

*In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Series 2007 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. Bond Counsel observes, however, that interest on the Bonds is a specific preference item for purposes of the federal individual and corporate alternative minimum taxes. Bond Counsel is also of the opinion that, under existing law, the Series 2007 Bonds and the interest thereon are exempt from District taxation, except estate, inheritance or gift taxes. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. See "TAX MATTERS."*

**DISTRICT OF COLUMBIA HOUSING FINANCE AGENCY**



**\$50,000,000**

**Single Family Mortgage Revenue Bonds  
Series 2007 A (AMT)**

**\$50,000,000**

**Single Family Mortgage Revenue Bonds  
Series 2007 B (AMT)**

**Dated: Series 2007 A Bonds: Date of delivery**  
**Series 2007 B Bonds: Date of delivery**

**Due: As shown on the inside cover**

The District of Columbia Housing Finance Agency (the "Issuer") is issuing the above-captioned Series 2007 Bonds, pursuant to and secured by a General Indenture of Trust dated as of December 1, 1996, as amended and supplemented (the "General Indenture"), and a Supplemental Indenture of Trust dated as of November 1, 2007 (the "Supplemental Indenture," and together with the General Indenture, the "Indenture"), each by and between the Issuer and U. S. Bank National Association, Richmond, VA, as trustee (the "Trustee"). The Series 2007 Bonds will be issued as fixed rate bonds and will mature on the dates and in the amounts as set forth on the inside cover page hereof.

The Series 2007 Bonds are issuable only as fully registered bonds, without coupons, in denominations of \$5,000 and any integral multiple thereof (the "Authorized Denominations"). The Series 2007 Bonds will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Series 2007 Bonds. Individual purchases of the Series 2007 Bonds will be made in book-entry form and individual purchasers of the Series 2007 Bonds will not receive certificates representing their interest in the Series 2007 Bonds purchased. Purchases of the Series 2007 Bonds may be made only in book-entry form in Authorized Denominations by credit to participating broker-dealers and other institutions on the books of DTC as described herein. The principal of, premium, if any, and interest on the Series 2007 Bonds will be payable by the Trustee to DTC, which will remit such payments in accordance with its normal procedures, as described herein.

The Series 2007 Bonds will bear interest from their dated date at the rates set forth on the inside cover page hereof, payable semi-annually in arrears on June 1 and December 1 of each year to maturity, commencing June 1, 2008.

The Series 2007 Bonds are being issued to provide funds for a program pursuant to which the Issuer will finance the purchase of mortgage-backed securities (the "Securities") guaranteed as to timely payment of monthly principal and interest by the Federal Home Loan Mortgage Corporation ("Freddie Mac" or "FHLMC"), the Government National Mortgage Association ("GNMA" or "Ginnie Mae") or Fannie Mae ("FNMA" or "Fannie Mae") and backed by pools of qualifying FHA-insured, VA-guaranteed, and/or Conventional Mortgage Loans (as defined herein) to be originated by qualified mortgage lending institutions (the "Lenders") for qualified borrowers earning up to the maximum income limit, and no income limitation for a certain amount of mortgage loans in 157 of the District of Columbia's (the "District") 192 Census tracts to finance the purchase of single family residences in the District meeting the maximum purchase price limit for the District in calendar year 2007 imposed pursuant to the Internal Revenue Code of 1986, as amended (the "Code") and in part to refund and pay at maturity certain outstanding prior bonds of the Issuer. See "**THE PROGRAM**" herein. The proceeds of the Series 2007 A Bonds and the Series 2007 B Bonds will be deposited in the Series 2007 A Mortgage Loan Account and the Series 2007 B Mortgage Loan Account, respectively, and the proceeds of the Series 2007 Bonds will be invested in one or more investment agreements as described herein.

The Series 2007 A Bonds are subject to optional redemption, special redemption and mandatory sinking fund redemption prior to maturity on the terms described herein. The Series 2007 B Bonds are not subject to redemption or purchase prior to maturity. See "**THE SERIES 2007 BONDS-Redemption Provisions of the Series 2007 Bonds**" herein.

**THE SERIES 2007 BONDS DO NOT CONSTITUTE OBLIGATIONS OF THE DISTRICT OF COLUMBIA, BUT ARE SPECIAL LIMITED OBLIGATIONS OF THE ISSUER PAYABLE SOLELY FROM AND SECURED BY THE PROPERTY PLEDGED THEREFOR UNDER THE INDENTURE. THE ISSUER IS NOT OBLIGATED TO PAY PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE SERIES 2007 BONDS EXCEPT FROM THE PLEDGED PROPERTY. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE DISTRICT IS PLEDGED TO THE PAYMENT OF PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE SERIES 2007 BONDS. THE SERIES 2007 BONDS ARE NOT A DEBT OF THE UNITED STATES OF AMERICA OR ANY AGENCY THEREOF OR FREDDIE MAC OR GINNIE MAE OR FANNIE MAE, AND ARE NOT GUARANTEED BY THE FULL FAITH AND CREDIT OF THE UNITED STATES OF AMERICA. **THE ISSUER HAS NO TAXING POWER.****

**THIS COVER PAGE CONTAINS CERTAIN INFORMATION FOR QUICK REFERENCE ONLY. THIS COVER PAGE IS NOT INTENDED TO BE A SUMMARY OF THIS ISSUE. INVESTORS MUST READ THE ENTIRE OFFICIAL STATEMENT, INCLUDING ALL APPENDICES ATTACHED HERETO, TO OBTAIN INFORMATION ESSENTIAL TO THE MAKING OF AN INFORMED INVESTMENT DECISION REGARDING THE SERIES 2007 BONDS.**

The Series 2007 Bonds are sold when, as and if issued, subject to the opinion of Orrick, Herrington & Sutcliffe LLP, Washington, D.C., Bond Counsel. Certain legal matters will be passed upon for the Underwriters by their counsel, McKenzie & Associates, Washington, D.C. Certain legal matters will be passed upon for the Issuer by Harry T. Alexander, Jr., its General Counsel. It is expected that the Series 2007 Bonds will be available for delivery through the facilities of DTC in New York, NY on or about November 1, 2007.

**Banc of America Securities LLC**  
**Morgan Keegan & Company, Inc.**

**MATURITY SCHEDULE**

**DISTRICT OF COLUMBIA HOUSING FINANCE AGENCY  
Single Family Mortgage Revenue Bonds  
Series 2007 A (AMT) and Series 2007 B (AMT)**

**\$50,000,000 SERIES 2007 A**

**\$50,000,000 Term Bonds due December 1, 2038 @ 5.15% Price: Not Reoffered CUSIP 254773AL8**

**\$50,000,000 SERIES 2007 B**

**\$50,000,000 Series B Bonds due November 3, 2008 @ 3.55% Price: 100.00% CUSIP 254773AK0**

No dealer, broker, salesman or other person has been authorized by the Issuer or the Underwriters to give any information or to make any representations with respect to the Series 2007 Bonds other than those contained in this Official Statement and, if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sales of the Series 2007 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 obtained from the Issuer and other sources which are believed to be reliable. Such information is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation of, the Underwriters. The information regarding DTC and DTC's book-entry system (in Appendix E) has been obtained from DTC, but is not guaranteed as to accuracy or completeness by the Issuer or the Underwriters. The information regarding the Master Servicer has been obtained from the Master Servicer, but is not guaranteed as to accuracy or completeness by the Issuer or the Underwriters. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder will, under any circumstances, create any implication that there has been no change in the affairs of the Issuer, DTC or the Master Servicer since the date hereof. This Official Statement does not constitute a contract between the Issuer or the Underwriters and any one or more of the purchasers or registered owners of the Series 2007 Bonds.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

The order and placement of materials in this Official Statement, including the Appendices, are not to be deemed a determination of relevance, materiality or importance, and this Official Statement, including the attached Appendices, must be considered in its entirety. The captions and headings in this Official Statement are for convenience only and in no way define, limit or describe the scope or intent, or affect the meaning or construction, of any provisions or sections in this Official Statement. All summaries herein of documents and agreements are qualified in their entirety by reference to such documents and agreements, and all summaries herein of the Series 2007 Bonds are qualified in their entirety by reference to the form thereof included in the Indenture and the provisions with respect thereto included in the aforesaid documents and agreements.

THIS OFFICIAL STATEMENT IS BEING PROVIDED TO PROSPECTIVE PURCHASERS EITHER IN BOUND PRINTED FORM ("ORIGINAL BOUND FORMAT") OR IN ELECTRONIC FORMAT ON THE FOLLOWING WEBSITE: [www.MuniOS.com](http://www.MuniOS.com). THIS OFFICIAL STATEMENT MAY BE RELIED UPON ONLY IF IT IS IN ITS ORIGINAL BOUND FORMAT OR AS PRINTED IN ITS ENTIRETY DIRECTLY FROM SUCH WEBSITE.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF THE SERIES 2007 BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

THE SERIES 2007 BONDS HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION. THE REGISTRATION, QUALIFICATION OR EXEMPTION OF THE SERIES 2007 BONDS IN ACCORDANCE WITH THE APPLICABLE SECURITIES LAW PROVISIONS OF THE JURISDICTIONS IN WHICH THE SERIES 2007 BONDS HAVE BEEN REGISTERED, QUALIFIED OR EXEMPTED SHOULD NOT BE REGARDED AS A RECOMMENDATION THEREOF. NEITHER SUCH JURISDICTION NOR ANY RELATED AGENCY HAS GUARANTEED OR PASSED UPON THE SAFETY OF THE SERIES 2007 BONDS AS AN INVESTMENT, UPON THE PROBABILITY OF ANY EARNINGS THEREON OR UPON THE ACCURACY OR ADEQUACY OF THIS OFFICIAL STATEMENT

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## OFFICIAL STATEMENT

### DISTRICT OF COLUMBIA HOUSING FINANCE AGENCY

**\$50,000,000**  
**Single Family Mortgage Revenue Bonds**  
**Series 2007 A (AMT)**

**\$50,000,000**  
**Single Family Mortgage Revenue Bonds**  
**Series 2007 B (AMT)**

### INTRODUCTION

The purpose of this Official Statement, which includes the cover page, the inside cover page and the Appendices hereto, is to set forth certain information in connection with the issuance by the District of Columbia Housing Finance Agency (the “Agency” or the “Issuer”) of its Single Family Mortgage Revenue Bonds, Series 2007 A (AMT) in the aggregate principal amount of \$50,000,000 (the “Series 2007 A Bonds”) and its Single Family Mortgage Revenue Bonds, Series 2007 B (AMT) in the aggregate principal amount of \$50,000,000 (the “Series 2007 B Bonds” and, together with the Series 2007 A Bonds, the “Series 2007 Bonds”). The Series 2007 Bonds will be issued pursuant to the provisions of a General Indenture of Trust dated as of December 1, 1996, as amended and supplemented (the “General Indenture”), and a Supplemental Indenture of Trust dated as of November 1, 2007 (the “Supplemental Indenture,” and, together with the General Indenture, the “Indenture”), each by and between the Issuer and U. S. Bank National Association, Richmond, VA, as trustee (the “Trustee”). The Issuer has issued 20 Series of Bonds under the Indenture of which \$195,965,000 were Outstanding as of September 1, 2007. The Outstanding prior Series of Bonds, the Series 2007 Bonds, and any additional Bonds which may be issued in the future under the Indenture are and will be parity debt obligations, equally and ratably secured under the Indenture. **Certain capitalized terms used herein, unless otherwise defined herein, have the meanings ascribed to them in APPENDIX A hereto.**

The Supplemental Indenture authorizes the issuance of the Series 2007 Bonds (i) to provide funds for a program pursuant to which the Issuer will finance the purchase of mortgage-backed securities (ii) to refund and pay at maturity certain outstanding prior bonds of the Issuer (the “Prior Bonds”), (iii) make deposits to certain Funds and Accounts as provided in the Supplemental Indenture and (iv) pay certain costs of issuance.

Amounts deposited to the credit of the related Mortgage Loan Accounts from the proceeds of the Series 2007 Bonds will be used by the Issuer to provide funds to finance the purchase of fully modified mortgage-backed securities (the “Ginnie Mae Securities”), guaranteed as to timely payment of principal and interest by the Government National Mortgage Association (“Ginnie Mae”) and/or mortgage-backed securities (the “Freddie Mac Securities”) issued and guaranteed by the Federal Home Loan Mortgage Corporation (“Freddie Mac” or “FHLMC”) and/or mortgage-backed securities (the “Fannie Mae Securities”) issued and guaranteed by Fannie Mae (“FNMA” or “Fannie Mae”), in each case backed by pools of qualifying mortgage loans (as described herein) originated by one or more of the participating mortgage lending institutions (the “Lenders”), to qualified persons or families of low or moderate income to finance the purchase of single-family residences for use as the principal residence of such persons in the District. The Ginnie Mae Securities, the Freddie Mac Securities and the Fannie Mae Securities are hereinafter collectively referred to herein as the “Mortgage Backed Securities.” See “**MORTGAGE BACKED SECURITIES**” and Appendix C herein.

The Mortgage-Backed Securities will be backed by pools of qualifying FHA-insured, VA-guaranteed, or Conventional Mortgage Loans (collectively, the “Mortgage Loans”). Certain of the Mortgage Loans relating to the Series 2007 A Bonds must be originated by the Lenders during the

origination period (the “Origination Period”) commencing on or about November 1, 2007 and ending on or before April 30, 2011. Program Agreements have been entered into by and among the Issuer, Countrywide Home Loans, Inc., as designated master servicer (the “Master Servicer”) and each Participating Lender.

Each Mortgage Loan made by a Lender must satisfy the rules and regulations of the Issuer, the Program Agreements, and FHA, VA, Freddie Mac, Ginnie Mae or Fannie Mae, as applicable (see “**THE PROGRAM**” herein). Lenders will originate and close the Mortgage Loans and sell the Mortgage Loans to the Master Servicer upon the approval of the documentation required by the Internal Revenue Code of 1986, as amended, (the “Code”) and by the provider of the Mortgage-Backed Securities. The Master Servicer will service the Mortgage Loans pursuant to the terms of the Servicing Agreement dated as of November 1, 2007 (the “Servicing Agreement”) by and between the Issuer and the Master Servicer. See “**MORTGAGE BACKED SECURITIES**” and Appendix C herein.

The Series 2007 Bonds are dated their date of delivery and will mature on the dates and in the amounts set forth on the inside cover hereof. The proceeds of the Series 2007 Bonds will be deposited in the related Series 2007 Mortgage Loan Accounts of the Mortgage Loan Fund. The proceeds of the Series 2007 Bonds along with other funds of the Issuer will be used to (i) refund and pay at maturity certain Prior Bonds of the Issuer (ii) finance the purchase of Mortgage Backed Securities; provided, however, that the proceeds of the Series 2007 B Bonds will not be so applied until the Series 2007 B Bonds have been refinanced and redeemed with the proceeds of a refunding bond issue of the Issuer as provided in the Supplemental Indenture. See “**SOURCES AND USES**” herein. The funds and accounts relating to the Series 2007 Bonds will be invested in one or more investment agreements by and between the Issuer, the Trustee and the Investment Agreement Provider (as defined herein) until applied to the purchase of Mortgage-Backed Securities relating to the Series 2007 Bonds or Bonds issued to refund the Series 2007 Bonds. See “**INVESTMENT AGREEMENTS**” herein.

A brief description of the Issuer, the Series 2007 Bonds, security for the Series 2007 Bonds, the Program, the Freddie Mac Program, the Fannie Mae Program, the Ginnie Mae Program and the Indenture are included in this Official Statement.

The summaries herein do not purport to be complete and are qualified in their entirety by reference to such documents, agreements and programs as may be referred to herein, and the summaries herein of the Series 2007 Bonds are further qualified in their entirety by reference to the form of the Series 2007 Bonds included in the Indenture and the provisions with respect thereto included in the aforesaid documents, copies of which are available for inspection at the principal corporate trust office of the Trustee.

## THE ISSUER

The Issuer is a corporate body and an instrumentality of the District of Columbia (the “District”), created under the District of Columbia Housing Finance Agency Act, Chapter 27 of Title 42 of the District of Columbia Code, as amended (the “Act”). The Series 2007 Bonds do not constitute obligations of the District, but are special limited obligations of the Issuer payable solely from and secured by the revenues and properties of the Issuer pledged under the Indenture and not from any other revenues or property of the Issuer, and do not constitute an indebtedness or obligation (legal, general, moral, special or otherwise) of the District. Neither the full faith and credit nor the taxing power of the District is pledged for the payment of the principal of, premium, if any, or interest on, the Series 2007 Bonds or for the performance of any pledge, mortgage, obligation or agreement of any kind whatsoever which may be undertaken by the Issuer, and none of the Series 2007 Bonds or any of the agreements or obligations of the Issuer shall be construed to constitute an indebtedness of the District within the meaning of any constitutional or statutory provision whatsoever. The Issuer has no taxing power. See, “**SECURITY FOR THE SERIES 2007 BONDS.**”

### General

The Issuer was established in 1979 pursuant to the Act as a corporate body which has a legal existence separate from the government of the District but which is an instrumentality of the government of the District created to effectuate certain public purposes. The Act declares that there exists in the District a critical shortage of adequate housing for low and moderate income families, and empowers the Issuer to generate funds from private and public sources to increase the supply and lower the cost of funds available for residential mortgages and construction loans and thereby help alleviate the shortage of adequate housing. The principal office of the Issuer is located at 815 Florida Avenue, N.W., Washington, D.C., 20001; telephone (202) 777-1600. Copies of the Issuer’s Audited Financial Statements are included as Appendix G.

From the Issuer’s inception to September 30, 1992, the Issuer’s operations were primarily funded by interest-bearing, unsecured advances appropriated by the District. The unsecured advances were to be repaid from income of the Issuer in excess of operating expenses in future years, to the extent such net income is available for such repayment. Pursuant to Public Law 104-194 (enacted September 9, 1996), the appropriated debt of the Issuer including interest thereon was eliminated. Since October 1, 1993, the Issuer’s operating expenses have been funded solely from income derived from certain multifamily financial activities, other financial activities of the Issuer and certain program income derived from its Collateralized Single Family Mortgage Revenue Bond Programs.

### Board of Directors

The Act provides for the Issuer to be governed by a Board of Directors (the “Board”) consisting of five members appointed by the Mayor with the advice and consent of the Council of the District of Columbia (the “Council”). The current members of the Board are as follows:

*Chair of the Board – Rosalyn P. Doggett*

As principal of The Doggett Group, Ms. Doggett is an independent consultant who has provided planning, housing and real estate development services for clients such as the British Embassy, in Washington, D.C. and the New Jersey Transit (PATH Terminal and Ferry Building development strategy). The Doggett Group has included, among its other projects, guidance on developer negotiations and historic preservation for the downtown Silver Spring Silver Triangle retail/office redevelopment project for Montgomery County, Maryland. Ms. Doggett also currently is a member of the senior

development staff of the Washington Metropolitan Area Transit Authority (WMATA) on partnerships to develop transit properties.

Ms. Doggett is the former Executive Vice President of the Union Station Redevelopment Corporation, Washington, D.C., where she co-managed the development of the award-winning, financially successful \$160 million retail, office and Amtrak station project. She is a former Senior and Assistant Development Director with the Office of Urban Development Action Grants, U.S. Department of Housing and Urban Development. In the Union Station and HUD positions, Ms. Doggett controlled and managed projects, performed feasibility planning through initial operations, supervised on-site construction and costs, and scheduled and negotiated contracts and loan terms.

Ms. Doggett is the author of *The Development Sector Approach to Regional Planning* and numerous reports. She has been on the faculty of the University of Shopping Centers, International Council of Shopping Centers and a Visiting Lecturer at Catholic University, Washington, D.C., the University of North Carolina at Chapel Hill and the University of Auckland, New Zealand. Her professional memberships include the Urban Land Institute, the American Planning Association, the American Institute of Certified Planners, Lambda Alpha, and the Council for Urban Economic Development. She is a graduate of Smith College, A.B. cum laude in government, and the University of North Carolina at Chapel Hill (Master of Regional Planning).

*Vice Chair of the Board – Michael Wheat*

Mr. Wheat is a Managing Director in the Public Finance Department of Merrill Lynch & Co. He has been with Merrill Lynch since February 2004. Prior to joining Merrill Lynch, Mr. Wheat, from 1993 to 2004, was a Director in the Public Finance Department of Citigroup Global Markets Inc. (formerly named Salomon Smith Barney), a New York based investment bank. Mr. Wheat was also a Vice President with Lazard Freres and Co. where he was responsible for several of that firm's financial advisory clients, including the District of Columbia and the Metropolitan Washington Airports Authority.

Prior to becoming an investment banker, Mr. Wheat was a lawyer and local government official in the District. During the period from 1981-1986, he was employed in the Office of the Deputy Mayor for Finance, where he worked on the District's reentry into the capital markets through the first sale of bonds by the city in the twentieth century. During his employment with the District, he was responsible for overseeing the issuance of over \$1 billion of general obligation and revenue bonds by the District. He has also been employed as an attorney by two national law firms engaged in the practice of municipal finance and state and local government law from 1979-1981 and from 1986-1988. Mr. Wheat is a graduate of the University of Pennsylvania Law School, from which he received a Juris Doctorate degree in 1979. He received his A.B. degree from Harvard University in 1976.

Mr. Wheat has more than 22 years of experience in the area of public finance and has participated as issuer, lawyer, financial advisor and investment banker, in the issuance of over \$10 billion of bonds during his career.



*Board Member – Isaac Green*

Mr. Green has a Bachelor of Architecture from the Illinois Institute of Technology. He has worked in private industry as a real estate developer, builder, property manager and architect. Mr. Green is also the former Executive Director, Deputy Executive Director, and the Director of the Division of Housing Development for the Michigan State Housing Development Authority. Currently, Mr. Green is the President of Isaac Green Associates. His company provides consulting services in the areas of architecture and mortgage underwriting. Mr. Green has authored several publications on housing issues. He has over 40 years of experience in multifamily housing and architecture.

*Board Member - Everett E. Hamilton, Jr.*

Everett E. Hamilton, Jr. is a local businessman, a community leader for local economic development, and a human rights activist. Mr. Hamilton attended Washington and Lee University in Lexington, Virginia, earning his B.A. in Journalism in 1987. In 2001, Mr. Hamilton joined forces with Sheila McGee to start Octane, LLC. This company specializes in public relations, new media and event planning. In 1987, he started The Windsor Company, a consulting firm that specializes in conference and special event management. He has served in a number of volunteer leadership capacities that focused on economic development and empowerment. Mr. Hamilton represented the District as an appointee to the Metropolitan Washington Airport Advisory Committee. In addition, for 10 years, he has been a member of the Washington Convention and Tourism Corporation (the “WCTC”) and currently serves on the WCTC Gay and Lesbian Tourism Marketing Committee. Mr. Hamilton has also served as a member of the Board of Directors of the Multicultural Tourism and Hospitality Alliance.

*Board Member – Robert Clayton Cooper*

Robert Clayton Cooper is the newest member of the District of Columbia Housing Finance Agency. Mr. Cooper was appointed by Mayor Adrian M. Fenty and confirmed by the Council in May 2007 to serve on the Issuer’s Board of Directors. Originally from San Francisco, Mr. Clayton moved to the District of Columbia in 1979, where he attended Howard University (BBA-Finance/Commercial Banking 1984) and George Washington University Law School (JD-1987). Mr. Clayton began his career as an attorney with the law firm of Jackson & Campbell, P.C., where he specialized in real estate transactions, litigation and local administrative law, including zoning and land-use issues. Recently, Mr. Cooper ended his 21 year association with that firm, and opened his own real estate/land use and litigation firm, the law office of Cooper & Crickman, PLLC.

Mr. Cooper is active in local politics, serves on numerous civic and community-based organizations and provides aid and counsel to tenants and tenant associations in purchasing their properties. Although newly appointed, Mr. Cooper was elected to serve on the Board of Directors for the National Conference of State Housing Boards (“NCSHB”) and he participated in the NCSHB’s Educational and Development workshop this past summer. Mr. Cooper’s primary mission is to increase the role and exposure of the District of Columbia Housing Finance Agency in those neighborhoods and communities that have, historically, been underserved by traditional lenders, with appropriate programs and products.

*Secretary to the Board – Harry D. Sewell.* See “Management” below.

**Management**

The Act authorizes the Board to appoint, with the advice and consent of the Council of the District of Columbia, an Executive Director who serves as Secretary to the Board. The Executive

Director is the Chief Executive Officer of the Issuer and is responsible to the Issuer's Board of Directors for the operation of the Issuer.

*Executive Director and Secretary to the Board – Harry D. Sewell*

On June 6, 2006, the Board selected Harry D. Sewell as its Executive Director. Mr. Sewell has more than 30 years of public and private sector housing experience.

During his professional career, he has held many executive-level positions in housing agencies on the east coast as well as senior positions within private sector development companies. Within the public sector, Mr. Sewell has served as Executive Director of the Housing Authority of the City of Annapolis. As Assistant Secretary for the Maryland Department of Housing and Community Development, he ran the state's Housing Finance Agency, increasing production in its single family and multifamily programs. He also led the effort for the first in the nation HFA sponsored pooled Capital Fund securitization transaction, and as Director of the Department of Real Estate and Housing in Wilmington, Delaware, he was credited with the innovative reuse of vacant city-owned properties through the creation of several homeownership programs.

Mr. Sewell's private sector experience also demonstrates his commitment to the production of affordable housing. Among the positions he has held are Program Manager for Mid-City Urban, LLC in Silver Spring, MD, Senior Vice President of A&R Management, Inc and Vice President of ABG Financial Services in Baltimore, Maryland. At Mid-City, he managed the Planned Unit Development approval process for the Arthur Capper HOPE VI project in SE, Washington. As Vice President at ABG Financial Services in Baltimore, Maryland, he was responsible for originating, underwriting and closing over \$75 million in multifamily loans using FHA Coinsurance and Ginnie Mae Mortgage Backed Securities.

Born and raised in Philadelphia, Pennsylvania, Mr. Sewell has a B.A. in Labor Management Relations from Pennsylvania State University in State College, Pennsylvania. He has served on several boards and held key positions in numerous industry organizations including being a board member for the National Organization of African Americans in Housing and the Maryland Affordable Housing Coalition; Commissioner for the Philadelphia Housing Authority and President of the Quaker Hill Housing Corporation in Wilmington, Delaware.

*Deputy Executive Director – Fran D. Makle*

Fran D. Makle has almost 30 years of housing finance experience, including eleven years of management with a nationally-recognized state housing finance agency. Ms. Makle has extensive experience in mortgage lending for both single-family and multifamily housing and has been instrumental in the development and implementation of three consecutive award-winning housing programs. In November 2006, Ms. Makle joined the Issuer and currently she serves as the Deputy Executive Director for the Agency. In this capacity, Ms. Makle serves as the Chief Operating Officer for the Agency and manages the day to day operations.

Previously, Ms. Makle served as the Program Director for the Arundel Community Development Services, Inc., the Acting Director and the Deputy Director of the Community Development Administration at the Maryland Department of Housing and Community Development (DHCD), and the Deputy Director of the Division of Development Finance, which includes the Community Development Administration at the Maryland Department of Housing and Community Development.

In 1999, she completed a seven-month executive leadership program with the National Forum for Black Public Administrators. Ms. Makle also received her certification in Housing Finance Development

from the University of Maryland School of Public Affairs and studied Business and Public Administration at Charles Community College.

*Associate Executive Director – Allison Ladd*

Allison Ladd has over 10 years of experience in housing finance, community development, and government affairs. Throughout her career, Ms. Ladd has served on the senior management teams in various housing finance entities - state, county and local.

Currently, Ms. Ladd serves as the Associate Executive Director of the District of Columbia Housing Finance Agency. Ms. Ladd joined the Agency in February 2007 and her primary responsibility is to manage the communications, marketing, and government affairs for the Agency.

Previously, Ms. Ladd served as the Chief of Staff to the Maryland Department of Housing and Community Development. Prior to joining the state, she served as the Special Assistant to the Director of the Prince George's County (MD) Department of Housing and Community Development. While in Prince George's County, Ms. Ladd provided technical oversight and counsel regarding the issuance of over \$75 million in tax exempt bonds for multifamily and single-family purposes.

Ms. Ladd graduated with her Masters of Community Planning from the University of Maryland, College Park, Maryland and graduated with a Bachelor of Arts degree from the University of Rhode Island, Kingston, Rhode Island.

*General Counsel – Harry T. Alexander, Jr., Esq.*

Mr. Alexander is the Issuer's General Counsel and is responsible for the review and coordination of the Issuer's bond transactions. He also advises the Board of Directors and staff with respect to the legal sufficiency of all Issuer actions, including contracts, procurement, personnel and program matters. Mr. Alexander has been with the Issuer since December of 1999 and was designated Acting General Counsel in July 2000. He is a graduate of Howard University Law School and a member of the District of Columbia Bar. Mr. Alexander has 12 years experience with the Office of the Attorney General for the District of Columbia (formerly the District of Columbia Office of the Corporation Counsel) working in various areas including tax, real estate, bankruptcy, HOME and Community Development Block Grant transactions, and the District's Industrial Revenue Bond program. In October 2001, Mr. Alexander was appointed as the Issuer's General Counsel.

*Deputy General Counsel – Tabitha McQueen, Esq.*

Ms. McQueen is the Issuer's Deputy General Counsel. She received her law degree from Texas Southern University and is a member of both the District of Columbia Bar and Virginia Bar. Prior to joining the Issuer in December 2006, Ms. McQueen served as an Assistant Attorney General, in the Office of the Attorney General for the District, and prosecuted tax fraud and false claim violations. She also litigated criminal housing code violations and defended the District of Columbia in civil actions while an Assistant Attorney General for over six years. Ms. McQueen began her legal career as a trial attorney and served as a criminal prosecutor and a defense attorney in Virginia and Florida for over three years.

*Chief Financial Officer – Solomon Haile*

Mr. Haile is the Chief Financial Officer of the Issuer. He has a Bachelor of Science in Accounting from the Haile Selassie 1st University, Addis Ababa, Ethiopia and is a Certified Public Accountant. He is responsible for coordination and oversight of the Issuer's fiscal affairs, including the trustees' reporting of bond fund assets and account balances. He has over 21 years of experience as a financial analyst and accountant, and over 12 years of experience in the area of bond finance.

*Director, Home Resource Center – Gwendolyn N. Adams*

Since joining the Issuer in 1990, Ms. Adams has directed or participated in the Issuer's Single Family activities. As the Director of the Home Resource Center, she is responsible for overseeing the Issuer's homeownership education and counseling activities and supervising the origination of Single Family mortgage loans through the Issuer's Single Family Bond Program. Prior to joining the Issuer, Ms. Adams worked for 15 years with the D.C. Office of Planning as Systems Coordinator and then as an Assistant Budget Director. Ms. Adams is a U.S. Department of Housing and Urban Development approved underwriter and certified housing counselor. Her professional memberships include the National Association of Real Estate Brokers, Washington Real Estate Brokers Association, National Federation of Housing Counselors and the D.C. Metropolitan Association of Housing Counselors.

