | Variable & 5.25                            | 42,190           | 72,900           |
| 2004 Series B 2012 - 2034  | Variable & 5.25                            | 34,585           | 64,615           |
| 2005 Series A 2012 - 2035  | Variable & 5.25                            | 38,095           | 64,890           |
| 2005 Series B 2012 - 2036  | Variable & 4.98 - 5.22                     | 68,490           | 124,770          |
| 2006 Series A 2012 - 2036  | Variable & 5.00                            | 77,350           | 82,600           |
| 2006 Series B 2012 - 2036  | Variable & 5.10                            | 115,520          | 145,495          |
| 2006 Series C 2012 - 2036  | Variable & 4.63                            | 97,830           | 125,125          |
| 2007 Series A 2012 - 2037  | Variable & 4.80                            | 100,295          | 145,115          |
| 2007 Series B 2012 - 2038  | Variable                                   | 136,370          | 174,780          |
| 2008 Series A 2012 - 2038  | Variable & 5.00 - 5.75                     | 194,790          | 302,420          |
| 2009 Series A 2012 - 2029  | 2.95 - 5.50                                | 69,570           | 78,900           |
| 2011 Series AA 2012 - 2041   | 0.60 - 5.00                                | 96,415           | -                |
| 2011 Series B 2012 - 2014  | Variable = 1 month LIBOR + (0.70 - 0.90)   | 64,180           | -                |
| 2011 Series C 2012 - 2013  | Variable = 1 month LIBOR + 0.60            | 108,970          | -                |
| 2011 Series D 2012 - 2016  | Variable & SIFMA + 0.70, 75% LIBOR + 0.80* | 54,085           | -                |
| <b>Total Single Family Mortgage Bonds</b>  |  | <b>1,690,755</b> | <b>1,871,910</b> |
| Single Family Program Bonds:   |  |                  |                  |
| 2009 Series AA 2015  | Variable - NIBP                            | 216,410          | 275,210          |
| <b>Total Single Family Program</b>   |  | <b>1,948,886</b> | <b>2,197,408</b> |

Table continued on following page.



**Notes to Basic Financial Statements**  
(tabular dollar amounts are in thousands)

| Description and Maturity Date   | Interest rate (%)      | 2011                | 2010                |
|---|------------------------|---------------------|---------------------|
| <b>Multi-Family/Business Program:</b>   |                        |                     |                     |
| Multi-Family Housing Insured - Mortgage Revenue Bonds:  |                        |                     |                     |
| 1997 Series A 2012-2038   | 5.75 - 7.13            | -                   | 1,540               |
| 1997 Series B 2012-2038   | 5.70 - 5.90            | 3,915               | 10,220              |
| 1997 Series C 2012-2039   | 5.60 - 5.75            | 8,715               | 20,965              |
| 1998 Series A 2012-2039   | 5.35 - 6.70            | 9,220               | 15,050              |
| 1998 Series B 2012-2040   | 5.45 - 7.00            | 1,525               | 6,750               |
| 1999 Series A 2012-2041   | 4.55 - 6.65            | 17,920              | 18,130              |
| 1999 Series B 2012-2041   | 5.25 - 5.85            | 5,075               | 5,135               |
| 1999 Series C 2012-2041   | 6.05 - 6.20            | 5,565               | 5,610               |
| 2002 Series AA 2012-2030  | Variable               | 25,420              | 26,820              |
| Total Multi-Family Housing Insured - Mortgage Revenue Bonds                                   |                        | 77,355              | 110,220             |
| Multi-Family/Project Bonds: (* principal and interest payable quarterly on some of the bonds) |                        |                     |                     |
| 2000 Series A 2012 - 2030   | Variable               | 18,110              | 21,715              |
| 2000 Series B* 2012 - 2042  | Variable & 5.90 - 6.10 | 25,410              | 25,790              |
| 2001 Series A 2012 - 2043   | 5.30 - 5.65            | 22,710              | 24,560              |
| 2002 Series A 2012 - 2042   | Variable & 5.70        | 22,150              | 22,585              |
| 2002 Series C 2012 - 2042   | Variable & 4.20 - 5.30 | 108,660             | 111,575             |
| 2003 Series A 2012 - 2033   | Variable               | 37,210              | 38,235              |
| 2004 Series A 2012 - 2045   | Variable & 3.60 - 4.80 | 73,255              | 76,470              |
| 2005 Series A 2012 - 2040   | Variable               | 63,730              | 65,390              |
| 2005 Series B 2012 - 2040   | Variable               | 25,065              | 25,650              |
| 2006 Series A 2012 - 2036   | Variable               | 51,815              | 53,305              |
| 2007 Series B 2012 - 2038   | Variable               | 78,545              | 84,000              |
| 2008 Series A 2012 - 2043   | Variable               | 30,775              | 31,470              |
| 2008 Series B 2012 - 2052   | Variable               | 163,505             | 164,905             |
| 2008 Series C 2012 - 2038   | Variable               | 34,650              | 34,940              |
| 2009 Series A 2012 - 2041   | Variable & 1.30 - 5.40 | 41,630              | 44,605              |
| Total Multi-Family/Project Bonds  |                        | 797,220             | 825,195             |
| <b>Total Multi-Family/Business Program</b>  |                        | <b>874,575</b>      | <b>935,415</b>      |
| <b>Total bonds payable</b>  |                        | <b>2,893,746</b>    | <b>3,211,209</b>    |
| <b>Premiums and losses classified as bonds payable</b>  |                        |                     |                     |
| Deferred premiums   |                        | 3,273               | 3,311               |
| Deferred losses on refunding  |                        | (15,147)            | (5,004)             |
| <b>Bonds payable, net</b>   |                        | <b>2,881,872</b>    | <b>3,209,516</b>    |
| <b>Notes payable</b>  |                        | <b>7,535</b>        | <b>6,252</b>        |
| <b>Bonds and notes payable, net</b>   |                        | <b>\$ 2,889,407</b> | <b>\$ 3,215,768</b> |
| <b>Statement of Net Position Summary</b>  |                        |                     |                     |
| <b>Current:</b>   |                        |                     |                     |
| Bonds payable   |                        | 321,512             | 299,187             |
| Notes payable   |                        | 104                 | 79                  |
| <b>Noncurrent:</b>  |                        |                     |                     |
| Bonds and notes payable, net  |                        | 2,567,791           | 2,916,502           |
| <b>Total</b>  |                        | <b>\$ 2,889,407</b> | <b>\$ 3,215,768</b> |



**Notes to Basic Financial Statements**  
*(tabular dollar amounts are in thousands)*

A breakdown of bonds payable as of December 31, 2011 and 2010, by fixed and variable interest rates, follows in the table below. Certain of the Authority's variable rate debt has been hedged by entering into pay fixed/receive variable rate interest rate swap agreements as further described in note 8. Such debt is referred to in the table as synthetic fixed rate debt.

| Description                                 | 2011         | 2010         |
|---|--------------|--------------|
| Fixed rate debt                             | \$ 552,332   | \$ 555,879   |
| Hedged variable rate (synthetic fixed) debt | 1,944,459    | 2,088,735    |
| Unhedged variable rate debt                 | 396,955      | 566,595      |
| Total                                       | \$ 2,893,746 | \$ 3,211,209 |

Included in certain of the bond issues shown in the previous table are capital appreciation term bonds. The principal amounts of these bonds appreciate based on semiannual compounding of the original principal balances at the interest rates specified. The appreciated balances of these bonds at maturity, and as reflected in the accompanying Statement of Net Position at December 31, 2011, are as follows:

| Description and due date                            | Interest Rate (%) | Appreciated Balances |                 |
|---|-------------------|----------------------|-----------------|
|   |                   | Maturity             | 2011            |
| Single Family Program Senior and Subordinate Bonds: |                   |                      |                 |
| 1998 Series B - 2025-2029                           | 5.50              | \$ 5,046             | \$ 2,198        |
| 1998 Series C - 2020-2029                           | 5.63              | 7,459                | 3,698           |
|   |                   |                      | <u>\$ 5,896</u> |

The appreciated balances of these bonds at maturity, and as reflected in the accompanying Statement of Net Position at December 31, 2010, are as follows:

| Description and due date                            | Interest Rate (%) | Appreciated Balances |                 |
|---|-------------------|----------------------|-----------------|
|   |                   | Maturity             | 2010            |
| Single Family Program Senior and Subordinate Bonds: |                   |                      |                 |
| 1998 Series B - 2025-2029                           | 5.50              | \$ 6,053             | \$ 2,498        |
| 1998 Series C - 2020-2029                           | 5.63              | 8,313                | 3,900           |
|   |                   |                      | <u>\$ 6,398</u> |



**Notes to Basic Financial Statements**  
(tabular dollar amounts are in thousands)

Also included in the table of bonds and notes payable outstanding are certain Single-Family and Multi-Family/Project bonds, which carry the Authority's general obligation pledge. These general obligation bonds are presented in the following table as of December 31, 2011 and 2010:

| Description                             | 2011       | 2010       |
|---|------------|------------|
| General Fund Program Bonds              | \$ 70,285  | \$ 78,386  |
| Single Family Program Subordinate Bonds | 310        | 505        |
| Single Family Mortgage Bonds, Class III | 53,480     | 63,525     |
| Multi-Family/Project Bonds, Class I     | 265,430    | 272,145    |
| Multi-Family/Project Bonds, Class II    | 22,095     | 22,625     |
| Multi-Family/Project Bonds, Class III   | 1,700      | 2,040      |
| Total                                   | \$ 413,300 | \$ 439,226 |

Standby Purchase Agreements provide liquidity support on variable rate bonds that are remarketed weekly. The liquidity/commitment fees vary by agreement and are based on a percentage of the outstanding bond balance, payable semi-annually. Liquidity fees for the years ended December 31, 2011 and 2010 were \$10.2 and \$8.5 million, respectively. A schedule of providers and maturities is presented below, as of December 31, 2011:

| Liquidity Expiration | Barclays Bank PLC. (1) | Credit Agricole - CIB (2) | FHLB (3)   | KBC Bank N.V. (4) | Royal Bank of Canada (5) | TCLP (6)   | Grand Total  |
|----------------------|------------------------|---------------------------|------------|-------------------|--------------------------|------------|--------------|
| 04/12                | \$ -                   | \$ -                      | \$ 29,950  | \$ -              | \$ -                     | \$ -       | \$ 29,950    |
| 08/12                | -                      | 78,545                    | -          | -                 | -                        | -          | 78,545       |
| 09/12                | 106,320                | -                         | -          | -                 | -                        | -          | 106,320      |
| 09/12                | -                      | -                         | 64,925     | -                 | -                        | -          | 64,925       |
| 10/12                | -                      | -                         | -          | 50,000            | -                        | -          | 50,000       |
| 04/13                | -                      | -                         | 45,875     | -                 | -                        | -          | 45,875       |
| 04/13                | -                      | -                         | 30,775     | -                 | -                        | -          | 30,775       |
| 05/13                | -                      | -                         | 16,425     | -                 | -                        | -          | 16,425       |
| 06/13                | -                      | -                         | 163,505    | -                 | -                        | -          | 163,505      |
| 09/13                | -                      | -                         | 37,210     | -                 | -                        | -          | 37,210       |
| 10/13                | -                      | -                         | 1,720      | -                 | -                        | -          | 1,720        |
| 11/13                | -                      | -                         | 100,640    | -                 | -                        | -          | 100,640      |
| 12/13                | -                      | -                         | 25,065     | -                 | -                        | -          | 25,065       |
| 12/13                | -                      | -                         | 94,650     | -                 | -                        | -          | 94,650       |
| 03/14                | -                      | -                         | 18,110     | -                 | -                        | -          | 18,110       |
| 05/14                | -                      | -                         | 62,140     | -                 | -                        | -          | 62,140       |
| 06/14                | -                      | -                         | 112,270    | -                 | -                        | -          | 112,270      |
| 06/14                | -                      | -                         | 171,315    | -                 | -                        | -          | 171,315      |
| 10/14                | -                      | -                         | -          | -                 | 190,930                  | -          | 190,930      |
| 12/15                | -                      | -                         | -          | -                 | -                        | 492,305    | 492,305      |
| Total                | \$ 106,320             | \$ 78,545                 | \$ 974,575 | \$ 50,000         | \$ 190,930               | \$ 492,305 | \$ 1,892,675 |

The following provides the terms of the debt service requirements that would result if the SBPA commitments were to be exercised (bank bond rate, accelerated payment schedule, and lien):

- (1) (a) Bank Rate: for the first 30 days following the purchase date, the "Base Rate" which equals the highest of the Fed funds plus 5%, prime rate plus 5% and Three-Month LIBOR plus 5%; then for the period 31-90 days following the purchase date, the Base Rate plus 2.00%; then for the period 91 days and higher following the purchase date, 12%.
  - (b) Term out provisions: accelerated principal payment due in full on the date which is three years following the purchase date. Class III lien/General Obligation.
- (2) (a) Bank Rate: the higher of (a) prime rate or (b) Fed funds rate plus 1%.
  - (b) Term out provisions: repayments due 90 days following purchase date in equal semiannual installments until fifth anniversary of the purchase date. Class I lien.



**Notes to Basic Financial Statements**  
(tabular dollar amounts are in thousands)

- (3) (a) Bank Rate: One-Month LIBOR plus 2.00% (1.50% for 2003 Series B-3 Bonds).  
 (b) Term out provisions: repayments due 90 days following purchase date in equal semiannual installments until fifth anniversary of the purchase date. Class III lien/General Obligation.
- (4) (a) Bank Rate: the higher of (a) prime rate or (b) Fed funds rate plus 1%.  
 (b) Term out provisions: 10 equal semiannual installments following the purchase date. Class III lien/General Obligation.
- (5) (a) Bank Rate: for the first 90 days following the purchase date, the "Base Rate" which equals the highest of (i) the prime rate plus 2.50%, (ii) the Fed funds rate plus 3.00% and (iii) 8.00%; then for the period 91-180 days following the purchase date, the Base Rate plus 1.00%; then for the period 181 days and higher following the purchase date, the Base Rate plus 2.00%.  
 (b) Term out provisions: repayments due on the first business day of February, May, August or November on or following 90 days following purchase date and thereafter quarterly on each such dates in equal installments to the third anniversary of such purchase date. Class I lien.
- (6) (a) Bank Rate: prime rate (based on JPMorgan Prime Rate) plus 1.00%.  
 (b) Term out provisions: accelerated principal payment due in full on tenth anniversary of the purchase date. Class I lien.

Bonds, notes payable and other noncurrent liability activity for the year ended December 31, 2011 was as follows:

| Description                  | Beginning<br>Balance | Additions  | Reductions   | Ending<br>Balance | Due Within<br>One Year |
|------------------------------|----------------------|------------|--------------|-------------------|------------------------|
| Bonds payable                | \$ 2,911,864         | \$ 266,435 | \$ (606,758) | \$ 2,571,541      | \$ 322,205             |
| Deferred premiums            | 3,002                | -          | (95)         | 2,907             | 366                    |
| Deferred losses on refunding | (4,537)              | (11,450)   | 1,899        | (14,088)          | (1,059)                |
| Net bonds payable            | 2,910,329            | 254,985    | (604,954)    | 2,560,360         | 321,512                |
| Notes payable                | 6,173                | 1,388      | (130)        | 7,431             | 104                    |
| Arbitrage rebate payable     | 2,942                | 1,006      | (2,469)      | 1,479             | -                      |
| Deferred income              | 3,041                | 12         | (331)        | 2,722             | 195                    |
| Other liabilities            | 2,784                | 19,006     | (2,050)      | 19,740            | 17,009                 |
|                              | 8,767                | 20,024     | (4,850)      | 23,941            | 17,204                 |
|                              | \$ 2,925,269         | \$ 276,397 | \$ (609,934) | \$ 2,591,732      | \$ 338,820             |



**Notes to Basic Financial Statements**  
(tabular dollar amounts are in thousands)

Bonds, notes payable and other noncurrent liability activity for the year ended December 31, 2010 was as follows:

| Description                  | Beginning Balance | Additions  | Reductions   | Ending Balance | Due Within One Year |
|------------------------------|-------------------|------------|--------------|----------------|---------------------|
| Bonds payable                | \$ 3,164,517      | \$ 275,210 | \$ (527,863) | \$ 2,911,864   | \$ 299,345          |
| Deferred premiums            | 4,458             | -          | (1,456)      | 3,002          | 309                 |
| Deferred losses on refunding | (5,425)           | -          | 888          | (4,537)        | (467)               |
| Net bonds payable            | 3,163,550         | 275,210    | (528,431)    | 2,910,329      | 299,187             |
| Notes payable                | 20,968            | 125        | (14,920)     | 6,173          | 79                  |
| Arbitrage rebate payable     | 3,731             | (757)      | (32)         | 2,942          | -                   |
| Deferred income              | 3,176             | 228        | (363)        | 3,041          | 217                 |
| Other liabilities            | 2,996             | -          | (212)        | 2,784          | 35,009              |
|                              | 9,903             | (529)      | (607)        | 8,767          | 36,258              |
|                              | \$ 3,194,421      | \$ 274,806 | \$ (543,958) | \$ 2,925,269   | \$ 335,524          |

Bonds and notes payable sinking fund installments and contractual maturities subsequent to December 31, 2011, using rates in effect as of December 31, 2011, are as follows:

| Years Ending December 31, | General Program |           | Single Family |            | Multi-Family |            | Notes Payable |          |
|---------------------------|-----------------|-----------|---------------|------------|--------------|------------|---------------|----------|
|                           | Principal       | Interest  | Principal *   | Interest   | Principal    | Interest   | Principal     | Interest |
| 2012                      | \$ -            | \$ 3,633  | \$ 312,540    | \$ 20,389  | \$ 9,665     | \$ 9,068   | \$ 104        | \$ 11    |
| 2013                      | -               | 3,633     | 100,655       | 19,407     | 10,175       | 8,867      | 104           | 10       |
| 2014                      | 90              | 3,633     | 72,125        | 18,347     | 11,385       | 8,680      | 5,342         | 9        |
| 2015                      | 179             | 3,625     | 55,005        | 17,754     | 11,895       | 8,553      | 106           | 8        |
| 2016                      | 186             | 3,614     | 85,625        | 17,312     | 12,620       | 8,426      | 1,302         | 7        |
| 2017-2021                 | 4,922           | 17,543    | 296,232       | 77,397     | 87,335       | 39,670     | 442           | 18       |
| 2022-2026                 | 34,844          | 11,868    | 179,679       | 63,427     | 74,965       | 34,132     | 135           | 3        |
| 2027-2031                 | 6,611           | 7,129     | 251,228       | 43,324     | 126,030      | 27,519     | -             | -        |
| 2032-2036                 | 18,781          | 5,386     | 350,970       | 20,142     | 235,365      | 20,136     | -             | -        |
| 2037-2041                 | 4,672           | 236       | 251,435       | 10,991     | 125,205      | 8,516      | -             | -        |
| 2042-2046                 | -               | -         | -             | -          | 6,430        | 1,438      | -             | -        |
| 2047-2051                 | -               | -         | -             | -          | -            | 1,308      | -             | -        |
| 2052                      | -               | -         | -             | -          | 163,505      | 152        | -             | -        |
| T total                   | \$ 70,285       | \$ 60,300 | \$ 1,955,494  | \$ 308,490 | \$ 874,575   | \$ 176,465 | \$ 7,535      | \$ 66    |

\* Includes \$6.6 million of future accretion of principal value on capital appreciation bonds.

In response to capital market disruptions nationally, in late 2009 the U.S. Department of the Treasury announced a plan to assist Housing and Finance Authorities (HFAs) through a two-part initiative: a new bond purchase program called the New





**Notes to Basic Financial Statements**  
*(tabular dollar amounts are in thousands)*

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Issue Bond Program ("NIBP") to support new lending by HFAs and a temporary credit and liquidity program ("TCLP") to improve the access of HFAs to liquidity for outstanding HFA bonds.

The NIBP provided financing for HFAs to issue new mortgage revenue bonds no later than December 31, 2011. Pursuant to the NIBP, the Authority issued its Single Family Program Class I Bonds in the amount of \$275,210,000 on January 12, 2010. Using authority under the Housing and Economic Recovery Act of 2008 ("HERA"), Treasury purchased securities of Fannie Mae and Freddie Mac backed by these mortgage revenue bonds. The bonds initially carry variable interest rates that approximate the investment interest rates earned from the investment of bond proceeds. The bonds must be converted to fixed rate debt, concurrent with the issuance of other mortgage revenue bonds by the Authority or redeemed no later than December 31, 2015. As of December 31, 2011, \$216,410,000 NIBP bonds had not been converted.

The TCLP allows Fannie Mae and Freddie Mac to provide replacement credit and liquidity facilities to HFAs. The Treasury will backstop the replacement credit and liquidity facilities for the HFAs by purchasing an interest in them using HERA authority. The TCLP was set to expire December 31, 2012 but was extended to December 31, 2015 subject to submission and acceptance of a plan to extinguish TCLP facilities by the new expiration date. Plans are due in 2012 and CHFA is in the process of submitting its plan to the sponsoring entities. Pursuant to the TCLP, the Authority utilized \$903,685,000 to replace Standby Purchase Agreements on its variable rate bonds that are remarketed weekly, of which \$492,305,000 and \$814,085,000 was outstanding as of December 31, 2011 and 2010, respectively. The Authority plans to replace the TCLP facility with liquidity facilities provided by other banks or convert the underlying variable rate bonds to fixed rate bonds or to variable-rate debt that does not require standby liquidity.

#### **(7) Conduit Debt Obligation**

The Authority has issued certain conduit bonds, the proceeds of which were made available to various developers and corporations for rental housing and commercial purposes. The bonds are payable solely from amounts received by the trustees from the revenue earned by the developers and corporations. Loan and corresponding debt service payments are generally guaranteed by third-party irrevocable direct-pay letters of credit or other credit enhancement arrangements. The faith and credit of the Authority is not pledged for the payment of the principal or interest on the bonds. Accordingly, these obligations are excluded from the Authority's financial statements.

As of December 31, 2011, there were 68 series of bonds outstanding, with an aggregate principal amount outstanding of \$407,326,000. As of December 31, 2010, there were 67 series of bonds outstanding, with an aggregate principal amount outstanding of \$412,413,000.

#### **(8) Derivative Instruments**

The Authority reports derivative instruments at fair value. The fair value of all derivatives is reported on the Statement of Net Position as a derivative instrument at the end of the year. If the interest rate hedge is considered ineffective, an investment derivative, the change in fair value is reported on the Statement of Revenues, Expenses and Changes in Net Position as investment derivative activity loss. The annual changes in the fair value of effective hedging derivative instruments are reported as deferred inflows and outflows, as appropriate, on the Statement of Net Position.

**Swaps Transactions** - The Authority has entered into pay fixed, receive variable interest rate swaps in order to (1) provide lower cost fixed rate financing for its production needs through synthetic fixed rate structures and (2) utilize synthetic fixed rate structures with refunding bonds in order to generate cash flow savings. The objective of the swaps is to hedge interest rate risk.

The fair values take into consideration the prevailing interest rate environment and the specific terms and conditions of each swap. All fair values were estimated using the zero-coupon discounting method. This method calculates the future payments required by the swap, assuming that the current forward rates implied by the yield curve are the market's best



**Notes to Basic Financial Statements**  
(tabular dollar amounts are in thousands)

estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero coupon rate bonds due on the date of each future net settlement payment on the swaps.

- (a) The Authority's interest rate swaps, which were used to hedge interest rate risk, are considered to be hedging derivative instruments under GASB No. 53, with the exception of Single Family Swap 2001-AA which is considered to be an investment derivative instrument.
- (b) In 2011, the Authority early adopted GASB No. 64, which designates specific circumstances where hedge accounting may continue after the termination of the hedging derivative instrument. As a result, the 2010 financial statements were restated; see New Accounting Principles in note 1.
- (c) On November 10, 2011, the Authority partially refunded certain single family bonds that were subject to existing interest rate swap agreements that were considered effective interest rate hedges. As a result of the partial refunding, deferred outflows related to those hedges in the amount of \$10.3 million has been reclassified to deferred refunding loss, which is presented as part of bonds and notes payable in the basic financial statements. The deferred refunding loss is amortized to interest expense over the life of the new debt using the straight line method. The interest expense is offset by an equal amount that is accreted to deferred outflows over the remaining life of the respective swap.

A summary of interest rate swaps for the years ended December 31, 2011, and 2010, was as follows:

| <b>Summary of Interest Rate Swaps</b>       | <b>12/31/2011</b> | <b>12/31/2010</b> |
|---|-------------------|-------------------|
|   | <b>Fair Value</b> | <b>Fair Value</b> |
| Par optional termination right with trigger | \$ 99,781         | \$ 76,429         |
| Par optional termination right              | 68,925            | 47,295            |
| Trigger                                     | 20,665            | 8,770             |
| Plain                                       | 91,853            | 50,906            |
| <b>Total fair value</b>                     | <b>\$ 281,224</b> | <b>\$ 183,400</b> |

*Trigger:* The variable rate received on these swaps is 68% of the one month LIBOR, if LIBOR is equal to or greater than 3.5%. The variable rate received on these swaps is SIFMA plus a spread if the one month LIBOR is less than 3.5%. See further discussion in the basis risk section below.

*Par optional termination right:* Certain swaps contain a cancellation clause that provides the Authority the option to cancel a certain amount of the swaps on certain dates. The Authority may cancel the optional termination amount for no payment (callable at par). The optional termination dates coincide with the debt service dates on the associated hedged bonds payable. These dates and amounts are provided in the table below.

**Detail of Outstanding Interest Rate Swaps** - The key terms, including the fair values and counterparty credit ratings of the outstanding swaps as of December 31, 2011, are shown in the table below. The notional amounts of the swaps approximate the principal amounts of the associated debt. Except as discussed under amortization risk below, the authority's swap agreements contain scheduled reductions to outstanding notional amounts that are expected to approximately follow scheduled or anticipated reductions in the associated bonds payable. Based on the standard swap agreement, payments are settled on a net basis.

The Authority enters into master netting arrangements with each of its swap counterparties. All of the agreements provide for the netting of the value of assets and liability positions of all transactions with the respective counterparty. There are no



**Notes to Basic Financial Statements**  
(tabular dollar amounts are in thousands)

other significant transactions with these counterparties outside of these swap agreements, such that the aggregate amount of liabilities included in the master netting arrangements is equal to the net fair value of the swaps.

**Outstanding Swaps at December 31, 2011:**

| Associated Bond Issue         | Current Notional Amount | Effective Date | Termination Date | Fixed Rate Paid | Variable Rate Received *           | Embedded Options | Optional Termination Date, at Par                            | Optional Termination Amount                                       | Counterparty Rating S&P/Moody's | 2010 Fair Value ** | Change in Fair Value | 2011 Fair Value ** |
|-------------------------------|-------------------------|----------------|------------------|-----------------|------------------------------------|------------------|--|---|---------------------------------|--------------------|----------------------|--------------------|
| <b>Single Family:</b>         |                         |                |                  |                 |                                    |                  |  |   |                                 |                    |                      |                    |
| <b>Investment derivative:</b> |                         |                |                  |                 |                                    |                  |  |   |                                 |                    |                      |                    |
| 2001-AA ****                  | \$ 30,000               | 12/1/2009      | 11/1/2038        | 4.4850%         | Trigger, SIFMA + .05% or 68% LIBOR | ***              | 1) 11/1/2015<br>2) 11/1/2017<br>3) 11/1/2019                 | Up to:<br>1) 7,500<br>2) 15,000<br>3) all remaining               | A+/Aa3                          | \$ (359)           | \$ (1,311)           | \$ (1,670)         |
| <b>Hedging derivatives:</b>   |                         |                |                  |                 |                                    |                  |  |   |                                 |                    |                      |                    |
| 2001-AA2 ****                 | 46,840                  | 12/4/2008      | 5/1/2031         | 4.6000%         | Trigger, SIFMA + .05% or 68% LIBOR |                  |  |   | A+/Aa3                          | (1,620)            | (5,425)              | (7,045)            |
| 2001-AA1                      | 15,340                  | 12/2/2008      | 5/1/2018         | 5.5260%         | Trigger, SIFMA + .05% or 68% LIBOR |                  |  |   | A+/Aa3                          | (1,753)            | (441)                | (2,194)            |
| 2002-A3 ****                  | 17,815                  | 12/4/2008      | 11/1/2021        | 4.7490%         | Trigger, SIFMA + .05% or 68% LIBOR |                  |  |   | A+/Aa3                          | (895)              | (726)                | (1,621)            |
| 2002-B3 ****                  | 38,125                  | 12/4/2008      | 11/1/2021        | 4.5060%         | Trigger, SIFMA + .05% or 68% LIBOR |                  |  |   | A+/Aa3                          | (1,824)            | (1,850)              | (3,674)            |
| 2002-C3 ****                  | 40,000                  | 12/4/2008      | 5/1/2022         | 4.4220%         | Trigger, SIFMA + .15% or 68% LIBOR |                  |  |   | A+/Aa3                          | (1,791)            | (2,371)              | (4,162)            |
| 2003-A2 ****                  | 19,455                  | 12/2/2008      | 11/1/2021        | 4.1600%         | Trigger, SIFMA + .05% or 68% LIBOR |                  |  |   | A+/Aa3                          | (887)              | (1,082)              | (1,969)            |
| 2003-B1 ****                  | 32,760                  | 12/2/2008      | 11/1/2026        | 4.8510%         | LIBOR + .05%                       | ***              | 5/1/2015   | 27,305  | A+/Aa3                          | (2,703)            | (939)                | (3,642)            |
| 2003-B-2                      | 20,915                  | 10/29/2008     | 5/1/2028         | 4.9380%         | LIBOR + .05%                       | ***              | 11/1/2018  | all remaining   | AA-/Aa1                         | (2,171)            | (587)                | (2,758)            |
| 2003-B3 ****                  | 60,000                  | 12/2/2008      | 11/1/2026        | 4.3840%         | Trigger, SIFMA + .15% or 68% LIBOR | ***              | 5/1/2015   | 43,170  | A+/Aa3                          | (2,019)            | (383)                | (2,402)            |
| 2003-C1                       | 3,585                   | 12/3/2003      | 5/1/2012         | 4.0330%         | Bayerische + .05%                  |                  |  |   | NR/Baa1                         | (308)              | 263                  | (45)               |
| 2003-C2 ****                  | 40,000                  | 12/2/2008      | 11/1/2026        | 4.5950%         | Trigger, SIFMA + .15% or 68% LIBOR | ***              | 5/1/2015   | 28,780  | A+/Aa3                          | (1,359)            | (187)                | (1,546)            |
| 2004-A1                       | 2,820                   | 9/1/2004       | 5/1/2012         | 4.4600%         | Bayerische + .05%                  |                  |  |   | NR/Baa1                         | (273)              | 234                  | (39)               |
| 2004-A2                       | 50,000                  | 7/28/2004      | 11/1/2026        | 4.3685%         | Trigger, SIFMA + .15% or 68% LIBOR | ***              | 5/1/2015   | 35,970  | A-/WR                           | (4,869)            | 162                  | (4,707)            |
| 2004-B1                       | 2,170                   | 12/1/2004      | 5/1/2012         | 4.0520%         | LIBOR + .05%                       |                  |  |   | A/Aa3                           | (197)              | 170                  | (27)               |
| 2004-B2                       | 40,000                  | 11/1/2004      | 11/1/2026        | 4.1220%         | Trigger, SIFMA + .15% or 68% LIBOR | ***              | 5/1/2015   | 28,780  | A-/WR                           | (3,388)            | (75)                 | (3,463)            |
| 2005-A1                       | 6,710                   | 5/1/2005       | 5/1/2013         | 4.3555%         | LIBOR + .05%                       |                  |  |   | A/Aa3                           | (548)              | 335                  | (213)              |
| 2005-A2                       | 40,000                  | 3/16/2005      | 11/1/2027        | 4.0710%         | Trigger, SIFMA + .15% or 68% LIBOR | ***              | 5/1/2015   | 32,290  | A-/WR                           | (3,320)            | (255)                | (3,575)            |
| 2005-B2                       | 75,850                  | 7/20/2005      | 5/1/2034         | 4.1693%         | Trigger, SIFMA + .15% or 68% LIBOR | ***              | 5/1/2015   | 48,650  | A-/WR                           | (6,743)            | 130                  | (6,613)            |
| 2006-A1                       | 4,550                   | 3/1/2006       | 11/1/2013        | 5.1610%         | LIBOR + .05%                       |                  |  |   | A+/Aa1                          | (467)              | 244                  | (223)              |
| 2006-A3                       | 40,000                  | 1/18/2006      | 11/1/2036        | 4.3129%         | Trigger, SIFMA + .15% or 68% LIBOR | ***              | 5/1/2019   | 37,810  | A/A2                            | (4,634)            | (2,148)              | (6,782)            |
| 2006-B1                       | 21,440                  | 11/1/2006      | 11/1/2014        | 5.6685%         | LIBOR + .05%                       |                  |  |   | A+/Aa1                          | (2,664)            | 1,025                | (1,639)            |
| 2006-B2                       | 49,325                  | 7/26/2006      | 11/1/2034        | 4.1951%         | Trigger, SIFMA + .05% or 68% LIBOR | ***              | 5/1/2019   | 16,700  | A/A2                            | (5,827)            | (1,718)              | (7,545)            |
| 2006-B3                       | 62,945                  | 7/26/2006      | 11/1/2036        | 4.5445%         | Trigger, SIFMA + .15% or 68% LIBOR | ***              | 5/1/2019   | 59,190  | A/A2                            | (8,656)            | (3,247)              | (11,903)           |
| 2006-C1                       | 21,420                  | 1/2/2007       | 11/1/2014        | 5.3143%         | LIBOR + .05%                       |                  |  |   | A+/Aa1                          | (2,455)            | 933                  | (1,522)            |
| 2006-C2                       | 14,140                  | 12/20/2006     | 5/1/2016         | 4.2884%         | Trigger, SIFMA + .05% or 68% LIBOR | ***              | 5/1/2012   | 7,050   | A/A2                            | (1,134)            | 81                   | (1,053)            |
| 2006-C2                       | 10,605                  | 12/20/2006     | 11/1/2016        | 4.2884%         | Trigger, SIFMA + .05% or 68% LIBOR | ***              | 11/1/2012  | 5,300   | A/A2                            | (949)              | (1)                  | (950)              |
| 2006-C2                       | 10,605                  | 12/20/2006     | 11/1/2017        | 4.2884%         | Trigger, SIFMA + .05% or 68% LIBOR | ***              | 11/1/2013  | 5,300   | A/A2                            | (1,116)            | (134)                | (1,250)            |
| 2006-C2                       | 35,350                  | 12/20/2006     | 11/1/2034        | 4.2884%         | Trigger, SIFMA + .05% or 68% LIBOR | ***              | 11/1/2019  | 21,210  | A/A2                            | (4,217)            | (1,592)              | (5,809)            |
| 2007A-1                       | 30,045                  | 6/1/2007       | 5/1/2015         | 5.1911%         | LIBOR + .05%                       |                  |  |   | A+/Aa1                          | (3,444)            | 1,099                | (2,345)            |
| 2007A-2                       | 70,000                  | 5/9/2007       | 11/1/2037        | 4.1530%         | Trigger, SIFMA + .15% or 68% LIBOR | ***              | 5/1/2019   | 62,910  | A/A2                            | (7,072)            | (3,773)              | (10,845)           |
| 2007B-1                       | 58,985                  | 11/1/2007      | 11/1/2026        | 5.5800%         | LIBOR + 0.05%                      | ***              | 11/1/2017  | 24,610  | A+/Aa1                          | (8,152)            | (628)                | (8,780)            |
| 2007B-2                       | 50,000                  | 10/18/2007     | 5/1/2038         | 4.5075%         | Trigger, SIFMA + .15% or 68% LIBOR | ***              | 5/1/2019   | 46,545  | A/A2                            | (6,453)            | (2,511)              | (8,964)            |
| 2007B-3 ****                  | 50,000                  | 12/2/2008      | 5/1/2038         | 4.4050%         | Trigger, SIFMA + .15% or 68% LIBOR | ***              | 1) 11/1/2013<br>2) 11/1/2015<br>3) 11/1/2017                 | Up to:<br>1) 12,500<br>2) 25,000<br>3) 50,000                     | A+/Aa3                          | (3,734)            | (823)                | (4,557)            |
| 2008A-3                       | 42,800                  | 6/4/2008       | 5/1/2038         | 4.4140%         | Trigger, SIFMA + .05% or 68% LIBOR | ***              | 1) 5/1/2014<br>2) 5/1/2016<br>3) 5/1/2018                    | Up to:<br>1) 20,000<br>2) 40,000<br>3) 80,000                     | A+/Aa1                          | (4,990)            | (1,346)              | (6,336)            |
| 2008A-1                       | 80,000                  | 6/4/2008       | 5/1/2038         | 5.4450%         | LIBOR +.05%                        | ***              | 1) 11/1/2011<br>2) 11/1/2013<br>3) 11/1/2016<br>4) 11/1/2018 | Up to:<br>1) 14,260<br>2) 27,440<br>3) 38,340<br>4) all remaining | A-/WR                           | (6,601)            | (1,810)              | (8,411)            |
| 2008A-2                       | 80,100                  | 6/4/2008       | 11/1/2027        | 4.5960%         | LIBOR +.05%                        | ***              | 5/1/2018   | all remaining   | AA-/Aaa                         | (6,943)            | (2,356)              | (9,299)            |