## **CONTINUING DISCLOSURE**

The Issuer will enter into an agreement (the "Agreement") with Digital Assurance Certification, L.L.C., as dissemination agent, for the benefit of the owners, including beneficial owners, of the Series 2007 Bonds to provide certain financial information and operating data relating to the Issuer to certain financial information repositories annually and to provide notice to each Nationally Recognized Municipal Securities Information Repository ("NRMSIR"), the Municipal Securities Rulemaking Board ("MSRB") and the state information depository, if any, of certain events, pursuant to the requirements of Section (b)(5)(i) of Securities and Exchange Commission Rule 15c2-12 (17 C.F.R. Part 240, § 240.15c2-12) (the "Rule") not later than one-hundred eighty (180) days after the end of the Issuer's fiscal year, commencing with a report following the Issuer's fiscal year ending September 30, 2008. See **"APPENDIX F, FORM OF THE CONTINUING DISCLOSURE AGREEMENT."** The covenants described in the Agreement have been made in order to assist the Underwriters in complying with the Rule.

A failure by the Issuer to comply with the Agreement will not constitute an Event of Default under the Indenture (although Bondholders will have any available remedy at law or in equity). Nevertheless, such a failure must be reported in accordance with the Rule and must be considered by a broker-dealer or municipal securities dealer before recommending the purchase or sale of the Series 2007 Bonds in the secondary market. Consequently, such a failure may adversely affect the transferability and liquidity of the Series 2007 Bonds and their market price.

## **THE SERIES 2007 BONDS**

### **Description of the Series 2007 Bonds**

The Series 2007 A Bonds will be dated their date of delivery and will bear interest from such date, at the rate and mature on the date shown on the inside cover page of this Official Statement. Interest on the Series 2007 A Bonds will be due and payable semi-annually on June 1 and December 1 of each year to maturity, commencing June 1, 2008. Interest on the Series 2007 A Bonds will be calculated on the basis of a 360-day year, consisting of twelve 30-day months.

The Series 2007 B Bonds will be dated their date of delivery and will bear interest from such date, at the rates and mature on the dates shown on the inside cover page of this Official Statement. Interest on the Series 2007 B Bonds will be due and payable semi-annually on June 1, 2008 and at maturity. Interest on the Series 2007 B Bonds will be calculated on the basis of a 360-day year, consisting of twelve 30-day months.

The principal of, premium, if any, and interest on the Series 2007 Bonds will be payable in coin or currency of the United States of America which at the time of payment is legal tender for the payment of public and private debts of the United States of America. The Series 2007 Bonds will be issued as fully-registered bonds without coupons in the authorized denominations of \$5,000 principal amount or any integral multiple thereof.

Except as otherwise provided in Appendix E entitled “**Book-Entry Only Provisions,**” the principal of the Series 2007 Bonds is payable to the registered owners thereof on presentation at the principal office of the Trustee, or its successors; provided, however, that the payment of the redemption price will be made by wire transfer in immediately available funds to any Bondowner of at least \$1,000,000 in the aggregate principal amount if such Bondowner has submitted such Series 2007 Bonds to the Trustee and has requested in writing payment by such method at least 15 days before the applicable redemption date. Payment of interest on the Series 2007 Bonds will be made by check or draft mailed to the registered owner thereof at the address of such Bondowner as it appears on the registration books of the Trustee on the Record Date or at such other address as is furnished to the Trustee in writing by such registered owner, or upon the written request of a registered owner of at least \$1,000,000 in principal amount of Bonds Outstanding, by wire transfer in immediately available funds to an account designated by such registered owner which request will be effective for all Debt Service Payment Dates until such notice is canceled by the Bondowner. The Trustee will cause CUSIP number identification with appropriate dollar amounts for each CUSIP number to accompany all payments of interest or redemption price made to Bondowners, whether such payment is made by check or wire transfer.

### **Average Life of Series 2007 Bonds**

The maturities of the Series 2007 Bonds have been fixed based on the estimated average maturity date of the Mortgage Loans assuming no prepayments. Weighted average life refers to the average amount of time that will elapse from the date of issuance of a security until each dollar of principal of such security is repaid to the investor. The weighted average life of the Series 2007 Bonds will be influenced by the rate at which principal on the Mortgage Loans securing the Series 2007 Bonds is paid. Principal payments on Mortgage Loans may be in the form of scheduled amortizations or prepayments (for this purpose, the term “prepayment” includes prepayments and liquidations due to default or other dispositions of the Mortgage Loans). Prepayments on Mortgage Loans are commonly measured by a prepayment standard or model. The model used in the following discussion is The Bond Market

Association, formerly the Public Securities Association (herein, the “PSA”) prepayment standard or model (the “PSA Prepayment Model”). The PSA Prepayment Model is based on an assumed rate of prepayment each month of the then unpaid principal balance of the Mortgage Loans. The PSA Prepayment Model assumes a prepayment rate of 0.2% in the first month, increasing by 0.2% in each succeeding month until the thirtieth month of the mortgages’ life and then assumes a constant prepayment rate of six percent (6%) per annum of the unpaid principal balance for the remaining life of the mortgages.

As used in the following table, “0% PSA” assumes no prepayments on the principal of the Mortgage Loans; “50% PSA” assumes the principal of Mortgage Loans will prepay at a rate one-half times as fast as the prepayment rates for 100% of the PSA Prepayment Model; “100% PSA” assumes the principal of the Mortgage Loans will prepay at a rate equal to the prepayment rates for 100% of the PSA Prepayment Model; “150% PSA” assumes the principal of the Mortgage Loans will prepay at a rate one and one-half times as fast as the prepayment rates for 100% of the PSA Prepayment Model; “200% PSA” assumes the principal of the Mortgage Loans will prepay at a rate twice as fast as the prepayment rates for 100% of the PSA Prepayment Model; “250% PSA” assumes the principal of the Mortgage Loans will prepay at a rate two and one-half times as fast as the prepayment rates for 100% of the PSA Prepayment Model; “300% PSA” assumes the principal of the Mortgage Loans will prepay at a rate three times as fast as the prepayment rates for 100% of the PSA Prepayment Model; “400% PSA” assumes the principal of the Mortgage Loans will prepay at a rate four times as fast as the prepayment rates for 100% of the PSA Prepayment Model; and “500% PSA” assumes the principal of the Mortgage Loans will prepay at a rate five times as fast as the prepayment rates for 100% of the PSA Prepayment Model.

There is no assurance, however, that prepayment of the principal of the Mortgage Loans will conform to any level of the PSA Prepayment Model. The rate of principal payments on pools of mortgage loans is influenced by a variety of economic, geographic, social and other factors, including the level of mortgage interest rates and the rate at which homeowners sell their homes or default on their mortgage loans. In general, if prevailing interest rates fall significantly, the Mortgage Loans are likely to be subject to higher prepayment rates than if prevailing rates remain at or above the interest rates on such Mortgage Loans. Conversely, if interest rates rise, the rate of prepayment would be expected to decrease. Other factors affecting prepayment of Mortgage Loans include changes in mortgagors’ housing needs, job transfers, unemployment and mortgagors’ net equity in the mortgaged properties. In addition, as homeowners move or default on their Mortgage Loans, the houses are generally sold and the Mortgage Loans prepaid, although under certain circumstances the Mortgage Loans may be assumed by a new buyer. Because of the foregoing and since the rate of prepayment of principal of each Bond will depend on the rate of repayment (including prepayments) of the Mortgage Loans, the actual maturity of any Bond is likely to occur earlier, and could occur significantly earlier, than its stated maturity.

The figures in the following table were computed by the Financial Advisor utilizing the Program Assumptions, and various additional assumptions, including an assumption that the weighted average loan origination date will be approximately seven months and that the Series 2007 Bonds will not be optionally redeemed prior to maturity. There can be no assurance that such assumptions will in fact prove to be accurate. See, **PROGRAM ASSUMPTIONS AND BONDHOLDERS’ RISKS – Program Assumptions**, herein.

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TABLE OF PROJECTED AVERAGE LIVES	
	AVERAGE MATURITY IN YEARS
Prepayment Speed	Series 2007 A Bonds Maturing December 1, 2038
0 % PSA	19.75
50% PSA	14.99
100% PSA	11.90
150% PSA	9.82
200% PSA	8.36
250% PSA	7.32
300% PSA	6.55
400% PSA	5.50
500% PSA	4.84

### Redemption Provisions of the Series 2007 Bonds

**Optional Redemption.** The Series 2007 A Bonds are subject to redemption prior to maturity, at the option of the Issuer, in whole or in part on any date on or after June 1, 2017, in minimum aggregate principal amounts of \$5,000 and integral multiples thereof, at a redemption price equal to the outstanding principal amount thereof plus accrued interest to the Redemption Date.

Redemption Period (Both Dates Inclusive)	Redemption Prices (Expressed as a Percentage)
June 1, 2017 to November 30, 2019	101.50%
December 1, 2019 to November 30, 2025	101.25
December 1, 2025 to November 30, 2030	101.00
December 1, 2030 to November 30, 2033	100.75
December 1, 2033 to November 30, 2036	100.50
December 1, 2036 and thereafter	100.25

**Special Redemption.** The Series 2007 Bonds (other than the Series 2007 B Bonds) are subject to special redemption in integral multiples of \$5,000 as described below.

(i) **From Prepayments.** In whole or in part, at any time, at a redemption price equal to 100% of the outstanding principal amount thereof plus accrued interest to the Redemption Date, from and to the extent that funds are deposited in the respective Series 2007 Accounts of the Redemption Fund from Prepayments (or from other sources in amounts equal to such Prepayments).

(ii) **From Unexpended Proceeds.** In whole or in part at any time, at the direction of the Issuer, but for certain Mortgage Loans (funded from the \$18,045,000 volume cap carry-forward) no later than April 30, 2011, at a redemption price equal to 100% of the outstanding principal amount thereof plus accrued interest to the Redemption Date with respect to the Series 2007 A Bonds, from and to the extent that moneys (other than moneys reserved in accordance with the Series Program Determinations for certain set-asides), remaining on deposit in the Series 2007 A Mortgage Loan Account of the Mortgage Loan Fund on the fifteenth day preceding such Redemption Date are not expected to be used for the purchase of Mortgage-Backed Securities. The Series 2007 B Bonds will not be subject to redemption from unexpended proceeds.

(iii) From Excess Revenues. In whole or in part, at any time, from and to the extent that there are deposits in the respective Series 2007 Accounts of the Redemption Fund from Excess Revenues on the 30th day prior to the date of redemption at a redemption price equal to 100% of the outstanding principal amount thereof plus accrued interest to the Redemption Date. See “**Selection of Series 2007 Bonds for Redemption**” below for a description of the selection of the Series 2007 A Bonds, to be redeemed pursuant to this subparagraph.

(iv) By Defeasance. In whole, at a redemption price equal to 100% of the outstanding principal amount thereof plus accrued interest to the Redemption Date, on the earliest date with respect to which notice of redemption can be timely given if the sum of the amounts and the market value of Permitted Investments (other than moneys derived from the sale of Mortgage-Backed Securities) held in the various Series 2007 Bond Funds and Accounts created under the Indenture (specifically excluding the Rebate Fund) is sufficient to pay all Outstanding Series 2007 Bonds and all fees and expenses due and payable under the Indenture to the date of such redemption.

See “**PROGRAM ASSUMPTIONS AND BONDHOLDERS’ RISKS**” herein for a description of certain events that could cause the special redemption of Series 2007 Bonds.

Currently, under the Code, subject to a \$250,000 de minimis exception, repayments and prepayments of principal received more than ten years after the date of issuance of certain qualified mortgage bonds (or, to the extent bonds are treated as refunding bonds, directly or through a series of refundings, the respective dates of issuance of the original bonds) may not be used to make additional mortgage loans but must be used to retire or redeem bonds (the “Ten Year Rule”). Portions of the Mortgage Loan principal payments and prepayments received with respect to the Series 2007 A Bonds shall be subject to the limitations of the Ten Year Rule and shall be applied to call the Series 2007 A Bonds. The dates that portions or all of the Mortgage Loan principal payments and Prepayments received with respect to the 2007 A Bonds become subject to the Ten Year Rule are listed below. The dates are for general reference only and may be modified upon review by the Issuer and to the extent permitted or required by the Code.

**Series 2007 A Bonds 10 Year Rule Table**

<u>From Date</u>	<u>To Date</u>	<u>Percentage</u>
October 31, 2007	June 16, 2009	44.5%
June 17, 2009	December 16, 2009	47.4%
December 17, 2009	March 21, 2010	49.5%
March 22, 2010	April 11, 2010	53.4%
April 12, 2010	July 11, 2010	57.2%
July 12, 2010	October 30, 2017	63.9%
October 31, 2017	Final maturity of Bonds	100%

(Remainder of page left blank intentionally.)



***Mandatory Sinking Fund Redemption.***

(i) The Series 2007 A Bonds are subject to mandatory sinking fund redemption, in part, prior to maturity by lot through Sinking Fund Installments at a redemption price equal to par plus accrued interest to the Redemption Date, upon notice as provided in the Indenture, on the dates and in the amounts set forth below:

<u>Sinking Fund Installment Date</u>	<u>Principal Amount</u>	<u>Sinking Fund Installment Date</u>	<u>Principal Amount</u>
June 1, 2008	\$335,000	December 1, 2023	\$ 740,000
December 1, 2008	\$345,000	June 1, 2024	\$ 755,000
June 1, 2009	\$355,000	December 1, 2024	\$ 775,000
December 1, 2009	\$360,000	June 1, 2025	\$ 795,000
June 1, 2010	\$375,000	December 1, 2025	\$ 815,000
December 1, 2010	\$380,000	June 1, 2026	\$ 840,000
June 1, 2011	\$390,000	December 1, 2026	\$ 860,000
December 1, 2011	\$400,000	June 1, 2027	\$ 880,000
June 1, 2012	\$410,000	December 1, 2027	\$ 905,000
December 1, 2012	\$420,000	June 1, 2028	\$ 930,000
June 1, 2013	\$435,000	December 1, 2028	\$ 955,000
December 1, 2013	\$445,000	June 1, 2029	\$ 975,000
June 1, 2014	\$455,000	December 1, 2029	\$1,000,000
December 1, 2014	\$465,000	June 1, 2030	\$1,025,000
June 1, 2015	\$480,000	December 1, 2030	\$1,055,000
December 1, 2015	\$490,000	June 1, 2031	\$1,080,000
June 1, 2016	\$505,000	December 1, 2031	\$1,110,000
December 1, 2016	\$515,000	June 1, 2032	\$1,135,000
June 1, 2017	\$530,000	December 1, 2032	\$1,165,000
December 1, 2017	\$545,000	June 1, 2033	\$1,195,000
June 1, 2018	\$560,000	December 1, 2033	\$1,225,000
December 1, 2018	\$575,000	June 1, 2034	\$1,260,000
June 1, 2019	\$585,000	December 1, 2034	\$1,290,000
December 1, 2019	\$600,000	June 1, 2035	\$1,325,000
June 1, 2020	\$620,000	December 1, 2035	\$1,360,000
December 1, 2020	\$635,000	June 1, 2036	\$1,395,000
June 1, 2021	\$650,000	December 1, 2036	\$1,430,000
December 1, 2021	\$665,000	June 1, 2037	\$1,465,000
June 1, 2022	\$685,000	December 1, 2037	\$1,505,000
December 1, 2022	\$700,000	June 1, 2038	\$1,545,000
June 1, 2023	\$720,000	December 1, 2038*	\$1,580,000

\*Final Maturity.

The Trustee will credit to future Sinking Fund Installments the principal amount of the Series 2007 A Bonds, redeemed or purchased. Such crediting will be on a Proportionate Basis among all remaining Sinking Fund Installments, unless otherwise directed by the Issuer, and supported by a Cash Flow Certificate.

***Series 2007 B Bonds are not Subject to Redemption or Purchase.*** The Series 2007 B Bonds are not subject to redemption or purchase prior to maturity.

***Selection of Series 2007 A Bonds for Redemption.***

(a) Optional Redemption: In the event Series 2007 A Bonds are to be redeemed by optional redemption, redemption shall be as directed by the Issuer in its sole discretion pursuant to certain conditions set forth in the Indenture. If the Series 2007 A Bonds are to be redeemed by optional redemption on other than a Proportionate Basis, such redemption will be subject to receipt of a Cash Flow Certificate.

(b) Special Redemption from Prepayments: In the event that the Series 2007 A Bonds are to be redeemed from Prepayments relating to the Mortgage Loans financed with the proceeds of the Series 2007 A Bonds pursuant to the Supplemental Indenture, the Trustee shall apply such Prepayments to redeem Series 2007 A Bonds on a Proportionate Basis.

(c) Special Redemption from Unexpended Proceeds. In the event the Series 2007 A Bonds are to be redeemed from amounts remaining in the Series 2007 A Mortgage Loan Account of the Mortgage Loan Fund as described in paragraph (ii) under the heading “**THE SERIES 2007 BONDS-Redemption Provisions of the Series 2007 Bonds-Special Redemption**” herein, the Trustee shall apply such amounts to redeem Series 2007 A Bonds on a Proportionate Basis.

(d) Special Redemption from Excess Revenues. In the event the Series 2007 A Bonds and the Series 2007 A Bonds are to be redeemed from Excess Revenues as described in paragraph (iii) under the heading “**THE SERIES 2007 BONDS-Redemption Provisions of the Series 2007 Bonds -Special Redemption**” herein, such Excess Revenues will be applied to redeem the Series 2007 A Bonds on a Proportionate Basis.

If the Series 2007 A Bonds are to be redeemed on other than a Proportionate Basis, such redemption will be subject to receipt of a Cash Flow Statement.

***Notice of Redemption.*** Any required notice of redemption will be given not less than 30 days prior to the Redemption Date in the manner as provided in the Indenture; provided, however, that notice of redemption, from amounts remaining in the Series 2007 Mortgage Loan Account, as described in paragraph (ii) under the heading “**THE SERIES 2007 BONDS-Redemption Provisions of the Series 2007 Bonds -Special Redemption**” herein, will be given not less than 15 days prior to the redemption date in the manner as provided in the Indenture. Failure to give such notice by mailing to any Bondholder, or any defect therein, will not affect the validity of any proceedings for the redemption of Series 2007 A Bonds. The Trustee will mail a second notice of redemption with respect to any such Bond, which was not presented for payment 60 days after the redemption date. Any notice mailed as described in this paragraph will be conclusively presumed to have been duly given, whether or not the registered owner of such Series 2007 A Bonds receives the notice.

Except as otherwise provided in “Book-Entry Only Provisions” in Appendix E hereto, the Trustee also will mail a copy of such redemption notice by registered or certified mail or overnight delivery service for receipt not less than 30 days before such redemption date to the following: The Depository Trust Company, 55 Water Street, New York, NY 10041, Attention: Call Notification; Moody’s Investors Service, 99 Church Street, New York, New York 10007; Attention: Called Bonds Section; and Standard & Poor’s Rating Service, 55 Water Street, New York, New York 10041, Attention: Called Bonds Section; provided, however, that such mailing will not be a condition precedent to such redemption and failure so to mail any such notice will not affect the validity of any proceedings for the redemption of the Series 2007 A Bonds.

***Purchase of Series 2007 A Bonds; Tenders.*** Unless expressly provided otherwise in the General Indenture, if at any time moneys are held in any Fund or Account under the General Indenture or in a Supplemental Indenture to be used to redeem Series 2007 A Bonds, in lieu of such redemption the Issuer may direct the Trustee to use part or all of such moneys to purchase Series 2007 A Bonds of the respective Series, interest rates and maturities that would otherwise be subject to redemption from such moneys. The purchase price of such Series 2007 A Bonds must not exceed the applicable redemption price of the Series 2007 A Bonds, which would be redeemed but for the operation of certain provisions of the General Indenture (accrued interest to be paid from the same Fund or Account from which accrued interest would be paid upon the redemption of such Series 2007 A Bonds). Any such purchase must be completed prior to the time notice would otherwise be required to be given to redeem such Series 2007 A Bonds. All Series 2007 A Bonds so purchased will be cancelled by the Trustee and applied as a credit against the Issuer's obligation to redeem such Series 2007 A Bonds from such moneys. Savings resulting from the purchase of Series 2007 A Bonds at less than their respective redemption prices will be used to purchase or redeem additional Series 2007 A Bonds to the extent permitted by certain provisions of the General Indenture and the relevant Supplemental Indenture or, at the request of the Issuer, and upon receipt of a Counsel's Opinion that such action will not adversely affect the tax-exempt status of interest on the Series 2007 A Bonds, and upon the filing of a Cash Flow Certificate with the Trustee, withdrawn and paid to the Issuer free and clear of the lien of the Indenture.

The Issuer may direct the Trustee, on behalf of the Issuer, to request the submission of tenders following notice requesting such submission prior to making the purchases authorized pursuant to certain provisions of the General Indenture. The Issuer may specify the maximum and minimum periods of time, which will transpire between the date upon which such notice is to be given and the date upon which such tenders are to be accepted. No tenders will be considered or accepted at any price exceeding the price specified in the preceding paragraph for the purchase of Series 2007 A Bonds. The Issuer is required to accept bids with the lowest price and to the extent the moneys available for purchase pursuant to such tenders are not sufficient to permit acceptance of all tenders and if there are tenders at an equal price above the amount of moneys available for purchase, then the Issuer will select randomly, or in such manner as the Issuer determines in its discretion, the Series 2007 A Bonds tendered which will be purchased.

***Purchase in Lieu of Redemption for the Series 2007 A Bonds.*** On any date upon which the Series 2007 A Bonds are subject to and have been called for optional redemption, the Issuer may, at its option, pursuant to the Supplemental Indenture, purchase or cause to be purchased the Series 2007 A Bonds subject to redemption on such date, at a purchase price equal to what would have been the redemption price, in lieu of such redemption. To exercise such option, the Issuer shall deliver written notice thereof to the Trustee no later than 12:00 noon Eastern time, on the date of such purchase (the "Purchase in Lieu of Date"), together with a Favorable Opinion of Bond Counsel, and the Issuer shall transfer or cause to be transferred to the Trustee the moneys required to purchase the Series 2007 A Bonds no later than 12:00 noon Eastern time, on such Purchase in Lieu of Date. No notice to the Bondholders shall be required of the exercise by the Issuer of its option to purchase the Series 2007 A Bonds pursuant to the Supplemental Indenture. The Bondholders shall not have the right to receive any other notice with respect to such purchase in lieu of redemption. No Bondholder shall have the right to elect to retain Series 2007 A Bonds in the event of a purchase in lieu of redemption. All Series 2007 A Bonds shall be deemed to have been purchased on the Purchase in Lieu of Date, provided funds sufficient to purchase the Series 2007 A Bonds on the Purchase in Lieu of Date have been deposited with the Trustee on the Purchase in Lieu of Date, and from and after such Purchase in Lieu of Date interest shall cease to accrue on such Series 2007 A Bonds to the prior Bondholders, and the prior owners shall have no rights with respect to such Series 2007 A Bonds except to receive payment of the purchase price thereof,

premium if any, and accrued interest to the Purchase in Lieu of Date. Notwithstanding such purchase, the Series 2007 A Bonds shall remain Outstanding for all purposes under the Supplemental Indenture. Failure to mail the related notice of redemption or any defect therein shall not affect the validity of the purchase of the Series 2007 A Bonds. The Issuer’s notice may be conditioned upon the receipt of funds by the Trustee or may be withdrawn at any time as specified therein. The Issuer’s notice may be given in conjunction with a notice of redemption given pursuant to General Indenture, in which case it shall so state and shall provide that a withdrawal of the purchase in lieu of redemption notice will not constitute a withdrawal of the redemption notice unless otherwise specified therein.

### **INVESTMENT AGREEMENTS**

Moneys on deposit in certain Funds and Accounts related to the Series 2007 Bonds held under the Indenture will be invested in one or more investment agreements (collectively, the “Investment Agreement”) to be entered into by and between the Issuer, the Trustee and (i) Aegon/Transamerica Life Insurance Company, with respect to the Series 2007 A Mortgage Loan Account at a rate of 5.021%, and (ii) FSA Capital Management Services LLC with respect to the Series 2007 B Bonds at a rate of 4.962% (collectively, the “Investment Agreement Provider”). The Investment Agreement Provider was selected pursuant to a competitive solicitation process conducted on behalf of the Issuer. The Financial Advisor will receive compensation from the Investment Agreement Provider in connection with the solicitation process. Copies of the Investment Agreement and any substitute Investment Agreement will be on file with the Trustee and with the Issuer.

### **SOURCES AND USES OF FUNDS**

The following table sets forth the sources and uses of funds:

<b>Sources</b>	
Series 2007 A Bond Proceeds	\$50,000,000
Series 2007 B Bond Proceeds	\$50,000,000
Original Issue Premium	<u>\$ 850,000</u>
<b>Total Sources</b>	<b>\$100,850,000</b>
<b>Uses</b>	
Deposit to the Series 2007 A Mortgage Loan Account	\$50,375,000
Deposit to the Series 2007 B Mortgage Loan Account	\$50,000,000
Deposit to the Issuance Expense Fund	<u>\$ 475,000</u>
<b>Total Uses</b>	<b>\$100,850,000</b>

It is the current intention of the Issuer to use certain proceeds of the Series 2007 A Bonds to refund and pay at maturity certain outstanding Single Family Mortgage Revenue Bonds of the Issuer issued under the General Indenture. The Prior Bonds will be refunded at a price equal to the principal amount thereof plus accrued interest to the date of payment of such Prior Bonds.

No deposit shall be made to the Debt Service Reserve Fund or to the Mortgage Reserve Fund on the Closing Date. Simultaneously upon the issuance of the Series 2007 Bonds, the Issuer will transfer moneys relating to such Series 2007 Bonds and/or Mortgage-Backed Securities, as applicable, to make the deposits into the Funds and Accounts referenced above.

## SECURITY FOR THE SERIES 2007 BONDS

### Pledge

Pursuant to the Indenture, the Series 2007 Bonds are secured by a pledge and assignment of the Trust Estate, which includes (i) all proceeds of the sale of Series 2007 Bonds other than proceeds deposited in trust for the retirement of Outstanding Bonds in accordance with Article VII of the General Indenture, (ii) all Mortgage Loans (and related Mortgages) and the Mortgage-Backed Securities and all Permitted Investments made or purchased from such proceeds, (iii) all Revenues, and (iv) all moneys, Permitted Investments and other assets and income in the Funds and Accounts held by the Trustee under the General Indenture and any Supplemental Indenture, but excluding Service Fees, Escrow Payments and Excess Nonmortgage Earnings, all subject to the right of the Issuer to direct withdrawals of amounts from such Funds and Accounts upon the conditions set forth in the General Indenture, which pledge constitutes a first lien on such pledged moneys and revenues.

### General

THE SERIES 2007 BONDS DO NOT CONSTITUTE OBLIGATIONS OF THE DISTRICT, BUT ARE SPECIAL LIMITED OBLIGATIONS OF THE ISSUER PAYABLE SOLELY FROM AND SECURED BY THE PROPERTY PLEDGED THEREFOR UNDER THE INDENTURE. THE ISSUER IS NOT OBLIGATED TO PAY PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE SERIES 2007 BONDS EXCEPT FROM THE PLEDGED PROPERTY. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE DISTRICT IS PLEDGED TO THE PAYMENT OF PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE SERIES 2007 BONDS. THE SERIES 2007 BONDS ARE NOT A DEBT OF THE UNITED STATES OF AMERICA OR ANY AGENCY THEREOF OR FREDDIE MAC OR GINNIE MAE OR FANNIE MAE, AND ARE NOT GUARANTEED BY THE FULL FAITH AND CREDIT OF THE UNITED STATES OF AMERICA. **THE ISSUER HAS NO TAXING POWER.**

## Outstanding Indebtedness

The following table sets forth certain information relating to the Bonds issued and outstanding as of September 1, 2007.

<u>Series</u>	<u>Dated Date</u>	<u>Final Maturity</u>	<u>Interest Rate Range</u>	<u>Original Amounts</u>	<u>Outstanding Amount</u>
Series 1996 A	12/1/96	12/1/28	4.25-6.75%	\$ 30,000,000	\$ 5,745,000
Series 1997 B	8/1/97	12/1/28	4.20-6.35%	\$ 35,000,000	\$ 4,985,000
Series 1998 A	6/1/98	6/1/29	4.10-6.25%	\$ 35,000,000	\$8,925,000
Series 1999 A	6/1/99	12/1/30	4.20-6.65%	\$ 35,000,000	\$ 8,310,000
Series 2000 A	3/1/00	6/1/31	5.05-7.50%	\$ 35,000,000	\$ 3,790,000
Series 2000 C	4/1/00	6/1/31	5.75-6.25%	\$ 8,750,000	\$ 810,000
Series 2000 D	6/1/00	6/1/31	5.65-7.45%	\$ 35,000,000	\$ 3,235,000
Series 2001 A	2/1/01	6/1/32	3.90-6.85%	\$ 22,000,000	\$ 5,195,000
Series 2005 A	8/1/05	12/1/25	5.55%	\$ 10,050,000	\$ 6,805,000
Series 2005 B	8/1/05	6/1/35	4.75-5.625%	\$ 17,000,000	\$16,570,000
Series 2006 A	8/2/06	12/1/26	4.95%	\$ 5,000,000	\$ 4,635,000
Series 2006 B	8/2/06	6/1/37	5.10-5.35%	\$ 25,000,000	\$25,000,000
Series 2006 D	11/9/06	6/1/20	4.60%	\$ 2,145,000	\$ 1,960,000
Series 2006 E	11/9/06	12/1/37	4.65%	\$ 50,000,000	\$50,000,000
Series 2006 F*	11/9/06	11/1/07	3.60%	\$ 50,000,000	\$50,000,000
<b>Total</b>				\$ 394,945,000	\$195,965,000

\*To be refunded at maturity.

## MORTGAGE-BACKED SECURITIES

### General

Pursuant to the Indenture, each Mortgage-Backed Security must be a Freddie Mac Security, a Fannie Mae Security, or a Ginnie Mae Security (or such other security backed by a loan or loans which is specified in a Supplemental Indenture, the purchase of which will not adversely affect the Rating Quality of the Outstanding Bonds).

Each mortgage loan underlying a Mortgage-Backed Security pursuant to the applicable Mortgage Purchase Agreements must be evidenced by a mortgage note secured by a first mortgage lien on the Single Family Residence acquired thereby, and made to finance Single Family Residences substantially in accordance with the then current underwriting policies of FHA, VA, Freddie Mac, Ginnie Mae and Fannie Mae, as applicable, and must meet all other requirements established by the Program Documents, the Agreements and the then current criteria set forth in the Freddie Mac Guide, Ginnie Mae Guide or the Fannie Mae Guide, subject to the final review of the Master Servicer.

All mortgage loans underlying Mortgage-Backed Securities and originated under the Program are required either (i) to be insured by FHA or guaranteed by VA or USDA/RD before they are pooled by the Servicer and delivered to Ginnie Mae, or (ii) to be insured by a private mortgage insurance policy (if in an amount in excess of certain loan-to-value ratios) before they are pooled by the Servicer and delivered to Freddie Mac upon the issuance of a Freddie Mac Security or delivered to Fannie Mae upon the issuance of a Fannie Mae Security. As part of the approval process, each Participating Lender is required to obtain

and maintain an errors and omissions policy and fidelity bond in amounts required by Freddie Mac, Ginnie Mae or Fannie Mae, as applicable, for parties acting in their capacity under the Program.