Table continued on following page.



**Notes to Basic Financial Statements**  
(tabular dollar amounts are in thousands)

| Associated Bond Issue         | Current Notional Amount | Effective Date | Termination Date | Fixed Rate Paid | Variable Rate Received *           | Embedded Options | Optional Termination Date, at Par | Optional Termination Amount | Counterparty Rating S&P/Moody's | 2010 Fair Value ** | Change in Fair Value | 2011 Fair Value ** |
|-------------------------------|-------------------------|----------------|------------------|-----------------|------------------------------------|------------------|-----------------------------------|-----------------------------|---------------------------------|--------------------|----------------------|--------------------|
| <b>Multi-Family/Business:</b> |                         |                |                  |                 |                                    |                  |                                   |                             |                                 |                    |                      |                    |
| 2000-A1 ****                  | 12,750                  | 11/21/2008     | 10/1/2020        | 5.2350%         | SIFMA + .05                        |                  |                                   |                             | A+/Aa3                          | (1,803)            | (562)                | (2,365)            |
| 2000-A2 ****                  | 7,080                   | 11/21/2008     | 4/1/2015         | 5.8000%         | SIFMA + .05                        |                  |                                   |                             | A+/Aa3                          | (570)              | 147                  | (423)              |
| 2000-B1 (SPV)                 | 5,095                   | 10/19/2000     | 7/1/2020         | 7.3900%         | Citigroup 3 month + .25%           |                  |                                   |                             | A-/A2                           | (1,262)            | (102)                | (1,364)            |
| 2002-A1 ****                  | 9,410                   | 11/21/2008     | 10/1/2022        | 5.1000%         | SIFMA + .15                        |                  |                                   |                             | A+/Aa3                          | (1,244)            | (461)                | (1,705)            |
| 2002AA ****                   | 25,420                  | 11/21/2008     | 10/1/2023        | 6.0350%         | SIFMA + .05                        |                  |                                   |                             | A+/Aa3                          | (3,651)            | (1,412)              | (5,063)            |
| 2002-C2 ****                  | 70,715                  | 11/21/2008     | 10/1/2032        | 5.1240%         | Trigger, SIFMA + .15% or 68% LIBOR | ***              | 4/1/2018                          | 59,340                      | A+/Aa3                          | (3,783)            | (2,843)              | (6,626)            |
| 2002-C4 ****                  | 31,960                  | 11/21/2008     | 10/1/2032        | 5.0440%         | Trigger, SIFMA + .05% or 68% LIBOR | ***              | 4/1/2018                          | 26,785                      | A+/Aa3                          | (1,807)            | (1,378)              | (3,185)            |
| 2003-A1 ****                  | 2,124                   | 12/3/2008      | 10/1/2013        | 4.5550%         | LIBOR + .05%                       | ***              | 10/1/2009                         | 16,576                      | A+/Aa3                          | (296)              | 226                  | (70)               |
| 2004-A1                       | 40,675                  | 11/1/2004      | 10/1/2025        | 5.5281%         | LIBOR + .05%                       | ***              | 10/1/2014                         | all remaining               | A-/WR                           | (4,552)            | (170)                | (4,722)            |
| 2004-A1 ****                  | 10,000                  | 5/29/2009      | 5/1/2013         | 5.3640%         | LIBOR                              |                  |                                   |                             | AA-/Aa1                         | (590)              | 194                  | (396)              |
| 2004-A2                       | 10,785                  | 9/22/2004      | 4/1/1945         | 4.8840%         | SIFMA + .15%                       | ***              | 10/1/2019                         | all remaining               | A-/WR                           | (1,138)            | (817)                | (1,955)            |
| 2005-A1 (A)                   | 4,755                   | 8/1/2005       | 10/1/2035        | 5.8200%         | LIBOR + .05%                       | ***              | 4/1/2015                          | all remaining               | A-/WR                           | (561)              | (111)                | (672)              |
| 2005-A1 (B)                   | 3,005                   | 8/1/2005       | 10/1/2020        | 5.2050%         | LIBOR + .05%                       |                  |                                   |                             | A-/WR                           | (469)              | (274)                | (743)              |
| 2005-A1 (C)                   | 9,925                   | 8/1/2005       | 10/1/2025        | 5.7120%         | LIBOR + .05%                       | ***              | 4/1/2015                          | all remaining               | A-/WR                           | (1,100)            | (238)                | (1,338)            |
| 2005-A1 (D)                   | -                       | 8/1/2005       | 10/1/2025        | 5.5730%         | LIBOR + .05%                       | ***              | 10/1/2011                         | all remaining               | A-/WR                           | (129)              | 129                  | -                  |
| 2005-A2                       | 17,855                  | 7/1/2005       | 4/1/2036         | 4.2850%         | SIFMA + .05%                       | ***              | 4/1/2015                          | all remaining               | A-/WR                           | (1,322)            | (311)                | (1,633)            |
| 2005-A3 (A)                   | 6,280                   | 4/13/2005      | 4/1/2040         | 4.6560%         | SIFMA + .15%                       | ***              | 10/1/2020                         | all remaining               | A-/WR                           | (694)              | (464)                | (1,158)            |
| 2005-A3 (B)                   | 6,120                   | 10/1/2005      | 4/1/2032         | 4.4800%         | SIFMA + .15%                       | ***              | 4/1/2015                          | all remaining               | A-/WR                           | (429)              | (140)                | (569)              |
| 2005-B1                       | 13,180                  | 3/1/2006       | 4/1/2036         | 5.2350%         | LIBOR + .05%                       | ***              | 10/1/2015                         | 11,125                      | A/A2                            | (1,453)            | (369)                | (1,822)            |
| 2005-B2 (A)                   | 3,495                   | 1/2/2006       | 10/1/2040        | 4.7350%         | SIFMA + .15%                       | ***              | 10/1/2015                         | 3,305                       | A/A2                            | (227)              | (121)                | (348)              |
| 2005-B2 (B)                   | 5,845                   | 9/1/2006       | 10/1/2038        | 4.5270%         | SIFMA + .15%                       | ***              | 10/1/2021                         | 4,520                       | A/A2                            | (569)              | (490)                | (1,059)            |
|                               |                         |                |                  |                 |                                    |                  |                                   | Up to:                      |                                 |                    |                      |                    |
|                               |                         |                |                  |                 |                                    |                  |                                   | 1) 10/1/2011                |                                 | 2,840              |                      |                    |
| 2006A-1 ****                  | 30,350                  | 12/3/2008      | 4/1/2027         | 5.7100%         | LIBOR + .05%                       | ***              | 2) 10/1/2016                      | 2) 12,305                   | A+/Aa3                          | (676)              | (2,021)              | (2,697)            |
| 2006A-1                       | 11,200                  | 12/1/2006      | 10/1/2036        | 5.3420%         | LIBOR + .05%                       | ***              | 4/1/2021                          | 8,040                       | A/A2                            | (1,583)            | (1,153)              | (2,736)            |
|                               |                         |                |                  |                 |                                    |                  |                                   | Up to:                      |                                 |                    |                      |                    |
|                               |                         |                |                  |                 |                                    |                  |                                   | 1) 10/1/2012                |                                 | 6,920              |                      |                    |
|                               |                         |                |                  |                 |                                    |                  |                                   | 2) 10/1/2017                |                                 | 19,460             |                      |                    |
| 2007B-1 ****                  | 36,135                  | 12/3/2008      | 4/1/2038         | 5.6400%         | LIBOR + .05%                       | ***              | 3) 4/1/2022                       | 3) 16,925                   | A+/Aa3                          | (412)              | (2,573)              | (2,985)            |
| 2007B-1                       | 7,525                   | 10/1/2007      | 4/1/2028         | 5.2200%         | LIBOR + .05%                       | ***              | 4/1/2028                          | 6,190                       | A/A2                            | (927)              | (1,006)              | (1,933)            |
| 2007B-2 ****                  | 2,660                   | 12/3/2008      | 10/1/2036        | 4.2870%         | SIFMA + .15%                       | ***              | 10/1/2017                         | 2,040                       | A+/Aa3                          | (112)              | (130)                | (242)              |
| 2007B-2 ****                  | 2,040                   | 12/3/2008      | 4/1/2038         | 4.5350%         | SIFMA + .15%                       | ***              | 10/2/2017                         | 1,780                       | A+/Aa3                          | (89)               | (108)                | (197)              |
| 2007B-2 ****                  | 4,760                   | 12/3/2008      | 4/1/2038         | 4.4700%         | SIFMA + .15%                       | ***              | 10/2/2017                         | 4,395                       | A+/Aa3                          | (366)              | (255)                | (621)              |
| 2007B-2 ****                  | 4,730                   | 12/3/2008      | 4/1/2028         | 4.6510%         | SIFMA + .15%                       | ***              | 4/1/2023                          | 3,835                       | A+/Aa3                          | (538)              | (475)                | (1,013)            |
| 2007B-3 ****                  | 2,480                   | 12/3/2008      | 10/1/2037        | 4.2970%         | SIFMA + .05%                       | ***              | 10/1/2017                         | 2,065                       | A+/Aa3                          | (106)              | (129)                | (235)              |
| 2007B-3 ****                  | 4,695                   | 12/3/2008      | 10/1/2019        | 4.0967%         | SIFMA + .05%                       | ***              | 10/1/2014                         | 4,430                       | A+/Aa3                          | (274)              | (75)                 | (349)              |
| 2007B-3 ****                  | 2,285                   | 12/3/2008      | 4/1/2038         | 4.8805%         | SIFMA + .05%                       | ***              | 10/1/2017                         | 2,205                       | A+/Aa3                          | (212)              | (120)                | (332)              |
|                               |                         |                |                  |                 |                                    |                  |                                   | Up to:                      |                                 |                    |                      |                    |
|                               |                         |                |                  |                 |                                    |                  |                                   | 1) 4/1/2018                 |                                 | 3,070              |                      |                    |
| 2008A1 ****                   | 15,200                  | 12/3/2008      | 4/1/2029         | 5.1300%         | LIBOR + .05%                       | ***              | 2) 4/1/2019                       | 2) all remaining            | A+/Aa3                          | (160)              | (1,206)              | (1,366)            |
| 2008A2 ****                   | 7,630                   | 12/3/2008      | 4/1/2043         | 4.5400%         | SIFMA + .15%                       | ***              | 4/1/2019                          | 6,340                       | A+/Aa3                          | (468)              | (513)                | (981)              |
| 2008B (a) ****                | 116,080                 | 12/3/2008      | 10/1/2044        | 5.1722%         | LIBOR                              |                  |                                   |                             | AA-/Aa1                         | (21,605)           | (29,176)             | (50,781)           |
| 2008B (b) ****                | 46,605                  | 12/3/2008      | 3/1/1947         | 5.2071%         | LIBOR                              |                  |                                   |                             | AA-/Aa1                         | (9,356)            | (13,604)             | (22,960)           |
| 2008C3 ****                   | 7,700                   | 12/3/2008      | 10/1/2038        | 4.3400%         | SIFMA + .05%                       | ***              | 4/1/2019                          | 6,500                       | A+/Aa3                          | (585)              | (503)                | (1,088)            |
|                               |                         |                |                  |                 |                                    |                  |                                   | Up to:                      |                                 |                    |                      |                    |
|                               |                         |                |                  |                 |                                    |                  |                                   | 1) 10/1/2014                |                                 | 13,580             |                      |                    |
| 2009A1 ****                   | 31,215                  | 6/24/2009      | 10/1/2041        | 4.7900%         | SIFMA + .05%                       | ***              | 2) 4/1/2024                       | 2) all remaining            | A+/Aa3                          | (1,747)            | (2,167)              | (3,914)            |
| Total                         | 629,764                 |                |                  |                 |                                    |                  |                                   |                             |                                 | (66,865)           | (64,781)             | (131,646)          |
| Total                         | \$ 1,944,459            |                |                  |                 |                                    |                  |                                   |                             |                                 | \$ (183,400)       | \$ (97,824)          | \$ (281,224)       |

(\*) SIFMA is the Securities Industry Financial Markets Association Municipal Swap Index. LIBOR is the London Interbank Offered Rate.