The Master Servicer is required to remit to Freddie Mac, Ginnie Mae or Fannie Mae all scheduled payments of principal, interest and any principal prepayments that are payable with respect to the applicable Freddie Mac Security, Ginnie Mae Security or Fannie Mae Security or when any of the same shall be due and payable (excluding the scheduled interest on a Freddie Mac Security, Ginnie Mae Security or Fannie Mae Security received in the month such Freddie Mac Security, Ginnie Mae Security or Fannie Mae Security is purchased) and to meet all its obligations under the Freddie Mac Guide, the Ginnie Mae Guide, the Ginnie Mae Guaranty Agreements, the Fannie Mae Guide and the Pool Purchase Contract or contractual agreements entered into between the Servicer and Freddie Mac, Ginnie Mae or Fannie Mae.

For a description of the Mortgage Loans and Mortgage-Backed Securities currently held under the Indenture, see “THE PROGRAM –Outstanding Indebtedness, and –Status of Available Funds”.

### **Freddie Mac Certificates**

The Federal Home Loan Mortgage Corporation (“FHLMC” or “Freddie Mac”) is a corporate instrumentality of the United States organized pursuant to the Federal Home Loan Mortgage Corporation Act (Title III of the Emergency Home Finance Act of 1970, as amended (12 U.S.C. §§ 1451-1459)).

Freddie Mac has established a mortgage purchase program pursuant to which Freddie Mac purchases a pool of mortgage loans from approved sellers in exchange for a security issued by Freddie Mac representing an undivided interest in such mortgage pool (a “Freddie Mac Certificate” or “Freddie Mac Security”). Payments by borrowers on the underlying mortgage loans are passed through monthly by Freddie Mac to the holders of the Freddie Mac Certificate. Unless otherwise indicated, each pool will consist of fixed-rate mortgage loans having an initial aggregate unpaid principal balance of at least \$250,000.

Freddie Mac guarantees scheduled principal payments on the mortgage loans underlying each Freddie Mac Certificate, together with interest thereon at the applicable pass-through rate, in each case whether or not such principal or interest is received from the mortgagors. The obligations of Freddie Mac under such guarantees are obligations of Freddie Mac only. THE FREDDIE MAC CERTIFICATES, INCLUDING THE INTEREST THEREON, ARE NOT GUARANTEED BY THE UNITED STATES AND DO NOT CONSTITUTE DEBTS OR OBLIGATIONS OF THE UNITED STATES OR ANY AGENCY OR INSTRUMENTALITY OF THE UNITED STATES OTHER THAN FREDDIE MAC. If Freddie Mac is unable to satisfy its obligations under its guarantees, distributions on the Freddie Mac Certificates would consist solely of payment and other recoveries on the related mortgage. Accordingly, delinquencies and defaults on the mortgages after a Freddie Mac default may adversely affect distributions on the Freddie Mac Certificates. This could adversely affect payments on the Series 2007 Bonds.

*See Appendix C for more information regarding Freddie Mac and its mortgage-backed securities program.*

### **Fannie Mae Certificates**

The Federal National Mortgage Association (“FNMA” or “Fannie Mae”) is a federally-chartered, private, stockholder-owned corporation organized and existing under the Federal National Mortgage Association Charter Act (12 U.S.C. § 1716 *et seq.*). The Secretary of HUD exercises general regulatory

power over Fannie Mae. Among other things, Fannie Mae issues mortgage-backed securities primarily in exchange for pools of mortgage loans from lenders.

Fannie Mae operates a mortgage backed securities program pursuant to which Fannie Mae issues securities backed by pools of mortgage loans (“Fannie Mae Certificates” or “Fannie Mae Securities”). Each Fannie Mae Certificate represents an undivided ownership interest in a specified pool of mortgage loans purchased by Fannie Mae. Generally, Fannie Mae Certificates are issued in book-entry form, representing a minimum of \$1,000 unpaid principal amount of mortgage loans. Any Fannie Mae Certificates created with the proceeds of the Series 2007 Bonds will represent pools of mortgage loans created by the Servicer. Unless otherwise indicated, each pool will consist of fixed-rate mortgage loans having an initial aggregate unpaid principal balance of at least \$250,000.

Fannie Mae guarantees to the registered holders of Fannie Mae Certificates that it will distribute amounts representing (i) scheduled principal and interest at the applicable pass-through rate on the mortgage loans in the pools represented by such Fannie Mae Certificates, whether or not received, and (ii) the full principal balance of any foreclosed or other finally liquidated mortgage loans, whether or not such principal balance is actually received. FANNIE MAE’S OBLIGATIONS UNDER THE FANNIE MAE CERTIFICATES ARE OBLIGATIONS SOLELY OF FANNIE MAE AND ARE NOT BACKED BY, OR ENTITLED TO, THE FULL FAITH AND CREDIT OF THE UNITED STATES OR ANY OF ITS AGENCIES OR INSTRUMENTALITIES OTHER THAN FANNIE MAE. If Fannie Mae is unable to satisfy such obligations, distributions to the Trustee, as the registered holder of Fannie Mae Certificates, would consist solely of payments and other recoveries on the underlying mortgage loans. Accordingly, monthly distributions to the Trustee after a Fannie Mae default could be adversely affected by delinquent payments and defaults on such mortgage loans.

*See Appendix C for more information regarding Fannie Mae and its mortgage-backed securities program.*

## **Ginnie Mae Certificates**

The Government National Mortgage Association (“GNMA” or “Ginnie Mae”) is a wholly-owned corporate instrumentality of the United States of America within the Department of Housing and Urban Development (“HUD”). Ginnie Mae’s powers are prescribed generally by Title III of the National Housing Act, as amended (12 U.S.C. § 1716 *et seq.*).

Ginnie Mae is authorized to guarantee the timely payment of the principal of and interest on certificates (“Ginnie Mae Certificates”) that represent undivided ownership interests in pools of mortgage loans that are: (i) insured by the Federal Housing Administration (“FHA”) under the National Housing Act of 1934, as amended; (ii) guaranteed by the Department of Veterans Affairs under the Servicemen’s Readjustment Act of 1944, as amended; (iii) guaranteed by the Rural Housing Service (“RHS”) of the United States Department of Agriculture pursuant to Section 502 of Title V of the Housing Act of 1949, as amended; or (iv) guaranteed by the Secretary of Housing and Urban Development (“HUD”) under Section 184 of the Housing and Community Development Act of 1992, as amended and administered by the Office of Public and Indian Housing (“PIH”). The Ginnie Mae Certificates are issued by approved servicers and not by Ginnie Mae. Ginnie Mae guarantees the timely payment of principal of and interest on the Ginnie Mae Certificates. The full faith and credit of the United States is pledged to the payment of all amounts required to be paid under each such guaranty. To the extent necessary, Ginnie Mae will borrow from the United States Treasury any amounts necessary to enable Ginnie Mae to honor its guaranty of the Ginnie Mae Certificates. Ginnie Mae is required to honor its guaranty only if the Servicer is unable to make the full payment on any Ginnie Mae Certificate, when due.



Ginnie Mae administers two guarantee programs, the “Ginnie Mae I MBS Program” and the “Ginnie Mae II MBS Program.” The principal differences between the two programs relate to the interest rate structure of the mortgage loans backing the Ginnie Mae Certificates and the means by which principal and interest payments are made. These differences are not expected to affect adversely the availability of Revenues to pay principal of and interest on the Series 2007 Bonds. While the Servicer may issue Ginnie Mae Certificates under either Ginnie Mae program, proceeds of the Bonds are expected to be used to purchase Ginnie Mae Certificates under the Ginnie Mae I MBS Program. Ginnie Mae Certificates constitute Ginnie Mae Securities under the Indenture. Each pool will consist of fixed-rate mortgage loans having an initial aggregate unpaid principal balance of at least \$500,000.

*See Appendix C for more information regarding Ginnie Mae and its mortgage-backed securities program.*

*The above summaries of the Freddie Mac Program, the Fannie Mae Program, the Ginnie Mae Program and other documents referred to herein, do not purport to be comprehensive and are qualified in their entirety by reference to the Freddie Mac Guides and the Freddie Mac website, the Fannie Mae website, the Ginnie Mae website and other documents, as applicable, for full and complete statements of their provisions.*

## **PROGRAM ASSUMPTIONS AND BONDHOLDERS’ RISKS**

### **Program Assumptions**

The Mortgage Rate minus the Servicing Fee and the Guarantee Fee shall equal the Pass-Through Rate. The Pass-Through Rates relating to the Mortgage-Backed Securities will be established at rates such that payments of principal of and interest on the Mortgage-Backed Securities purchased by the Trustee, plus moneys on deposit in the various Funds and Accounts, including earnings thereon, are expected to be sufficient to pay on a timely basis the principal of and interest on the Series 2007 Bonds as well as certain expenses relating to the Series 2007 Bonds and the Program. The expectation of sufficiency of such funds for such purposes is based upon cash flow analyses prepared on the basis of the following assumptions:

- (1) The Freddie Mac Securities will be backed by Conventional Mortgage Loans which provide for monthly payments of principal and interest, the Fannie Mae Securities will be backed by Conventional Mortgage Loans which provide for monthly payments of principal and interest, and the Ginnie Mae Securities will be backed by FHA-insured and VA-guaranteed Mortgage Loans, which will provide for level monthly payments of principal and interest. The guarantee fee and the mortgage servicing fee will be paid to the Master Servicer.
- (2) All Expenses of the Program with respect to the Series 2007 Bonds, including the Trustee’s fee, the Issuer’s fee, the Rebate fee, and any other applicable fees and expenses, will be paid in full on a timely basis in accordance with the Indenture.
- (3) Amounts representing Excess Revenues credited to the Series 2007 Accounts of the Revenue Fund are deposited in the Series 2007 Account of the Redemption Fund, to redeem (or purchase) Series 2007 Bonds (other than Series 2007 B Bonds), at par in accordance with the Indenture. See “**THE SERIES 2007 BONDS-Redemption Provisions-Special Redemption**” herein.

- (4) Mortgage-Backed Securities payments are received on the 30th day of the month in which they are due.
- (5) The Mortgage-Backed Securities will prepay at various prepayment speeds, including (a) 0% PSA, (b) 100% PSA, and (c) a three-year average life.
- (6) There will be various levels of purchases of Mortgage-Backed Securities including application of all amounts in the Series 2007 A Mortgage Loan Accounts of the Mortgage Loan Fund to the purchase of Mortgage-Backed Securities and purchases of no Mortgage-Backed Securities.

***There can be no assurance whatsoever that actual events will correspond to the foregoing assumptions set forth under the caption Program Assumptions.***

### **Availability of Competitive Mortgage Terms and Rates**

There are numerous reasons why Mortgage Loans may not be originated and Mortgage-Backed Securities not purchased in an aggregate amount to enable the Issuer to use all amounts on deposit in the Series 2007 A Mortgage Loan Account of the Mortgage Loan Fund for the purchase of Mortgage-Backed Securities. One of the principal factors in originating real estate loans is the availability of funds to make such loans at interest rates and on other terms that prospective borrowers can afford. The Issuer has determined that there is at the present time a shortage of funds in the District to make such loans at interest rates competitive with those specified for the Mortgage Loans. This condition could change during the Origination Period for the Mortgage Loans. For example, prevailing interest rates for conventional mortgage loans in the District could decrease and make the Mortgage Loans less attractive to potential homeowners.

In the event that funds were to become available in the District at rates competitive with those specified for the Mortgage Loans, the Lenders may not be able to utilize all of the funds available for the origination of Mortgage Loans, in which event all or a portion of the Series 2007 Bonds may be redeemed as described under the heading “**THE SERIES 2007 BONDS-Redemption Provisions of the Series 2007 Bonds-Special Redemption**” herein.

### **Other Risks**

The Code imposes certain requirements as to the qualification of potential mortgagors for Mortgage Loans to be originated under the Program and the purchase price of the residences, which may become subject to a Mortgage Loan. These requirements restrict the ability of potential mortgagors and residences to qualify for Mortgage Loans and thereby may materially impair the ability of Lenders to originate Mortgage Loans and, consequently the ability of the Master Servicer to issue or exchange Mortgage Loans for Freddie Mac Securities, Ginnie Mae Securities or Fannie Mae Securities, as applicable. The requirements are subject to change and may become more restrictive, thereby resulting in a decrease in the number of potential mortgagors or residences eligible for inclusion in the Program.

The Code requires a payment to the United States from certain mortgagors, as described herein (the “Recapture Provision”). The Recapture Provision requires that an amount determined to be the subsidy provided by the qualified mortgage bonds (but not in excess of 50% of the gain on the sale) be recaptured on disposition of the house within nine years of the later of the closing or assumption of the mortgage loan. The recapture amount increases over the period of ownership, with full recapture occurring if the house is sold at the end of the fifth year. The recapture amount declines ratably to zero with respect to sales occurring in years six through nine of ownership. The Recapture Provision may

result in reduced demand for Mortgage Loans and thereby adversely affect the ability of the Lenders to originate Mortgage Loans.

In order to qualify for inclusion in a pool of mortgages securing a Ginnie Mae Security, Mortgage Loans must be insured by FHA or guaranteed by VA. In the event that FHA's authority to insure Mortgage Loans or VA's authority to guarantee Mortgage Loans is restricted or withdrawn during the Origination Period, the ability of the Lenders to originate Mortgage Loans could be impaired.

The Indenture provides that amounts on deposit in any Series 2007 Fund or Account may, from time to time, be invested or reinvested in the Investment Agreement or in Permitted Investments. The Investment Agreement will obligate the Investment Agreement Provider to make specified payments to the Trustee pursuant to the terms of the Investment Agreement and will not guarantee payment of the principal of or interest on the Series 2007 Bonds.

No representations are made about the financial condition or creditworthiness of the Investment Agreement Provider. Prospective investors are urged to make their own investigations into the creditworthiness and financial condition of the Investment Agreement Provider.

The remedies available to the owners of the Series 2007 Bonds upon an Event of Default under the Indenture or an event of default under the other documents described herein are in many respects dependent upon judicial actions, which are often subject to discretion and delay. Under existing constitutional and statutory law and judicial decisions, the remedies available under the documents may not be readily available or may be limited. The various legal opinions to be delivered concurrently with the delivery of the Series 2007 Bonds will be qualified as to the enforceability of the various legal instruments by limitations imposed by bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally and by the application of equitable principles.

**This recitation of risks of the Program does not purport to be complete. A potential purchaser should evaluate for itself the risks of investing in the Series 2007 Bonds.**

## THE PROGRAM

### General Description

The Mortgage Loans will be secured by first mortgage liens on residences in the District. The residences may include condominium units, single-family attached and detached residences and set-asides for single family developments in the District (i) which are determined by a qualified appraiser to have an expected useful life of not less than 30 years, (ii) which will be occupied by the Mortgagor as his or her principal personal residence within a reasonable time (not to exceed 60 days) after financing is provided and (iii) the land appurtenant to which reasonably maintains the basic livability of the residence and does not provide, other than incidentally, a source of income to the Mortgagor. The residences must meet the requirements of FHA, or VA for pooling and securitization pursuant to the Ginnie Mae Guide, the Freddie Mac Guide or the Fannie Mae Guide, as applicable. Mortgage Loans must be made to persons or families of low to moderate income or to persons who otherwise qualify for such financing based upon the income limits permitted under the Code.

Targeted Area Set-Aside: An amount not in excess of \$20,000,000 of the lendable proceeds of the Series 2007 A Bonds will be set aside and made available for up to 12 months for loan-by-loan reservations with respect to homes which are located in Targeted Areas in the District.

The Participating Lenders under the Mortgage Purchase Program are Bank of America, N.A., Chevy Chase Bank, F.S.B., Citibank Mortgage Inc., Countrywide Home Loans, First Home Mortgage Corporation, First Horizon Home Loans, Industrial Bank, N.A., Madison Funding Inc., Prosperity Mortgage Company, SunTrust Mortgage Inc., Wachovia Mortgage Corporation, and Wells Fargo Home Mortgage.

The Lender must submit the file for a Mortgage Loan to the Program Administrator (defined below) for its review and commitment prior to closing such loan. The Program Administrator will review the file to assess compliance with federal tax law. Once compliance has been established, the Program Administrator will issue a commitment to fund such Mortgage Loan to the Lender. Upon receipt of such commitment, the Lender may close the Mortgage Loan and submit it to the Servicer for purchase. The Servicer then reviews the Mortgage Loan for compliance with the underwriting requirements (other than federal tax law requirements) and will purchase loans which are in compliance.

Upon the purchase of Mortgage Loans by the Master Servicer, the Master Servicer will pool such Mortgage Loans and cause Mortgage-Backed Securities to be issued with respect thereto and purchased by the Trustee. For a discussion of certain events, which could cause Mortgage Loans not to be originated, see, “**PROGRAM ASSUMPTIONS AND BONDHOLDERS’ RISKS**” herein.

Each Mortgage Loan (i) will provide for substantially level monthly payments of principal and interest due the first day of each month (which payments will be accompanied by amounts for deposit in an escrow account to provide for timely payment of taxes and insurance), (ii) is expected to have an original term of at least 360 months, (iii) may be assumable under the terms and conditions set forth in the Origination Agreement and described herein, (iv) will comply in all respects with the Origination Agreement, the Ginnie Mae Guide and FHA, or VA rules and regulations or the Fannie Mae Guide or Freddie Mac Guide, as applicable, (v) will be in a principal amount not exceeding such amount as conforms to the eligibility and credit underwriting standards specified in the Origination Agreement and the applicable limitations of FHA, or VA, as applicable, the Ginnie Mae Guide, the Freddie Mac Guide or the Fannie Mae Guide, as applicable, (vi) will be the subject of a mortgagee’s title insurance policy, and (vii) will be the subject of appropriate standard hazard insurance as long as the Mortgage Loan is outstanding. See, “**Insurance or Guarantee**,” below. The Issuer may revise the Program to permit 40 year loans or fixed rate loans with an interest only period.

Mortgage Backed Securities are expected to be purchased over a twelve month period following the date of delivery of the Series 2007 A Bonds with a weighted average purchase period of seven months from such date. Low Rate Program loans are initially expected to total \$37,500,000 and initially expected to bear interest at 5.964%, and Assisted Program Loans are initially expected to total \$ 12,500,000 and initially expected to bear interest at 6.244%. The weighted average interest rate of all Program Loans is expected to be 6.030%. Many factors will affect the timing of the purchase of Mortgage Backed Securities resulting in a longer or shorter purchase period. The Issuer may change interest rates to reflect changing market conditions or changing program objectives within considerations of applicable federal tax law.

### **Low Rate Program Loans**

Low Rate Program Loans will have 30-year terms with level monthly payments of principal and interest. Low Rate Program Loans must be Mortgage Loans eligible for pooling into Freddie Mac Certificates, Fannie Mae Certificates or Ginnie Mae Certificates as applicable in accordance with Freddie Mac Guide, Fannie Mae Guide and Ginnie Mae Guide, as applicable. An eligible borrower obtaining a Low Rate Program Loan is expected to be required to pay an origination fee and a discount fee of at least 1.00% of the mortgage loan amount.

## **Assisted Program Loans**

Assisted Program Loans are expected to have a 30-year term with level monthly payments of principal and interest. Assisted Program Loans must be Mortgage Loans eligible for pooling into Freddie Mac Certificates, Fannie Mae Certificates or Ginnie Mae Certificates, as applicable, in accordance with the Freddie Mac Guide, Fannie Mae Guide and Ginnie Mae Guide, as applicable. An eligible borrower obtaining an Assisted Program Loan will be credited (the "Assistance Payment") in an amount equal to 3.00% of the principal amount of the Assisted Program Loan. Such Assistance Payment may be applied by the eligible borrower to pay, as permitted by Fannie Mae, Freddie Mac and Ginnie Mae guidelines, certain costs including the origination fee, closing costs and a portion of the required down payment for the Assisted Program Loan or other acceptable costs permitted by FHA or VA for the Assisted Program Loan. An eligible borrower obtaining an Assisted Program Loan is expected to be required to pay an origination fee and a discount fee equal to 2.00% of the mortgage loan amount.

## **Origination and Purchase**

In connection with each Mortgage Loan, the Lender may charge the mortgagee and collect total fees not in excess of 1.00% of the principal amount of such Mortgage Loan reflected in the purchase price of the Mortgage Loan sold to the Master Servicer (which amount may be subsequently changed by the Issuer), plus all reasonable and customary out-of-pocket costs permitted by law paid or incurred by the Lender. Such fees and expenses may be collected only once in connection with the origination of the Mortgage Loan and will not exceed limits established from time to time by federal or state law and in any event may not exceed like amounts charged in such areas in cases where owner financing is not provided through tax-exempt revenue bonds.

With respect to a condominium unit, such unit must be acceptable to FHA or VA, as applicable, and Ginnie Mae standards, Freddie Mac standards or Fannie Mae standards, as applicable. There is no restriction on the percentage of condominium Mortgage Loans that a Lender may originate. The Lenders are required to consider each application for a Mortgage Loan in the order in which received, on a fair and equal basis. A Lender is not permitted to arbitrarily reject a Mortgage Loan application because of the location and/or age of the property and will not, in the case of a proposed mortgagor, arbitrarily vary the terms of a Mortgage Loan or the application procedures therefor or reject a Mortgage Loan applicant because of the race, color, religion, national origin, age, sex or marital status of such applicant. In addition, Mortgage Loans can be made only to those persons who certify their intent to occupy the property as their principal residence and whose Annualized Monthly Income does not exceed the current income limitation and no income limitation for a certain amount of Mortgage Loans in 157 of the District of Columbia's 192 census tracts.

## **Insurance or Guarantee**

All Mortgage Loans backing Ginnie Mae Securities are required to be insured by FHA or guaranteed by VA before they are pooled by a Master Servicer and delivered to Ginnie Mae upon the issuance by the Master Servicer of a Ginnie Mae Mortgage-Backed Security. All Mortgage Loans backing Freddie Mac Securities are required to be Mortgage Loans originated in accordance with the Freddie Mac Guide. All Mortgage Loans backing Fannie Mae Securities are required to be Mortgage Loans originated in accordance with the Fannie Mae Guide. FHA's authority to issue commitments to insure the Mortgage Loans is subject to a statutory limit on the dollar amount of commitments that FHA may issue during a federal fiscal year. No assurance can be given that FHA's authority to issue commitments to insure Mortgage Loans will not have reached its statutory ceiling for a fiscal year before it has issued a commitment to insure with respect to some or all of the Mortgage Loans. See **"PROGRAM ASSUMPTIONS AND BONDHOLDERS' RISKS"** herein.

## **Lenders**

The Issuer will notify certain mortgage lending institutions of the availability of the Program and will solicit their participation as Lenders under the Program. The Issuer anticipates that it will allocate the proceeds of the Series 2007 A Bonds that are in the Series 2007 A Mortgage Loan Account of the Mortgage Loan Fund among Lenders on a first-come basis but it reserves the right to reserve proceeds for developers, projects or otherwise.

Each Lender must be either a commercial bank, savings and loan association, or a mortgage banking institution approved by the Issuer that is (i) authorized to do business in the District and (ii) an FHA approved mortgagee, or a VA, Freddie Mac or Fannie Mae approved lender.

## **Servicing of the Mortgage Loans**

The Master Servicer will service the Mortgage Loans backing the Mortgage-Backed Securities issued by the Master Servicer and will have full power and authority, acting alone, to take such actions as may be necessary to discharge its duties with respect to servicing. The Master Servicer will be entitled to a monthly servicing fee, and, under certain circumstances, compensation from insurance proceeds or liquidation proceeds. Additional compensation in the form of late payment charges, assumption fees, or otherwise may be received by the Master Servicer to the extent permitted by law and by Ginnie Mae, Freddie Mac, Fannie Mae, FHA or VA, as applicable. The Master Servicer will be required to pay all expenses incurred by it in connection with its servicing activities under the Servicing Agreement (including maintenance of its errors and omissions insurance policy and fidelity bond) and will not be entitled to reimbursement therefor, except as specifically provided in the Servicing Agreement.

The Master Servicer is required to perform all of its duties in servicing Mortgage Loans with due care, diligence and reasonable promptness and to use at least the same degree of care in servicing Mortgage Loans under the Program as it employs in servicing mortgage loans in its own portfolio. The Master Servicer is required to conform to at least the minimum requirements established by Freddie Mac, Ginnie Mae and Fannie Mae.

The Master Servicer will pool mortgage loans purchased under the Program into Freddie Mac, Ginnie Mae and Fannie Mae Securities for sale to the Trustee at the agreed upon price sufficient to pay the principal of, and interest on, the Series 2007 Bonds.

Under certain circumstances, as described in the Servicing Agreement, the Issuer may terminate the Servicing Agreement with respect to the Master Servicer, after which a successor servicer acceptable

to the Issuer, Ginnie Mae, Freddie Mac and Fannie Mae will succeed to all rights and obligations of the Master Servicer concerning the servicing of the Mortgage Loans.

### **The Master Servicer**

**The following information relates to and was supplied by the Master Servicer. Such information has not been verified by the Issuer, the Underwriters, their respective counsel or Bond Counsel and is not to be construed as a representation of the Issuer, the Underwriters, their respective counsel or Bond Counsel.**

Countrywide Home Loans, Inc. (“Countrywide”) will serve as the Servicer/ Program Administrator of the Program. Countrywide is a New York corporation, organized in 1969. It is engaged in the mortgage banking business on a national scale, concentrating its activities in the origination and servicing of single-family mortgage loans. Countrywide maintains its principal offices in Calabasas, California. As of June 30, 2007, Countrywide (either by itself or through its servicing subsidiary) provided servicing for approximately \$1.415 trillion aggregate principal amount of mortgage loans, substantially all of which are being serviced for unaffiliated persons.

The Master Servicer is (i) a FHA-, RHS- and VA-approved Participant in good standing, (ii) a Ginnie Mae-approved seller and servicer of mortgage loans and an issuer of mortgage-backed securities guaranteed by Ginnie Mae, (iii) a Freddie Mac-approved seller and servicers of Freddie Mac Securities, and (iv) a Fannie Mae-approved seller and servicer of Fannie Mae Securities.

**The Master Servicer has not participated in the structuring of the Program or the Bonds or the preparation of this Official Statement, except to the extent of providing the information contained under this caption. The Master Servicer accepts no responsibility for the accuracy or completeness of this Official Statement or for the Bonds or the creditworthiness of the Bonds.**

### **Issuance of Mortgage-Backed Securities**

The Master Servicer is required to purchase and aggregate Mortgage Loans until such time that the Master Servicer deems it has sufficient Mortgage Loans to form a mortgage pool. The Master Servicer is required to ensure that the total face amount of any such Mortgage-Backed Securities issued by it based on and backed by a Mortgage Pool will not be issued in such an amount which would either (i) preclude the subsequent purchasing of any Mortgage Loans, or (ii) if Mortgage Loans are originated and a mortgage pool is comprised of such Mortgage Loans, preclude the issuance of Mortgage-Backed Securities backed by such mortgage pool. The total principal face amount of any Mortgage-Backed Securities will not exceed the aggregate unpaid principal balances of Mortgage Loans in the Mortgage pool backing such Mortgage-Backed Securities.

The Master Servicer is required to remit all scheduled payments of principal, interest and any principal prepayments that are payable with respect to the Mortgage Loans which back the applicable Security when any of the same becomes due and payable (except in the month of purchase of a Security) and to meet all its obligations under the Ginnie Mae Guide, the Freddie Mac Guide and the Fannie Mae Guide, as applicable and any contractual agreements to be entered into between the Master Servicer and such Mortgage Backed Securities provider.

## Prior Loan Origination History

The Issuer has issued its Single Family Mortgage Revenue Bonds Series 1996 A Bonds, Series 1997 B Bonds, Series 1998 A Bonds, Series 1999 A Bonds, Series 2000 A Bonds, Series 2000 B Bonds, Series 2000 C Bonds, Series 2000 D Bonds, Series 2000 E Bonds, Series 2001 A Bonds, Series 2001 B Bonds, Series 2001 C Bonds, Series 2005 A Bonds, Series 2005 B Bonds, Series 2006 A Bonds, Series 2006 B Bonds, Series 2006 C Bonds, Series 2006 D Bonds, Series 2006 E Bonds and Series 2006 F Bonds pursuant to the General Indenture. The Issuer offered Low Rate Program Loans and Assisted Program Loans in connection with Series 1996 A Bonds, Series 1997 B Bonds, Series 1998 A Bonds, Series 1999 A Bonds, Series 2000 A Bonds, Series 2000 C Bonds, Series 2000 D Bonds, Series 2001 A Bonds, Series 2005 B Bonds and Series 2006 B Bonds.

Funds available for financing of Mortgage Loans from prior Series of Bonds as of October 1, 2007 are as follows:

Bond Issue	Mortgage Rate	Total Funds	Loans Reserved	MBS Purchased*
Series 2005 B	4.70 – 5.95%	\$17,000,000	\$ 0	\$16,763,583
Series 2006 B	5.50 - 6.15%	\$25,000,000	\$ 1,895,315	\$21,842,796
Series 2006 E	4.65-6.00%	\$50,000,000	\$33,330,235	\$13,979,136

\*Mortgage-Backed Securities are purchased with each \$250,000 in principal amount of settled Mortgage Loans.

The following table sets forth the outstanding amount of Mortgage-Backed Securities by Government Sponsored Entity purchased with the proceeds of bonds as of September 1, 2007:

<u>Government Sponsored Entity</u>	<u>Outstanding Principal Amount of Mortgage-Backed Securities</u>
Freddie Mac	\$ 9,802,351
Fannie Mae	43,417,924
Ginnie Mae	41,497,833
Total	\$94,718,108

## TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP (“Bond Counsel”), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Series 2007 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the “Code”). Bond Counsel observes, however, that interest on the Series 2007 Bonds is a specific preference item for purposes of the federal individual and corporate alternative minimum taxes. Bond Counsel is also of the opinion that, under existing law, the Series 2007 Bonds and the interest thereon are exempt from District taxation, except estate, inheritance or gift taxes. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix D hereto.

To the extent the issue price of any maturity of the Series 2007 Bonds is less than the amount to be paid at maturity of such Series 2007 Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Series 2007 Bonds), the difference constitutes “original issue



discount,” the accrual of which, to the extent properly allocable to each Beneficial Owner thereof, is treated as interest on the Series 2007 Bonds which is excluded from gross income for federal income tax purposes. For this purpose, the issue price of a particular maturity of the Series 2007 Bonds is the first price at which a substantial amount of such maturity of the Series 2007 Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Series 2007 Bonds accrues daily over the term to maturity of such Series 2007 Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Series 2007 Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Series 2007 Bonds. Beneficial Owners of the Series 2007 Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Series 2007 Bonds with original issue discount, including the treatment of Beneficial Owners who do not purchase such Series 2007 Bonds in the original offering to the public at the first price at which a substantial amount of such Series 2007 Bonds is sold to the public.