(\*\*) All fair values include the effect of any related embedded option.

(\*\*\*) Par optional termination right.

(\*\*\*\*) Swaps for which cash premiums were received in 2008. The outstanding unamortized balance of the premium is reported on the Statement of Net Position as hybrid instrument borrowings.

(SPV) Counterparty operates as a special purpose vehicle

**Risk Disclosure**

**Credit Risk:** All of the Authority's swaps rely upon the performance of the third parties who serve as swap counterparties, and as a result, the Authority is exposed to credit risk - i.e., the risk that a swap counterparty fails to perform according to its contractual obligations. The appropriate measurement of this risk at the reporting date is the fair value of the swaps, as shown in the column labeled "Fair Value" in the outstanding swaps table above. The Authority is exposed to credit risk in the amount of any positive net fair value exposure to each counterparty. As of December 31, 2011, the Authority was



**Notes to Basic Financial Statements**  
*(tabular dollar amounts are in thousands)*

exposed to minimal credit risk to any of its counterparties. To mitigate credit risk, the Authority maintains strict credit standards for swap counterparties. All swap counterparties must be rated in the AA/Aa or higher category by either Standard & Poor's (S&P) or Moody's Investors Service (Moody's), respectively, at the time the contract is executed.

At December 31, 2011, the Authority had executed 74 swap transactions with nine counterparties with concentrations and ratings (Standard and Poor's/ Moody's Investors Service) as shown in the following table:

| <b>Swap Count</b> | <b>Notional Amount</b> | <b>Concentration</b> | <b>Counterparty Rating (S&amp;P / Moody's)</b> |
|-------------------|------------------------|----------------------|--|
| 14                | \$ 384,215             | 19.8%                | A / A2   |
| 2                 | 8,880                  | 0.5%                 | A / Aa3  |
| 13                | 385,250                | 19.8%                | A- / WR  |
| 6                 | 179,240                | 9.2%                 | A+ / Aa1                                       |
| 31                | 701,674                | 36.0%                | A+ / Aa3                                       |
| 4                 | 193,600                | 10.0%                | AA- / Aa1                                      |
| 1                 | 80,100                 | 4.1%                 | AA- / Aaa                                      |
| 1                 | 5,095                  | 0.3%                 | AAA/   |
| 2                 | 6,405                  | 0.3%                 | NR / Baa1                                      |
| <b>74</b>         | <b>\$ 1,944,459</b>    | <b>100%</b>          |  |

At December 31, 2010, the Authority had executed 75 swap transactions with nine counterparties with concentrations and ratings (Standard and Poor's/ Moody's Investors Service) as shown in the following table:

| <b>Swap Count</b> | <b>Notional Amount</b> | <b>Concentration</b> | <b>Counterparty Rating (S&amp;P / Moody's)</b> |
|-------------------|------------------------|----------------------|--|
| 1                 | \$ 94,815              | 4.5%                 | A+/A1  |
| 2                 | 18,385                 | 0.9%                 | NR/A1  |
| 1                 | 5,475                  | 0.3%                 | A/A2   |
| 10                | 436,695                | 20.9%                | AA-/Aa1  |
| 16                | 403,405                | 19.3%                | A+/Aa3   |
| 31                | 733,495                | 35.1%                | AA-/Aa3  |
| 14                | 396,465                | 19.0%                | A-/A3  |
| <b>75</b>         | <b>\$ 2,088,735</b>    | <b>100%</b>          |  |

*Interest Rate Risk:* The Authority is exposed to interest rate risk in that as the variable rates on the swaps agreements decrease the Authority's net payment on the swap agreement could increase.

*Basis Risk:* The Authority is exposed to basis risk when the variable interest rate paid to the holders of its variable rate demand obligations (VRDO's) is not equivalent to the variable interest rate received from its counterparties on the related swap agreements. When exposed to basis risk, the net interest expense incurred on the combination of the swap agreement and the associated variable rate debt may be higher or lower than anticipated.

The Authority's tax-exempt variable-rate bond interest payments are substantially equivalent to the SIFMA rate (plus a trading spread). Certain tax-exempt swaps, as indicated in the table above, contain a trigger feature in which the Authority



**Notes to Basic Financial Statements**  
*(tabular dollar amounts are in thousands)*

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receives a rate indexed on SIFMA should LIBOR be less than a predetermined level (the trigger level, 3.5%), or a rate pegged at a percentage of LIBOR should LIBOR be equal to or greater than the predetermined trigger level. For these swaps, the Authority would be negatively exposed to basis risk during the time period it is receiving the rate based on a percentage of LIBOR should the relationship between LIBOR and SIFMA converge.

The Authority's taxable variable-rate bond interest payments are substantially equivalent to LIBOR (plus a trading spread). The Authority is receiving LIBOR (plus a trading spread) or LIBOR flat for all of its taxable swaps and therefore is only exposed to basis risk to the extent that the Authority's bonds diverge from their historic trading relationship with LIBOR.

*Termination Risk:* The Authority's swap agreements do not contain any out-of-the-ordinary termination events that would expose it to significant termination risk. In keeping with market standards, the Authority or the counterparty may terminate each swap if the other party fails to perform under the terms of the contract. In addition, the swap documents allow either party to terminate in the event of a significant loss of creditworthiness. If at the time of the termination a swap has a negative value, the Authority would be liable to the counterparty for a payment equal to the fair value of such swap.

There are certain termination provisions relevant to the Authority's counterparties operating as special purpose vehicles (SPV) with a terminating structure. In the case of certain events, including the credit downgrade of the SPV or the failure of the parent company to maintain certain collateral levels, the SPV would be required to wind up its business and terminate all of its outstanding transactions with all clients, including the Authority. All such terminations would be at mid-market pricing. In the event of such termination, the Authority would be exposed to the risk of market re-entry and the cost differential between the mid-market termination and the offered price upon re-entry.

*Rollover Risk:* The Authority is exposed to rollover risk only on swaps that mature or may be terminated at the counterparty's option prior to the maturity of the associated debt. As of December 31, 2011 and 2010, the Authority was not exposed to rollover risk.

*Amortization Risk:* The Authority is exposed to amortization risk in the event that the swap amortization schedules fail to match the actual amortization of the underlying bonds as a result of loan prepayments, which significantly deviate from expectations. If prepayments are significantly higher than anticipated, the Authority would have the option of reinvesting or recycling the prepayments, or calling unhedged bonds. Alternatively, if the Authority chose to call bonds associated with the swap, the Authority could elect an early termination of the related portions of the swap at a potential cost to the Authority. If prepayments are significantly lower than anticipated and the associated bonds remained outstanding longer than the relevant portion of the swap, the Authority could experience an increase in its exposure to unhedged variable rate bonds. Alternatively, the Authority could choose to enter into a new swap or an extension of the existing swap. If interest rates are higher at the time of entering into a new swap or swap extension, such action would result in an increased cost to the Authority.

*Collateral Requirements:* The Authority is subject to a contingency feature that would require the Authority to post collateral on swap agreements if the Class I obligations credit rating falls to a Moody's A1, or equivalent ratings by S&P, and Fitch and is greater than the established thresholds. As of December 31, 2011, all agreements were rated higher than the Moody's A1 and did not require collateral.

The majority of the class 1 bonds are rated AAA by both rating agencies. The bond indentures for these swaps are over collateralized and the underlying assets are insured. The likelihood that the bonds would be downgraded by four categories is considered remote, but if it were to occur it would require the Authority to post collateral approximately equal to the fair value of the interest rate swap.

**Swap Payments** - Using interest rates as of December 31, 2011, debt service requirements of the Authority's outstanding variable-rate debt and net swap payments were as follows. As rates vary, variable rate interest rate payments on the bonds and net swap payments will change.





Notes to Basic Financial Statements  
(tabular dollar amounts are in thousands)

| Year Ending<br>December 31, | Principal    | Interest  | Swaps, Net | Total        |
|-----------------------------|--------------|-----------|------------|--------------|
| 2012                        | \$ 104,355   | \$ 5,707  | \$ 81,973  | \$ 192,035   |
| 2013                        | 113,619      | 5,197     | 76,967     | 195,783      |
| 2014                        | 106,740      | 4,763     | 71,878     | 183,381      |
| 2015                        | 93,610       | 4,380     | 67,150     | 165,140      |
| 2016                        | 120,640      | 4,156     | 62,974     | 187,770      |
| 2017-2021                   | 429,715      | 17,603    | 251,605    | 698,923      |
| 2022-2026                   | 315,705      | 12,983    | 175,168    | 503,856      |
| 2027-2031                   | 261,880      | 8,044     | 115,594    | 385,518      |
| 2032-2036                   | 266,500      | 3,841     | 60,822     | 331,163      |
| 2037-2041                   | 88,665       | 703       | 19,038     | 108,406      |
| 2042-2046                   | 34,830       | 181       | 5,609      | 40,620       |
| 2047                        | 8,200        | 5         | 168        | 8,373        |
| Total                       | \$ 1,944,459 | \$ 67,563 | \$ 988,946 | \$ 3,000,968 |

**Hybrid instrument borrowings** - Certain interest rate swaps, as identified on the detailed swap table above, include fixed rates that were off-market at the execution of the interest rate swaps. For financial reporting purposes these interest rate swaps are considered hybrid instruments and are bifurcated between borrowings, with an aggregate original amount of \$73.4 million reflecting the fair value of the instrument at its execution, and an interest rate swap with a fixed rate that was considered at-the market at execution. Activity for the hybrid instrument borrowings for the year ended December 31, 2011 was as follows:

|                   | 2011      | 2010      |
|-------------------|-----------|-----------|
| Beginning balance | \$ 59,972 | \$ 66,441 |
| Additions         | -         | -         |
| Reductions        | (6,365)   | (6,469)   |
| Ending balance    | \$ 53,607 | \$ 59,972 |



**Notes to Basic Financial Statements**  
(tabular dollar amounts are in thousands)

The following table sets for as of December 31, 2011, payments of principal and interest on the hybrid instrument borrowings for the next five years and thereafter. The total payments generally reflect the difference between the stated fixed rate of the hybrid instrument and the at-the-market fixed rate at the execution of the instrument.

| <b>Year Ending<br/>December 31,</b> | <b>Principal<br/>and Interest</b> |
|-------------------------------------|-----------------------------------|
| 2012                                | \$ 4,468                          |
| 2013                                | 4,468                             |
| 2014                                | 4,424                             |
| 2015                                | 4,241                             |
| 2016                                | 4,051                             |
| 2017-2021                           | 17,125                            |
| 2022-2026                           | 11,090                            |
| 2027-2031                           | 3,740                             |
| <b>Total</b>                        | <b>\$ 53,607</b>                  |

**Forward Sales Contracts** - The Authority has entered into forward sales contracts for the delivery of Ginnie Mae securities in order to lock in the sales price for the securitization of certain taxable single-family loans. The contracts offset changes in interest rates between the time of the loan reservations and the securitization of such loans into Ginnie Mae securities. These contracts are considered investment derivative instruments, such that their change in fair value is reported as investment derivative activity losses on the Statement of Revenues, Expenses and Changes in Net Position.

The outstanding forward contracts, summarized by counterparty as of December 31, 2011, were as follows:

| Count | Par       | Concentration | Original    | 12/31/11    | Fair Value | Counterparty<br>Rating |
|-------|-----------|---------------|-------------|-------------|------------|------------------------|
|       |           |               | Sales Price | Sales Price |            |                        |
| 5     | \$ 20,500 | 26.4%         | \$ 21,698   | \$ 21,916   | \$ 218     | A/A1                   |
| 17    | 35,000    | 45.2%         | 37,346      | 37,654      | 308        | A/Aa3                  |
| 12    | 22,000    | 28.4%         | 23,348      | 23,549      | 201        | AA-/Aa3                |
| 34    | \$ 77,500 | 100.0%        | \$ 82,392   | \$ 83,119   | \$ 727     |                        |

The outstanding forward contracts, summarized by counterparty as of December 31, 2010, were as follows:

| Count | Par       | Concentration | Original    | 12/31/10    | Fair Value | Counterparty<br>Rating |
|-------|-----------|---------------|-------------|-------------|------------|------------------------|
|       |           |               | Sales Price | Sales Price |            |                        |
| 8     | \$ 5,500  | 33.4%         | \$ 5,806    | \$ 5,706    | \$ (100)   | A/NR                   |
| 2     | 1,500     | 9.1%          | 1,581       | 1,574       | (7)        | A+/Aa3                 |
| 13    | 9,000     | 54.5%         | 9,479       | 9,383       | (96)       | AA/Aa2                 |
| 1     | 500       | 3.0%          | 524         | 527         | 3          | NR                     |
| 24    | \$ 16,500 | 100.0%        | \$ 17,390   | \$ 17,190   | \$ (200)   |                        |





**Notes to Basic Financial Statements**  
(tabular dollar amounts are in thousands)

**Summary**

A summary of derivative instruments activity for the years ended December 31, 2011 and 2010 is as follows:

|                       | 2011       |             |          |            | 2010       |             |          |            |
|-----------------------|------------|-------------|----------|------------|------------|-------------|----------|------------|
|                       | Hedging    | Investments |          | Total      | Hedging    | Investments |          | Total      |
|                       | Swaps      | Swaps       | Forwards |            | Swaps      | Swaps       | Forwards |            |
| Fair value, beginning | \$ 183,441 | \$ 359      | \$ (200) | \$ 183,600 | \$ 138,095 | \$ (38)     | \$ -     | \$ 138,057 |
| Settlements           | (87,108)   | (1,146)     | 200      | (88,054)   | (89,679)   | (1,222)     | -        | (90,901)   |
| Change in fair value  | 183,221    | 2,457       | 727      | 186,405    | 135,025    | 1,619       | (200)    | 136,444    |
| Fair value, ending    | \$ 279,554 | \$ 1,670    | \$ 727   | \$ 281,951 | \$ 183,441 | \$ 359      | \$ (200) | \$ 183,600 |

**(9) Debt Refundings**

On November 10, 2011, the Authority issued its Single Family Bonds 2011 Series B, C and D, in the aggregate principal amount of \$227,235,000. The entire proceeds of the bonds were used to refund a portion of various single family mortgage bonds. The refunding resulted in a decrease in the aggregate future debt service requirement of approximately \$1,376,000, based on the change in variable interest rates at the time of refunding and an approximate economic gain to the Authority of \$468,000. In accordance with GASB Statement No. 23, *Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities*, \$11,450,000 was deferred and is being amortized over the contractual life of the new debt.

Economic gain or loss is calculated as the difference between the present value of the old debt service requirements and the present value of the new debt service requirements less related upfront costs of issuance, bond call premiums and bond insurance premiums, discounted at the effective interest rate.

In prior years, the Authority defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Authority's financial statements. On December 31, 2011, \$58.9 million of bonds outstanding are considered defeased.