Series 2007 Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) (“Premium Bonds”) will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a Beneficial Owner’s basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Series 2007 Bonds. The Issuer has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Series 2007 Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Series 2007 Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Series 2007 Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Bond Counsel’s attention after the date of issuance of the Series 2007 Bonds may adversely affect the value of, or the tax status of interest on, the Series 2007 Bonds. Accordingly, the opinion of Bond Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Bond Counsel is of the opinion that interest on the Series 2007 Bonds is excluded from gross income for federal income tax purposes and is exempt from District taxation, except estate, inheritance or gift taxes, the ownership or disposition of, or the accrual or receipt of interest on, the Series 2007 Bonds may otherwise affect a Beneficial Owner’s federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Beneficial Owner or the Beneficial Owner’s other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Series 2007 Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. As one example, on May 21, 2007, the

United States Supreme Court agreed to hear an appeal from a Kentucky state court which ruled that the United States Constitution prohibited the state from providing a tax exemption for interest on bonds issued by the state and its political subdivisions but taxing interest on obligations issued by other states and their political subdivisions. The introduction or enactment of any such future legislative proposals, clarification of the Code or court decisions may also affect the market price for, or marketability of, the Series 2007 Bonds. Prospective purchasers of the Series 2007 Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the Series 2007 Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the Issuer or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The Issuer has covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the Series 2007 Bonds ends with the issuance of the Series 2007 Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the Issuer or the Beneficial Owners regarding the tax-exempt status of the Series 2007 Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the Issuer and their appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the Issuer legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the Series 2007 Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Series 2007 Bonds, and may cause the Issuer or the Beneficial Owners to incur significant expense.

#### **APPROVAL OF LEGAL PROCEEDINGS**

Legal matters incident to the issuance, sale and delivery of the Series 2007 Bonds are subject to the approving opinions of Orrick, Herrington & Sutcliffe LLP, Washington, D.C., Bond Counsel. Certain legal matters will be passed upon for the Underwriters by McKenzie & Associates, Washington, D.C. Certain legal matters will be passed upon for the Issuer by Harry T. Alexander, Jr., its General Counsel.

**PROSPECTIVE PURCHASERS OF THE SERIES 2007 BONDS ARE ADVISED TO CONSULT THEIR OWN TAX ADVISORS PRIOR TO ANY PURCHASE OF THE SERIES 2007 BONDS AS TO THE IMPACT OF THE FEDERAL AND DISTRICT CONSEQUENCES OF ACQUIRING, HOLDING OR DISPOSING OF THE SERIES 2007 BONDS.**

## **ABSENCE OF LITIGATION**

There is no action, suit, proceeding, inquiry or investigation at law or in equity before or by any court, public board or body where service of process has been effectuated on the Issuer or, to the knowledge of the Issuer, threatened against or affecting the Issuer, where an unfavorable decision, ruling or finding would adversely affect the transactions contemplated by this Official Statement, the exclusion of interest on the Series 2007 Bonds from gross income of the owners of the Series 2007 Bonds for federal income tax purposes or the validity or enforceability of the Series 2007 Bonds, the Indenture, the Program Agreements, the Continuing Disclosure Agreement or any agreement or instrument to which the Issuer is a party and which is used or contemplated for use in the transactions contemplated by this Official Statement.

## **FINANCIAL ADVISOR**

Caine Mitter & Associates Incorporated (the “Financial Advisor”) has served as financial advisor to the Issuer in connection with the sale of the Series 2007 Bonds.

## **UNDERWRITING**

Bank of America Securities LLC, as representative, and Morgan Keegan & Company, Inc. (collectively, the “Underwriters”) have agreed to purchase all of the Series 2007 A Bonds, at \$50,850,000. The Underwriters’ compensation for the Series 2007 A Bonds shall be an underwriting fee and expenses in the amount of \$338,850.07. The Underwriters have agreed to purchase all of the Series 2007 B Bonds, at \$50,000,000. The Underwriters’ compensation for the Series 2007 B Bonds shall be an underwriting fee and expenses in the amount of \$66,372.00. The Series 2007 Bonds may be offered and sold to certain dealers, banks and others (including underwriters and other dealers depositing such Series 2007 Bonds into investment trusts) at prices lower than the initial offering prices shown on the inside cover hereof, and such initial offering prices may be changed from time to time by the Underwriters.

## **RATING**

Standard & Poor’s Ratings Services (“Standard & Poor’s”), a division of The McGraw-Hill Companies, Inc., located at 55 Water Street, New York, New York, 10001 has been engaged in providing ratings for corporate bonds since 1923 and municipal bonds since 1940. Long-term and short-term debt ratings assigned by Standard & Poor’s reflect its analysis of the overall level of credit risk involved in a financing. At present, Standard & Poor’s assigns long-term debt ratings with the symbols “AAA” (the highest rating) through “D” (the lowest rating). Standard & Poor’s assigns short-term debt ratings with the symbols “A-1” or “SP-1” (the highest rating) through “B” or “SP-3” (the lowest rating). Standard & Poor’s has confirmed a rating of AAA on the Series 2007 A Bonds and a rating of SP-1+ on the Series 2007 B Bonds. Any further explanation of the significance of such ratings may only be obtained from Standard & Poor’s. There has been furnished to such rating agency certain information and materials concerning the financing and the Series 2007 Bonds. Generally, rating agencies base their ratings on such information and materials and on investigations, studies and assumptions by the rating agencies.

## MISCELLANEOUS

Certain provisions of the Act, the Code and the Indenture are summarized herein. Such summaries do not purport to be comprehensive or definitive and reference is made to such laws and documents for a full and complete statement of their respective provisions.

This Official Statement is submitted in connection with the offer and sale of the Series 2007 Bonds referred to herein and may not be reproduced or used, as a whole or in part, for any other purpose. Any statements herein involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the Issuer and the purchaser or owners of any of the Series 2007 Bonds.

The execution and delivery of this Official Statement have been duly authorized by the Issuer.

### DISTRICT OF COLUMBIA HOUSING FINANCE AGENCY

By: /s/ Harry D. Sewell  
Harry D. Sewell  
Executive Director

October 12, 2007

## APPENDIX A

### DEFINITIONS OF CERTAIN TERMS

Set forth below are definitions of certain terms used in this Official Statement, which definitions are generally used in the Indenture. The definitions of such terms are applicable to the singular as well as the plural forms of such terms and to the masculine as well as to the feminine and neuter genders of such terms.

“Account” means an account established pursuant to the Indenture.

“Accrued Debt Service” means, as of any date of calculation, unless otherwise specified in the Supplemental Indenture with respect to a particular Series of Bonds, an amount equal to (i) accrued and unpaid interest on the Outstanding Series of Bonds (accrued and unpaid interest shall not include the Appreciated Amount of a Deferred Interest Bond), plus (ii)(A) in the case of semiannual principal maturities (including Sinking Fund Installments), the amount obtained by multiplying the total amount of Outstanding Bonds of such Series due on the next succeeding principal payment date by the number of full months elapsed since the most recent preceding principal payment date, and dividing the product by six, (B) in the case of annual principal maturities (including Sinking Fund Installments), the amount obtained by multiplying the total amount of Outstanding Bonds of such Series due on the next succeeding principal payment date by the number of full months elapsed since the most recent preceding principal payment date, and dividing the product by 12 and (C) in the case of principal maturities (including Sinking Fund Installments) on other than an annual or semiannual basis, the amount obtained by multiplying the total amount of Outstanding Bonds of such Series due on the next succeeding principal payment date by the number of days elapsed since the most recent preceding principal payment date, and dividing the product by the number of days in the period between principal payment dates for such Series of Bonds.

“Act” means the District of Columbia Housing Finance Agency Act, D.C. Law 2-135, D.C. Code Section 42-2701.01 *et seq.*, as amended.

“Agency” or “Issuer” means the District of Columbia Housing Finance Agency, a body corporate and an instrumentality of the District, and any successor thereto.

“Amortized Value” means for securities purchased at (i) a price equal to their principal amount, par; and (ii) a premium above or 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 securities were purchased by the number of days remaining to maturity or redemption date on such 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 securities purchased at a premium, by deducting the product thus obtained from the purchase price and (b) in the case of securities purchased at a discount, by adding the product thus obtained to the purchase price, provided that, with respect to securities deposited in any Fund or Account by the Issuer for no consideration, such securities shall be treated as purchased by the Trustee at the fair market value as of the date of such deposit.

“Authorized Denomination” means \$5,000 or any integral multiple thereof.

“Authorized Officer” means the Chairman, the Vice Chairman, the Executive Director of the Issuer or any other person authorized by resolution or bylaws of the Issuer to perform an act or sign a document on behalf of the Issuer.

“Bond” or “Bonds” means any Bond or Bonds authorized and issued pursuant to the Indenture and a Supplemental Indenture, including the Series 2007 Bonds.

“Bondholder” or “holder of Bonds” or “owner of Bonds” means the registered owner of any registered Bond.

“Bond Year” means the period of 12 calendar months commencing on December 1 in any calendar year and ending on the last day of November in the following year.

“Book-Entry System” means such system for registering the Bonds set forth in a Supplemental Indenture.

“Business Day” means any day other than a Saturday, Sunday or other day on which the New York Stock Exchange or banks are authorized or obligated by law or executive order to close in New York, New York, or any city in which is located the principal corporate trust office of the Trustee or such other date as set forth in a Supplemental Indenture.

“Capitalized Interest Fund” means the Fund established pursuant to the Indenture.

“Cash Equivalent” means a letter of credit, insurance policy, surety, guarantee or other security arrangement (as defined and provided for in a Supplemental Indenture), which Cash Equivalent shall have such terms necessary to maintain the Rating Quality on the Bonds.

“Cash Flow Certificate” means a certificate of the Issuer signed by an Authorized Officer to the effect that the action proposed to be taken is consistent with the assumptions set forth in the Cash Flow Statement last filed with the Trustee.

“Cash Flow Statement” means a Cash Flow Statement conforming to the requirements of the Indenture.

“Certificate” means a certificate of an Authorized Officer of the Issuer.

“Code” means the Internal Revenue Code of 1986, as amended, and any regulations promulgated thereunder; each reference to a Section of the Code herein shall be deemed to include the United States Treasury regulations proposed or in effect thereunder and applied to the Bonds or the use of the proceeds thereof, and also includes all amendments and successor provisions unless the context clearly requires otherwise.

“Counsel” means any attorney or firm of attorneys (who may be employed by or of counsel to the Issuer or an attorney or firm of attorneys retained by it in other connections) licensed to practice in the state in which he/she or it maintains an office (and if the opinion is with respect to an interpretation of federal tax laws or regulations or with respect to the issuance of an additional Series of Bonds or interpretation or application of the Indenture, is also a nationally recognized attorney or firm of attorneys experienced in such matters), selected or employed by the Issuer and satisfactory to the Trustee.

“Counsel’s Opinion” means an opinion signed by Counsel.

“Date of Original Issuance” means the date on which the Issuer initially issues the Series 2007 Bonds.

“Debt Service Fund” means the Fund so designated which is established by the Indenture.

“Debt Service Reserve Fund” means the Fund so designated in the Indenture.

“Debt Service Reserve Requirement” means, as of any particular date of calculation, the aggregate of the amounts specified, if any, as the Debt Service Reserve Requirement for each then outstanding Series of Bonds in the related Supplemental Indenture.

“Defaulted Mortgage Loan” means a Mortgage Loan described in a certificate of an Authorized Officer and stated therein to be in default under its terms, or one on which payments are 60 days or more in arrears.

“Deferred Interest Bonds” means the Bonds so designated in a Supplemental Indenture but shall not include any such Bond from and after the date, if any, on which such Bond will bear interest that is payable to the holder of such Bond prior to its scheduled maturity.

“Delivery Period” means the period or periods during which the Master Servicer shall deliver Series 2007 A Mortgage-Backed Securities to the Trustee for the purchase thereof with respect to amounts initially available in the Series 2007 A Mortgage Loan Account (other than in any Series 2007 A Recycling Subaccount), which periods may be extended as provided in the Series 2007 Supplemental Indenture). With respect to amounts available in any Series 2007 A Recycling Subaccount, the Delivery Period shall commence upon the Date of Original Issuance and end at such time as the Issuer notifies the Master Servicer it will no longer deposit amounts in any Series 2007 A Recycling Subaccount (the duration of which shall be limited only by the application of the Code).

“District” means the District of Columbia.

“Escrow Payments” means all payments made in order to obtain or maintain mortgage insurance and fire and other hazard insurance with respect to Mortgage Loans, and any payments required to be made with respect to Mortgage Loans for taxes, other governmental charges and other similar charges customarily required to be escrowed.

“Event of Default” means any occurrence or event specified in the Indenture.

“Excess Nonmortgage Earnings” means excess nonmortgage investment earnings, net of any credits or offsets thereto, which must be rebated to the United States of America pursuant to Section 148 of the Code.

“Excess Revenues” means Revenues pledged to the payment of the Series 2007 Bonds in excess of (i) amounts payable to the United States as rebate amounts, (ii) amounts required to pay scheduled principal and interest due on the Series 2007 Bonds prior to their maturity and (iii) amounts required to pay expenses attributable to the Program.

“Expenses” means amounts owing by or on behalf of the Issuer related to operation and maintenance of the Program, including any fees and expenses of the Trustee and any Paying Agent.

“Favorable Opinion of Bond Counsel” means, with respect to any action the occurrence of which requires such an opinion, an unqualified opinion of counsel, which shall be a Bond Counsel, to the effect that such action is permitted under the Act and the Indenture and will not, in an of itself, adversely affect the exclusion of interest on the Bonds from personal income taxation under the laws of the District (subject to the inclusion of any exceptions contained in the opinion delivered upon the original issuance of the Bonds).

“FHA” means the Federal Housing Administration of the United States Department of Housing and Urban Development or other agency or instrumentality created or chartered by the United States to which the powers of the Federal Housing Administration have been transferred.

“FHLMC” or “Freddie Mac” means the Federal Home Loan Mortgage Corporation, a corporate instrumentality of the United States created pursuant to Title III of the Emergency Home Finance Act of 1970, as amended, or any successor thereto.

“FHLMC Certificate” means a mortgage participation certificate, in certificated or in book-entry form, the timely payment of interest on and the ultimate collection of principal of which is guaranteed by FHLMC, which evidences a proportional undivided interest in specified pools of first lien, fixed-rate, variable-rate or adjustable-rate conventional mortgage loans or participation interests in conventional one-to-four family residential mortgage loans purchased by FHLMC, all of which loans provided for monthly payments of principal and interest in substantially equal installments for the contractual term of such loan or for each rate variation or adjustment period, as the case may be, and are amortizing over the original term to maturity.

“Fiduciary” means any bank, trust company, national banking association or federally or state chartered savings and loan association, including the Trustee and its actions under the Indenture in its role as trustee, (a)(i) having combined capital and surplus of not less than fifty million dollars (\$50,000,000) or (ii) having at least five hundred million dollars (\$500,000,000) of trust assets and (b) legally authorized to perform its obligations under the Indenture.

“FNMA” or “Fannie Mae” means the Federal National Mortgage Association or any successor thereto.

“FNMA Security” means a single pool, guaranteed mortgage pass-through FNMA Mortgage-Backed Security, bearing interest at the Pass-Through Rate, issued by FNMA in book-entry form, recorded in the name of the Trustee or its nominee, guaranteed as to timely payment of principal and interest by FNMA and backed by Mortgage Loans in the related mortgage pool.

“Funds” or “Accounts” means Funds or Accounts, including subaccounts, established pursuant to the Indenture or any Supplemental Indenture.

“GNMA” or “Ginnie Mae” means the Government National Mortgage Association, a wholly owned corporate instrumentality of the United States of America within the Department of Housing and Urban Development, or any successor thereto. Its powers are prescribed generally by Title III of the National Housing Act of 1934, as amended (12 U.S.C. 1716 et seq.).



“GNMA Guaranty Agreement” means the one or more Guaranty Agreements between a Servicer and GNMA, with respect to GNMA Securities under the GNMA I Program or GNMA II Program, and the GNMA Guide now or hereafter in effect pursuant to which GNMA has agreed or will agree to guarantee GNMA Securities.

“GNMA Guide” means the GNMA I or GNMA II Mortgage-Backed Securities Guide, in effect on the date of issuance of the GNMA Guaranty Agreement.

“GNMA Security” means a certificate bearing interest at a rate per annum as set forth in or determined in accordance with the applicable Supplemental Indenture, registered in the name of the Trustee and guaranteed as to timely payment of principal and interest by GNMA pursuant to GNMA’s GNMA I or GNMA II mortgage-backed securities program under Section 306(g) and other related provisions of the National Housing Act of 1934, as amended, and based on and backed by Mortgage Loans as provided in the GNMA Guide, which certificate shall unconditionally obligate the Servicer to remit monthly to the owner thereof (x) principal payments and prepayments made in respect of the pool of Mortgage Loans represented by the GNMA Security and (y) interest in an amount equal to the Pass-Through Rate. GNMA shall guarantee to the owner of each GNMA Security (i) the timely payment of interest at the applicable Pass-Through Rate on the unpaid principal balance of the Mortgage Loans represented by the GNMA Security and (ii) the timely payment of principal in accordance with the terms of the principal amortization schedule applicable to the Mortgage Loans represented by such GNMA Security.

“Government Obligations” means obligations (including obligations issued or held in book-entry form on the books of the U.S. Department of the Treasury or the Federal Reserve System) of the United States of America or as to which the principal thereof and interest thereon are directly or indirectly guaranteed by the United States of America.

“Indenture” means the General Indenture of Trust dated as of December 1, 1996, between the Issuer and U. S. Bank, Richmond, Virginia, as Trustee, as previously amended and supplemented, and as amended and supplemented from time to time in accordance with the terms thereof.

“Interest Payment Date” means any date upon which interest on the Bonds is payable in accordance with their terms and the terms of the Indenture or any Supplemental Indenture.

“Investment Agreement” means (i) the Funding Agreement by and between Transamerica Life Insurance Company and the Trustee, dated November 1, 2007, with respect to amounts deposited in the Series 2007 A Mortgage Loan Account of the Mortgage Loan Fund; (ii) the Investment Agreement by and between FSA Capital Management Services LLC and the Trustee, dated November 1, 2007, with respect to the Series 2007 B Mortgage Loan Account of the Mortgage Loan Fund; and (iii) any substitute Investment Agreement or Agreements having similar rates and terms and which will not adversely affect the Rating Quality of the Series 2007 Bonds.

“Issuance Expense” means all items of expense payable or reimbursable directly or indirectly by the Issuer and related to the authorization, sale and issuance of Bonds and the making, purchasing, acquiring or financing of the Mortgage Loans (including initial premiums on any special hazard insurance or Mortgage Pool Insurance) or the Mortgage-Backed Securities.

“Issuance Expense Fund” means the Account so designated which is established by the Indenture.

“Master Servicer” means Countrywide Home Loans, Inc., or its successors and assigns or any substitute entity therefor.

“Mortgage” means a mortgage, deed, deed of trust or other instrument securing a Mortgage Loan and constituting a lien on a Residence, subject only to encumbrances permitted by the Program Agreements.

“Mortgage-Backed Security” means a FNMA Security, a FHLMC Certificate or a GNMA Security backed by one or more Mortgage Loans (or such other security backed by Mortgage Loans which is specified in a Supplemental Indenture, the purchase of which will not adversely affect the Rating Quality of the Outstanding Bonds), in each case registered in the name of the Trustee. The definition of “Mortgage-Backed Security” shall not include, unless otherwise specified in a Supplemental Indenture, any Mortgage-Backed Security which is not credited to the Mortgage Loan Fund.

“Mortgage Insurance” means an insurance policy or a guaranty issued by the FHA or the VA, or an entity licensed to insure Mortgage Loans in the District and approved by the Issuer insuring or guaranteeing, in whole or in part, the principal of and interest payments on a Mortgage Loan.

“Mortgage Lender” means any person approved by the Issuer for participation in the Program.

“Mortgage Loan” means a loan to a Mortgagor, bearing interest at such rate or rates (which may include 0% rates) to be determined by the Issuer, secured (unless otherwise specified in a Supplemental Indenture) by a Mortgage on a Residence and evidenced by a promissory note. The definition of Mortgage Loan shall not include, unless otherwise provided in a Supplemental Indenture, any Mortgage Loan which is not credited to the Mortgage Loan Fund.

“Mortgage Loan Fund” means the Fund so designated in the Indenture.

“Mortgage Pool Insurance” means one or more policies of insurance issued by a Qualified Insurer or Qualified Insurers insuring against loss resulting or arising from an event of default under any or all Mortgage Loans financed with the proceeds of a Series of Bonds resulting from the mortgagor’s failure to make any payment required by the terms of such Mortgage Loan or from an event which is a basis for an action to foreclose such Mortgage Loan, as may be more fully described in a Supplemental Indenture. In lieu of Mortgage Pool Insurance, the Issuer may elect to deposit an amount to the Mortgage Reserve Fund as specified in a Supplemental Indenture, provided that any Mortgage Pool Insurance or deposit to the Mortgage Reserve Fund established by a Supplemental Indenture shall not adversely affect the Rating Quality of the Outstanding Bonds.

“Mortgage Reserve Fund” means the Fund so designated in the Indenture.

“Mortgage Reserve Fund Requirement” means, as of any particular date of calculation, the aggregate of the amounts specified, if any, as the Mortgage Reserve Fund Requirement in each Supplemental Indenture.

“Mortgagor” means the obligor or joint obligors on a Mortgage Loan, which Mortgagor has an ownership interest in the Residence.

“Operating Fee” means the amount designated by the Issuer in a Certificate for carrying out the Program and paying any Expenses in connection therewith, in an amount not to exceed the aggregate of the amounts specified as the Operating Fee in each Supplemental Indenture.

“Origination Agreement” means, collectively, the Mortgage Origination Agreements between the Issuer and each Mortgage Lender in the Program and which contain the rules and regulations of the Issuer governing its activities under the Act with respect to the Program, as the same shall be amended from time to time, and such other agreements as entered into at the direction of the Issuer with respect to the Program.

“Origination Period” means, with respect to the Series 2007 A Bonds, as announced by the Issuer, the period commencing upon notice from the Issuer to the Mortgage Lenders to commence originating Mortgage Loans to be acquired or financed with funds initially deposited in the Series 2007 A Mortgage Loan Account and ending on such date or dates as will permit the sale of Series 2007 A Mortgage-Backed Securities, to the Trustee before the expiration of the Delivery Period unless such period is otherwise extended pursuant to the terms and conditions of the Supplemental Indenture.

“Other Issuer Bonds” means any prior bonds issued by the Issuer to finance residential housing facilities for low and moderate income families within the District.

“Outstanding” or “Bonds Outstanding” means all Bonds, which have been authenticated and delivered by the Trustee under the Indenture, except:

(a) Bonds canceled after purchase in the open market or because of payment at or redemption prior to maturity;

(b) Bonds for the payment or redemption of which cash funds or Government Obligations or any combination thereof shall have been theretofore deposited with the Trustee (whether upon or prior to the maturity or redemption date of any such Bonds); provided that if such Bonds are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given or arrangements satisfactory to the Trustee shall have been made therefor, or waiver of such notice satisfactory in form to the Trustee shall have been filed with the Trustee;

(c) Bonds in lieu of which other Bonds have been executed and delivered under the provisions of the Indenture regarding temporary Bonds; and

(d) Bonds otherwise specified in a Supplemental Indenture.

“Pass-Through Rate” means the rate of interest on a Mortgage-Backed Security, which shall be the rate or rates of interest per annum as set forth in or determined in accordance with the respective Supplemental Indenture.

“Paying Agent” means any bank or trust company designated pursuant to the Indenture and a Supplemental Indenture to serve as a paying agency or place of payment for a Series of Bonds, and any successors designated pursuant to the Indenture.

“Permitted Investments” means and includes any of the following obligations, to the extent the same are at the time legal for investment of funds of the Issuer under the Act, including the amendments thereto or hereafter made, or under other applicable law: (i) Government Obligations, or obligations rated in the highest letter rating category by the Rating Agency, of any state of the United States of America or any political subdivision of such a state, payment of which is secured by an irrevocable pledge of such Government Obligations; (ii) senior debt obligations and mortgage-backed securities issued by Federal Land Banks, Fannie Mae (excluding stripped mortgage securities which are purchased at prices exceeding their principal amount), Freddie Mac (excluding stripped mortgage securities which are purchased at prices exceeding their principal amount) and senior debt obligations and letter of credit-backed issues issued by the Student Loan Marketing Association; (iii) time deposits, certificates of deposit or any other deposit with a bank, trust company, national banking association, savings bank, federal mutual savings bank, savings and loan association, federal savings and loan association or any other institution chartered or licensed by any state or the U.S. Comptroller of the Currency to accept deposits in such state (“deposits” meaning obligations evidencing deposit liability which rank at least on a parity with the claims of general creditors in liquidation), which are (a) fully secured by direct obligations of the United States having a market value (exclusive of accrued interest) which will meet the over-collateralization levels and meet the criteria required by the Rating Agency to maintain the Rating on the Bonds or (b) secured to the extent, if any, required by the Issuer and made with an institution whose debt securities are rated at least equal to the then current Rating on the Bonds (or equivalent rating of short-term obligations if the investment is for a period not exceeding one year) by the Rating Agency; (iv) repurchase agreements backed by or related to obligations described in (i) or (ii) above with any institution which will not adversely affect the then current Rating on the Bonds by the Rating Agency; (v) investment agreements, secured or unsecured as required by the Issuer, with any institution which will not adversely affect the then current Rating on the Bonds by the Rating Agency; (vi) if rated at a level which will not adversely affect the then current Rating on the Bonds by the Rating Agency, direct and general obligations of or obligations guaranteed by any state or possession of the United States or the District of Columbia, to the payment of the principal of and interest on which the full faith and credit of such state, possession or District of Columbia is pledged; (vii) bonds, debentures or other obligations issued by Federal Home Loan Banks or Federal Farm Credit System; (viii) interest bearing notes issued by a bank having combined capital and surplus of at least \$500,000,000 whose senior debt is rated in the highest rating category of the Rating Agency; (ix) Tax-Exempt Obligations rated in the highest rating category of the Rating Agency; and (x) money market funds registered under the Investment Company Act of 1940, as amended, whose shares are registered under the Securities Act of 1933, as amended, which invests only in securities of the type described in clause (i) or (ii) above and having the highest possible rating from the Rating Agency, provided that it is expressly understood that the definition of Permitted Investments 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 permitted which the Issuer deems from time to time to be in the interest of the Issuer to include as Permitted Investments, if at the time of inclusion such inclusion will not, in and of itself, adversely affect the then current Rating on the Bonds. Permitted Investments must be limited to those instruments that have a predetermined fixed dollar amount of principal due at maturity that cannot vary or change. If the obligation is

rated, it should not have an “r” highlighter affixed to its rating. Interest should be tied to a single interest rate index plus a single fixed spread, if any, and move proportionately with that index.

“Prepayment” means (i) any payments on the Mortgage-Backed Securities other than regularly scheduled principal and interest payments thereon and (ii) amounts representing prepayments on the Mortgage Loans, such Prepayment on a Mortgage Loan to mean any Mortgagor payment or other recovery of principal on a Mortgage Loan which is received in advance of its scheduled due date and is not accompanied by an amount as to interest representing scheduled interest for any month subsequent to the month of prepayment, and the portion of any payments representing such amounts from condemnation of the mortgaged premises or foreclosure of the mortgaged premises or other proceedings taken in the event of default by the Mortgagor, any hazard or special insurance policy covering mortgaged premises, any Mortgage Pool Insurance, any Mortgage Insurance, including moneys received from debentures or certificates issued pursuant to a contract of insurance, and moneys received from the sale, assignment, endorsement or other disposition of any such Mortgage Loan with respect to which condemnation, foreclosure or other proceedings taken in the event of default by the Mortgagor have occurred (including the sale or transfer of a Mortgage Loan which is in violation of the requirements of the Program).

“Principal” or “principal” means (a) unless otherwise provided in the Indenture, as such term references the principal amount of a Deferred Interest Bond or Deferred Interest Bonds, the Appreciated Amount thereof, and (b) as such term references the principal amount of any other Bond or Bonds, the principal amount at maturity of such Bond or Bonds.

“Private Mortgage Insurance” means a private mortgage insurance policy issued by a company satisfactory to the Issuer authorized to do business in the District and whose rating for claims-paying ability will not adversely affect the Rating Quality of the Bonds.

“Program” means the Issuer’s program of financing qualified Mortgage Loans through the purchasing, acquiring or financing of Mortgage Loans or Mortgage-Backed Securities or other securities backed by Mortgage Loans pursuant to the provisions of the Indenture and any Supplemental Indenture and the Program Agreements.

“Program Agreements” means one or more agreements in connection with the Program and which may be specified in a Supplemental Indenture, and which shall constitute the rules and regulations of the Issuer governing its activities under the Act with respect to the Program, as the same shall be amended from time to time.

“Proportionate Basis” when used with respect to the redemption of the Series 2007 Bonds, means that the aggregate principal amount of the Series 2007 Bonds of each maturity to be redeemed shall be determined as nearly as practicable by multiplying the total amount of funds available for redemption by the ratio which the principal amount of Bonds of each maturity then Outstanding bears to the principal amount of all Series 2007 Bonds then Outstanding; provided that if the amount available for redemption of Series 2007 Bonds of any maturity is insufficient to redeem an integral multiple of \$5,000 principal amount of such maturity, such amount shall be applied, to the extent possible, using integral multiples of \$5,000 principal amount, to the redemption of Series 2007 Bonds of each maturity in inverse order of maturity. For purposes of the foregoing, the Series 2007 Bonds shall be deemed to mature in the years and in the amounts of the Sinking Fund Installments. Any Series 2007 Bonds purchased with moneys which otherwise would be applied to redemption on a Proportionate Basis on the

next succeeding Interest Payment Date shall be taken into account in determining Proportionate Basis with respect to such redemption. When used with respect to the purchase of Bonds, Proportionate Basis shall have the same meaning as set forth above (substituting purchase for redeem or redemption, and purchased for redeemed).

“Qualified Insurer” means (a) the Federal Housing Administration, the Department of Veterans Affairs or any successors thereto or (b) a private mortgage insurance company acceptable to the Rating Agency whose rating for claims-paying ability will not adversely affect the Rating Quality of the Bonds and which has “surplus as regards policyholders” at least equal to \$15,000,000 and qualified (i) to issue mortgage insurance in the District and (ii) to provide insurance on mortgages purchased by FHLMC or Fannie Mae.

“Rating” means the rating or ratings assigned by the Rating Agency, pursuant to a request or requests by the Issuer, and without regard to any policy of insurance on the Bonds of any Series.

“Rating Agency” means S&P and any other rating agency specified in a Supplemental Indenture.

“Rating Quality” means, with respect to any Series of Bonds, having terms, conditions and/or a credit quality such that the item stated to be of “Rating Quality” will not, as confirmed in writing received by the Trustee from the Rating Agency, impair the ability of the Issuer to obtain the rating or ratings initially anticipated to be received from the Rating Agency with respect to such Bonds as described in the related Supplemental Indenture and, if any of the Bonds have been rated, will not cause the Rating Agency to lower or withdraw the rating it has assigned to any of the Bonds.

“Rebate Fund” means the Fund so designated in the Indenture.