**(10) Restricted and Unrestricted Net Position**

The amounts restricted for the Single-Family bond programs and the Multi-Family/Business bond programs are for the payment of principal, redemption premium, if any, or interest on all outstanding single-family and multi-family/business bond issues, in the event that no other funds are legally available for such payments. The Board may withdraw all or part of this restricted balance if (1) updated cash flow projections indicate that adequate resources will exist after any withdrawal to service the outstanding debt, subject to approval by the bond trustee; (2) the Authority determines that such funds are needed for the implementation or maintenance of any duly adopted program of the Authority; and (3) no default exists in the payment of the principal, redemption premium, if any, or interest on such bonds.

Assets of the Single-Family and Multi-Family/Business bond programs are pledged for payment of principal and interest on the applicable bonds. In addition, certain assets are further restricted by bond resolutions for payment of interest on and/or principal of bonds in the event that the related debt service funds and other available funds are insufficient. Such assets are segregated within the Single-Family and Multi-Family/Business Programs and are held in cash, loans receivable or investments. At December 31, 2011 and 2010, these assets were at least equal to the amounts required to be restricted.



**Notes to Basic Financial Statements**  
*(tabular dollar amounts are in thousands)*

The Board has designated certain amounts of the unrestricted net position of the General Programs as of December 31, 2011 and 2010, for various purposes, as indicated in the following table. These designations of net position are not binding, and can be changed by the Board.

**Unrestricted Net Position as December 31, 2011 and 2010:**

|                                       | 2011       | 2010       |
|---------------------------------------|------------|------------|
| Designations:                         |            |            |
| Housing program                       | \$ 37,717  | \$ 36,874  |
| Commercial program                    | 18,396     | 24,616     |
| General operating and working capital | 25,025     | 26,475     |
| General obligation bonds              | 28,128     | 25,621     |
| Total unrestricted net position       | \$ 109,266 | \$ 113,586 |

**(11) Retirement Plans**

The Authority contributes to the Local Government Division Trust fund (Trust) a cost-sharing multiple-employer public defined benefit plan administered by the Public Employees' Retirement Association of Colorado (PERA). The Trust provides retirement, disability and death benefits for members or their beneficiaries. Generally, all employees of the Authority are members of the Trust.

The Authority contributes to the Health Care Trust Fund (Health Fund), a cost-sharing multiple-employer postemployment health care plan administered by PERA. The Health Fund provides a health care premium subsidy to PERA participating benefit recipients and their eligible beneficiaries.

Colorado Revised Statutes assign the authority to establish Trust and Health Fund benefit provisions to the State Legislature. PERA issues a publicly available annual financial report that includes financial statements and required supplementary information for the Trust and the Health Fund. That report may be obtained by writing to PERA at P.O. Box 5800 Denver, Colorado 80217-5800, by calling PERA at 303-832-9550 or 1-800-759-PERA (7372) or from PERA's website at [www.copera.org](http://www.copera.org).

Plan members and the Authority are required to contribute to the Trust at rates set by Colorado Statutes. A portion of the Authority's contribution is allocated for the Health Fund. Member contributions to the Health Fund are not required.



**Notes to Basic Financial Statements**  
*(tabular dollar amounts are in thousands)*

The contribution rate for members and the Authority's contributions to the Trust and Health Fund, which equaled the Authority's required contributions for each year, were as follows:

|   | 2011            | 2010            |
|---|-----------------|-----------------|
| <b>Contribution rate of covered salary:</b> |                 |                 |
| Members                                     | 8.00%           | 8.00%           |
| Authority:                                  |                 |                 |
| Trust                                       | 12.68%          | 12.68%          |
| Health Fund                                 | 1.02%           | 1.02%           |
| <b>Total Authority contribution rate</b>    | <b>13.70%</b>   | <b>13.70%</b>   |
| <b>Contributions by the Authority:</b>      |                 |                 |
| Trust                                       | \$ 1,730        | \$ 1,548        |
| Health Fund                                 | 139             | 117             |
| <b>Total Authority contributions</b>        | <b>\$ 1,869</b> | <b>\$ 1,665</b> |

An additional benefit offered to eligible Authority employees through PERA is a Voluntary Investment Program, established under Section 401(k) of the Internal Revenue Code. Participants invest a percentage of their annual gross salaries up to the annual Internal Revenue Service limit of their gross salaries. The Authority contributes 1% of each participating employee's salary as part of the 401(k) match, and in addition to the 1% contribution, the Authority matches half of the employee's 401(k) contribution up to 5% of the participating employee's gross salary. The Authority's match is a maximum of 3.5%, which includes the 1% contribution. Contributions by the Authority for the years ended December 31, 2011 and 2010 were \$396,000 and \$370,000, respectively. Contributions by participating employees for the years ended December 31, 2011 and 2010 were \$902,000 and \$860,000, respectively. All required contributions are paid in full annually.

## **(12) Risk Management**

The Authority has a risk management program under which the various risks of loss associated with its business operations are identified and managed. The risk management techniques utilized include a combination of standard policies and procedures and purchased insurance. Commercial general liability, property losses, business automobile liability, workers' compensation and public officials' liability are all managed through purchased insurance. There were no significant reductions or changes in insurance coverage from the prior year. Settled claims did not exceed insurance coverage in any of the past three fiscal years.

## **(13) Related-Party Transactions**

In 2011, the Authority did not enter into any related-party transactions. In 2010, the Authority entered into a transaction with Warren Village Inc., Colorado, the Chairman of the Board of Directors of which is a member of the Authority's Executive Team. Using funds granted under the Tax Credit Exchange Program of the AARA, the Authority made a \$1.1 million grant to the Warren Village. This transaction was made in the normal course of business under terms and conditions similar to other transactions with unrelated parties.

## **(14) Commitments and Contingencies**

The Authority had outstanding commitments to make or acquire single-family and multi-family/business loans of \$62,050,000 and \$2,964,000, respectively, as of December 31, 2011. The Authority had outstanding commitments to make



**Notes to Basic Financial Statements**  
**(tabular dollar amounts are in thousands)**

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or acquire single-family and multi-family/business loans of \$62,725,000 and \$15,819,000, respectively, as of December 31, 2010.

There are a limited number of claims or suits pending against the Authority arising in the Authority's ordinary course of business. In the opinion of the Authority's management and counsel, any losses that might result from these claims and suits are either covered by insurance or, to the extent not covered by insurance, would not have a material adverse effect on the Authority's financial position.

The Authority participates in the Ginnie Mae Mortgage-Backed Securities (MBS) Programs. Through the MBS Programs, Ginnie Mae guarantees securities that are issued by the Authority and backed by pools of mortgage loans. If a borrower fails to make a timely payment on a mortgage loan, the Authority must use its own funds to ensure that the security holders receive timely payment. All loans pooled under the Ginnie Mae MBS Program are either insured by the Federal Housing Authority or United States Department of Agriculture Rural Development, or are guaranteed by the VA. The Authority assesses the overall risk of loss on loans that it may be required to repurchase and repurchases the loans as necessary. The Authority repurchased \$21.3 million and \$3.3 million of these loans in 2011 and 2010, respectively.

**15) Subsequent Events**

In March 2012, the Authority completed the sale of the real estate for all Blended Component Units, which encompass the Rental Assistance Program (RAP) - Hyland Park Centre Corporation ("Hyland Park"), Tanglewood Oaks Apartments Corporation ("Tanglewood"), and Village of Yorkshire Corporation ("Yorkshire"). In addition, the Authority completed the sale of real estate for Maple Tree Settlement, which is not a Blended Component Unit, but is part of RAP. Each of these properties was sold at a gain. These properties had net income in 2011 and 2010 of \$1.5 million and \$498 thousand, respectively.

The Authority paid in full the outstanding Lehman swap termination settlement as of March 2012.

Also in March, the Authority redeemed \$106,325,000 of NIPB bonds.



**SUPPLEMENTAL INFORMATION**

# colorado housing and finance authority



## Colorado Housing and Finance Authority Combining Schedule - Statement of Net Position

December 31, 2011

(with summarized financial information for December 31, 2010)

(in thousands of dollars)

|   | General<br>Programs | Single<br>Family | Multi-Family/<br>Business | Eliminations | 2011       | Summarized<br>2010 |
|---|---------------------|------------------|---------------------------|--------------|------------|--------------------|
| <b>Assets</b>   |                     |                  |                           |              |            |                    |
| Current assets:   |                     |                  |                           |              |            |                    |
| Cash (Note 2)   |                     |                  |                           |              |            |                    |
| Restricted  | \$ 56,011           | \$ -             | \$ -                      | \$ -         | \$ 56,011  | \$ 75,483          |
| Unrestricted  | 33,281              | -                | -                         | -            | 33,281     | 16,498             |
| Investments (Note 2)                                      | 9,058               | 530,373          | 106,801                   | -            | 646,232    | 652,878            |
| Loans receivable (Note 3)                                 | 43,986              | 44,709           | 25,568                    | (562)        | 113,701    | 134,211            |
| Loans receivable held for sale (Note 3)                   | 38,206              | -                | -                         | -            | 38,206     | 47,478             |
| Accrued interest receivable                               | 3,339               | 8,865            | 4,865                     | (160)        | 16,909     | 20,075             |
| Deferred debt financing costs, net                        | 15                  | 478              | 174                       | -            | 667        | 778                |
| Other assets  | 6,977               | 378              | 118                       | -            | 7,473      | 9,541              |
| Due (to) from other programs                              | (27,174)            | 20,345           | 6,829                     | -            | -          | -                  |
| Total current assets                                      | 163,699             | 605,148          | 144,355                   | (722)        | 912,480    | 956,942            |
| Noncurrent assets:  |                     |                  |                           |              |            |                    |
| Investments (Note 2)                                      | 658                 | 154,576          | 83,204                    | -            | 238,438    | 219,983            |
| Loans receivable, net (Note 3)                            | 129,417             | 1,296,553        | 741,465                   | (16,290)     | 2,151,145  | 2,467,772          |
| Capital assets - non-depreciable (Note 4)                 | 5,026               | -                | -                         | -            | 5,026      | 5,547              |
| Capital assets - depreciable, net (Note 4)                | 19,134              | -                | -                         | -            | 19,134     | 21,194             |
| Other real estate owned, net                              | 3,515               | 4,448            | 2,656                     | -            | 10,619     | 12,505             |
| Deferred debt financing costs, net                        | 263                 | 8,605            | 3,138                     | -            | 12,006     | 13,998             |
| Other assets  | 22,691              | -                | -                         | -            | 22,691     | 22,164             |
| Total noncurrent assets                                   | 180,704             | 1,464,182        | 830,463                   | (16,290)     | 2,459,059  | 2,763,163          |
| <b>Total assets</b>                                       | 344,403             | 2,069,330        | 974,818                   | (17,012)     | 3,371,539  | 3,720,105          |
| <b>Total Deferred Outflows - Hedging</b>                  |                     |                  |                           |              |            |                    |
| Accumulated decrease in fair value of hedging derivatives | -                   | 135,763          | 131,647                   | -            | 267,410    | 180,245            |
| <b>Liabilities</b>  |                     |                  |                           |              |            |                    |
| Current liabilities:                                      |                     |                  |                           |              |            |                    |
| Short-term debt (Note 5)                                  | 46,100              | -                | -                         | -            | 46,100     | 87,900             |
| Bonds payable (Note 6)                                    | -                   | 311,847          | 9,665                     | -            | 321,512    | 299,187            |
| Notes payable (Note 6)                                    | 104                 | -                | -                         | -            | 104        | 79                 |
| Accrued interest payable                                  | 1,178               | 14,433           | 10,093                    | (160)        | 25,544     | 25,641             |
| Federally assisted program advances                       | 458                 | -                | -                         | -            | 458        | 60                 |
| Accounts payable and other liabilities                    | 45,605              | 1,071            | 743                       | -            | 47,419     | 65,063             |
| Total current liabilities                                 | 93,445              | 327,351          | 20,501                    | (160)        | 441,137    | 477,930            |
| Noncurrent liabilities:                                   |                     |                  |                           |              |            |                    |
| Bonds payable, net (Note 6)                               | 70,285              | 1,629,772        | 860,303                   | -            | 2,560,360  | 2,910,329          |
| Derivative instruments                                    | 727                 | 149,577          | 131,647                   | -            | 281,951    | 183,600            |
| Derivatives related borrowing                             | -                   | 27,253           | 26,354                    | -            | 53,607     | 59,972             |
| Notes payable (Note 6)                                    | 24,283              | -                | -                         | (16,852)     | 7,431      | 6,173              |
| Other liabilities (Note 6)                                | 22,237              | 872              | 832                       | -            | 23,941     | 8,767              |
| Total noncurrent liabilities                              | 117,532             | 1,807,474        | 1,019,136                 | (16,852)     | 2,927,290  | 3,168,841          |
| <b>Total liabilities</b>                                  | 210,977             | 2,134,825        | 1,039,637                 | (17,012)     | 3,368,427  | 3,646,771          |
| <b>Net position</b>                                       |                     |                  |                           |              |            |                    |
| Invested in capital assets, net of related debt           | 7,308               | -                | -                         | 16,852       | 24,160     | 26,741             |
| Restricted by bond indentures                             | -                   | 70,268           | 66,828                    | -            | 137,096    | 113,252            |
| Unrestricted (Note 10)                                    | 126,118             | -                | -                         | (16,852)     | 109,266    | 113,586            |
| <b>Total net position</b>                                 | \$ 133,426          | \$ 70,268        | \$ 66,828                 | \$ -         | \$ 270,522 | \$ 253,579         |

See accompanying independent auditors' report.

# colorado housing and finance authority



## Colorado Housing and Finance Authority Combining Schedule - Statement of Revenues, Expenses and Changes in Net Position

For the year ended December 31, 2011

(with summarized financial information for the year ended December 31, 2010)

(in thousands of dollars)

|   | General<br>Program | Single<br>Family | Multi-Family/<br>Business | Eliminations | 2011          | Summarized<br>2010 |
|---|--------------------|------------------|---------------------------|--------------|---------------|--------------------|
| <b>Interest income and expense:</b>                         |                    |                  |                           |              |               |                    |
| Interest on loans receivable                                | \$ 12,719          | \$ 75,599        | \$ 47,564                 | \$ (1,285)   | \$ 134,597    | \$ 151,319         |
| Interest on investments                                     | 735                | 15,154           | 7,534                     | -            | 23,423        | 18,094             |
| Interest on debt  | (6,765)            | (89,676)         | (43,389)                  | 1,285        | (138,545)     | (141,458)          |
| Net interest income   | 6,689              | 1,077            | 11,709                    | -            | 19,475        | 27,955             |
| <b>Other operating income:</b>                              |                    |                  |                           |              |               |                    |
| Rental income   | 8,804              | -                | -                         | -            | 8,804         | 9,306              |
| Loan servicing income                                       | 13,633             | -                | (3)                       | -            | 13,630        | 13,058             |
| Section 8 administration fees                               | 5,052              | -                | -                         | -            | 5,052         | 4,629              |
| Gain on sale of loans                                       | 16,792             | -                | -                         | -            | 16,792        | 19,817             |
| Investment derivative activity loss                         | (527)              | (1,188)          | -                         | -            | (1,715)       | (473)              |
| Net increase (decrease) in the<br>fair value of investments | 74                 | 21,264           | 4,549                     | -            | 25,887        | 7,324              |
| Other revenues (losses)                                     | 255                | 506              | -                         | -            | 761           | 1,713              |
| Total other operating income                                | 44,083             | 20,582           | 4,546                     | -            | 69,211        | 55,374             |
| Total operating income                                      | 50,772             | 21,659           | 16,255                    | -            | 88,686        | 83,329             |
| <b>Operating expenses:</b>                                  |                    |                  |                           |              |               |                    |
| Salaries and related benefits                               | 18,210             | -                | -                         | -            | 18,210        | 17,808             |
| General operating   | 38,963             | 1,319            | 501                       | -            | 40,783        | 55,636             |
| Depreciation  | 3,684              | -                | -                         | -            | 3,684         | 3,773              |
| Provision for losses  | 3,791              | 4,746            | 499                       | -            | 9,036         | 6,521              |
| Total operating expenses                                    | 64,648             | 6,065            | 1,000                     | -            | 71,713        | 83,738             |
| <b>Net operating income (loss)</b>                          | <b>(13,876)</b>    | <b>15,594</b>    | <b>15,255</b>             | <b>-</b>     | <b>16,973</b> | <b>(409)</b>       |
| <b>Nonoperating revenues and expenses:</b>                  |                    |                  |                           |              |               |                    |
| Federal grant receipts                                      | 134,491            | -                | -                         | -            | 134,491       | 134,613            |
| Federal grant payments                                      | (134,491)          | -                | -                         | -            | (134,491)     | (134,613)          |
| Gains on sales of capital assets                            | (30)               | -                | -                         | -            | (30)          | 128                |
| Total nonoperating revenues, net                            | (30)               | -                | -                         | -            | (30)          | 128                |
| <b>Income before transfers</b>                              | <b>(13,906)</b>    | <b>15,594</b>    | <b>15,255</b>             | <b>-</b>     | <b>16,943</b> | <b>(281)</b>       |
| <b>Transfers from (to) other programs</b>                   | <b>7,005</b>       | <b>4,049</b>     | <b>(11,054)</b>           | <b>-</b>     | <b>-</b>      | <b>-</b>           |
| <b>Change in net position</b>                               | <b>(6,901)</b>     | <b>19,643</b>    | <b>4,201</b>              | <b>-</b>     | <b>16,943</b> | <b>(281)</b>       |
| <b>Net position:</b>  |                    |                  |                           |              |               |                    |
| Beginning of year   | 140,327            | 50,625           | 62,627                    | -            | 253,579       | 253,860            |
| End of year   | \$ 133,426         | \$ 70,268        | \$ 66,828                 | \$ -         | \$ 270,522    | \$ 253,579         |

See accompanying independent auditors' report.