“Record Date” means any Regular Record Date, Special Record Date or Redemption Record Date.

“Redemption Date” means the date fixed for such redemption as to which notice has been given by the Trustee, as contemplated in the applicable Supplemental Indenture.

“Redemption Fund” means the Fund so designated in the Indenture.

“Redemption Record Date” means the date or dates set forth in the applicable Supplemental Indenture authorizing the particular Series of Bonds.

“Regular Record Date” means the date or dates set forth in the applicable Supplemental Indenture authorizing the particular Series of Bonds.

“Residence” means real property and improvements thereon, which consists of single family (one to four family) dwelling units (which may be a condominium or cooperative unit, subject to any restrictions established by the Issuer) which is, at the time of origination of the related Mortgage Loan, owned and occupied by the Mortgagor as his or her principal residence, and which satisfies other requirements which the Issuer may from time to time establish under the Program Agreements. A residence does not include a rental house, vacation homes or

factory-made housing or mobile homes that are not permanently affixed to real property and not deemed real property under the laws of the District.

“Revenue Fund” means the Fund so designated in the Indenture.

“Revenues” means (i) all amounts received as repayment of principal, interest and all other charges received for, and all other income and receipts derived by the Issuer from, the Mortgage-Backed Securities and Mortgage Loans or any way in connection therewith, including Prepayments, (ii) moneys deposited in a sinking, redemption or reserve fund or other Fund or Account to secure Bonds or to provide for the payment of the principal of, premium or interest on Bonds and (iii) to the extent hereinafter provided, interest earnings or income received on moneys so deposited in any Fund or Account pursuant to the Indenture and all other payments and receipts received with respect to Mortgage Loans or Mortgage-Backed Securities, including the proceeds of Mortgage Insurance claims (but excluding Service Fees, Escrow Payments and Excess Nonmortgage Earnings).

“Scheduled Principal Payments” means all moneys received or recovered by the Issuer from any scheduled payment of principal on any Mortgage-Backed Security or on any Mortgage Loan determined as if such Mortgage Loan or the Mortgage Loan underlying such Mortgage-Backed Security was amortized over its original term.

“Series” means, unless otherwise specified in a Supplemental Indenture, all of the Bonds authenticated and delivered on original issuance in a simultaneous transaction pursuant to a Supplemental Indenture, and any Bonds thereafter delivered in lieu of or in substitution for such Bonds pursuant to the Indenture, regardless of variations in maturity, interest rate, Sinking Fund Installments or other provisions.

“Series Program Determinations” means, with respect to the Series 2007 A Bonds, the Series Program Determinations established by the Issuer as set forth in the General Indenture and in the Series 2007 Supplemental Indenture, as such Series Program Determinations may be modified from time to time in a Certificate of an Authorized Officer which modifications shall not adversely affect the Rating Quality of the Bonds, and with respect to the Series 2007 B Bonds, the Series Program Determinations established by the Issuer as set forth in the General Indenture and such additional Series Program Determinations established by the Issuer upon the refunding of any of the Series 2007 B Bonds.

“Series 2007 Bonds” means, collectively, the Series 2007 A Bonds and the Series 2007 B Bonds.

“Series 2007 A Bonds” means the Issuer’s Single Family Mortgage Revenue Bonds, Series 2007 A (AMT) authorized and issued pursuant to the Series 2007 Supplemental Indenture.

“Series 2007 A Capitalized Interest Account” means the Account so designated in the Series 2007 Supplemental Indenture.

“Series 2007 A FHLMC Mortgage Loans” means the Mortgage Loans, if any, supporting, backing or represented by Series 2007 A Mortgage-Backed Securities that are FHLMC Securities.

“Series 2007 A FNMA Mortgage Loans” means the Mortgage Loans, if any, supporting, backing or represented by Series 2007 A Mortgage-Backed Securities that are FNMA Securities.

“Series 2007 A GNMA Mortgage Loans” means the Mortgage Loans, if any, supporting, backing or represented by Series 2007 A Mortgage-Backed Securities that are GNMA Securities.

“Series 2007 A Mortgage Loan Account” means the Account so designated in the Series 2007 Supplemental Indenture.

“Series 2007 A Mortgage-Backed Securities” means the Mortgage-Backed Securities, if any, purchased with funds in the Series 2007 A Mortgage Loan Account (including any Series 2007 A Recycling Subaccount).

“Series 2007 A Recycling Subaccount” means any subaccount so designated in the applicable Supplemental Indenture.

“Series 2007 B Bonds” means the Issuer’s Single Family Mortgage Revenue Bonds, Series 2007 B (AMT) authorized and issued pursuant to the Series 2007 Supplemental Indenture.

“Series 2007 B Mortgage Loan Account” means the Account so designated in the Series 2007 Supplemental Indenture.

“Series 2007 Supplemental Indenture” means the Supplemental Indenture of Trust, dated as of November 1, 2007, by and between the Issuer and the Trustee authorizing the issuance of the Series 2007 Bonds.

“Service Fee” means any fee or charge authorized to be deducted by a Servicer from payments on a Mortgage Loan or Mortgage-Backed Security before passing through or remitting payments to the Trustee and as specified in a Supplemental Indenture.

“Servicer” means one or more servicers which have entered into Program Agreements with the Issuer, or their successors and assigns or any substitute entity therefor and as identified in a Supplemental Indenture.

“Sinking Fund Installment” means any amount of money required by or pursuant to the Indenture or a Supplemental Indenture to be paid on a specified date by the Issuer toward the retirement of any particular Bonds of a Series before maturity.

“S&P” means Standard & Poor’s Ratings Group, a division of the McGraw-Hill Companies, Inc., and its successors and assigns, or, if S&P shall no longer be maintaining a rating on the Bonds, then another nationally recognized rating agency designated by the Issuer.

“Special Record Date” means the date described in the Indenture.

“Supplemental Indenture” means any supplement to the Indenture entered into pursuant to Article IX of the Indenture authorizing and specifying the terms of a Series of Bonds.

“Surplus Fund” means the Fund so designated which is established by the Indenture.

“Targeted Area” has the meaning assigned to such term in the Program Agreements.



“Targeted Area Amount” means funds initially deposited in the Series 2007 A Mortgage Loan Account to be used to finance up to \$20,000,000 in aggregate principal amount of Mortgage Loans (or such lesser amount as shall, in a Counsel’s Opinion, not adversely affect the tax-exempt status of the Series 2007 Bonds).

“Tax-Exempt Obligation” means (a) obligations, which are rated at a level which will not impair the then current Rating on the Bonds, the interest on which is excluded from gross income of the owner thereof for federal income tax purposes under Section 103 of the Code (other than an obligation described in Section 57(a)(5)(C) of the Code); and (b) United States Treasury - State and Local Government Series, demand deposit securities.

“Term Bonds” means that portion of a Series of Bonds so designated by the Issuer in a Supplemental Indenture as Term Bonds.

“Trustee” means the trustee appointed by or pursuant to the Indenture, its successor or successors and any other corporation or association, which may at any time be substituted in its place pursuant to the Indenture.

“VA” means the Department of Veterans Affairs or other agency or instrumentality created or chartered by the United States to which the powers of the Department of Veterans Affairs have been transferred.

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## **APPENDIX B**

### **SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE**

The General Indenture of Trust (the “Indenture”) contains terms and conditions relating to the issuance and sale of Bonds under it, including various covenants and security provisions, certain of which are summarized below. This summary does not purport to be comprehensive or definitive and is subject to all of the provisions of the Indenture, to which reference is hereby made, copies of which are available from the Issuer or the Trustee. This summary uses various terms defined in the Indenture and such terms as used herein shall have the same meanings as so defined.

#### ***Authority and Purpose***

The Indenture is entered into under authority and in accordance with the provisions of the Act, for the purpose of facilitating an increase in the supply of affordable housing in the District at prices which persons of primarily low and moderate income, particularly first-time homebuyers, can afford, by financing Mortgage Loans through the purchase, acquisition or financing of Mortgage Loans or Mortgage-Backed Securities; and for the purpose of establishing covenants, agreements and procedures to assure that Revenues received from financing such Mortgage Loans and Mortgage-Backed Securities (or security therefor), together with other amounts pledged under the Indenture, will be sufficient for the repayment of money borrowed for that purpose, and that Revenues and other amounts pledged under the Indenture exceeding the amounts needed for that purpose will be applied in accordance with law for other purposes authorized by the Act.

#### ***Indenture Constitutes Contract***

The provisions of the Indenture constitute a contract of the Issuer with the Trustee for the benefit of the holders of the Bonds and the pledge, covenants and agreements set forth in the Indenture to be performed by and on behalf of the Issuer are for the equal benefit, protection and security of the holders of any and all of the Bonds.

#### ***Pledge Effected by the Indenture***

For the payment of the principal of, premium, if any, and interest on the Bonds, and the Sinking Fund Installments for the retirement thereof, the Issuer has pledged to the Trustee, and granted a security interest in, in accordance with the provisions of the Indenture, all proceeds of the sale of the Bonds other than proceeds deposited in trust for the retirement of Outstanding Bonds, all Mortgage Loans and Mortgage-Backed Securities and Permitted Investments made or purchased from such proceeds, all Revenues and all money, Permitted Investments and other assets and income held in and receivable by the Funds and Accounts established by or pursuant to the Indenture, but excluding Service Fees, Escrow Payments and Excess Nonmortgage Earnings, all subject to the right of the Issuer to direct withdrawals of amounts from said Funds and Accounts upon the conditions set forth in the Indenture, which pledge constitutes a first lien on such pledged moneys and revenues.

## ***Purposes***

Each Supplemental Indenture authorizing the issuance of one or more Series of Bonds will specify the purposes for which such Series of Bonds is being issued. The purpose or purposes for which a Series of Bonds may be issued are as follows: (i) the purchase of Mortgage-Backed Securities in order to finance Mortgage Loans or the financing, purchasing or acquiring of Mortgage Loans, (ii) the making of deposits in amounts, if any, required or authorized by the Supplemental Indenture to be paid into Funds or Accounts established in the Indenture or in a Supplemental Indenture from the proceeds of a Series of Bonds, (iii) the refunding of Bonds, (iv) to pay or defease notes or bonds or other indebtedness issued by the Issuer to acquire, finance or purchase Mortgage Loans or Mortgage-Backed Securities in exchange for Mortgage Loans or Mortgage-Backed Securities with respect to which such notes, bonds or other indebtedness was issued and meeting any other requirements set forth in a Supplemental Indenture or (v) for such other purpose as stated in the Supplemental Indenture and not inconsistent with the provisions of the Indenture.

## ***Conditions Precedent to the Issuance of Bonds***

The Indenture authorizes Bonds to be issued from time to time in one or more Series without limitations as to amount except as may be provided by law.

All of the Bonds of each Series shall be issued by the Issuer under the Indenture, delivered to the Trustee for authentication and, upon authentication by the Trustee, delivered to the Issuer or its order, but only upon receipt by the Trustee of, among other things:

(1) A Counsel's Opinion, dated the date of delivery thereof, to the effect that: (i) the Issuer is a body corporate and an instrumentality of the District with the powers, among others, to finance, purchase or acquire the Mortgage Loans, either directly or through the purchase or acquisition of Mortgage-Backed Securities, to issue the Bonds to provide funds therefor and to perform its obligations under the Indenture and the applicable Supplemental Indenture; (ii) the Bonds are valid limited obligations of the Issuer secured by and payable solely from the Revenues and other moneys pledged under the Indenture; and (iii) the Indenture and the applicable Supplemental Indenture have been validly authorized, executed and delivered and create an assignment and pledge of and lien on the Revenues and other moneys pledged under the Indenture, except that (y) no opinion need be expressed as to the effect upon such enforceability of bankruptcy, insolvency, reorganization, moratorium and other similar laws enacted for the relief of debtors and (z) no opinion need be expressed as to the availability of the remedy of specific performance, mandamus, injunctive relief or any other equitable remedy;

(2) A certificate from the Issuer directing that the Trustee authenticate and deliver such Bonds and containing instructions as to the delivery of such Bonds and the purchase price therefor;

(3) A copy of the Supplemental Indenture authorizing such Bonds, which shall specify the terms and purposes thereof;

(4) A Certificate from the Issuer stating that the Issuer is not in default in the performance of any of the covenants, conditions, agreements or provisions contained in the Indenture or in any Supplemental Indenture;

(5) A Cash Flow Certificate or a Cash Flow Statement which includes the issuance of such Series of Bonds conforming to the requirements of the Indenture;

(6) Any executed Investment Agreement assumed, for the Series of Bonds, in the Cash Flow Statement;

(7) Any necessary fees from the Mortgage Lenders and the Servicers assumed, for the Series of Bonds, in the Cash Flow Statement;

(8) Written verification from the Rating Agency that the issuance of such Series of Bonds will not, in and of itself, adversely affect the Rating Quality of any Outstanding Bonds of any prior Series of Bonds;

(9) If such Series of Bonds is to have the benefit of a liquidity facility or be secured by credit enhancement, the executed liquidity facility or credit enhancement or evidence that all conditions precedent to the issuance of such liquidity facility or credit enhancement have been met as of the date of issuance of such Series of Bonds;

(10) Such further documents and moneys as are required by the provisions of Article IX of the Indenture or any Supplemental Indenture adopted pursuant to Article IX thereof; and

(11) In addition to satisfaction of the requirements set forth above, with respect to the Bonds of the Series of a Refunding Issue:

(i) there shall be deposited with the Trustee either:

(1) moneys in an amount sufficient to effect payment at the applicable redemption price of the Other Issuer Bonds to be refunded, together with accrued interest on such Other Issuer Bonds to the redemption date designated for such purpose, or

(2) Permitted Investments in such principal amounts, having such maturities, bearing such interest and otherwise having such terms and qualifications as shall be required to pay the applicable redemption price of the Other Issuer Bonds to be refunded, together with accrued interest on such Other Issuer Bonds to the redemption date, which Permitted Investments and moneys shall be held in trust for the holders of Outstanding Other Issuer Bonds being refunded;

(ii) The Issuer shall have given irrevocable instructions to the Trustee, satisfactory to it, to give due notice of redemption of all the Other Issuer Bonds so to be redeemed on a redemption date specified in such instructions and to give notice in the manner provided in the applicable indenture pursuant to which the Other Issuer Bonds were issued;

(iii) The Trustee shall furnish to the Issuer a certificate, as shall be satisfactory to the Trustee, stating that it holds or there is being held in trust the Permitted Investments and/or moneys required to effect such redemption; and

(iv) The requirements set forth in the Indenture regarding conditions precedent to the issuance of Bonds generally, have been satisfied.

### ***Establishment of Funds and Accounts***

The Issuer, by the Indenture, has established the following Funds and Accounts:

- (1) Mortgage Loan Fund, and therein Series Mortgage Loan Accounts, and therein Series Recycling Subaccounts;
- (2) Revenue Fund;
- (3) Debt Service Fund;
- (4) Debt Service Reserve Fund;
- (5) Mortgage Reserve Fund;
- (6) Operating Fund;
- (7) Redemption Fund;
- (8) Rebate Fund;
- (9) Issuance Expense Fund;
- (10) Capitalized Interest Fund, and therein Series Capitalized Interest Accounts; and
- (11) Surplus Fund.

The Trustee may also establish from time to time such additional funds or accounts as the Issuer may direct or as the Trustee shall determine may be reasonably required to carry out its duties under the Indenture, and moneys deposited therein shall be used and pledged only as provided in the directions of the Issuer, it being intended that such authority be used (among other things) to implement the utilization of moneys provided by other entities in conjunction with the Program.

The Indenture establishes in each Fund a separate Account for each Series of Bonds. Except as otherwise provided in a Supplemental Indenture, the proceeds of a particular Series of Bonds issued under a Supplemental Indenture, the payments on Mortgage Loans or Mortgage-Backed Securities acquired with the proceeds of a particular Series of Bonds and the earnings on investments of moneys in the Funds or Accounts relating to a particular Series of Bonds, when required to be deposited in any Fund, will be deposited or credited to the Account established therein for that particular Series of Bonds. Withdrawals from Funds and Accounts in

connection with a particular Series of Bonds may be made and used (including for purposes of redemption) for such Series of Bonds as well as any other Series of Bonds unless specifically prohibited in a related Supplemental Indenture. For purposes of investment, the Trustee and the Issuer may consolidate the Accounts required to be established in a particular Fund into one Fund so long as adequate records are maintained as to the amounts held in each such Fund allocable to each Series of Bonds.

The proceeds from any Series of Bonds will be deposited in the Funds and Accounts established under the Indenture in accordance with the terms of the Indenture and the Supplemental Indenture authorizing such Series of Bonds.

### ***Mortgage Loan Fund***

There will be deposited in the Mortgage Loan Fund the proceeds of any Bonds in such amount as shall be established in a Supplemental Indenture and any moneys transferred from the Revenue Fund as directed by an Authorized Officer of the Issuer.

The Trustee will from time to time pay out money from the related Series Mortgage Loan Account (i) for the purpose of acquiring, financing or purchasing Mortgage Loans or Mortgage-Backed Securities in accordance with the Indenture and the terms of any applicable Supplemental Indenture and (ii) to pay or defease notes or bonds or other indebtedness issued by the Issuer to finance or purchase Mortgage Loans or Mortgage-Backed Securities in exchange for Mortgage Loans or Mortgage-Backed Securities with respect to which such notes, bonds or other indebtedness was issued and meeting any other requirements set forth in a Supplemental Indenture.

The Trustee will transfer moneys from the Mortgage Loan Fund to the Revenue Fund, the Redemption Fund or Rebate Fund to the extent specified in any Supplemental Indenture or upon the direction of an Authorized Officer of the Issuer.

Mortgage Loans and Mortgage-Backed Securities credited to the Mortgage Loan Fund may be released to the Issuer, free and clear of the lien of the Indenture, upon the filing of a certificate of an Authorized Officer directing the same and filing with the Trustee (i) a Cash Flow Statement; (ii) an opinion of Counsel that the release of such Mortgage Loans or Mortgage-Backed Securities will not adversely affect the tax-exempt status of interest on the Bonds; and (iii) written evidence that such release will not adversely affect the then current Ratings on the Bonds by the Rating Agency.

The Trustee will from time to time pay out money from the related Series Recycling Subaccount (i) for the purpose of acquiring, financing or purchasing Mortgage Loans or Mortgage-Backed Securities in accordance with the Indenture and the terms of any applicable Supplemental Indenture and (ii) to pay or defease notes or bonds or other indebtedness issued by the Issuer to finance or purchase Mortgage Loans or Mortgage-Backed Securities in exchange for Mortgage Loans or Mortgage-Backed Securities with respect to which such notes, bonds or other indebtedness was issued and meeting any other requirements set forth in a Supplemental Indenture. Any investment earnings on moneys held in the Mortgage Loan Fund will be credited by the Trustee to the Revenue Fund upon receipt.

## ***Revenue Fund***

Unless otherwise specified in a Supplemental Indenture for a particular Series of Bonds, the Trustee will credit all Revenues derived from the Mortgage Loans (including Defaulted Mortgage Loans) and the Mortgage-Backed Securities (provided that, if directed in a Supplemental Indenture, amounts representing accrued interest on the Mortgage Loans and Mortgage-Backed Securities from the origination or issue date thereof to the date purchased by the Trustee will be remitted to the applicable Servicer) to the Revenue Fund. As soon as possible after receipt of such moneys for deposit into the Revenue Fund, the Trustee will segregate as designated by the Servicer such moneys as either Prepayments or other moneys (including, but not limited to Scheduled Principal Payments). Amounts representing Prepayments will be immediately transferred by the Trustee (i) to the related Series Recycling Subaccount of the Mortgage Loan Fund, as directed pursuant to the terms of a Supplemental Indenture or upon the filing of a Cash Flow Statement, or (ii) as directed pursuant to the terms of a Supplemental Indenture or by a Certificate of an Authorized Officer, to the Redemption Fund. There will also be deposited in the Revenue Fund, unless otherwise specified in a Supplemental Indenture, any income or interest earned by, or increment to, any Fund or Account (except the Rebate Fund, unless otherwise directed in a Certificate of an Authorized Officer), established pursuant to the Indenture due to the investment thereof.

Unless otherwise specified in the Supplemental Indenture for a particular Series of Bonds, moneys remaining in the Revenue Fund following the transfer of amounts representing Prepayments as set forth above shall be disbursed by the Trustee at the following times and in the following order of priority:

(1) On or before each Interest Payment Date and other date on which principal of or interest on the Bonds is due, the Trustee will transfer to the Debt Service Fund an amount sufficient to pay the interest, principal (if any) and Sinking Fund Installment due on such Interest Payment Date or other date for application as provided in the Indenture.

(2) On any Interest Payment Date or on such other date or dates as specified below or as directed in a Certificate of an Authorized Officer, the Trustee will withdraw from the balance of any moneys remaining in the Revenue Fund in excess of Accrued Debt Service less amounts on deposit in the Debt Service Fund as of the date of withdrawal and deposit the same as follows:

*First*, to the credit of the Rebate Fund, such amount as may be specified in a Certificate of an Authorized Officer, to satisfy the rebate requirements set forth in the Indenture;

*Second*, to the credit of the Debt Service Reserve Fund such amount (or the balance of the moneys so remaining in the Revenue Fund if less than the required amount) as will be required to increase the amount credited thereto to an amount equal to the Debt Service Reserve Requirement;

*Third*, to the credit of the Operating Fund, on each June 1 and December 1, an amount equal to the Operating Fee;



*Fourth*, to the Redemption Fund, any amounts so directed in a Supplemental Indenture or a Certificate of an Authorized Officer; and

*Fifth*, to the Surplus Fund, any amounts so directed in a Supplemental Indenture or a Certificate of an Authorized Officer.

Amounts remaining in the Revenue Fund following the transfers set forth above shall be retained in the Revenue Fund until the next Interest Payment Date.

Notwithstanding the foregoing requirements of the Indenture, upon direction of an Authorized Officer, amounts in the Revenue Fund representing Excess Nonmortgage Earnings will be withdrawn from the Revenue Fund only for deposit to the credit of the Rebate Fund in accordance with the requirements of the Indenture.

### ***Debt Service Fund***

The Trustee will withdraw from the Debt Service Fund, on each Interest Payment Date and any other date on which interest on the Bonds is payable, an amount equal to the unpaid interest due on the Bonds on that date, and on any redemption date or purchase date pursuant to the Indenture, an amount equal to the unpaid interest due on the Bonds to be paid, redeemed or purchased, and will cause it to be applied to the payment of said interest when due, or will transmit it to one or more Paying Agents, who will apply it to such payment.

The Trustee will withdraw from the Debt Service Fund on each date on which principal on the Bonds is payable (1) an amount equal to the principal amount of the Outstanding Bonds, if any, due (whether by maturity, redemption or otherwise) on that date, which will be applied to the payment or purchase of the principal of said Bonds when due or transmitted to one or more Paying Agents who will apply it to such payment and (2) an amount equal to the Sinking Fund Installment, if any, due on that date, which will be applied to the redemption of Bonds to be redeemed on that date or transmitted to one or more Paying Agents who will apply it to such redemption.

Unless other dates are specified in the Supplemental Indenture authorizing a Series of Bonds, not earlier than the forty-fifth day prior to each such date on which a Sinking Fund Installment is due, the Trustee will proceed to select for redemption in the manner provided in the Indenture from all Outstanding Bonds subject to redemption from such Sinking Fund Installment an amount of such Bonds, equal to the aggregate principal amount of such Bonds redeemable with such Sinking Fund Installment, and will call such Bonds for redemption from such Sinking Fund Installment on the next succeeding date for redemption, and give notice of such call in accordance with the Indenture. On or before the forty-fifth day next preceding any date on which a Sinking Fund Installment is due, the Issuer, by a certificate of an Authorized Officer, may (1) deliver to the Trustee for cancellation, Bonds which are subject to redemption from such Sinking Fund Installment, or portions thereof, in any aggregate principal amount desired or (2) receive a credit in respect of its Sinking Fund Installment obligation for any such Bonds, which prior to said date have been delivered to the Trustee for cancellation or redeemed (otherwise than through redemption from a Sinking Fund Installment) and canceled by the Trustee and not theretofore applied as a credit against any Sinking Fund Installment obligation. Each Bond or portion thereof so delivered or previously redeemed will be credited by the Trustee at the principal amount thereof on the obligation of the Issuer with respect to such Sinking Fund

Installments as the certificate of an Authorized Officer will direct and the principal amount of such Bonds to be redeemed by such Sinking Fund Installment will be accordingly reduced.

Unless other dates are specified in a Supplemental Indenture authorizing a Series of Bonds, on or before the forty-fifth day preceding each date on which a Sinking Fund Installment is due, the Trustee, if directed by a certificate of an Authorized Officer, will apply moneys in the Debt Service Fund held for such Sinking Fund Installment to the purchase of Outstanding Bonds subject to redemption from such Sinking Fund Installment in the manner provided in the Indenture, and upon such purchase, such Bonds will be canceled and the amount of such Sinking Fund Installment will thereupon be reduced by the principal amount of such Bonds so purchased and canceled, provided that no such Bonds will be so purchased within the 45 days next preceding the date on which such Sinking Fund Installment is to be used to redeem Bonds. The price paid by the Trustee (excluding accrued interest, but including any brokerage and other charges) for any Bond purchased under the Indenture will not exceed the redemption price applicable on the next date on which such Bond could be redeemed in accordance with its terms from a Sinking Fund Installment. Subject to the limitations set forth and referred to in the Indenture, the Trustee will purchase Bonds at such times, for such prices, in such amounts and in such manner (whether after advertisement for tenders or otherwise) as the Trustee may be so directed by the Issuer and as may be possible with the amount of money available in the Debt Service Fund.

Any investment earnings on moneys held in the Debt Service Fund will be credited by the Trustee to the Revenue Fund upon receipt.

In the event that the amount in the Debt Service Fund on any Interest Payment Date (following the transfer of funds from the Revenue Fund pursuant to the Indenture) or other date on which principal of or interest on the Bonds is payable, or otherwise, is insufficient to pay in full interest when due, or is insufficient to pay in full principal and Sinking Fund Installments when due, the Trustee will withdraw the amount of such deficiency from the following funds in the following order: (i) any amounts in any Series Capitalized Interest Account, (ii) the Surplus Fund, (iii) the Redemption Fund, to the extent of amounts available therein, (iv) the Debt Service Reserve Fund and (v) the Operating Fund.

### ***Debt Service Reserve Fund***

There will be deposited into the Debt Service Reserve Fund, from the proceeds of the sale of the Bonds or such other sources as specified by a direction of an Authorized Officer of the Issuer, the amounts specified by each Supplemental Indenture, provided that, as a result of such deposit, the amount on deposit in the Debt Service Reserve Fund will be at least equal to the Debt Service Reserve Requirement.

If there is not a sufficient amount in the Debt Service Fund to provide for the payment when due of principal of and interest on the Bonds and any Sinking Fund Installments, the Trustee will withdraw from the Debt Service Reserve Fund (after withdrawing any amounts in any Series Capitalized Interest Account, the Surplus Fund, the Redemption Fund (to the extent of amounts available therein), but prior to withdrawing any amounts from the Mortgage Reserve Fund or the Operating Fund) and pay into the Debt Service Fund the amount of the deficiency then remaining.

If there is not a sufficient amount in the Revenue Fund to make the deposits into the Operating Fund, the Trustee will, on such date for deposit, withdraw from the Debt Service Reserve Fund (after withdrawing amounts in any Series Capitalized Interest Account and the Issuance Expense Fund) to the extent of amounts available therein (but prior to any withdrawal from the Mortgage Reserve Fund or the Operating Fund) and pay into the Revenue Fund the amount of the deficiency then remaining.

Interest and other income from the investment or deposit of amounts in the Debt Service Reserve Fund will unless otherwise directed by an Authorized Officer of the Issuer be immediately transferred by the Trustee to the Revenue Fund upon receipt thereof.

Any balance in the Debt Service Reserve Fund in excess of the Debt Service Reserve Requirement will, at the option of the Issuer and upon the direction of an Authorized Officer of the Issuer, be transferred to the Revenue Fund or the Redemption Fund at such times as directed by such Authorized Officer.

The Debt Service Reserve Requirement with respect to the applicable Series of Bonds may be funded through Cash Equivalents. In connection with any discussion in the Indenture of “moneys” on deposit in or held for the credit of the Debt Service Reserve Fund, “moneys” are deemed to include said Cash Equivalents.

### ***Mortgage Reserve Fund***

There will be deposited into the Mortgage Reserve Fund, from the proceeds of the sale of the Bonds or such other sources as specified by a direction of an Authorized Officer of the Issuer, the amounts specified by each Supplemental Indenture, provided that, as a result of such deposit, the amount on deposit in the Mortgage Reserve Fund will be at least equal to the Mortgage Reserve Fund Requirement.

If there is not a sufficient amount in the Debt Service Fund to provide for the payment when due of principal of and interest on the Bonds and any Sinking Fund Installments, the Trustee will withdraw from the Mortgage Reserve Fund (after withdrawing any amounts in any capitalized interest account established pursuant to a Supplemental Indenture, the Redemption Fund (to the extent of amounts available therein), and the Debt Service Reserve Fund) and pay into the Debt Service Fund the amount of the deficiency then remaining. If there is not a sufficient amount in the Revenue Fund to make the deposits into the Operating Fund, the Trustee will, on such date for deposit, withdraw from the Mortgage Reserve Fund (after withdrawing amounts in any Series Capitalized Interest Account, the Issuance Expense Fund, and in the Debt Service Reserve Fund) to the extent of amounts available therein (but prior to any withdrawal from the Operating Fund) and pay into the Revenue Fund the amount of the deficiency then remaining.

The Trustee will withdraw from the Mortgage Reserve Fund and pay to the Issuer, any amount stated in a Certificate of an Authorized Officer to be needed and not otherwise available for the payment of expenses or losses necessarily incurred or to be incurred (a) to acquire good and merchantable title to, and possession of, a Residence subject to a Defaulted Mortgage Loan as a prerequisite to making a claim for Mortgage Insurance, or (b) for the maintenance and preservation of the value of a Residence subject to a Defaulted Mortgage Loan, including, but not limited to, payment of real property taxes, insurance premiums, foreclosure fees, including

appraisal and legal fees, costs of repairs, rehabilitation, maintenance, utilities and improvements necessary for sale.

Interest and other income from the investment or deposit of amounts in the Mortgage Reserve Fund will, unless otherwise directed by an Authorized Officer of the Issuer, be immediately transferred by the Trustee to the Revenue Fund upon receipt thereof.

Any balance in the Mortgage Reserve Fund in excess of the Mortgage Reserve Requirement will, at the option of the Issuer and upon the direction of an Authorized Officer of the Issuer, be transferred to the Revenue Fund or Redemption Fund at such times as directed by such Authorized Officer.

The Mortgage Reserve Requirement with respect to the applicable Series of Bonds may be funded through Cash Equivalents. In connection with any discussion in the Indenture of “moneys” on deposit in or held for the credit of the Mortgage Reserve Fund, “moneys” will be deemed to include said Cash Equivalents.

### ***Redemption Fund***

Amounts credited to the Redemption Fund, as directed by or pursuant to the Indenture, will be used for the purchase or redemption of Bonds pursuant to the Indenture and the related Supplemental Indenture. In addition, the Trustee will, to the extent amounts are insufficient in the Debt Service Fund to pay principal of or interest on the Bonds when due, transfer (after transferring amounts in any capitalized interest account established in connection with a Supplemental Indenture, but prior to amounts in the Debt Service Reserve Fund and Mortgage Reserve Fund) moneys from the Redemption Fund (for which notice of redemption has not been given) to the Debt Service Fund to pay principal of or interest on the Bonds.

Interest and other income from the investment or deposit of amounts in the Redemption Fund will be immediately transferred by the Trustee to the Revenue Fund upon receipt thereof.

### ***Operating Fund***

Moneys in the Operating Fund may, at the option of the Issuer, be withdrawn from time to time for the purpose of paying the Operating Fee and, when so withdrawn and paid out, will be free and clear of any lien or pledge created by the Indenture.

### ***Rebate Fund***

Amounts deposited and held in the Rebate Fund will not be subject to the pledge of the Indenture; however, such amounts are held for public purposes and are necessary in order to comply with Section 148 of the Code, and therefore, such amounts are pledged under the Indenture, subject only to any withdrawals permitted by the Issuer pursuant to the Indenture, to the United States of America to the extent required to make any payments pursuant to Section 148 of the Code and pursuant to any no arbitrage certificate delivered by the Issuer in connection with the issuance of any Series of Bonds. Investment earnings on any moneys in the Rebate Fund will be retained therein.

The Trustee will establish in the Rebate Fund a separate account for the Outstanding Bonds of each Series (each such account herein referred to as a “Series Rebate Account”).

If permitted by the Code, at such periodic intervals as the Issuer, in a Certificate of an Authorized Officer, will direct, the Issuer may withdraw from the related Series Rebate Account in the Rebate Fund and transfer to the Revenue Fund moneys in excess of the amount required to be deposited in the Rebate Fund pursuant to the most recent arbitrage rebate computation.

The Issuer will, in accordance with the requirements of Section 148 of the Code, pay over moneys in the Rebate Fund to the United States of America. To the extent that moneys in the Rebate Fund are not withdrawn pursuant to provisions of the Indenture, moneys in the Rebate Fund will be withdrawn by the Issuer for disbursement to the United States of America, at such times and in such amounts as will be determined by the Issuer in accordance with the requirements of the Code.

### ***Capitalized Interest Fund***

The Trustee will establish in the Capitalized Interest Fund a separate account for any Series of Bonds issued under the Indenture if so directed in a Supplemental Indenture (each such account is referred to in the Indenture as a “Series Capitalized Interest Account”). There will be deposited in any Series Capitalized Interest Account, the amount specified in any Supplemental Indenture. The Trustee will transfer moneys from any Series Capitalized Interest Account to the Debt Service Fund, the Debt Service Reserve Fund, the Mortgage Reserve Fund, the Redemption Fund, and the Operating Fund to fund any deficiencies in such funds as provided in the Indenture.

Interest and other income from the investment or deposit of amounts in the Capitalized Interest Fund will, unless otherwise directed in a Certificate of an Authorized Officer, be immediately transferred by the Trustee to the Revenue Fund upon receipt thereof.

### ***Issuance Expense Fund***

There will be deposited in the Issuance Expense Fund any amount as directed pursuant to any Supplemental Indenture. The Trustee will apply moneys in the Issuance Expense Fund to pay Issuance Expenses. The Trustee may also apply moneys in the Issuance Expense Fund to fund any deficiencies in the Operating Fund pursuant to the Indenture.

Upon payment of all Issuance Expenses, as reflected in a Certificate of an Authorized Officer, amounts in the Issuance Expense Fund will be transferred to the Revenue Fund.

Interest and other income from the investment or deposit of amounts in the Issuance Expense Fund will, unless otherwise directed in a Certificate of an Authorized Officer or pursuant to a Supplemental Indenture, be immediately transferred by the Trustee to the Revenue Fund upon receipt thereof.

### ***Surplus Fund***

There will be deposited in the Surplus Fund any amounts as provided in the Indenture. Moneys, if any, in the Surplus Fund may be withdrawn and transferred, as directed by a

Supplemental Indenture or in a Certificate of an Authorized Officer, to any other Fund or Account under the Indenture or, subject to certain provisions of the Indenture, to the Issuer, free and clear of the lien and pledge created by the Indenture for any purpose authorized by the Act.

Interest and other income from the investment or deposit of amounts in the Surplus Fund will, unless otherwise directed in a Certificate of an Authorized Officer, be immediately transferred by the Trustee to the Revenue Fund upon receipt thereof.

### ***Payment of Bonds***

The Issuer shall duly and punctually pay or cause to be paid (but solely from amounts pledged under the Indenture) the principal amount of and interest on the Bonds, at the dates and places and in the manner mentioned in the Bonds, according to the true intent and meaning thereof, and will duly and punctually pay or cause to be paid (solely from amounts pledged under the Indenture) to the Trustee any part of any and all Sinking Fund Installments required pursuant to the Indenture and the related Supplemental Indentures.

### ***Purchase of Mortgage-Backed Securities; Purchase of Mortgage Loans***

In carrying out the Program, the Issuer will cause the Trustee to purchase, using proceeds from the Bonds of each Series, together with any other amounts deposited in the related Series Mortgage Loan Account, Mortgage-Backed Securities backed by Mortgage Loans and/or Mortgage Loans with such maturity dates, for such prices and at such rates of interest as will permit the Issuer, upon the sole determination of the Issuer, to pay the debt service on such Bonds in a manner consistent with the Act, the Indenture, the related Supplemental Indenture and any other documents by which the Issuer is bound.

No amounts which have been deposited in the Mortgage Loan Fund will be disbursed to finance, purchase or acquire any Mortgage-Backed Security or Mortgage Loan unless the Mortgage Loan (or Mortgage Loan underlying the Mortgage-Backed Security) meets the requirements of the applicable Program Agreements.

The Issuer will take whatever action is required by law from time to time to pledge the Mortgage-Backed Securities and the Mortgage Loans to the Trustee.

The Issuer warrants and covenants in the Indenture (i) that no Mortgage Loan or Mortgage-Backed Security backed by a Mortgage Loan will be financed by the Issuer under the Program *unless* the Mortgage Loan (or Mortgage Loan underlying the Mortgage-Backed Security) complies in all respects with the Act and (ii) to comply with any additional Program covenants contained in the Indenture and in any Supplemental Indenture.

The Issuer warrants and covenants that each Mortgage Loan will be a self-amortizing obligation which, to the extent set forth in the applicable Supplemental Indenture, will bear interest at a fixed or variable rate of interest and have level or variable debt service over its life.

The Issuer warrants and covenants that Mortgage Loans financed by a Series of Bonds must consist of one of the following (in each case, subject to any additional requirements imposed by the related Supplemental Indenture):

(i) Any Mortgage Loan insured under programs of the Federal Housing Administration under the National Housing Act of 1934, as amended;

(ii) Any Mortgage Loan guaranteed by the Department of Veterans Affairs pursuant to the Servicemen's Readjustment Act of 1944, as amended;

(iii) Any Mortgage Loan which has a loan-to-Value of the Property ratio no greater than 80%; or

(iv) Any Mortgage Loan which has a loan-to-Value of the Property ratio in excess of 80% as to which (1) Private Mortgage Insurance coverage thereof results in the uninsured portion of the principal amount thereof not exceeding 60% of the Value of the Property or (2) Private Mortgage Insurance coverage thereof results in the uninsured portion of the principal amount thereof not exceeding 72% of the Value of the Property and coverage thereof by Mortgage Pool Insurance.

The deed of trust or mortgage securing any Mortgage Loan is required to be executed and recorded in accordance with the requirements of existing laws and (except to the extent that a variance is required by an agency or instrumentality of the United States of America insuring or guaranteeing the payment of a Mortgage Loan):

(1) the deed of trust or mortgage will constitute and create a first lien, subject only to permitted encumbrances, on the real property or on the interest in the real property constituting a part of the residential housing with respect to which the Mortgage Loan secured thereby is made and on the fixtures acquired with the proceeds of the Mortgage Loan attached to or used in connection with such residential housing and will relate to housing owned on a cooperative or condominium basis to the extent set forth in the applicable Supplemental Indenture;

(2) the Mortgagor shall have warranted generally the title to the premises, subject to permitted encumbrances, and will execute such further assurances as may be requisite;

(3) the Mortgagor will enter into a binding agreement with or for the benefit of the Issuer that it will pay or escrow all taxes, assessments, water rates, sewer rents and municipal and other charges and fees and any prior liens at the time or thereafter assessed or liens on or levied against the premises or any part thereof, and in the case of default in the payment thereof when the same will be due and payable, it will be lawful for the Issuer without notice or demand to the Mortgagor, to pay the same or any of them; that the moneys paid by the Issuer in discharge of taxes, assessments, water rates, sewer rents and municipal, other charges and fees and prior liens will be a lien on the premises added to the amount of the Mortgage Loan and secured by a promissory note payable on demand with interest (at the rate applicable under the Mortgage Loan from and after maturity), from the time of payment of the same;

(4) the Mortgagor shall covenant and represent that it has insurable legal title in fee simple to the premises with respect to which the Mortgage Loan is made, subject to permitted encumbrances, and that the proceeds of the Mortgage Loan will be used solely

to pay the reasonable and necessary costs of the residential housing to be financed by such Mortgage Loan;

(5) the Mortgagor shall covenant that it will keep the buildings on the premises insured against loss by fire and other hazards as required by the Issuer to protect its interest with losses payable to the Issuer as its interest may appear and that the borrower will reimburse the Issuer or its agent for any insurance premiums paid by or on behalf of the Issuer on the borrower's default in so insuring the buildings;

(6) the Mortgagor shall covenant that it will maintain the premises in good condition and repair, will not commit or suffer any waste of the premises, and will comply with, or cause to be complied with, all statutes, ordinances and requirements of any governmental authority relating to the premises; and

(7) the Mortgagor shall covenant to obtain and maintain in force, at its sole expense, a mortgagee policy of title insurance (in standard American Land Title Association form as then in effect) issued by a title insurance company qualified to do business in the District and acceptable to the Issuer insuring the Issuer that the deed of trust is valid and enforceable and in the full amount of any advances made on the Mortgage Loan, including, when applicable, any increases in the amount thereof.

The Issuer may sell any Mortgage Loan held under the Indenture to realize the benefits of mortgage insurance or guaranty, or to replace or dispose of defective Mortgage Loans or for any other reason deemed appropriate by the Issuer.

Notwithstanding the foregoing, a Mortgage Loan may be financed under the Indenture which does not meet one or more of the criteria set forth above, provided that the financing of such Mortgage Loan will not adversely affect the then current Rating on the Bonds.

The Trustee may rely on a Certificate of an Authorized Officer or Mortgage Lender as evidence that the provisions of the Indenture have been satisfied with respect to any Mortgage Loan.

### ***Enforcement of Mortgage-Backed Securities; Mortgage Loans and Program Agreements***

The Issuer will diligently enforce and take all reasonable steps, actions and proceedings necessary for the enforcement of all terms, covenants and conditions of all Mortgage-Backed Securities, Mortgage Loans and the Program Agreements, including the prompt payment of all payments and all other amounts due the Issuer under the Indenture. The Issuer will not, without good cause, release the obligations of any Mortgagor under any Mortgage Loan, Mortgage-Backed Security or any Mortgage Lender or Servicer under any Program Agreement, except as expressly provided therein and will, at all times, to the extent permitted by law, defend, enforce, preserve and protect the rights and privileges of the Issuer and of the Bondholders under or with respect to each Mortgage-Backed Security and Mortgage Loan and the Program Agreements, provided that this provision will not be construed to prevent the Issuer from (i) settling a default thereof on any Mortgage Loan or Mortgage-Backed Security on such terms as the Issuer determines to be in the best interests of the Issuer and the Bondholders or (ii) releasing any Mortgagor from, or waiving, any of such Mortgagor's obligations under the



respective Mortgage Loan to the extent necessary to preserve the tax-exempt status of the Bonds or as otherwise authorized in a Supplemental Indenture.

***Amendment of Mortgage Loans; Disposition of Mortgage Loans and Mortgage-Backed Securities***

The Issuer will not consent to or agree to or permit any amendment or modification of any Mortgage Loan which will in any manner impair or materially adversely affect the rights or security of the Bondholders or the Trustee under the Indenture. In determining whether any amendment or modification will in any manner impair or materially adversely affect the rights or security of the Bondholders or the Trustee under the Indenture, the Issuer may rely on a Counsel's Opinion.

The Issuer may at any time, consistent with the other provisions of the Indenture, sell, transfer, assign, dispose of or otherwise release from the lien of the Indenture a Mortgage Loan or Mortgage-Backed Security:

(a) in order to realize the benefit of any insurance or guarantee with respect to such Mortgage Loan or Mortgage-Backed Security or any covenant of a Mortgage Lender or Servicer under any Program Agreement;

(b) in order to provide funds for the redemption or purchase of a principal amount of Bonds corresponding to the unpaid principal amount of such Mortgage Loan or Mortgage-Backed Security, if a Cash Flow Statement will be filed with the Trustee giving effect to the proposed sale thereof and the application of the proceeds of such sale; provided, however, that no such certificate will be necessary if all Outstanding Bonds are simultaneously defeased pursuant to the Indenture;

(c) upon payment in full of such Mortgage Loan or Mortgage-Backed Security; or

(d) as otherwise provided in the Indenture.

The Issuer may also sell any Mortgage, Mortgage-Backed Security or other obligation evidencing or securing a Mortgage Loan made or purchased by the Issuer if it is necessary for the Issuer to take such action in order to maintain the tax exemption on any Series of Bonds pursuant to the Code.

***Tax Covenants***

The tax covenants of the Issuer contained in the Indenture will apply only to the Bonds as to which the related Supplemental Indenture determines that interest thereon will be excludable from gross income for federal income tax purposes. The Issuer will take no action which may cause interest on the Bonds to be included in gross income for federal income tax purposes and will at all times do and perform all acts and things permitted by law and necessary or desirable in order to assure that interest paid by the Issuer on the Bonds will not be includable in gross income for federal income tax purposes.

The Issuer covenants and certifies in the Indenture to and for the benefit of the owners of the Bonds from time to time Outstanding that so long as any of the Bonds remain Outstanding, moneys on deposit in any Fund or Account in connection with the Bonds, whether or not such moneys were derived from the proceeds of the sale of the Bonds or from any other sources, will not be used in a manner which will cause the Bonds to be classified as “arbitrage bonds” within the meaning of Sections 143 and 148 of the Code. Pursuant to such covenant, the Issuer obligates itself, to the extent permitted by law, to comply throughout the term of the issue of the Bonds with the requirements of Sections 143 and 148 of the Code.

The Issuer shall require that any person (or any “related person” as defined in Section 144(a)(3) of the Code) who receives financing through a Mortgage Loan will not, pursuant to an arrangement, formal or informal, purchase Bonds in an amount related to the amount of such Mortgage Loan so financed. In the event that at any time the Issuer is of the opinion that for purposes of this subsection it is necessary to restrict or limit the yield on the investment of any moneys held by the Trustee under the Indenture, the Issuer will so direct the Trustee in writing. The Trustee is required in the Indenture to take such action as may be necessary in accordance with such instructions and is deemed to be in compliance with the Indenture to the extent it follows such instructions.

The Issuer will in good faith attempt to meet all the requirements of the Code, which relate to the eligibility of the Mortgage Loans or Mortgage Loans underlying the Mortgage-Backed Securities before the Mortgage-Backed Securities or Mortgage Loans are acquired. The Issuer will establish reasonable procedures to ensure compliance with such requirements. Such procedures will include reasonable investigations by the Issuer, the Servicer or the Mortgage Lenders to determine that the Mortgage Loans satisfy such requirements. The Issuer requires that a Mortgage Loan may be assumed only if it has been determined that the conditions for assumption of such Mortgage Loan as set forth in provisions of the Code and the Program Agreements are satisfied and the assumption has been approved by the Issuer. Any failure of a Mortgage Loan, the Residence financed thereby or the Mortgagor(s) with respect thereto to meet such requirements will be corrected within a reasonable period after such failure is discovered. The Issuer will in good faith attempt to meet, and take all reasonable steps to assure compliance with, the requirements of Section 143(g) and (h) of the Code.

The Issuer will provide that at least 95% of all the Bond proceeds will be used for one or more of the following purposes: (i) to pay the principal or interest or otherwise to service the debt on the Bonds; (ii) to reimburse the Issuer, or to pay for administrative costs of issuing the Bonds; (iii) to reimburse the Issuer, or to pay for administrative and other costs and anticipated future losses directly related to the Program; (iv) to finance additional loans (including through the purchase of Mortgage-Backed Securities) for the same general purposes specified in the Program; or (v) to redeem and retire the Bonds at the next earliest possible date of redemption.

### ***Accounts and Reports***

Pursuant to the Indenture, the Trustee is required to keep proper books of record and account in which complete and accurate entries will be made of all its transactions relating to the Program and all Funds and Accounts established by or pursuant to the Indenture or any Supplemental Indenture, which will at all reasonable times be subject to the inspection of the Issuer or of the holders (or beneficial owners if their names and addresses have been filed with

the Trustee for such purposes) of an aggregate of not less than 5% in principal amount of Bonds then Outstanding or their representatives duly authorized in writing.

### ***Discharge of Lien***

If the Issuer will pay or cause to be paid, or there will otherwise be paid or provision for payment made, to the holders of the Bonds the principal amount of, premium, if any, and interest due or to become due thereon at the times and in the manner provided in the Indenture, then unless there will be delivered to the Trustee a certificate of an Authorized Officer to the contrary, the presents and the estate and rights granted in the Indenture will cease, determine and be void, whereupon the Trustee will cancel and discharge the lien of the Indenture, and execute and deliver to the Issuer such instruments in writing as will be requisite to release the lien of the Indenture, and reconvey, release, assign and deliver unto the Issuer any and all the estate, right, title and interest in and to any and all rights or property assigned or pledged to the Trustee or otherwise subject to the lien of the Indenture, except cash held by the Trustee or any Paying Agent for the payment of the principal amount of, premium, if any, and interest on any Series of Bonds.

Any Bond will be deemed to be paid within the meaning of the Indenture and for all purposes of the Indenture and any Supplemental Indenture when payment of the principal amount of and premium, if any, on such Bond, plus interest thereon to the due date thereof (whether such due date is by reason of maturity or upon redemption as provided in the Indenture), either (a) will have been made or caused to be made in accordance with the terms thereof or (b) will have been provided by irrevocably depositing with the Trustee, in trust and irrevocably set aside exclusively for such payment (1) moneys sufficient to make such payment and/or (2) Government Obligations (which may be subject to redemption prior to maturity only if such terms of redemption do not adversely affect the Rating Quality of the Bonds) maturing as to principal and interest in such amount and at such time as will ensure the availability of sufficient moneys to make such payment. At such times as a Bond will be deemed to be paid under the Indenture, as aforesaid, it will no longer be secured by or entitled to the benefits of the Indenture, except for the purposes of any such payment from such moneys or Government Obligations.

Notwithstanding the foregoing, no deposit under clause (b) of the immediately preceding paragraph will be deemed a payment of such Bonds as aforesaid until the earlier of: (I) proper notice of redemption of such Bonds will have been previously given in accordance with the Indenture, or in the event said Bonds are not by their terms subject to redemption within the next succeeding 60 days, until the Issuer will have given the Trustee, in form satisfactory to the Trustee, irrevocable instructions to notify, as soon as practicable, the holders or owners of the Bonds, in accordance with the Indenture, that the deposit required by (b) above has been made with the Trustee and that said Bonds are deemed to have been paid in accordance with the Indenture and stating such maturity or redemption date upon which moneys are to be available for the payment of the principal amount or redemption price, if applicable, on said Bonds; or (II) the maturity of such Bonds.

Notwithstanding the foregoing, in the case of Bonds which by their terms may be redeemed prior to their stated maturity, no deposit under the immediately preceding paragraph will be deemed a payment of such Bonds as aforesaid until the Issuer will have given the Trustee, in form satisfactory to the Trustee, irrevocable instruction: (i) stating the date when the principal amount (and premium, if any) of each such Bond is to be paid, whether at maturity or

on a redemption date; (ii) to call for redemption pursuant to the Indenture (and at such times as notice thereof may be given in accordance with the Indenture) any Bonds to be redeemed prior to maturity pursuant to (I) above; and (iii) to mail, as soon as practicable, in the manner prescribed by the Indenture, a notice to the holders of such Bonds and to the Rating Agency that the deposit required by (b) above has been made with the Trustee and that said Bonds are deemed to have been paid in accordance with the Indenture and stating the maturity or redemption date upon which moneys are to be available for the payment of the principal amount or redemption price, if applicable, on said Bonds as specified in (I) above and, if a maturity date is stated, whether or not such Bonds continue to be subject to redemption.

All moneys so deposited with the Trustee as provided in the Indenture may at the direction of the Issuer also be invested and reinvested in Government Obligations, maturing in the amounts and times as set forth in the Indenture, and all income from all Government Obligations in the hands of the Trustee pursuant to the Indenture which is not required for the payment of the Bonds and interest and premium, if any, thereon with respect to which such moneys will have been so deposited will be deposited in the Revenue Fund as and when realized and collected for such an application as are other moneys deposited in such Fund.

Anything in the Indenture to the contrary notwithstanding, all moneys or Government Obligations set aside and held in trust pursuant to the provisions of the Indenture for the payment of Bonds (including interest and premium thereon, if any) will be applied to and used solely for the payment of the particular Bonds (including interest and premium thereof, if any) with respect to which such moneys and Government Obligations have been so set aside in trust.

Anything in the Indenture to the contrary notwithstanding, if moneys or Government Obligations have been deposited or set aside with the Trustee pursuant to the Indenture for the payment of Bonds and such Bonds will not have in fact been actually paid in full, no amendment to the provisions of the Indenture will be made without the consent of the holder of each Bond affected thereby.

### ***Events of Default***

Each of the following will constitute an event of default under the Indenture and is therein called an “Event of Default”:

(a) Interest on any of the Bonds is not paid by the Issuer on any date when due or the principal of any Bonds is not paid by the Issuer at maturity or the redemption price of any Bond is not paid by the Issuer at a Redemption Date at which such Bonds have been called for redemption;

(b) If there is a default in the performance or observance of any other of the covenants, agreements or conditions on the part of the Issuer in the Indenture, in any Supplemental Indenture or in the Bonds contained, and such default is not remedied after notice thereof pursuant to the Indenture;

(c) If the Issuer files a petition seeking relief under the federal bankruptcy laws or under any other applicable law or statute of the United States of America or of the District; or

(d) If the District has limited or altered the rights of the Issuer pursuant to the Act, as in force on the date of the Indenture, to fulfill the terms of any agreements made with the holders of Bonds or in any way impaired the rights and remedies of holders of Bonds while any Bonds are Outstanding.

If the Issuer determines that an Event of Default has occurred under sections (b), (c) or (d) above, the Issuer will promptly notify the Trustee thereof.

Upon the occurrence of an Event of Default as set forth above and of which the Trustee has knowledge or has been provided a notice from the Issuer regarding an Event of Default, and upon the cure, if any, of any such Event of Default, in either case, the Trustee will provide written notice thereof to the Issuer and the holders of the Bonds outstanding (and each beneficial owner who has filed a written notice with the Trustee requesting the same) within 10 days of receiving such notice or learning of the Event of Default or the occurrence of such Event of Default.

### ***Remedies; Rights of Bondholders***

Upon the occurrence of an Event of Default, the Trustee may pursue any available remedy under the Act, at law or in equity, to enforce the payment of the principal and interest on the Bonds then Outstanding, including, without limitation, the following:

(a) The Trustee may declare the principal amount of all Bonds Outstanding and the interest accrued thereon to be immediately due and payable, whereupon such principal amount and interest will thereupon become immediately due and payable, if an Event of Default pursuant to clause (a) under “Events of Default” above has occurred;

(b) The Trustee will have full power and authority to take such action with respect to the Mortgage-Backed Securities and Mortgage Loans assigned by the Indenture as the Trustee will deem necessary or appropriate, subject only to the terms of such Mortgage-Backed Securities and Mortgage Loans;

(c) The books of record and account of the Issuer and all records relating to the Program will at all times be subject to the inspection and use of the Trustee and of its agents and attorneys; and

(d) The Issuer, whenever the Trustee will demand, will account as if it were the trustee of an express trust for all Revenues and other money, securities and Funds and Accounts pledged or held under the Indenture for such period as will be stated in such demand.

If an Event of Default will have occurred and, if requested so to do by the holders of not less than 25% in aggregate principal amount of Bonds then Outstanding and indemnified as provided in the Indenture, the Trustee will be obligated to exercise one or more of the rights and powers conferred by the Indenture, as the Trustee, being advised by counsel, will deem most expedient in the interests of the Bondholders.

No remedy by the terms of the Indenture conferred upon or reserved to the Trustee or to the Bondholders is intended to be exclusive of any other remedy, but each and every such

remedy will be cumulative and will be in addition to any other remedy given to the Trustee or to the Bondholders under the Indenture or now or hereafter existing at law or in equity or by statute.

No delay or omission to exercise any right or power accruing upon any default or Event of Default will impair any such right or power or will be construed to be a waiver of any such default or Event of Default or acquiescence therein; and every such right and power may be exercised from time to time as often as may be deemed expedient.

No waiver of any default or Event of Default under the Indenture, whether by the Trustee or by the Bondholders, will extend to or will affect any subsequent default or Event of Default or will impair any rights or remedies consequent thereon.

### ***Right of Bondholders To Direct Proceedings***

Anything in the Indenture to the contrary notwithstanding, the holders of a majority in aggregate principal amount of Bonds then Outstanding will have the right, at any time, by an instrument or instruments in writing executed and delivered to the Trustee, to direct the method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of the Indenture, or for the appointment of a receiver or any other proceedings under the Indenture, provided that the Trustee will be indemnified as provided in the Indenture and that such direction will not be otherwise than in accordance with the provisions of law and of the Indenture.

### ***Appointment of Receivers***

Upon the occurrence of an Event of Default, and upon the filing of a suit or other commencement of judicial proceedings to enforce the rights of the Trustee and of the Bondholders under the Indenture, the Trustee will be entitled, as a matter of right, to the appointment of a receiver or receivers of the Trust Estate and of the revenues, issues, earnings, income, products and profits thereof, pending such proceedings, with such powers as the court making such appointment will confer.

### ***Application of Moneys***

All moneys received by the Trustee pursuant to any right given or action taken under the Indenture will (in the case of a default in the payment of principal of or interest on the Bonds when due as described in the Indenture, after payment of the costs and expenses of the proceedings resulting in the collection of such moneys and of the expenses, liabilities and advances incurred or made by the Trustee and of any Program expenses necessary to maintain the security for the Bonds) be deposited in the Debt Service Fund and all moneys in the Debt Service Fund (other than moneys held for redemption of Bonds duly called for redemption) will be applied as follows:

- (a) Unless the principal amount of all the Bonds has become or been declared due and payable, all such moneys will be applied:

*FIRST:* To the payment to the persons entitled thereto of all interest then due on the Bonds, in the order of the maturity of such interest and, if the amount available will not be sufficient to pay in full said amount, then to the payment

ratably, according to the amounts due to the persons entitled thereto, without any discrimination or privilege;

*SECOND:* To the payment to the persons entitled thereto of the unpaid principal amount of any of the Bonds which will have become due (other than Bonds matured or called for redemption for the payment of which moneys are held pursuant to the Indenture), in the order of their due dates, with interest on such Bonds from the respective dates upon which they became due at the rate borne by the Bonds and, if the amount available will not be sufficient to pay in full Bonds due on any particular date, together with such interest, then to the payment ratably, according to the amount of principal due on such date, to the persons entitled thereto without any discrimination or privilege; and

*THIRD:* To be held for the payment to the persons entitled thereto as the same will become due of the principal amount of and interest on the Bonds which may thereafter become due either at maturity or upon call for redemption prior to maturity and, if the amount available will not be sufficient to pay in full Bonds due on any particular date, together with interest then due and owing thereon, payment will be made ratably according to the amount of principal due on such date to the persons entitled thereto without any discrimination or privilege.

(b) If the principal amount of all the Bonds will have become or will have been declared due, all such moneys will be applied to the payment of the principal amount and interest then due and unpaid upon the Bonds, without preference or priority of principal amount over interest or of interest over principal amount, or of any installment of interest over any other installment of interest, or of any Bond over any other Bond, ratably, according to the amounts due respectively for principal amount and interest, to the persons entitled thereto without any discrimination or privilege.

(c) If the principal amount of all the Bonds will have been declared due and payable, and if such declaration will thereafter have been rescinded and annulled under the Indenture then, subject to the provisions of the preceding subsection (b) above in the event that the principal amount of all the Bonds will later become due or be declared due and payable, the moneys will be applied in accordance with the provisions of the preceding subsection (a) above.

Whenever moneys are to be applied pursuant to the Indenture, such moneys will be applied at such times, and from time to time, as the Trustee will determine, having due regard to the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future. Whenever the Trustee will apply such funds, it will fix the date (which will be an Interest Payment Date unless it will deem another date more suitable) upon which such application is to be made and upon such date interest on the principal amount to be paid on such dates will cease to accrue. The Trustee will give such notice as it may deem appropriate of the deposit with it of any such moneys and of the fixing of any such date, and will not be required to make payment to the holder of any Bond until such Bond will be presented to the Trustee for appropriate endorsement or for cancellation if fully paid.

Whenever all principal amounts of and interest on all Bonds have been paid under the Indenture and all fees, expenses and charges of the Trustee and any Paying Agent have been paid, any balance remaining in the Debt Service Fund will be paid to the Issuer.

### ***Remedies Vested in Trustee***

All rights of action (including the right to file proof of claims) under the Indenture or under any of the Bonds may be enforced by the Trustee without the possession of any of the Bonds or the production thereof in any trial or other proceeding related thereto and any such suit or proceeding instituted by the Trustee is required to be brought in its name as the Trustee without the necessity of joining as plaintiffs or defendants any holders of the Bonds, and any recovery of judgment will be for the equal and ratable benefit of the holders of the Outstanding Bonds.