# colorado housing and finance authority



## Colorado Housing and Finance Authority Combining Schedule - Statement of Cash Flows

For the year ended December 31, 2011

(with summarized financial information for the year ended December 31, 2010)

(in thousands of dollars)

|  | General<br>Program | Single<br>Family | Multi-Family/<br>Business | Eliminations | 2011        | Summarized<br>2010 |
|--|--------------------|------------------|---------------------------|--------------|-------------|--------------------|
| <b>Cash flows from operating activities:</b>   |                    |                  |                           |              |             |                    |
| Principal payments received on loans receivable<br>& receipts from dispositions of other real estate owned | \$ 23,786          | \$ 220,862       | \$ 58,654                 | \$ -         | \$ 303,302  | \$ 320,375         |
| Interest payments received on loans receivable   | 12,288             | 79,450           | 47,642                    | (1,297)      | 138,083     | 154,818            |
| Payments for loans receivable  | (365,925)          | -                | (1,270)                   | (788)        | (367,983)   | (428,218)          |
| Receipts from sales of Ginnie Mae securities   | 420,989            | -                | -                         | -            | 420,989     | 417,478            |
| Receipts (payments) for loan transfers between programs  | (53,809)           | 64,712           | (10,903)                  | -            | -           | -                  |
| Receipts from rental operations  | 8,748              | -                | -                         | -            | 8,748       | 9,346              |
| Receipts from other revenues   | 18,888             | 506              | (3)                       | -            | 19,391      | 19,173             |
| Payments for salaries and related benefits   | (18,775)           | -                | -                         | -            | (18,775)    | (17,109)           |
| Payments for goods and services  | (39,543)           | (1,318)          | (501)                     | -            | (41,362)    | (19,213)           |
| All other, net   | 1,046              | 457              | -                         | -            | 1,503       | (1,185)            |
| Net cash provided (used) by operating activities   | 7,693              | 364,669          | 93,619                    | (2,085)      | 463,896     | 455,465            |
| <b>Cash flows from noncapital financing activities:</b>  |                    |                  |                           |              |             |                    |
| Net increase (decrease) in short-term debt   | (41,800)           | -                | -                         | -            | (41,800)    | 14,650             |
| Proceeds from issuance of bonds  | -                  | 266,435          | -                         | -            | 266,435     | 275,210            |
| Proceeds from issuance of notes payable  | 1,388              | -                | -                         | -            | 1,388       | 125                |
| Receipts from federal grant programs   | 135,352            | -                | -                         | -            | 135,352     | 134,308            |
| Payments for federal grant programs  | (134,491)          | -                | -                         | -            | (134,491)   | (134,613)          |
| Principal paid on bonds  | (8,101)            | (514,957)        | (60,840)                  | -            | (583,898)   | (247,064)          |
| Principal paid on notes payable  | (105)              | -                | -                         | -            | (105)       | (17,415)           |
| Interest paid on short-term debt   | (271)              | -                | -                         | -            | (271)       | (226)              |
| Interest rate swap settlements   | -                  | (59,832)         | (32,270)                  | -            | (92,102)    | (95,330)           |
| Interest paid on bonds   | (3,984)            | (31,028)         | (13,988)                  | -            | (49,000)    | (52,336)           |
| Interest paid on notes payable   | (756)              | -                | -                         | -            | (756)       | (1,004)            |
| Bond issuance costs paid   | -                  | (1,728)          | -                         | -            | (1,728)     | (1,365)            |
| Transfers (to) from other programs   | (9,609)            | 12,858           | (3,249)                   | -            | -           | -                  |
| Net cash used by noncapital financing activities   | (62,377)           | (328,252)        | (110,347)                 | -            | (500,976)   | (125,060)          |
| <b>Cash flows from capital and related financing activities:</b>   |                    |                  |                           |              |             |                    |
| Purchase of capital assets   | (1,133)            | -                | -                         | -            | (1,133)     | (2,148)            |
| Proceeds from the disposal of capital assets   | -                  | -                | -                         | -            | -           | 347                |
| Principal paid on capital-related debt   | (788)              | -                | -                         | 788          | -           | -                  |
| Interest paid on capital-related debt  | (1,297)            | -                | -                         | 1,297        | -           | -                  |
| Net cash provided (used) by capital and related financing activities                                       | (3,218)            | -                | -                         | 2,085        | (1,133)     | (1,801)            |
| <b>Cash flows from investing activities:</b>   |                    |                  |                           |              |             |                    |
| Proceeds from maturities and sales of investments  | 1,696,617          | 1,098,355        | 294,369                   | 267          | 3,089,608   | 2,897,006          |
| Purchase of investments  | (1,642,128)        | (1,147,867)      | (285,268)                 | (267)        | (3,075,530) | (3,186,689)        |
| Income received from investments   | 731                | 13,095           | 7,620                     | -            | 21,446      | 17,160             |
| Net cash provided (used) by investing activities   | 55,220             | (36,417)         | 16,721                    | -            | 35,524      | (272,523)          |
| <b>Net increase (decrease) in cash</b>   | (2,682)            | -                | (7)                       | -            | (2,689)     | 56,081             |
| Cash at beginning of year  | 91,974             | -                | 7                         | -            | 91,981      | 35,900             |
| Cash at end of year  | \$ 89,292          | \$ -             | \$ -                      | \$ -         | \$ 89,292   | \$ 91,981          |
| Restricted   | 56,011             | -                | -                         | -            | 56,011      | 75,483             |
| Unrestricted   | 33,281             | -                | -                         | -            | 33,281      | 16,498             |
| Cash and cash equivalents, end of year   | \$ 89,292          | \$ -             | \$ -                      | \$ -         | \$ 89,292   | \$ 91,981          |

Continued on the next page



# colorado housing and finance authority



**Colorado Housing and Finance Authority**  
**Combining Schedule - Statement of Cash Flows** *(continued)*  
**For the year ended December 31, 2011**  
*(with summarized financial information for the year ended December 31, 2010)*  
*(in thousands of dollars)*

|   | General<br>Program | Single<br>Family  | Multi-Family/<br>Business | Eliminations      | 2011              | Summarized<br>2010 |
|---|--------------------|-------------------|---------------------------|-------------------|-------------------|--------------------|
| <b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b> |                    |                   |                           |                   |                   |                    |
| Net operating income (loss)   | \$ (13,876)        | \$ 15,594         | \$ 15,255                 | \$ -              | \$ 16,973         | \$ (409)           |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities: |                    |                   |                           |                   |                   |                    |
| Depreciation expense  | 3,684              | -                 | -                         | -                 | 3,684             | 3,773              |
| Amortization of service release premiums  | 3,538              | -                 | -                         | -                 | 3,538             | 2,946              |
| Amortization of deferred loan fees/costs, net   | (720)              | 856               | (71)                      | -                 | 65                | 115                |
| Amortization of imputed debt associated with swaps  | -                  | (3,524)           | (2,840)                   | -                 | (6,364)           | (6,469)            |
| Provision for losses  | 3,791              | 4,746             | 499                       | -                 | 9,036             | 6,521              |
| Gain on sale of capital assets  | 30                 | -                 | -                         | -                 | 30                | -                  |
| Interest on investments   | (730)              | (15,154)          | (7,534)                   | -                 | (23,418)          | (18,087)           |
| Interest on debt  | 6,765              | 93,201            | 46,228                    | (1,285)           | 144,909           | 147,927            |
| Unrealized loss on derivatives  | 527                | 1,188             | -                         | -                 | 1,715             | 473                |
| Unrealized gain on investments  | (74)               | (21,264)          | (4,549)                   | -                 | (25,887)          | (7,324)            |
| (Gain) loss on sale of REO  | 2,137              | (506)             | -                         | -                 | 1,631             | 413                |
| Gain on sale of loans   | (16,792)           | -                 | -                         | -                 | (16,792)          | (19,817)           |
| Changes in assets and liabilities:  |                    |                   |                           |                   |                   |                    |
| Loans receivable and other real estate owned  | 19,046             | 286,079           | 46,481                    | (788)             | 350,818           | 306,083            |
| Accrued interest receivable on loans and investments  | 610                | 2,995             | 149                       | (12)              | 3,742             | 3,505              |
| Other assets  | 987                | 458               | 1                         | -                 | 1,446             | (3,983)            |
| Accounts payable and other liabilities  | (1,230)            | -                 | -                         | -                 | (1,230)           | 39,798             |
| <b>Net cash provided (used) by operating activities</b>   | <b>\$ 7,693</b>    | <b>\$ 364,669</b> | <b>\$ 93,619</b>          | <b>\$ (2,085)</b> | <b>\$ 463,896</b> | <b>\$ 455,465</b>  |

See accompanying independent auditors' report.

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## APPENDIX H

### Book-Entry System

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

DTC is acting as securities depository for the Remarketed Bonds. The Remarketed Bonds have been issued as fully-registered securities, registered in the name of Cede & Co., DTC's partnership nominee, or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate has been issued for the Remarketed Bonds, in the aggregate principal amount of the Remarketed Bonds, and has been 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 and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants (the "**Direct Participants**") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("**DTCC**"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("**Indirect Participants**"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com). *The Authority, the Trustee, and the Remarketing Agent undertake no responsibility for and make no representation as to the accuracy or the completeness of the content of such material contained on DTC's website as described in the preceding sentence including, but not limited to, updates of such information or links to other Internet sites accessed through the aforementioned website.*

Purchases of Remarketed Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Remarketed Bonds on DTC's records. The ownership interest of each actual purchaser of each Remarketed 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. Beneficial Owners are, however, 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 Remarketed Bonds are to be accomplished by entries made on the books of Direct or Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive

certificates representing their ownership interests in Remarketed Bonds, except in the event that use of the book-entry system for the Remarketed Bonds is discontinued.

To facilitate subsequent transfers, all Remarketed Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Remarketed Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Remarketed Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Remarketed Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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. Beneficial Owners of Remarketed Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Remarketed Bonds, such as redemptions, tenders, defaults and proposed amendments to the Remarketed Bond documents. For example, Beneficial Owners of Remarketed Bonds may wish to ascertain that the nominee holding the Remarketed Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Bond Registrar and request that copies of notices be provided directly to them.

Neither DTC nor Cede (nor any other DTC nominee) will consent or vote with respect to Remarketed Bonds, unless authorized by a Direct Participant in accordance with DTC MMI Procedures. Under its usual procedures, DTC mails an 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 Remarketed Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Remarketed Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the Authority or the Trustee, on a payment date in accordance with their respective holdings shown on DTC's records. Payments by Direct and Indirect 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 Direct and Indirect Participant and not of DTC, the Trustee, the Tender Agent, the Remarketing Agent, the 2007B-3 Facility Provider or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC), is the responsibility of the Trustee or the Authority, 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.

A Beneficial Owner shall give notice to elect to have its Remarketed Bonds purchased or tendered, through its Participant, to the Tender Agent, and shall effect delivery of such Remarketed Bonds by causing the Direct Participant to transfer the Participant's interest in the Remarketed Bonds, on DTC's records, to the Tender Agent. The requirement for physical delivery of Remarketed Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in

the Remarketed Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of such tendered Remarketed Bonds to the Tender Agent's DTC account.

THE AUTHORITY, THE TRUSTEE, THE TENDER AGENT, THE 2007B-3 FACILITY PROVIDER, AND THE REMARKETING AGENT SHALL HAVE NO RESPONSIBILITY OR OBLIGATION WITH RESPECT TO THE ACCURACY OF THE RECORDS OF DTC, CEDE & CO. OR ANY DTC PARTICIPANT WITH RESPECT TO ANY OWNERSHIP INTEREST IN THE REMARKETED BONDS, THE DELIVERY TO ANY DTC PARTICIPANT OR ANY INDIRECT PARTICIPANT OR ANY OTHER PERSON, OTHER THAN CEDE & CO., AS NOMINEE OF DTC, AS SHOWN ON THE BOND REGISTER, OF ANY NOTICE WITH RESPECT TO THE REMARKETED BONDS, INCLUDING ANY NOTICE OF REDEMPTION, THE PAYMENT TO ANY DTC PARTICIPANT OR INDIRECT PARTICIPANT OR ANY OTHER PERSON, OTHER THAN CEDE & CO., AS NOMINEE OF DTC, AS SHOWN ON THE BOND REGISTER, OF ANY AMOUNT WITH RESPECT TO PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON, THE REMARKETED BONDS OR ANY CONSENT GIVEN BY CEDE & CO., AS NOMINEE OF DTC. SO LONG AS CERTIFICATES FOR THE REMARKETED BONDS ARE NOT ISSUED PURSUANT TO THE INDENTURE AND THE REMARKETED BONDS ARE REGISTERED TO DTC, THE AUTHORITY, THE 2007B-3 FACILITY PROVIDER, THE TENDER AGENT, THE REMARKETING AGENT AND THE TRUSTEE SHALL TREAT DTC OR ANY SUCCESSOR SECURITIES DEPOSITORY AS, AND DEEM DTC OR ANY SUCCESSOR SECURITIES DEPOSITORY TO BE, THE ABSOLUTE OWNER OF THE REMARKETED BONDS FOR ALL PURPOSES WHATSOEVER, INCLUDING WITHOUT LIMITATION (1) THE PAYMENT OF PRINCIPAL AND INTEREST ON THE REMARKETED BONDS, (2) GIVING NOTICE OF REDEMPTION AND OTHER MATTERS WITH RESPECT TO THE REMARKETED BONDS, (3) REGISTERING TRANSFERS WITH RESPECT TO THE REMARKETED BONDS AND (4) THE SELECTION OF REMARKETED BONDS FOR REDEMPTION.

DTC may discontinue providing its services as securities depository with respect to the Remarketed Bonds at any time by giving reasonable notice to the Authority, the Trustee and the 2007B-3 Facility Provider. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates are required to be printed and delivered. The Authority may decide to discontinue use of the system of book-entry transfer through DTC (or a successor depository). In that event, Bond certificates will be printed and delivered.

**According to DTC, the foregoing information with respect to DTC and DTC's book-entry system has been provided to the Industry for informational purposes only and is not intended to serve as a representation, warranty or contract modification of any kind.**

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## APPENDIX I

### Insurance and Guarantee Programs; Foreclosure

*The Mortgage Loans are required by the Master Indenture to be subject to mortgage insurance or guaranty to the extent required by any Series Indenture. For a description of the requirements of the Series Indenture, see "PART I – CERTAIN PROGRAM ASSUMPTIONS" in the Official Statement and "CERTAIN PROGRAM ASSUMPTIONS" in this Supplement. The following is a description of the various insurance and guarantee programs which may be applicable in connection with certain Mortgage Loans. The following also includes a description of the Colorado foreclosure procedures which may apply to a Mortgage Loan in the case of a Mortgagor default.*

#### **FHA Insurance**

The National Housing Act (the "NHA") of 1934, as amended, provides for various FHA mortgage insurance programs. The regulations governing the single family programs under which the FHA-insured Mortgage Loans are insured provide that a Mortgage Loan will be considered to be in default if the Mortgagor fails to make any payment or perform any other obligation under the Mortgage, and such failure continues for a period of thirty days. Insurance benefits are payable to the Mortgagee upon acquisition of title (through foreclosure or otherwise) and conveyance of the Eligible Property to HUD.