### ***Rights and Remedies of Bondholders***

No holder of any Bond will have any right to institute any suit, action or proceeding at law or in equity for the enforcement of the Indenture or for the execution of any trust thereof or for the appointment of a receiver or any other remedy under the Indenture, unless (1) a default has occurred of which the Trustee has been notified as provided in the Indenture, or of which by the terms of the Indenture it is deemed to have notice, (2) such default will have become an Event of Default and the owners of not less than 50% in aggregate principal amount of Bonds then Outstanding or, if such Event of Default is an Event of Default described in clause (a) of "Events of Default" above, by the owners of not less than 50% in aggregate principal amount of Bonds then Outstanding of the Series with respect to which such Event of Default has happened, will have given written notice to the Trustee and will have offered it reasonable opportunity either to proceed to exercise the powers granted in the Indenture or to institute such action, suit or proceeding in their own name or names, (3) such Bondholders have offered to the Trustee indemnity as provided in the Indenture, and (4) the Trustee will thereafter fail or refuse to exercise the powers granted in the Indenture, or to institute such action, suit or proceeding in its own name; and such notification, request and offer of indemnity are declared in every case at the option of the Trustee to be conditions precedent to the execution of the powers and trusts of the Indenture, and to any action or cause of action for the enforcement of the Indenture, or for the appointment of a receiver or for any other remedy under the Indenture; it being understood and intended that no one or more holders of the Bonds will have any right in any manner whatsoever to affect, disturb or prejudice the lien of the Indenture by his action or to enforce any right under the Indenture except in the manner therein provided, and that all proceedings at law or in equity will be instituted, had and maintained in the manner therein provided and for the equal and ratable benefit of the holders of all Bonds then Outstanding, subject to the provisions of the Indenture. However, nothing contained in the Indenture will affect or impair the right of any Bondholders to enforce the payment of the principal of and interest on any Bond at and after the maturity thereof, or the obligation of the Issuer to pay the principal of and interest on each of the Bonds issued under the Indenture to the respective holders thereof at the time, place, from the source and in the manner in the Bonds expressed.

### ***Termination of Proceedings***

In case the Trustee will have proceeded to enforce any right under the Indenture by the appointment of a receiver or otherwise, and such proceedings will have been discontinued or



abandoned for any reason, or will have been determined adversely, then and in every such case the Issuer, the Trustee and the Bondholders will be restored to their former positions and rights under the Indenture, respectively, with regard to the property therein subject to the Indenture, and all rights, remedies and powers of the Trustee will continue as if no such proceedings had been taken.

### ***Waivers of Events of Default***

The Trustee may at its discretion waive any Event of Default under the Indenture and its consequences, and will do so upon the written request of the holders of (a) more than 66-2/3% in aggregate principal amount of all the Bonds then Outstanding in respect of which default in the payment of principal amount or interest, or both, exists or (b) more than 50% in aggregate principal amount of all Bonds then Outstanding in the case of any other default; provided, however, that there will not be waived (1) any Event of Default in the payment of the principal amount of any Outstanding Bonds at the date of maturity or sinking fund redemption date specified therein or (2) any default in the payment when due of the interest on any such Bonds unless, prior to such waiver or rescission, all arrears of interest or all arrears of payments of principal amount when due, as the case may be, with interest on overdue principal at the rate borne by the Bonds, and all fees and expenses of the Trustee in connection with such default will have been paid or provided for, and in case of any such waiver or rescission, or in case any proceedings taken by the Trustee on account of any such default will have been discontinued or abandoned or determined adversely, then and in every such case the Issuer, the Trustee and the Bondholders will be restored to their former positions and rights under the Indenture, respectively, but no such waiver or rescission will extend to any subsequent or other default, or impair any right consequent thereon.

### ***Notice of Defaults; Opportunity of the Issuer To Cure Such Defaults***

Anything in the Indenture to the contrary notwithstanding, no default under clause (b) of “Events of Default” above shall constitute an Event of Default under the Indenture until actual notice of such default by first class mail (postage prepaid) will be given to the Issuer by the Trustee or by the holders of not less than 25% in aggregate principal amount of all Bonds Outstanding and the Issuer will have had 60 days after receipt of such notice to correct said default or cause said default to be corrected, and will not have corrected said default or caused said default to be corrected within the applicable period; provided, however, if said default be such that it cannot be corrected within the applicable period, it will not constitute an Event of Default if corrective action is instituted by the Issuer within the applicable period and diligently pursued until the default is corrected.

### ***Supplemental Indentures Effective upon Filing***

For any one or more of the following purposes and at any time or from time to time, a supplemental indenture of the Issuer supplementing the Indenture may be adopted, which supplemental indenture, upon filing with the Trustee of a copy thereof certified by an Authorized Officer, shall be fully effective in accordance with its terms:

- (a) to close the Indenture against, or provide limitations and restrictions in addition to the limitations and restrictions contained in the Indenture on, the delivery of Bonds or the issuance of other evidences of indebtedness;

(b) to authorize Bonds of a Series and, in connection therewith, specify and determine the matters and things referred to in the Indenture, and also any other matters and things relative to such Bonds which are not contrary to or inconsistent with the Indenture as theretofore in effect, or to amend, modify or rescind any such authorization, specification or determination at any time prior to the first delivery of such Bonds;

(c)(i) to add to the covenants or agreements of the Issuer in the Indenture other covenants or agreements to be observed by the Issuer which are not contrary to or inconsistent with the Indenture as theretofore in effect or (ii) to make any change which, in the judgment of the Trustee (in reliance upon evidence that such change will not adversely affect the Rating Quality of the Bonds), is not to the material prejudice of the Bondholders;

(d) to add to the limitations or restrictions in the Indenture other limitations or restrictions to be observed by the Issuer which are not contrary to or inconsistent with the Indenture as theretofore in effect;

(e) to surrender any right, power or privilege reserved to or conferred upon the Issuer by the Indenture;

(f) 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 any other money, securities, Funds or Accounts; and

(g) to modify any of the provisions of the Indenture in any respect whatever, provided that (i) such modifications shall be, and be expressed to be, effective only after all Bonds of any Series Outstanding at the date of the adoption of such Supplemental Indenture shall cease to be Outstanding and (ii) such Supplemental Indenture shall be specifically referred to in the text of all Bonds of any Series delivered after the date of the adoption of such Supplemental Indenture and of Bonds issued in exchange therefor or in place thereof.

### ***Supplemental Indentures Effective upon Consent of Trustee***

For any one or more of the following purposes and at any time or from time to time, a supplemental indenture, amending or supplementing the Indenture, may be approved and entered into by the Issuer, which, upon (i) filing with the Trustee of a copy thereof certified by an Authorized Officer and (ii) filing with the Trustee and the Issuer of an instrument in writing made by the Trustee consenting to such supplemental indenture, shall be fully effective in accordance with its terms:

(a) to cure any ambiguity, supply any omission or cure or correct any defect or inconsistent provision in the Indenture; or

(b) to insert such provisions clarifying matters or questions arising under the Indenture as are necessary or desirable and are not contrary to or inconsistent with the Indenture as theretofore in effect.

### ***Supplemental Indentures Requiring Consent of Bondholders***

Exclusive of supplemental indentures covered above, the Indenture provides that (i) the holders of not less than two-thirds in aggregate principal amount of the Bonds then Outstanding at the time such consent is given and (ii) in case less than all of the several Series of Bonds then Outstanding are affected by the modification or amendment, the holders of not less than two-thirds in aggregate principal amount of the Bonds of the particular Series Outstanding affected at the time such consent is given shall have the right, from time to time, anything contained in the Indenture to the contrary notwithstanding, to consent to and approve the execution by the Issuer and the Trustee of such indentures supplemental to the Indenture as shall be deemed necessary and desirable by the Trustee for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Indenture or in any supplemental indentures. Nothing shall permit, or be construed as permitting, without the consent of the holders of all Bonds Outstanding, (a) an extension of the maturity or mandatory sinking fund redemption date of the principal or of the time for payment of the interest on any Bond issued under the Indenture, (b) a reduction in the principal amount of any Bond or the rate of interest (except as otherwise provided in a Supplemental Indenture), or sinking fund redemption requirements, thereon, (c) a privilege or priority of any Bond or Bonds over any other Bond or Bonds, (d) a reduction in the aggregate principal amount of the Bonds required for consent to such supplemental indenture, (e) the creation of any lien other than a lien ratably securing all of the Bonds at any time outstanding under the Indenture, or (f) any modification of the trusts, powers, rights, obligations, duties, remedies, immunities and privileges of the Trustee without the written consent of the Trustee.

For the purposes of the paragraph above, Bonds of any particular Series shall be deemed to be affected by a modification or amendment of the Indenture if the same adversely affects or diminishes the rights of the holders of Bonds of such Series. The Trustee, relying upon Counsel's opinion, may determine whether or not, in accordance with the foregoing powers of amendment, Bonds of any particular Series or maturity would be affected by a modification or amendment of the Indenture, and any such determination shall be binding and conclusive on the Issuer and all holders of Bonds.

### ***Modifications by Unanimous Consent***

The Indenture and the rights and obligations of the Issuer and the holders of the Bonds, in any particular, may be modified or amended in any respect upon the execution by the Issuer and filing in accordance with the provisions of the Indenture of a supplemental indenture of the Issuer making such modification or amendment and the consent to such supplemental indenture by the holders of all of the Bonds then Outstanding, such consent to be given and proved as provided in the Indenture; provided, however, that no such modification or amendment shall change or modify any of the rights or obligations of the Trustee without the Trustee's written assent thereto.

In addition, the Issuer may enter into an agreement with any Bondholder restricting one or more rights of such Bondholder, provided that such agreement shall affect only such Bondholder (or assigns), and such agreement shall not grant such Bondholder any rights or privileges not afforded other Bondholders.

### ***Investment of Funds and Accounts Held by the Trustee***

Except as otherwise provided in the Indenture or any Supplemental Indenture, the Issuer may direct the Trustee to invest, and in the absence of such direction the Trustee will invest, moneys in the Funds and Accounts held by the Trustee in Permitted Investments subject to the maturity or redemption or repayment on a date at the option of the holder of which shall not exceed the earlier of 180 days or the date or dates on which moneys in said Fund or Account for which the investments were made are expected to be required for the purposes provided in the Indenture. The Trustee agrees to take such actions, including, but not limited to, the giving of timely notices for payment, as required pursuant the terms of any Permitted Investment or any guarantee related thereto.

Obligations purchased as an investment of moneys in any Fund or Account held by the Trustee under the provisions of the Indenture will be deemed at all times to be a part of such Fund or Account (and of each Series subaccount thereof), and except as otherwise expressly provided in the Indenture, the income or interest earned by, or the increment to, a Fund or Account (other than the Rebate Fund, Debt Service Reserve Fund and Mortgage Reserve Fund) due to the investment thereof shall be transferred to the Revenue Fund as received. Amounts representing the income or interest earned by, or the increment to, the Debt Service Reserve Fund and the Mortgage Reserve Fund due to the investment thereof shall be transferred to the Revenue Fund only if directed by an Authorized Officer of the Issuer. Moneys in separate Funds and Accounts may be commingled for the purpose of investment or deposit, subject to instructions from an Authorized Officer, to the extent possible in conformity with the provisions of the Indenture.

In computing the amount in the Debt Service Reserve Fund and the Mortgage Reserve Fund under the provisions of the Indenture, obligations purchased by the Trustee or transferred by the Issuer to the Trustee as an investment of moneys therein shall be valued at the Amortized Cost. In computing the amount in any other Fund or Account held by the Trustee under the provisions of the Indenture, obligations purchased by the Trustee or transferred by the Issuer to the Trustee as an investment of moneys therein shall be valued at the lower of cost or market price thereof, except that market securities covered by repurchase agreements or with a maturity of one year or less shall be valued at market price. Where market prices for obligations held by the Trustee are not readily available, the Trustee may determine the market price for such obligations in such manner as it deems reasonable. To the extent that moneys are invested pursuant to an Investment Agreement, such Investment Agreement shall be valued at par.

The Trustee shall sell outright or pursuant to a repurchase agreement at the best price obtainable, or present for redemption, any obligation purchased by it as an investment whenever it shall be necessary in order to provide moneys to meet any payment or transfer from the Fund or Account for which such investment was made or as otherwise directed by the Issuer. When transferring moneys from one Fund or Account to another, investments need not be liquidated, and all or a portion of such invested moneys may be credited to a particular Fund or Account from another. The Trustee shall check the accuracy of all calculations of investment earnings on all Permitted Investments.

At the direction of an Authorized Officer of the Issuer, the Trustee may sell Permitted Investments and purchase any Permitted Investments in exchange therefor.

### ***Compensation of Fiduciary***

Each Fiduciary shall be entitled to, from time to time, reasonable compensation for services rendered by it under the Indenture and also reimbursement for all its reasonable expenses, charges, legal fees and other disbursements and those of its attorneys, agents and employees, incurred in and about the performance of its powers and duties under the Indenture, provided that any such compensation or reimbursement shall be payable solely as described in the Indenture and any Supplemental Indenture and shall be limited, except in an Event of Default, to such amounts which shall be payable at such times as shall be set forth in a Supplemental Indenture. In an Event of Default under the Indenture, but only upon an Event of Default, each Fiduciary shall have a lien for its compensation and expenses on any and all funds at any time held by it under the Indenture in the priority described in the Indenture.

### ***Resignation and Removal of Fiduciary***

The Fiduciary, or any successor thereof, may at any time resign and be discharged of its duties and obligations created by the Indenture by giving not less than 60 days' written notice to the Issuer and delivering notice thereof to the Bondholders, specifying the date when such resignation shall take effect. Each Fiduciary, or any successor thereof, may be removed at any time by the holders of a majority in principal amount of the Bonds then Outstanding, excluding any Bonds held by or for the account of the Issuer, or by the Issuer (if the Issuer is not in default under the Indenture), by, in the case of removal by the Bondholders, an instrument or concurrent instruments in writing signed and duly acknowledged by such Bondholders or by their attorneys duly authorized in writing and delivered to the Issuer and by, in the case of removal by the Issuer, written notice thereof to the Trustee. Copies of each such instrument shall be delivered by the Issuer to each Fiduciary and any successor thereof. Notwithstanding the above, the resignation or removal of the Fiduciary shall not be effective unless a successor Fiduciary has been appointed and has accepted the duties of the Fiduciary.

### ***Successor Fiduciary***

In the event the Fiduciary shall resign or be removed or shall become incapable of acting or shall be adjudged a bankrupt or insolvent or if a receiver, liquidator or conservator of the Fiduciary or its property be appointed or control of the Fiduciary shall be taken by any public office or officer, a successor may be appointed by the Issuer or the holders of a majority in principal amount of the Bonds then Outstanding. Pending such appointment, the Issuer shall appoint a Fiduciary to fill such vacancy until a successor Fiduciary is appointed by the holders of the Bonds as authorized under the Indenture.

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## APPENDIX C

### FREDDIE MAC, GINNIE MAE AND FANNIE MAE PROGRAMS

#### Freddie Mac and the Freddie Mac Certificates

The following summary of the Federal Home Loan Mortgage Corporation (“FHLMC” or “Freddie Mac”), the Freddie Mac Guarantor Program, the Freddie Mac Certificates and Freddie Mac’s mortgage purchase and servicing standards does not purport to be complete and is qualified in its entirety by reference to Freddie Mac’s Mortgage Participation Certificates Offering Circular, any applicable Offering Circular Supplements, Freddie Mac’s Information Statement, any Information Statement Supplements and any other documents made available by Freddie Mac. Copies of these documents can be obtained by writing, calling or e-mailing Freddie Mac’s Investor Inquiry Department at 8200 Jones Branch Drive, McLean, Virginia 22102 (800-336-FMPC; e-mail: [Investor\\_Inquiry@freddiemac.com](mailto:Investor_Inquiry@freddiemac.com)). The Issuer does not and will not participate in the preparation of Freddie Mac’s Mortgage Participation Certificates Offering Circular, Information Statement or Information Statement Supplements. At the time of printing this Official Statement, general information regarding Freddie Mac can be accessed at <http://www.freddiemac.com>. The Issuer makes no representations regarding the content or accuracy of the information provided at such website, and such website is not part of this Official Statement.

Freddie Mac is a shareholder-owned, government-sponsored enterprise created on July 24, 1970, pursuant to the Federal Home Loan Mortgage Corporation Act (Title III of the Emergency Home Finance Act of 1970, as amended) (12 U.S.C. §§ 1451-1459) (the “Freddie Mac Act”). The Secretary of HUD exercises general regulatory power over Freddie Mac under the Financial Housing Enterprises Financial Safety and Soundness Act of 1992.

Freddie Mac’s statutory mission is (i) to provide stability in the secondary market for residential mortgages, (ii) to respond appropriately to the private capital market, (iii) to provide ongoing assistance to the secondary market for residential mortgages (including activities relating to mortgages on housing for low- and moderate-income families) and (iv) to promote access to mortgage credit throughout the United States (including central cities, rural areas and underserved areas) by increasing the liquidity of mortgage investments and improving the distribution of investment capital available for residential mortgage financing. Neither the United States nor any agency or instrumentality of the United States is obligated, either directly or indirectly, to fund the mortgage purchase or financing activities of Freddie Mac.

Freddie Mac has established a mortgage purchase program pursuant to which Freddie Mac purchases a group of mortgages from a single seller in exchange for a Freddie Mac Certificate representing an undivided interest in a pool consisting of the same mortgages (the “Guarantor Program”). Freddie Mac approves the institutions that may sell and service mortgages under the Guarantor Program on an individual basis after consideration of factors such as financial condition, operational capability and mortgage

origination and/or servicing experience. Most sellers and servicers are HUD-approved mortgagees or FDIC-insured financial institutions.

Freddie Mac Certificates will be mortgage pass-through securities issued and guaranteed by Freddie Mac under its Guarantor Program. Freddie Mac Certificates are issued only in book-entry form through the Federal Reserve Banks' book-entry system. Each Freddie Mac Certificate represents an undivided interest in a pool of mortgages. Payments by borrowers on the mortgages in the pool are passed through monthly by Freddie Mac to record holders of the Freddie Mac Certificates representing interests in that pool. The minimum original principal balance for a pool of mortgages is generally \$1,000,000. All of the mortgages are either conventional mortgages or mortgages guaranteed or insured by FHA, the Department of Veterans Affairs or the Rural Housing Service. Conditional mortgages are pooled separately from mortgages guaranteed or insured by FHA, the Department of Veterans Affairs or the Rural Housing Service.

Freddie Mac issues two types of Freddie Mac Certificates--Gold PCs and ARM PCs. Gold PCs are backed by fixed-rate, level payment, fully amortizing mortgages or balloon/reset mortgages. ARM PCs are backed by adjustable rate mortgages.

Payments on Freddie Mac Certificates begin on or about the fifteenth day of the first month following issuance for a Gold PC and on or about the 15th day of the second month after issuance for an ARM PC. Each month, Freddie Mac passes through to record holders of Freddie Mac Certificates their proportionate share of principal payments on the mortgages in the related pool and one month's interest at the applicable pass-through rate. The pass-through rate for a Freddie Mac Certificate is determined by subtracting from the lowest interest rate on any of the mortgages in the pool the applicable servicing fee and Freddie Mac's management and guarantee fee, if any. The interest rates on the mortgages in a pool formed under Freddie Mac's Guarantor Program must fall within a range from the pass-through rate on the Freddie Mac Certificate plus the minimum required servicing fee through the pass-through rate plus a guarantee fee.

Freddie Mac guarantees to each holder of a Freddie Mac Certificate, on each monthly payment date, its proportionate share of scheduled principal payments on the related mortgages, and interest at the applicable pass-through rate, in each case whether or not received. The full and final payment on each Freddie Mae Certificate will be made no later than the payment date that occurs in the month in which the last monthly payment on the Freddie Mac Certificate is scheduled to be made.

The obligations of Freddie Mac under its guarantees of the Freddie Mac Certificates are obligations of Freddie Mae only. The Freddie Mac Certificates, including the interest thereon, are not guaranteed by the United States and do not constitute debts or obligations of the United States or any agency or instrumentality of the United States other than Freddie Mac. If Freddie Mac were unable to satisfy its obligations under its guarantees, distributions on the Freddie Mac Certificates would consist solely of payment and other recoveries on the related mortgage; accordingly, delinquencies and defaults on the mortgages would affect distributions on the Freddie Mae Certificates and could adversely affect payments on the Series 2007 Bonds.



All mortgages purchased by Freddie Mac must meet certain standards established by the Freddie Mac Act. In addition, Freddie Mac has established its own set of mortgage purchase standards, including credit appraisal and underwriting guidelines. These guidelines are designed to determine the value of the real property securing a mortgage and the credit worthiness of the borrower. Freddie Mac's administration of its guidelines may vary based on its evaluation of and experience with the seller of the mortgages, the loan-to-value ratio and age of the mortgages, the type of property securing the mortgages and other factors.

Freddie Mac has also established servicing policies and procedures to support the efficient and uniform servicing of the mortgages it purchases. Each servicer must perform diligently all services and duties customary to the servicing of mortgages in a manner consistent with prudent servicing standards. The duties performed by a servicer include collection and remittance of principal and interest to Freddie Mac; administration of escrow accounts; collection of insurance or guaranty claims; property inspections; and, if necessary, foreclosure. Freddie Mac monitors servicers' performance through periodic and special reports and inspections.

In the event of an existing or impending delinquency or other default on a mortgage, Freddie Mac may attempt to resolve the default through a variety of measures. In determining which measures to pursue with respect to a given mortgage and when to initiate such measures, Freddie Mac seeks to minimize the costs that may be incurred in servicing the mortgage, as well as Freddie Mac's possible exposure under its guarantees. However, the measures that Freddie Mac may choose to pursue to resolve a default will not affect Freddie Mac's guarantees. Freddie Mac generally repurchases from a pool any mortgage that has remained delinquent for at least 120 consecutive days and makes payment of principal to record holders.

### **Ginnie Mae and the Ginnie Mae Certificates**

The summary and explanation of the Government National Mortgage Association ("GNMA" or "Ginnie Mae"), GNMA's mortgage-backed securities program and the other documents referred to herein do not purport to be complete. Reference is made to the *Ginnie Mae Mortgage-Backed Securities Guide* (HUD Handbook 5500.3) (the "GNMA Guide") and to such other Ginnie Mae documents for full and complete statements of their provisions. At the time of printing this Official Statement, the Ginnie Mae Guide can be accessed at <http://www.ginniemae.gov/guide/guidtoc.asp>, and general information regarding Ginnie Mae can be accessed at <http://www.ginniemae.gov>. The Issuer makes no representations regarding the content or accuracy of the information provided at either of such websites, and such websites are not part of this Official Statement. Further, the procedures and fees described below and in the Ginnie Mae Guide are those currently in effect and are subject to change at any time by Ginnie Mae.

Ginnie Mae is a wholly-owned corporate instrumentality of the United States within the Department of Housing and Urban Development ("HUD"), with its principal office in Washington, D.C. Ginnie Mae's powers are prescribed generally by Title III of the National Housing Act, as amended (12 U.S.C. §1716 *et seq.*).

Ginnie Mae is authorized by Section 306(g) of Title III of the National Housing Act, as amended, to guarantee the timely payment of the principal of and interest on certificates (“Ginnie Mae Certificates”) that represent an undivided ownership interest in a pool of mortgage loans that are: (i) insured by the Federal Housing Administration (“FHA”) under the National Housing Act of 1934, as amended; (ii) guaranteed by the Department of Veterans Affairs under the Servicemen’s Readjustment Act of 1944, as amended; (iii) guaranteed by the Rural Housing Service (“RHS”) of the United States Department of Agriculture – Rural Development (“USDA/RD”) USDA/RD pursuant to Section 502 of Title V of the Housing Act of 1949, as amended; or (iv) guaranteed by the Secretary of HUD under Section 184 of the Housing and Community Development Act of 1992, as amended and administered by the Office of Public and Indian Housing (“PIH”). The Ginnie Mae Certificates are issued by approved servicers and not by Ginnie Mae. Ginnie Mae guarantees the timely payment of principal of and interest on the Ginnie Mae Certificates. Section 306(g) further provides that “the full faith and credit of the United States is pledged to the payment of all amounts which may be required to be paid under any guaranty under this subsection.” An opinion, dated December 9, 1969, of an Assistant Attorney General of the United States, states that such guaranties under Section 306(g) of mortgage-backed certificates of the type being delivered to the Trustee on behalf of the Issuer (“Ginnie Mae Guaranty Agreements”) are authorized to be made by Ginnie Mae and “would constitute general obligations of the United States backed by its full faith and credit.” In order to meet its obligations under such guaranties, Ginnie Mae, in its corporate capacity under Section 306(d) of Title III of the Housing Act, may issue its general obligations to the United States Treasury Department in an amount outstanding at any one time sufficient to enable Ginnie Mae, with no limitations as to amount, to perform its obligations under its guaranties of the timely payment of the principal of or interest on all Ginnie Mae Certificates. The U.S. Treasury is authorized to purchase any obligations so issued by Ginnie Mae and has indicated in a letter dated February 13, 1970 from the Secretary of the U.S. Treasury to the Secretary of HUD that the U.S. Treasury will make loans to Ginnie Mae, if needed, to implement Ginnie Mae’s guaranties. Under the terms of its guaranties, Ginnie Mae warrants that, in the event it is called upon at any time to make payment on its guaranties, it will, if necessary, in accordance with Section 306(d) of Title III of the Housing Act, apply to the U.S. Treasury Department for a loan or loans in amounts sufficient to make payments of principal and interest.

Ginnie Mae administers two guarantee programs the “Ginnie Mae I MBS Program” and the “Ginnie Mae II MBS Program.” The Ginnie Mae I MBS Program is based on single-issuer pools in which the underlying mortgage loans generally have the same or similar maturities and bear the same interest rate. Ginnie Mae I payments are made to holders on the 15th day of each month. The Ginnie Mae II MBS Program permits multiple-issuer as well as single-issuer pools. Loans with different interest rates, within a one percent (1%) range, may be included in the same pool or loan package under the Ginnie Mae II MBS Program. Ginnie Mae II MBS payments are made to holders on the 20th day of each month.

To issue Ginnie Mae Certificates, the Servicer must apply for and receive from Ginnie Mae a Commitment to Guarantee Mortgage-Backed Securities (“Ginnie Mae

Commitment”). A Ginnie Mae Commitment authorizes, the Servicer to issue Ginnie Mae Certificates up to a stated amount during a one year period following the date thereof. The Servicer is obligated to pay Ginnie Mae commitment fees and guaranty fees.

Each Ginnie Mae Certificate is to be backed by a mortgage pool consisting of mortgage loans in a minimum aggregate amount of \$1,000,000 (or such lesser amount as may be approved by Ginnie Mae). Each Ginnie Mae I Certificate will be a “mortgage loan pass-through” certificate which will require the Servicer to pass through to the paying and transfer agent therefor (the “Ginnie Mae Paying Agent”) by the fifteenth day of each month (or the sixteenth day, if such day is not a business day, provided that, if neither the fifteenth nor the sixteenth day is a business day, then the first business day prior to the fifteenth day of the month), the regular month payments on the mortgage loans (less the Ginnie Mae guaranty fee and the Servicer’s servicing fee), whether or not the Servicer receives such payments, plus any prepayments of principal of the mortgage loans received by the Servicer in the previous month. Each Ginnie Mae II Certificate will require the Servicer to pass through to the central paying and transfer agent for the Ginnie Mae II Program, by the nineteenth day of each month (or the twentieth day, if such day is not a business day, provided that, if neither the nineteenth nor the twentieth day is a business day, then the first business day prior to the nineteenth day of the month), the regular monthly payments on the mortgage loans (less the Ginnie Mae guaranty fee and the Servicer’s servicing fee), whether or not the Servicer receives such payments, plus any prepayments of principal or the mortgage loans received by the Servicer in the previous month. The Ginnie Mae Paying Agent is then required to pass through to the Trustee on or before the third business day following the nineteenth day of each month the scheduled payments received from the Master Servicer. Ginnie Mae guarantees timely payment of principal of and interest with respect to the Ginnie Mae Certificate.

Ginnie Mae, upon execution of the Ginnie Mae Guaranty Agreement (defined below), issuance of a Ginnie Mae Certificate by the Master Servicer and subsequent sale of such Ginnie Mae Certificate to the Trustee, will have guaranteed to the Trustee as holder of such Ginnie Mae Certificate the timely payment of principal of and interest on such Ginnie Mae Certificate.

Under contractual arrangements to be made between the Servicer and Ginnie Mae, and pursuant to the Ginnie Mae Guaranty Agreement, the Servicer is responsible for servicing the mortgage loans constituting Ginnie Mae Pools in accordance with FHA, RD or VA regulations, as applicable, and Ginnie Mae regulations.

The monthly remuneration of the Servicer for its servicing functions, and the guaranty fee charged by Ginnie Mae, are based on the unpaid principal amount of the Ginnie Mae Certificates outstanding. In compliance with Ginnie Mae regulations and policies, the total of these servicing and guaranty fees equals 0.50% per annum calculated on the principal balance of each mortgage loan outstanding on the last day of the month preceding such calculation. The Pass-Through Rate is determined by deducting from the Mortgage Rate the 0.50% servicing and guaranty fees because the servicing and guaranty fees are deducted from payments on the mortgage loans before payments are passed through to the Trustee.

It is expected that interest and principal payments on the mortgage loans received by the Servicer will be the source of money for payments on the Ginnie Mae Certificates. If such payments are less than the amount then due, the Servicer is obligated to advance its own funds to ensure timely payment of all scheduled payments on the Ginnie Mae Certificates. Ginnie Mae guarantees such timely payment in the event of the failure of the Servicer to pass through an amount equal to the scheduled payments (whether or not made by the mortgagors). If such payments are not received as scheduled the Trustee has recourse directly to Ginnie Mae.

The Servicer is required to advise Ginnie Mae in advance of any impending default on scheduled payments so that Ginnie Mae as guarantor will be able to continue such payments as scheduled in accordance with the Ginnie Mae Mortgage-Backed Securities Guide (the “Ginnie Mae Guide”).

The Ginnie Mae guaranty agreement to be entered into by Ginnie Mae and the Master Servicer upon issuance of the Ginnie Mae Certificates (the “Ginnie Mae Guaranty Agreement”) will provide that, in the event of a default by the Servicer, including (i) a request to Ginnie Mae to make a payment of principal of or interest on a Ginnie Mae Certificate when the mortgagor is not in default under the mortgage note, (ii) insolvency of the Servicer, or (iii) default by the Servicer under any other guaranty agreement with Ginnie Mae, Ginnie Mae shall have the right, by letter to the Servicer, to effect and complete the extinguishment of the Servicer’s interest in the related mortgage loans, and the related mortgage loans shall thereupon become the absolute property of Ginnie Mae, subject only to the unsatisfied rights of the holder of the Ginnie Mae Certificates and in such event, all power and authority of the Servicer with respect to the servicing of such Ginnie Mae Pools, including the right to collect the servicing fee, also will terminate and expire. The authority and power of the Servicer under the terms of the Ginnie Mae Guide will be required to pass to and be vested in Ginnie Mae, and Ginnie Mae will be the successor in all respects to the Servicer in its capacity as servicer, and will be subject to all duties placed on the Servicer by the Ginnie Mae Guide. At any time, Ginnie Mae may enter into an agreement with an institution approved by Ginnie Mae under which such institution undertakes and agrees to assume any part or all of such duties, and no such agreement will detract from or diminish the responsibilities, duties or liabilities of Ginnie Mae in its capacity as guarantor.

### **Fannie Mae and the Fannie Mae Certificates**

The summary and explanation of the Federal National Mortgage Association (“FNMA” or “Fannie Mae”), Fannie Mae’s mortgage-backed securities program and the other documents referred to herein do not purport to be complete. Reference is made to such documents for full and complete statements of their provisions. Such documents and the MBS Program are subject to change at any time by Fannie Mae. At the time of printing this Official Statement; general information regarding Fannie Mae can be accessed at <http://www.fanniemae.com>. The Issuer makes no representations regarding the content or accuracy of the information provided at such website, and such website is not part of this Official Statement.