HUD requires Mortgagees to explore alternatives to foreclosure. These may include a forbearance, a forbearance with a partial claim, or modification agreement, a pre-foreclosure sale, repayment plan, payment moratorium, HAMP (Home Affordable Modification Plan), or a deed in lieu of foreclosure. Utilization of certain alternatives to foreclosure may result in quicker receipt of the FHA insurance claim because the time required to complete a foreclosure is eliminated. Attempts to utilize alternatives to foreclosure which are unsuccessful may delay receipt of the FHA insurance claim due to a delay in commencement of foreclosure proceedings.

The FHA insurance claim for a Mortgage Loan will be paid in an amount equal to the outstanding principal balance plus allowable interest and, given that the Authority is ranked as a Tier 2 loan servicer, approximately sixty-seven percent (67%) of the permitted costs and expenses of acquiring title to the Eligible Property. Interest is allowed (except for two months which is disallowed) at the HUD debenture rate which may be less than the Mortgage Loan interest rate.

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

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

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

### **VA Guaranty**

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

Claims for the payment of a VA guaranty may be submitted when any default of the Mortgagor continues for a period of three months. A guaranty may be paid without the Mortgagee instituting foreclosure proceedings or otherwise acquiring title. A Mortgagee intending to institute foreclosure proceedings must send to the Administrator of Veteran Affairs a Notice of Default and Intention to Foreclose 120 days from the date of delinquency. The guaranty provisions for mortgage loans generally are as follows: (i) for home and condominium loans of \$45,000 or less, 50% of the loan is guaranteed; (ii) for home and condominium loans above \$45,000 but not more than \$56,250, \$22,500 of the loan is guaranteed; (iii) for home and condominium loans above \$56,250 but not more than \$144,000, the lesser of \$36,000 or 40% of the loan is guaranteed; and (iv) for home and condominium loans above \$144,000, the lesser of \$50,750 or 25% of the loan is guaranteed. The liability on the guaranty is reduced or increased pro rata with any reduction or increase in the amount of the indebtedness. Notwithstanding the dollar and percentage limitations of the guaranty, a Mortgagee will ordinarily suffer a monetary loss only when the difference between the unsatisfied indebtedness and the proceeds of any foreclosure sale of an Eligible Property is greater than the original guaranty as adjusted. The VA may, at its option and without regard to the guaranty, make full payment to a Mortgagee of unsatisfied indebtedness on a Mortgage upon the Mortgagee's obtaining title and assigning it to the VA.

In the case of a Mortgage Loan originated by a Mortgage Lender, the Authority relies on the originating Mortgage Lender for proper origination of such Mortgage Loan. If a guaranty claim is denied or curtailed due to the error of the Mortgage Lender, the Authority would have recourse to such Mortgage Lender for reimbursement. See "THE SINGLE FAMILY MORTGAGE PROGRAM" in this Supplement. The Authority's ability to collect claims for reimbursement may depend in part on the Mortgage Lender's financial condition at the time the claim arises.

### **Rural Housing Service Guarantee**

Under the Rural Housing Service's Rural Housing Loan Guarantee Program, a Mortgagor may obtain a Mortgage Loan guaranteed by the Rural Housing Service ("**RHS**") covering mortgage financing of the purchase of an Eligible Property located in a RHS-designated rural area at interest rates permitted by the RHS. The RHS Rural Housing Loan Guarantee program will be limited to only certain rural areas of the State. Mortgagor and Mortgage Loan eligibility for such guarantees is subject to certain income, purchase price and other limitations in addition to the limitations applicable to all Mortgagors and Mortgage Loans.



The amount of the RHS loan guarantee is 90% of the principal amount of the mortgage loan. The maximum loss payment under the RHS guarantee will be the lesser of: (i) any loss of an amount equal to 90% of the principal amount actually advanced to the Mortgagor, or (ii) any loss sustained by the Mortgagee of an amount up to 35% of the principal amount actually advanced to the Mortgagor, plus any additional loss sustained by the Mortgagee of an amount up to 85% of the remaining 65% of the principal amount actually advanced to the Mortgagor. Loss includes only: (a) principal and interest evidenced by the promissory note; (b) any Mortgage Loan subsidy due and owing; and (c) any principal and interest indebtedness on RHS-approved protective advances for protection and preservation of the Eligible Property. Interest (including any subsidy) will be covered by the RHS guarantee to the date of the final loss settlement when the Mortgagee conducts liquidation of the Eligible Property in an expeditious manner in accordance with RHS regulations.

When a Mortgage Loan becomes three payments delinquent, the Mortgagee may proceed with foreclosure of the Mortgage Loan unless extenuating circumstances exist. The RHS requires Mortgagees to explore an acceptable alternative to foreclosure, although incentives are not paid to mortgagees to implement the alternatives. Acceptable foreclosure alternatives include forbearance, modifications, repayment plan, pre-foreclosure sales and deeds in lieu of foreclosure. If the Mortgagee proposes a method of liquidation other than foreclosure, then the Mortgagee must obtain RHS's approval of such method.

Payment of loss is made within 60 days after the Mortgagee files a claim. A claim must be filed within 30 days after liquidation of the Mortgage Loan. Loss is determined by the difference between the unpaid principal balance of the mortgage loan, unpaid interest and advances approved by RHS and net proceeds from the Eligible Property. Normal costs of liquidation are also included in the loss payment. If the Mortgagee acquires title to the Eligible Property through the foreclosure process, the Mortgagee must submit a disposition plan to RHS for RHS concurrence. The Mortgagee has six months from the date of acquisition to sell the Eligible Property. If the Eligible Property is sold in accordance with the plan, the actual net proceeds from the sale of the Eligible Property will be used to calculate the loss payment. If the Eligible Property is not sold within 6 months from the acquisition date (which period may be extended for 30 days with RHS approval to permit the closing on an offer received near the end of the 6 month period) RHS will obtain a liquidation value appraisal of the Eligible Property which will be used to determine net proceeds for calculation of the loss payment.

If a third party acquires title to the Eligible Property from the foreclosure sale or as a result of a sale by the Mortgagor to cure or avoid a default, the actual net proceeds from the sale will be used to calculate the loss payment. In some circumstances, the Mortgagee may be required to enforce a deficiency judgment against the Mortgagor before the loss payment will be paid. This may substantially delay payment. Any recovery on the mortgage loan by the Mortgagee after receipt of a loss payment must be shared with RHS in proportion to the loss borne by RHS and the Mortgagee.

RHS claims may be denied or curtailed in limited circumstances. A claim may be denied if there was fraud or misrepresentation that the Mortgagee knew about, participated in or condoned. Claims may be curtailed as a result of violation of usury laws, negligent servicing or failure to obtain required collateral.

In the case of a Mortgage Loan originated by a Mortgage Lender, the Authority relies on the originating Mortgage Lender for proper origination of such Mortgage Loan. If a guaranty claim is denied or curtailed due to the error of the Mortgage Lender, the Authority would have recourse to such Mortgage Lender for reimbursement. See "THE SINGLE FAMILY MORTGAGE PROGRAM" in this Supplement. The Authority's ability to collect claims for reimbursement may depend in part on the Mortgage Lender's financial condition at the time the claim arises.

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

### *Private Mortgage Insurance*

Under each Series Indenture, the Authority is authorized in certain circumstances to purchase PMI Mortgage Loans which are insured by a private mortgage insurance company approved by the Authority, which is qualified to do business in the State and qualified to provide insurance on mortgages purchased by Freddie Mac or Fannie Mae and which is rated, at the time each PMI Mortgage Loan is made or originated, by the agency then rating the Bonds at certain ratings designated in the Series Indenture. See "CERTAIN PROGRAM ASSUMPTIONS – Insurance Limitations and Requirements" in this Supplement for a description of the ratings requirements under the Series Indentures applicable to the Series of Bonds.

The amount of private mortgage insurance plus the Eligible Borrower's down payment must at least equal the amount by which the PMI Mortgage Loan exceeds 80% of the appraised value (at the time of origination) or purchase price, whichever is less, of the mortgaged property securing such PMI Mortgage Loan. The private mortgage insurance may either be Borrower Paid Mortgage Insurance (BPMI) where mortgage insurance is paid by the mortgagor; or Lender Paid Mortgage Insurance (LPMI) where mortgage insurance is paid by a person other than the mortgagor. LPMI cannot be cancelled by the mortgagor and is not automatically terminated under federal law. LPMI may result in a mortgage with a higher interest rate and terminates only when the mortgage is refinanced, paid off, or otherwise terminated. Federal law requires BPMI to be cancelled at the mortgagor's request on or after either of the following dates: (1) the date the principal balance of the loan is first scheduled to reach eighty percent (80%) of the original value of the property; or (2) the date the principal balance actually reaches eighty percent (80%) of the original value of the property. BPMI will only be canceled on these dates if the mortgagor submits a written request for cancellation; has a good payment history; is current on the mortgage loan; and the Authority receives evidence that the value of the property has not declined below its original value and certification that there are not subordinate liens on the property. Federal law also requires BPMI to automatically terminate on the date that the principal balance of the loan is first scheduled to reach seventy eight percent (78%) of the original value of the property if the mortgagor is current on loan payments. In any event, BPMI will terminate on the first day of the month immediately following the date that is the midpoint of the amortization period for the loan, if the mortgagor is current on that date.

Generally, delinquencies must be reported to the Private Insurer at day 45 of the delinquency and then on a monthly basis thereafter, and proceedings to recover title are required to commence within four months of default. It is also required that prior to presenting a claim under the PMI, title to the mortgaged property, free and clear of all liens and encumbrances, including any right of redemption by the mortgagor, must be acquired and tendered to the Private Insurer. Private mortgage insurance policies may provide that the Private Insurer, upon taking title to the mortgaged property securing a PMI Mortgage Loan, must pay the mortgagee the unrecovered balance of its loss but may permit mortgagee to retain such title and pay a claim equal to the difference between the original principal amount of such Mortgage Loan and 75% of the appraised value (at the time of origination) or purchase price of such mortgaged property, whichever is less. The amount of the claim payable also generally consists of usual and customary attorneys' fees, real estate taxes, hazard and private mortgage insurance premiums necessarily advanced by the insured, expenses incurred in preservation and maintenance of the mortgaged property, and other costs and expenses incurred to acquire the mortgaged property. Private Insurers may require or permit the mortgagee to forbear from foreclosing a defaulted Mortgage Loan, offer a preforeclosure sale or deed in lieu of foreclosure, or enter into an agreement modifying the terms of a Mortgage Loan in certain circumstances.

In the case of a Mortgage Loan originated by a Mortgage Lender, the Authority relies on the originating Mortgage Lender for proper origination of such Mortgage Loan. If an insurance claim is denied or curtailed due to the error of the Mortgage Lender, the Authority would have recourse to such Mortgage Lender for reimbursement. See "THE SINGLE FAMILY MORTGAGE PROGRAM" in this Supplement. The Authority's ability to collect claims for reimbursement may depend in part on the Mortgage Lender's financial condition at the time the claim arises.

#### *Uninsured Mortgage Loans*

Each Series Indenture also permits the Authority in certain circumstances to make or purchase Uninsured Mortgage Loans which are neither governmentally-guaranteed or insured nor insured by a private mortgage insurance company, as long as the outstanding principal balance of each such Uninsured Mortgage Loan is less than or equal to 80% of the appraised value (at the time of origination of such Mortgage Loan) or the purchase price, whichever is less, of the mortgaged property securing such Uninsured Mortgage Loan.

#### **Colorado Foreclosure Law and Procedure**

The Mortgage Loans are evidenced by promissory notes and secured by deeds of trust encumbering the mortgaged property. The Colorado form of deed of trust is a unique three-party instrument that involves a public official known as a public trustee rather than a private trustee. The parties to a deed of trust are the borrower (i.e., the mortgagor), the public trustee of the county in which the mortgaged property is located and the Mortgage Lender (generally referred to in a deed of trust as the beneficiary and herein as the mortgagee). A deed of trust creates a lien in favor of the mortgagee to secure repayment of the debt.

The public trustee's duties are generally limited to foreclosure of deeds of trust, issuance of certificates of purchase and deeds following foreclosure, releases of deeds of trust, and related matters. The public trustee will rarely have notice of a deed of trust until the mortgagee elects to have the public trustee foreclose the deed of trust. Public trustees do not have discretionary or decision-making authority like judges. Rather, they perform the ministerial and procedural acts necessary to complete foreclosures in accordance with Colorado law.

A mortgagor's failure to perform a material covenant of the deed of trust (like failure to pay taxes or failure to pay the debt) generally constitutes a default entitling the mortgagee to accelerate the debt and foreclose. To start foreclosure proceedings, the mortgagee must present to the public trustee (i) the original or, for certain qualified holders, a copy of the promissory note or evidence of debt (or, except as provided in the following sentence, a lost instruments bond if the note or evidence of debt has been lost), (ii) any modifications to the original evidence of debt and the original endorsements or assignments to the current holder of the original evidence of debt, (iii) the original or copy of the recorded deed of trust together with any modifications or partial releases (and if copies are provided, in some cases they must be certified by the Clerk and Recorder or in other cases accompanied by the certificate of the holder that such holder is a "qualified holder"), (iv) an originally executed Notice of Election and Demand for Sale, and (v) the so-called Combined Notice and other required notices, certificates and affidavits and mailing list for the notices. Certain types of mortgagees, which include the Authority, may commence foreclosure by presenting a copy of the original evidence of debt instead of the original instrument or a bond. If the mortgagee presents a copy of the evidence of debt, the mortgagee is liable to a person incurring a loss if the original evidence of debt is subsequently presented for payment. The public trustee must record the Notice of Election and Demand for Sale in the appropriate clerk and recorder's office within ten business days after receipt of a complete filing. If the property is a residence occupied by a borrower personally obligated on the debt and meeting certain additional requirements, the foreclosing mortgagee is required

to post the property with notice of the foreclosure and the owner is eligible for foreclosure counseling and possible deferral of the foreclosure sale by up to approximately 90 days. The foreclosure process may also be delayed for up to 90 days under the HUD Foreclosure Deferment Program if, after meeting with a HUD counselor, it is determined that a mortgagor could potentially be eligible for long-term home retention options.

The public trustee also causes the Combined Notice to be published and posted. The Combined Notice must be published once per week for five successive weeks in a newspaper of general circulation in the county where the mortgaged property is located. Within 20 days after the recording of the Notice of Election and Demand, copies of the Combined Notice must be sent to the borrower, Grantor of the Deed of Trust, Guarantors, and "occupants" as designated by statute and who are listed on a mailing list provided by the mortgagee's attorney. No more than sixty (60) nor fewer than forty-five (45) days prior to the first scheduled date of sale, the public trustee is required to again send the Combined Notice to the persons identified in the preceding sentence as well as to the owner of the property as of the date of recording of the Notice of Election and Demand and each person who appears to have an interest in the property prior to the date of the recording of the Notice of Election and Demand (if such person's interest in the property may be extinguished by the foreclosure).

The mortgagee may elect to preserve certain junior interests (like easements or leases) that would otherwise be extinguished by the foreclosure by recording a Notice to Affirm.

A right to redeem inures to certain holders of recorded junior interests that were recorded prior to the recording of the Notice of Election and Demand for Sale. A right to cure inures to the owner of the mortgaged property as of the recording of the Notice of Election and Demand and certain transferees, parties liable on the debt, sureties and guarantors of the debt and holders of an interest junior to the lien being foreclosed that was recorded prior to the recording of the Notice of Election and Demand for Sale.

A public trustee foreclosure sale is scheduled by the public trustee to occur no fewer than 110 days and no more than 125 days after the date of recording the Notice of Election and Demand for Sale for non-agricultural property. (The sale of certain residential property may be held on an expedited basis, 45-65 days after the recording of the Notice of Election and Demand if the mortgagee secures an order of the Rule 120 or other court finding, based on clear and convincing evidence, that the property has been abandoned). For agricultural property the sale is to be scheduled 215 to 230 days after the recording of the Notice of Election and Demand. If it is not evident from the legal description in the deed of trust, the public trustee will determine if the property is agricultural based on certain evidence such as the property being part of a subdivision plat, a written statement of an official that the property was within incorporated city limits, or a written statement from the assessor that the property is assessed as other than agricultural property. The sale date may be extended by the mortgagee from time to time and by the public trustee for other reasons provided by statute.

Prior to the foreclosure sale, the mortgagee must obtain an Order Authorizing Sale in an appropriate Colorado District Court pursuant to Rule 120 of the Colorado Rules of Civil Procedure. Notice of a Rule 120 hearing must be provided to the persons designated by Rule 120, and in the case of residential property, notice of the hearing must be posted in a conspicuous place on the property at least 15 days prior to the hearing. The hearing must be held no later than 16 days prior to the date of the foreclosure sale or the mortgagee must continue the sale to a later date. An order authorizing the public trustee foreclosure sale will be issued if the court determines there is a reasonable probability that a default has occurred entitling the mortgagee to foreclose and no interested party is entitled to protection of the Servicemembers' Civil Relief Act of 1940, as amended (the "**Relief Act**"). The scope of the Rule 120 hearing is limited to determining the reasonable probability that a default has occurred, determining

whether under the deed of trust foreclosure is authorized, and determination of issues related to the Relief Act.

Mortgagors called to active duty after obtaining a Mortgage Loan are entitled to the benefit of the Relief Act. Under the Relief Act a mortgagor may be granted certain relief from the mortgage obligations during active military service and for nine months after the end of the period of military service. Such relief includes: (i) reduction of the Mortgage Loan interest rate to six percent (6%); and (ii) a stay of foreclosure proceedings. Such relief may reduce revenues received by the Authority during such period.

When foreclosure is initiated due to the nonpayment of sums due under the promissory note or deed of trust (such as principal, interest or real estate taxes), parties entitled by statute to cure who wish to exercise such cure rights must preserve the right to cure by filing a Notice of Intent to Cure with the public trustee at least fifteen days prior to the date of the foreclosure sale. The Public Trustee is then required to promptly request the amount required to cure the default from the mortgagee. The mortgagee must file with the public trustee a statement of the amount needed to cure the foreclosure no later than the earlier of 10 business days after receipt of the request or the eighth business day prior to the foreclosure sale. If these deadlines are not met, the foreclosure will be postponed thereafter from week to week. The party wishing to cure the default must pay the public trustee all delinquent principal, interest and other amounts due plus the costs and expense of the foreclosure, including attorneys' fees, on or before noon of the day prior to the foreclosure sale to effectuate the cure. After the default is cured the mortgagee must terminate the foreclosure proceedings. The mortgagee may, but is not obligated to, accept a cure and terminate the foreclosure proceedings even if the statutory requirements are not met.

If the Mortgage Loan is not cured, the public trustee will sell the mortgaged property at the foreclosure sale to the highest bidder. Anyone may bid at the sale. There is no obligation for the mortgagee to bid any amount in excess of the outstanding debt. Any bid by the mortgagee which is less than the outstanding debt must be at least the mortgagee's good faith estimate of the fair market value of the mortgaged property (less unpaid taxes, the amount of senior liens and estimated reasonable costs and expenses, net of income, of holding, marketing and selling such property). The failure of the mortgagee to bid a good faith estimate of the fair market value of the mortgaged property will not affect the validity of the foreclosure sale but may be raised as a defense by a person sued on a deficiency. The public trustee will issue a Certificate of Purchase to the successful bidder. Title to the property vests in the holder of the Certificate of Purchase upon the close of business, eight days after the sale date if no notice of intent to redeem was filed. If a notice of intent to redeem was filed, the title vests upon the expiration of all redemption periods. If the property is occupied at the time that title vests, the tenant is entitled to notice and may be eligible to remain in the property for the term of the lease based on protections under the Protecting Tenants at Foreclosure Act of 2009 for bona fide tenants not related to the mortgagor who are paying fair market rent.

Certain holders of recorded junior interests have redemption rights if they timely filed a Notice of Intent to Redeem. The most senior junior lienholder may redeem between 15 and 19 business days after the sale date and each subsequent junior lienholder has (in order of priority of the liens) five business days to redeem. To preserve the right to redeem, a junior lienholder must file a notice of intent to redeem and other documents with the public trustee within eight business days after the foreclosure sale. Title to the property will vest in the holder of the Certificate of Purchase upon the close of business eight days after the sale date if no notice of intent to redeem was filed. If a notice of intent to redeem was filed, and no redemption has occurred, the title vests in the holder of the Certificate of Purchase upon the expiration of all redemption periods. The public trustee will issue a deed to, the holder of the Certificate of Purchase. The public trustee deed will convey the mortgaged property free of all junior interests except junior interests the mortgagee elected to affirm or which were not sent proper notices of the foreclosure as required by statute. Special rules apply with respect to junior liens which are held by the IRS or other

federal agencies. The public trustee's deed will be junior to the lien for real property taxes and assessments and to all liens and interests, if any, which were senior to the deed of trust foreclosed.

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

In addition to the statutory requirements with respect to a foreclosure in Colorado, other restrictions may be imposed by the Mortgage Loan documents or by the VA, FHA, Rural Housing Service, FNMA/FHLMC, or a Private Insurer. FNMA/FHLMC, VA, and FHA encourage Mortgage Lenders to avoid foreclosure wherever possible. VA, FHA and Rural Housing Service also have special programs for certain borrowers whose defaults are caused by circumstances outside of their control, as described in "VA Guaranty," "Rural Housing Service Guarantee" and "FHA Insurance" under this caption. Certain loan documents for the Mortgage Loans may incorporate restrictions from the FNMA/FHLMC Colorado Uniform Security Instrument which require the mortgagee to give the Mortgagor 30 days' notice prior to accelerating the Mortgage Loan unless the default is violation of the due-on-sale clause.

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

## APPENDIX J

### Form of Continuing Disclosure Undertaking

#### CONTINUING DISCLOSURE UNDERTAKING

This Continuing Disclosure Undertaking (this "**Disclosure Certificate**") is executed and delivered by the COLORADO HOUSING AND FINANCE AUTHORITY, a body corporate and political subdivision of the State of Colorado (the "Authority"), in connection with the remarketing of the Authority's Single Family Mortgage Class II Adjustable Rate Bonds, 2007 Series B-3 (the "**Series Bonds**"). The Series Bonds have been issued pursuant to a Master Indenture of Trust dated as of October 1, 2001, as supplemented and amended (the "**Master Indenture**") and pursuant to a 2007 Series B Indenture dated as of October 1, 2007, as amended (the "**Series Indenture**" and, together with the Master Indenture, the "**Indenture**"), each between the Authority and Zions First National Bank, Denver, Colorado, as trustee. The Authority may issue additional series of bonds under the Master Indenture upon satisfaction of the conditions set forth in the Master Indenture. All bonds and notes issued under the Master Indenture, including the Series Bonds, are referred to herein as the "Bonds." Capitalized terms used but not defined herein shall have meanings ascribed thereto in the Indenture. The Authority covenants and agrees as follows:

#### **BACKGROUND**

1. The Series Bonds have been issued to provide funds to finance or refinance the purchase of mortgage loans under the Authority's Single Family Mortgage Program (as defined in the Official Statement), to establish necessary reserves, or to otherwise attain the goals of the Authority pursuant to the Colorado Housing and Finance Authority Act.

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

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

#### **AUTHORITY COVENANTS AND AGREEMENTS**

##### Section 1. Definitions.

(a) "**Annual Financial Information**" means the financial information or operating data with respect to the Authority and any loan program financed under the Master Indenture, delivered at least annually pursuant to Sections 2(a) and 2(b) hereof, substantially similar to the type set forth in the final Official Statement as described in **Exhibit A** hereto, including but not limited to such financial information and operating data set forth in (i) "CERTAIN PROGRAM ASSUMPTIONS" and (ii) "COLORADO HOUSING AND FINANCE AUTHORITY" in the Official Statement.

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

(c) "**EMMA**" means the MSRB's Electronic Municipal Market Access System, with a portal at <http://emma.msrb.org>.

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

(e) "**MSRB**" means the Municipal Securities Rulemaking Board. The current address of the MSRB is 1900 Duke Street, #600, Alexandria, Virginia 22314; fax: 703-797-6700.

(f) "**Official Statement**" means the Official Statement dated October 9, 2007 delivered in connection with the original issue and sale of the Series Bonds, as supplemented by the Supplement to Official Statement dated May 9, 2012.

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

(h) "**SEC**" means the Securities and Exchange Commission.

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

(a) Commencing with the fiscal year ending December 31, 2012 and annually while the Bonds remain outstanding, the Authority agrees to provide or cause to be provided annually to EMMA (with a copy, upon request, to the Participating Underwriter) the following information:

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

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

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

(d) (1) At any time the Series Bonds are outstanding, in a timely manner not in excess of ten (10) business days after the occurrence of an event, the Authority shall provide to EMMA notice of the occurrence of any of the following Events with respect to the Series Bonds:



- (A) principal and interest payment delinquencies;
- (B) unscheduled draws on debt service reserves reflecting financial difficulties;
- (C) unscheduled draws on credit enhancements reflecting financial difficulties;
- (D) substitution of credit or liquidity providers, or their failure to perform;
- (E) 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 of the Bonds, or other material events affecting the tax status of the Bonds;
- (F) defeasances;
- (G) rating changes;
- (H) tender offers; and
- (I) bankruptcy, insolvency, receivership, or similar event of the Obligated Person.

For the purposes of the event identified in paragraph (2)(d)(1)(I) hereof, the event is considered to occur when any of the following occur: (i) the appointment of a receiver, fiscal agent or similar officer for an 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 governmental 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 (ii) 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.

(2) At any time the Series Bonds are outstanding, in a timely manner not in excess of ten (10) business days after the occurrence of an event, the Authority shall provide to EMMA notice of the occurrence of any of the following Events with respect to the Bonds, if material:

- (A) non-payment related defaults;
- (B) modifications to the rights of the beneficial owners of the Bonds;
- (C) bond calls;
- (D) release, substitution or sale of property securing repayment of the Bonds;
- (E) 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; and

- (F) appointment of a successor or additional trustee or a change in the name of a trustee.

(e) At any time the Series Bonds are outstanding, the Authority shall provide, in a timely manner, to EMMA, with a copy to the Participating Underwriter, notice of any failure of the Authority to timely provide the Annual Financial Information as specified in Sections 2(a) and 2(b) hereof.

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

Section 4. Enforcement. The obligations of the Authority hereunder shall be for the benefit of the owners (including beneficial owners) of the Series Bonds. The owner or beneficial owner of any Series Bonds is authorized to take action to seek specific performance by court order to compel the Authority to comply with its obligations under this Disclosure Certificate, which action shall be the exclusive remedy available to it or to any other owners or beneficial owners of the Series Bonds; provided, that any owner or beneficial owner of Series Bonds seeking to require the Authority to comply with this Disclosure Certificate shall first provide at least 30 days' prior written notice to the Authority of the Authority's failure, giving reasonable detail of such failure following which notice the Authority shall have 30 days to comply. Any such action shall be brought only in a court of competent jurisdiction in the City and County of Denver, Colorado. Breach of the obligations of the Authority hereunder shall not constitute an Event of Default under the Indenture and none of the rights and remedies provided by the Indenture shall be available to the owners of the Series Bonds or the Trustee therein appointed.

Section 5. Additional Information. Nothing in the Disclosure Certificate shall be deemed to prevent the Authority from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other annual information or notice of occurrence of an event which is not an Event, in addition to that which is required by this Disclosure Certificate; provided that the Authority shall not be required to do so. If the Authority chooses to include any annual information or notice of occurrence of an event in addition to that which is specifically required by this Disclosure Certificate, the Authority shall have no obligation under this Disclosure Certificate to update such information or include such information in any future annual filing or Event filing.

Section 6. Term. This Disclosure Certificate shall be in effect from and after remarketing of the Series Bonds and shall extend to the earliest of (i) the date all principal and interest on the Series Bonds shall have been deemed paid or legally defeased pursuant to the terms of the Indenture; (ii) the date that the Authority shall no longer constitute an "obligated person" with respect to the Series Bonds within the meaning of Rule 15c2-12; or (iii) the date on which those portions of Rule 15c2-12 which require this Disclosure Certificate are determined to be invalid by a court of competent jurisdiction in a non-appealable action, have been repealed retroactively or otherwise do not apply to the Series Bonds, the determination of (i), (ii) or (iii) herein to be made in any manner deemed appropriate by the Authority, including by an opinion of counsel experienced in federal securities law selected by the Authority.

Section 7. Amendments and Waivers. Notwithstanding any other provision of the Disclosure Certificate, the Authority may amend this Disclosure Certificate from time to time, and any provision of this Disclosure Certificate may be waived, without the consent of the owners or beneficial

owners of the Series Bonds upon the Authority's receipt of an opinion of counsel experienced in federal securities laws to the effect that such amendment or waiver will not adversely affect compliance with Rule 15c2-12. Any Annual Financial Information containing amended operating data or financial information will explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided. If an amendment changes the accounting principles to be followed in preparing financial statements, the Annual Financial Information for the year in which the change is made will present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The Authority shall provide notice of such amendment or waiver to EMMA as required by Rule 15c2-12 and the Participating Underwriter.

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

Dated as of May 16, 2012.

COLORADO HOUSING AND FINANCE  
AUTHORITY

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

## **EXHIBIT A**

The Authority's Annual Financial Information shall contain or include by reference tables setting forth the following information, as of the end of the Authority's fiscal year (December 31):

(i) For each maturity of each series of Bonds outstanding under the Master Indenture: (i) the maturity date of such Bonds, Bond type (serial or term), the interest rate on such Bonds, principal redemptions, original aggregate principal amount of such Bonds and the principal amount of such Bonds remaining Outstanding; and (ii) a list of unscheduled redemptions including the date of call, amount and type of call.

(ii) During the period for the acquisition of Mortgage Loans with the proceeds of the Series Bonds, the original amount of funds available for the acquisition of Mortgage Loans, the total amount of funds committed by the Authority for individual Mortgage Loans, and the total principal amount of Mortgage Loans purchased by the Authority. This information will not be provided after the period for the acquisition of Mortgage Loans with the proceeds of the Series Bonds.

(iii) The amount and type of assets (and, if applicable, the rate and maturity date of such assets) credited to the Acquisition Account, the Revenue Account, the Loan Recycling Account, the Class I Debt Service Fund, the Class II Debt Service Fund, the Class III Debt Service Fund, the Redemption Fund, the Short Term Bond Account and the various subaccounts in each of the above-referenced funds or accounts; and the current amount of assets credited to the Debt Service Reserve Fund and its various subaccounts.

(iv) With respect to each Series of Bonds, the outstanding aggregate principal balance of Mortgage Loans, the aggregate number of outstanding Mortgage Loans, the average principal balance per Mortgage Loan, average coupon and weighted average maturity.

(v) With respect to each Series of Bonds, a breakdown of the type of housing, expressed as a percentage of Mortgage Loans outstanding, showing the extent to which: (i) the housing is single family detached, condominium/townhomes or other (specify); (ii) the housing is new construction or existing homes; and (iii) the housing is insured by the FHA, insured by private mortgage insurance, insured by the Rural Housing Service, guaranteed by the VA or uninsured.

(vi) With respect to each Series of Bonds, the number of loans financed, the number of loans prepaid in full, the number of loans foreclosed to date, the number of loans outstanding, the number of delinquent 30-90 days, the percentage of total loans delinquent 30-90 days, the number of delinquencies 90 or more days, the percentage of total loans delinquent 90 or more days, the number of loans in foreclosure, the percentage of total loans in foreclosure and the percentage of all loans delinquent.

(vii) With respect to each Series of Bonds, the amount of total assets, the amount of total liabilities and the amount of surplus or deficit.