Fannie Mae is a federally-chartered and stockholder-owned corporation organized and existing under the Federal National Mortgage Association Charter Act (12 U.S.C. §1716 *et seq.*). Fannie Mae was originally established in 1938 as a United States government agency to provide supplemental liquidity to the mortgage market. Fannie Mae became a stockholder-owned and privately managed corporation in 1968. The Secretary of HUD exercises general regulatory power over Fannie Mae under the Financial Housing Enterprises Financial Safety and Soundness Act of 1992.

Fannie Mae provides funds to the mortgage market by purchasing mortgage loans from lenders, thereby replenishing their funds for additional lending. Fannie Mae acquires funds to purchase mortgage loans from many capital market investors that may not ordinarily invest in mortgage loans, thereby: expanding the total amount of funds available for housing. Fannie Mae operates a mortgage-backed securities program pursuant to which Fannie Mae issues securities backed by pools of mortgage loans (the “MBS Program”).

Although the Secretary of the Treasury of the United States has certain discretionary authority to purchase obligations of Fannie Mae, neither the United States nor any agency or instrumentality thereof is obligated to finance Fannie Mae’s obligations or to assist Fannie Mae in any manner.

*The obligations of Fannie Mae, including its obligations under the Fannie Mae Certificates, are obligations solely of Fannie Mae are not backed by, or entitled to, the full faith and credit of the United States of America.*

The terms of the MBS Program are governed by the Fannie Mae Selling and Servicing Guides published by Fannie Mae (the “Fannie Mae Guides”), as modified by the Pool Purchase Contract, and in the case of mortgage loans such as the Series 2006 Mortgage Loans, the Indenture, and a supplement thereto to be issued by, Fannie Mae in connection with each pool. The MBS Program is further described in the MBS Prospectus issued by Fannie Mae (the “Fannie Mae Prospectus”). The Fannie Mae Prospectus is updated and supplemented from time to time.

Copies of the Fannie Mae Prospectus and Fannie Mae’s most recent annual and quarterly reports and proxy statements are available without charge from the Office of Investor Relations, Fannie Mae, 3900 Wisconsin Avenue, N.W., Washington, D.C. 20016. At the time of printing this Official Statement, these documents can be accessed at [http://www.fanniemae.com/markets/mbssecurities/prospectuses/pro\\_role.jhtml](http://www.fanniemae.com/markets/mbssecurities/prospectuses/pro_role.jhtml).

However, information on the Fannie Mae’s website is not part of this Official Statement.

The summary of the MBS Program set forth under this caption does not purport to be comprehensive and is qualified in its entirety by reference to the Fannie Mae Guides, the Fannie Mae Certificates, the Fannie Mae Prospectus and the other documents referred to herein.

Each Fannie Mae Certificate represents the entire interest in a specified pool of conventional mortgage loans purchased by Fannie Mae and identified in records maintained by Fannie Mae. The Pool Purchase Contract will require that each Fannie Mae Certificate be in a minimum amount of \$500,000. Each Fannie Mae Certificate will bear interest at the pass-through rate specified thereon.

Fannie Mae will guarantee to the registered holder of the Fannie Mae Certificates that it will distribute amounts representing scheduled principal and interest at the applicable Pass-Through Rate on the mortgage loans in the pools represented by such Fannie Mae Certificates, whether or not received, and the full principal balance of any foreclosed or other finally liquidated mortgage loans, whether or not such principal balance is actually received. *The obligations of Fannie Mae under such guarantees are obligations solely of Fannie Mae and are not backed by, nor entitled to the faith and credit of the United States.* If Fannie Mae were unable to satisfy such obligations, distributions to the Trustee, as the registered holder of the Fannie Mae Certificates, would consist solely of payments and other recoveries on the underlying conventional mortgage loans, and accordingly, monthly distributions to the Trustee, as the holder of the Fannie Mae Certificates, and payments on the Series 2007 Bonds could be adversely affected by delinquent payments and defaults on such conventional mortgage loans.

Payments on a Fannie Mae Certificate will be made to the Trustee on the 25th day of each month (beginning with the month following the month such Fannie Mae Certificate is issued), or if such 25th day is not a business day, on the first business day next succeeding such 25th day. With respect to each Fannie Mae Certificate, Fannie Mae will distribute to the Trustee an amount equal to the total of (1) the principal due on the mortgage loans in the related pool underlying such Fannie Mae Certificate during the period beginning on the second day of the month before the month of such distribution and ending on the first day of such month of distribution, (2) the stated principal balance of any mortgage loan that was prepaid in full during the second month next preceding the month of such distribution (including as prepaid for this purpose any mortgage loan repurchased by Fannie Mae because of Fannie Mae's election to repurchase the mortgage loan after it is delinquent, in whole or in part, with respect to four consecutive installments of principal and interest or because of Fannie Mae's election to repurchase such mortgage loan under certain other circumstances as permitted by the Indenture), (3) the amount of any partial prepayment of a mortgage loan received in the second month next preceding the month of distribution, and (4) one month's interest at the Pass-Through Rate on the principal balance of the Fannie Mae Certificate as reported to the Trustee (assuming the Trustee is the registered holder) in connection with the previous distribution (or, respecting the first distribution, on the principal balance of the Fannie Mae Certificate on its issue date).

For purposes of distributions, a mortgage loan will be considered to have been prepaid in full if, in Fannie Mae's reasonable judgment, the full amount finally recoverable on account of such mortgage loan has been received, whether or not such full amount is equal to the stated principal balance of the mortgage loan. Fannie Mae may, in its discretion, include with any distribution principal prepayments, both full and partial, received during the month before the month of distribution but is under no obligation to do so.

## APPENDIX D

### PROPOSED FORM OF OPINION OF BOND COUNSEL

[Letterhead of Bond Counsel]

November 1, 2007

District of Columbia Housing Finance Agency  
815 Florida Avenue, N.W.  
Washington, D.C. 20001

Re: **\$50,000,000 District of Columbia Housing Finance Agency  
Single Family Mortgage Revenue Bonds, Series 2007 A**

**\$50,000,000 District of Columbia Housing Finance Agency  
Single Family Mortgage Revenue Bonds, Series 2007 B**

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by the District of Columbia Housing Finance Agency (the "Agency") of the District of Columbia Housing Finance Agency Single Family Mortgage Revenue Bonds, Series 2007 A (the "Series 2007 A Bonds") in the aggregate principal amount of \$50,000,000, and of the District of Columbia Housing Finance Agency Single Family Mortgage Revenue Bonds, Series 2007 B (the "Series 2007 B Bonds") and, together with the Series 2007 A Bonds, the "Bonds") in the aggregate principal amount of \$50,000,000. The Bonds are issued pursuant to (i) the District of Columbia Housing Finance Agency Act, D.C. Law 2-135, D.C. Code § 42-2701.01 *et seq.*, as amended (the "Act"), and the General Indenture of Trust, dated as of December 1, 1996, as previously amended and supplemented (the "General Indenture"), as supplemented by the Supplemental Indenture of Trust, dated as of November 1, 2007 (the "Supplemental Indenture" and, together with the General Indenture, the "Indenture"), each between the Agency and U. S. Bank, Richmond, Virginia, as trustee (the "Trustee"). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Indenture.

In such connection, we have reviewed the Indenture, the Tax Certificate of the Agency of even date herewith (the "Tax Certificate"), certificates of the Agency, the Trustee and others, opinions of counsel to the Agency, the Trustee and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein. We have assumed, without undertaking to verify, the genuineness of such documents, certificates and opinions presented to us (whether as originals or as copies) and of the signatures thereon, the

accuracy of the factual matters represented, warranted or certified in such documents and certificates, the correctness of the legal conclusions contained in such opinions, and the due and legal execution of such documents and certificates by, and validity thereof against, any parties other than the Agency.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Accordingly, this opinion is not intended to, and may not, be relied upon in connection with any such actions, events or matters. Furthermore, we have assumed compliance with the covenants and agreements contained in the Indenture and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Bonds, the Indenture and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against instrumentalities in the District of Columbia. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum or waiver provisions contained in the documents described herein, nor do we express any opinion with respect to the state or quality of title to or interest in any of the real or personal property described in or as subject to the lien of the Indenture or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such property. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Bonds and express herein no opinion relating thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Agency is a corporate body and an instrumentality of the District of Columbia, duly organized and validly existing under the laws of the District of Columbia, and has lawful authority to issue the Bonds.
2. The Bonds constitute the valid and binding special limited obligations of the Agency, payable solely from the Revenues and other assets pledged therefor under the Indenture.
3. The Indenture has been duly executed and delivered by, and constitutes the valid and binding obligation of, the Agency. The Indenture creates a valid pledge, to secure the payment of the principal of and interest on the Bonds, of the Revenues, Bond proceeds and any other moneys and securities from time to time held by the Trustee under the Indenture, and of the rights, title and interest of the Agency in and to the Mortgage Loans and the Mortgage-Backed



Securities, subject to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture.

4. The Bonds do not constitute an obligation of the District, but are special limited obligations of the Agency payable solely from and secured by the property pledged therefor under the Indenture. The Agency is not obligated to pay principal of, premium, if any, or interest on the Bonds except from the Pledged Property. Neither the faith and credit nor the taxing power of the District is pledged to the payment of principal of, premium, if any, and interest on the Bonds. The Issuer has no taxing power.

5. Interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from all District of Columbia income taxes, except estate, inheritance and gift taxes. However, we observe that interest on the Bonds is a specific preference item for purposes of the federal individual and corporate alternative minimum taxes. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

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**APPENDIX E**  
**BOOK-ENTRY-ONLY PROVISIONS**

1. The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the District of Columbia Housing Finance Agency Single Family Mortgage Revenue Bonds, Series 2006 D, Series 2006 E and Series 2006 F (the “Bonds”). The Bonds will be 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 certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

2. DTC, the world’s largest depository, 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 2.2 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instrument from over 100 countries that DTC’s participants (“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, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation and Emerging Markets Clearing Corporation (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. 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 Standard & Poor’s highest rating: AAA. 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) and [www.dtc.org](http://www.dtc.org).

3. Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC’s records. The ownership interest of each actual purchaser of each 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 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

4. To facilitate subsequent transfers, all 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 Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 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.

5. 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 Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the security documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the 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 registrar and request that copies of the notices be provided directly to them.]

6. Redemption notices shall be sent to DTC. If less than all of the Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

7. Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Issuer 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 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Redemption proceeds, distributions, and dividend payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from Issuer or Trustee on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, nor its nominee, Trustee, or Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Issuer or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

9. A Beneficial Owner shall give notice to elect to have its Bonds purchased or tendered, through its Participant, to Tender Agent and/or Remarketing Agent, and shall effect delivery of such Bonds by causing the Direct Participant to transfer the Participant's interest in the Securities, on DTC's records, to Tender Agent and/or Remarketing Agent. The requirement for physical

delivery of Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Bonds to the Tender Agent and/or Remarketing Agent's DTC account.

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

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

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

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## DISCLOSURE DISSEMINATION AGENT AGREEMENT

This Disclosure Dissemination Agent Agreement (the “Disclosure Agreement”), dated as of [1] \_\_\_\_\_, 20\_\_, is executed and delivered by [2] \_\_\_\_\_ (the “Issuer”) and Digital Assurance Certification, L.L.C., as exclusive Disclosure Dissemination Agent (the “Disclosure Dissemination Agent” or “DAC”) for the benefit of the Holders (hereinafter defined) of the Bonds (hereinafter defined) and in order to provide certain continuing disclosure with respect to the Bonds in accordance with Rule 15c2-12 of the United States Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time (the “Rule”).

SECTION 1. Definitions. Capitalized terms not otherwise defined in this Disclosure Agreement shall have the meaning assigned in the Rule or, to the extent not in conflict with the Rule, in the Official Statement (hereinafter defined). The capitalized terms shall have the following meanings:

“Annual Report” means an Annual Report described in and consistent with Section 3 of this Disclosure Agreement.

“Annual Filing Date” means the date, set in Sections 2(a) and 2(f), by which the Annual Report is to be filed with the Repositories.

“Annual Financial Information” means annual financial information as such term is used in paragraph (b)(5)(i) of the Rule and specified in Section 3(a) of this Disclosure Agreement.

“Audited Financial Statements” means the financial statements (if any) of the Issuer for the prior fiscal year, certified by an independent auditor as prepared in accordance with generally accepted accounting principles or otherwise, as such term is used in paragraph (b)(5)(i) of the Rule and specified in Section 3(b) of this Disclosure Agreement.

“Bonds” means the bonds as listed on the attached Exhibit A, with the 9-digit CUSIP numbers relating thereto.

“Certification” means a written certification of compliance signed by the Disclosure Representative stating that the Annual Report, Audited Financial Statements, Voluntary Report or Notice Event notice delivered to the Disclosure Dissemination Agent is the Annual Report, Audited Financial Statements, Voluntary Report or Notice Event notice required to be submitted to the Repositories under this Disclosure Agreement. A Certification shall accompany each such document submitted to the Disclosure Dissemination Agent by the Issuer and include the full name of the Bonds and the 9-digit CUSIP numbers for all Bonds to which the document applies.

“Disclosure Representative” means [3] \_\_\_\_\_, the senior member of the Issuer or his or her designee, or such other person as the Issuer shall designate in writing

to the Disclosure Dissemination Agent from time to time as the person responsible for providing Information to the Disclosure Dissemination Agent.

“Disclosure Dissemination Agent” means Digital Assurance Certification, L.L.C, acting in its capacity as Disclosure Dissemination Agent hereunder, or any successor Disclosure Dissemination Agent designated in writing by the Issuer pursuant to Section 9 hereof.

“Holder” means any person (a) having the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries) or (b) treated as the owner of any Bonds for federal income tax purposes.

“Information” means the Annual Financial Information, the Audited Financial Statements (if any) the Notice Event notices, and the Voluntary Reports.

“Notice Event” means an event listed in Sections 4(a) of this Disclosure Agreement.

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

“National Repository” means any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. The list of National Repositories maintained by the United States Securities and Exchange Commission shall be conclusive for purposes of determining National Repositories. Currently, the following are National Repositories:

1. DPC Data Inc.  
One Executive Drive  
Fort Lee, NJ 07024  
(201) 346-0701 (phone)  
(201) 947-0107 (fax)  
Email: nrmsir@dpcdata.com
2. Interactive Data Pricing and Reference Date, Inc.  
Attn: NRMSIR  
100 William Street, 15<sup>th</sup> Floor  
New York, NY 10038  
(212) 771-6999; (800) 689-8466 (phone)  
(212) 771-7390 (fax)  
Email: NRMSIR@Interactivedata.com
3. Bloomberg Municipal Repository  
100 Business Park Drive  
Skillman, NJ 08558  
(609) 279-3225 (phone)  
(609) 279-5962 (fax)  
Email: Munis@Bloomberg.com



4. Standard & Poor's Securities Evaluations, Inc.  
55 Water Street  
45<sup>th</sup> Floor  
New York, NY 10041  
(212) 438-4595 (phone)  
(212) 438-3975 (fax)  
Email: [nrmsir\\_repository@sandp.com](mailto:nrmsir_repository@sandp.com)

“Official Statement” means that Official Statement prepared by the Issuer in connection with the [4] [respective issue of] Bonds, as listed on Appendix A.

“Repository” means the MSRB, each National Repository and the State Depository (if any).

“State Depository” means any public or private depository or entity designated by the State of [5] \_\_\_\_\_ as a state information depository (if any) for the purpose of the Rule. The list of state information depositories maintained by the United States Securities and Exchange Commission shall be conclusive as to the existence of a State Depository. Currently, the following depositories are listed by the Securities and Exchange Commission as available State Depositories:

1. Municipal Advisory Council of Michigan  
1445 First National Building  
Detroit, MI 48226-3517  
(313) 963-0420 (phone)  
(313) 963-0943 (fax)  
[MAC@macmi.com](mailto:MAC@macmi.com)
2. Municipal Advisory Council of Texas  
PO Box 2177  
Austin, TX 78768-2177  
(512) 476-6947 (phone)  
(512) 476-6403 (fax)  
[mac@mactexas.com](mailto:mac@mactexas.com)
3. Ohio Municipal Advisory Council  
9321 Ravenna Road, Unit K  
Twinsburg, OH 44087-2445  
(330) 963-7444 (phone)  
(800) 969-OMAC (6622) (phone)  
(330) 963-7553 (fax)  
[sid\\_filings@ohiomac.com](mailto:sid_filings@ohiomac.com)

“Trustee” means the institution identified as such in the document under which the [6] [respective issue of] Bonds were issued.

“Voluntary Report” means the information provided to the Disclosure Dissemination Agent by the Issuer pursuant to Section 7.

## SECTION 2. Provision of Annual Reports.

(a) The Issuer shall provide, annually, an electronic copy of the Annual Report and Certification to the Disclosure Dissemination Agent, together with a copy for the Trustee, not later than 30 days prior to the Annual Filing Date. Promptly upon receipt of an electronic copy of the Annual Report and the Certification, the Disclosure Dissemination Agent shall provide an Annual Report to each National Repository and the State Depository (if any) not later than [7]\_\_\_\_\_ days after the end of each fiscal year of the Issuer, commencing with the fiscal year ending [8]\_\_\_\_\_, 20. Such date and each anniversary thereof is the Annual Filing Date. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 3 of this Disclosure Agreement.

(b) If on the fifteenth (15th) day prior to the Annual Filing Date, the Disclosure Dissemination Agent has not received a copy of the Annual Report and Certification, the Disclosure Dissemination Agent shall contact the Disclosure Representative by telephone and in writing (which may be by e-mail) to remind the Issuer of its undertaking to provide the Annual Report pursuant to Section 2(a). Upon such reminder, the Disclosure Representative shall either (i) provide the Disclosure Dissemination Agent with an electronic copy of the Annual Report and the Certification) no later than two (2) business days prior to the Annual Filing Date, or (ii) instruct the Disclosure Dissemination Agent in writing that the Issuer will not be able to file the Annual Report within the time required under this Disclosure Agreement, state the date by which the Annual Report for such year will be provided and instruct the Disclosure Dissemination Agent that a Notice Event as described in Section 4(a)(12) has occurred and to immediately send a notice to each National Repository or the MSRB and the State Depository (if any) in substantially the form attached as Exhibit B.

(c) If the Disclosure Dissemination Agent has not received an Annual Report and Certification by 12:00 noon on the first business day following the Annual Filing Date for the Annual Report, a Notice Event described in Section 4(a)(12) shall have occurred and the Issuer irrevocably directs the Disclosure Dissemination Agent to immediately send a notice to each National Repository or the MSRB and the State Depository (if any) in substantially the form attached as Exhibit B.

(d) If Audited Financial Statements of the Issuer are prepared but not available prior to the Annual Filing Date, the Issuer shall, when the Audited Financial Statements are available, provide in a timely manner an electronic copy to the Disclosure Dissemination Agent, accompanied by a Certificate, together with a copy for the Trustee, for filing with each National Repository and the State Depository (if any).

(e) The Disclosure Dissemination Agent shall:

- (i) determine the name and address of each Repository each year prior to the Annual Filing Date;
- (ii) upon receipt, promptly file each Annual Report received under Section 2(a) with each National Repository, and the State Depository, (if any);

- (iii) upon receipt, promptly file each Audited Financial Statement received under Section 2(d) with each National Repository, and the State Depository (if any);
- (iv) upon receipt, promptly file the text of each disclosure to be made with each National Repository and the State Depository (if any) together with a completed copy of the Event Notice Cover Sheet in the form attached as Exhibit C, describing the event by checking the box indicated below when filing pursuant to the Section of this Disclosure Agreement indicated:
  - 1. “Principal and interest payment delinquencies,” pursuant to Sections 4(c) and 4(a)(1);
  - 2. “Non-Payment related defaults,” pursuant to Sections 4(c) and 4(a)(2);
  - 3. “Unscheduled draws on debt service reserves reflecting financial difficulties,” pursuant to Sections 4(c) and 4(a)(3);
  - 4. “Unscheduled draws on credit enhancements reflecting financial difficulties,” pursuant to Sections 4(c) and 4(a)(4);
  - 5. “Substitution of credit or liquidity providers, or their failure to perform,” pursuant to Sections 4(c) and 4(a)(5);
  - 6. “Adverse tax opinions or events affecting the tax-exempt status of the security,” pursuant to Sections 4(c) and 4(a)(6);
  - 7. “Modifications to rights of securities holders,” pursuant to Sections 4(c) and 4(a)(7);
  - 8. “Bond calls,” pursuant to Sections 4(c) and 4(a)(8);
  - 9. “Defeasances,” pursuant to Sections 4(c) and 4(a)(9);
  - 10. “Release, substitution, or sale of property securing repayment of the securities,” pursuant to Sections 4(c) and 4(a)(10);
  - 11. “Ratings changes,” pursuant to Sections 4(c) and 4(a)(11);
  - 12. “Failure to provide annual financial information as required,” pursuant to Section 2(b)(ii) or Section 2(c), together with a completed copy of Exhibit B to this Disclosure Agreement;
  - 13. “Other material event notice (specify),” pursuant to Section 7 of this Agreement, together with the summary description provided by the Disclosure Representative.

- (v) provide the Issuer evidence of the filings of each of the above when made, which shall be by means of the DAC system, for so long as DAC is the Disclosure Dissemination Agent under this Disclosure Agreement.

(f) The Issuer may adjust the Annual Filing Date upon change of its fiscal year by providing written notice of such change and the new Annual Filing Date to the Disclosure Dissemination Agent, Trustee (if any) and the Repositories, provided that the period between the existing Annual Filing Date and new Annual Filing Date shall not exceed one year.

### SECTION 3. Content of Annual Reports.

(a) Each Annual Report shall contain Annual Financial Information with respect to the Issuer, including the information provided in the Official Statement under the headings: [9]\_\_\_\_\_.

(b) [10] Audited Financial Statements prepared in accordance with [GAAP OR alternate accounting principles] as described in the Official Statement will be included in the Annual Report. If audited financial statements are not available, then, unaudited financial statements, prepared in accordance with [generally accepted accounting principles (“GAAP”) OR alternate accounting principles as described in the Official Statement] will be included in the Annual Report. Audited Financial Statements (if any) will be provided pursuant to Section 2(d).

Any or all of the items listed above may be included by specific reference from other documents, including official statements of debt issues with respect to which the Issuer is an “obligated person” (as defined by the Rule), which have been previously filed with each of the National Repositories or the Securities and Exchange Commission. If the document incorporated by reference is a final official statement, it must be available from the MSRB. The Issuer will clearly identify each such document so incorporated by reference.

Any annual financial information containing modified operating data or financial information is required to explain, in narrative form, the reasons for the modification and the impact of the change in the type of operating data or financial information being provided.

### SECTION 4. Reporting of Notice Events.

(a) The occurrence of any of the following events, if material, with respect to the Bonds constitutes a Notice Event:

1. Principal and interest payment delinquencies;
2. Non-payment related defaults;
3. Unscheduled draws on debt service reserves reflecting financial difficulties;
4. Unscheduled draws on credit enhancements relating to the Bonds reflecting financial difficulties;
5. Substitution of credit or liquidity providers, or their failure to perform;
6. Adverse tax opinions or events affecting the tax-exempt status of the Bonds;

7. Modifications to rights of Bond holders;
8. Bond calls;
9. Defeasances;
10. Release, substitution, or sale of property securing repayment of the Bonds;
11. Rating changes on the Bonds;
12. Failure to provide annual financial information as required; and
13. Other material event notice (specify) \_\_\_\_\_.

The Issuer shall promptly notify the Disclosure Dissemination Agent in writing upon the occurrence of a Notice Event. Such notice shall instruct the Disclosure Dissemination Agent to report the occurrence pursuant to subsection (c). Such notice shall be accompanied with the text of the disclosure that the Issuer desires to make, the written authorization of the Issuer for the Disclosure Dissemination Agent to disseminate such information, and the date the Issuer desires for the Disclosure Dissemination Agent to disseminate the information.

(b) The Disclosure Dissemination Agent is under no obligation to notify the Issuer or the Disclosure Representative of an event that may constitute a Notice Event. In the event the Disclosure Dissemination Agent so notifies the Disclosure Representative, the Disclosure Representative will within five business days of receipt of such notice, instruct the Disclosure Dissemination Agent that (i) a Notice Event has not occurred and no filing is to be made or (ii) a Notice Event has occurred and the Disclosure Dissemination Agent is to report the occurrence pursuant to subsection (c), together with the text of the disclosure that the Issuer desires to make, the written authorization of the Issuer for the Disclosure Dissemination Agent to disseminate such information, and the date the Issuer desires for the Disclosure Dissemination Agent to disseminate the information.

(c) If the Disclosure Dissemination Agent has been instructed by the Issuer as prescribed in subsection (a) or (b)(ii) of this Section 4 to report the occurrence of a Notice Event, the Disclosure Dissemination Agent shall promptly file a notice of such occurrence with the State Depository (if any) and (i) each National Repository, or (ii) the MSRB in accordance with Section 2 e (iv) hereof.

SECTION 5. CUSIP Numbers. Whenever providing information to the Disclosure Dissemination Agent, including but not limited to Annual Reports, documents incorporated by reference to the Annual Reports, Audited Financial Statements, notices of Notice Events, and Voluntary Reports filed pursuant to Section 7(a), the Issuer shall indicate the full name of the Bonds and the 9-digit CUSIP numbers for the Bonds as to which the provided information relates.

SECTION 6. Additional Disclosure Obligations. The Issuer acknowledges and understands that other state and federal laws, including but not limited to the Securities Act of 1933 and Rule 10b-5 promulgated under the Securities Exchange Act of 1934, may apply to the Issuer, and that the failure of the Disclosure Dissemination Agent to so advise the Issuer shall not constitute a breach by the Disclosure Dissemination Agent of any of its duties and

responsibilities under this Disclosure Agreement. The Issuer acknowledges and understands that the duties of the Disclosure Dissemination Agent relate exclusively to execution of the mechanical tasks of disseminating information as described in this Disclosure Agreement.

SECTION 7. Voluntary Reports.

(a) The Issuer may instruct the Disclosure Dissemination Agent to file information with the Repositories, from time to time pursuant to a Certification of the Disclosure Representative accompanying such information (a “Voluntary Report”).

(b) Nothing in this Disclosure Agreement shall be deemed to prevent the Issuer from disseminating any other information through the Disclosure Dissemination Agent using the means of dissemination set forth in this Disclosure Agreement or including any other information in any Annual Report, Annual Financial Statement, Voluntary Report or Notice Event notice, in addition to that required by this Disclosure Agreement. If the Issuer chooses to include any information in any Annual Report, Annual Financial Statement, Voluntary Report or Notice Event notice in addition to that which is specifically required by this Disclosure Agreement, the Issuer shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report, Annual Financial Statement, Voluntary Report or Notice Event notice.

SECTION 8. Termination of Reporting Obligation. The obligations of the Issuer and the Disclosure Dissemination Agent under this Disclosure Agreement shall terminate with respect to [11] [an issue of] the Bonds upon the legal defeasance, prior redemption or payment in full of all of the Bonds [of such issue], when the Issuer is no longer an obligated person with respect to the Bonds, or upon delivery by the Disclosure Representative to the Disclosure Dissemination Agent of an opinion of nationally recognized bond counsel to the effect that continuing disclosure is no longer required.

SECTION 9. Disclosure Dissemination Agent. The Issuer has appointed Digital Assurance Certification, L.L.C. as exclusive Disclosure Dissemination Agent under this Disclosure Agreement. The Issuer may, upon thirty days written notice to the Disclosure Dissemination Agent and the Trustee, replace or appoint a successor Disclosure Dissemination Agent. Upon termination of DAC’s services as Disclosure Dissemination Agent, whether by notice of the Issuer or DAC, the Issuer agrees to appoint a successor Disclosure Dissemination Agent or, alternately, agrees to assume all responsibilities of Disclosure Dissemination Agent under this Disclosure Agreement for the benefit of the Holders of the Bonds. Notwithstanding any replacement or appointment of a successor, the Issuer shall remain liable until payment in full for any and all sums owed and payable to the Disclosure Dissemination Agent. The Disclosure Dissemination Agent may resign at any time by providing thirty days’ prior written notice to the Issuer.

SECTION 10. Remedies in Event of Default. In the event of a failure of the Issuer or the Disclosure Dissemination Agent to comply with any provision of this Disclosure Agreement, the Holders’ rights to enforce the provisions of this Agreement shall be limited solely to a right, by action in mandamus or for specific performance, to compel performance of the parties' obligation under this Disclosure Agreement. Any failure by a party to perform in accordance with this Disclosure Agreement shall not constitute a default on the Bonds or under any other document

relating to the Bonds, and all rights and remedies shall be limited to those expressly stated herein.

SECTION 11. Duties, Immunities and Liabilities of Disclosure Dissemination Agent.

(a) The Disclosure Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement. The Disclosure Dissemination Agent's obligation to deliver the information at the times and with the contents described herein shall be limited to the extent the Issuer has provided such information to the Disclosure Dissemination Agent as required by this Disclosure Agreement. The Disclosure Dissemination Agent shall have no duty with respect to the content of any disclosures or notice made pursuant to the terms hereof. The Disclosure Dissemination Agent shall have no duty or obligation to review or verify any Information or any other information, disclosures or notices provided to it by the Issuer and shall not be deemed to be acting in any fiduciary capacity for the Issuer, the Holders of the Bonds or any other party. The Disclosure Dissemination Agent shall have no responsibility for the Issuer's failure to report to the Disclosure Dissemination Agent a Notice Event or a duty to determine the materiality thereof. The Disclosure Dissemination Agent shall have no duty to determine, or liability for failing to determine, whether the Issuer has complied with this Disclosure Agreement. The Disclosure Dissemination Agent may conclusively rely upon certifications of the Issuer at all times.

The obligations of the Issuer under this Section shall survive resignation or removal of the Disclosure Dissemination Agent and defeasance, redemption or payment of the Bonds.

(b) The Disclosure Dissemination Agent may, from time to time, consult with legal counsel (either in-house or external) of its own choosing in the event of any disagreement or controversy, or question or doubt as to the construction of any of the provisions hereof or its respective duties hereunder, and neither of them shall incur any liability and shall be fully protected in acting in good faith upon the advice of such legal counsel. The fees and expenses of such counsel shall be payable by the Issuer.

SECTION 12. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Issuer and the Disclosure Dissemination Agent may amend this Disclosure Agreement and any provision of this Disclosure Agreement may be waived, if such amendment or waiver is supported by an opinion of counsel expert in federal securities laws acceptable to both the Issuer and the Disclosure Dissemination Agent to the effect that such amendment or waiver does not materially impair the interests of Holders of the Bonds and would not, in and of itself, cause the undertakings herein to violate the Rule if such amendment or waiver had been effective on the date hereof but taking into account any subsequent change in or official interpretation of the Rule; provided neither the Issuer or the Disclosure Dissemination Agent shall be obligated to agree to any amendment modifying their respective duties or obligations without their consent thereto.

Notwithstanding the preceding paragraph, the Disclosure Dissemination Agent shall have the right to adopt amendments to this Disclosure Agreement necessary to comply with modifications to and interpretations of the provisions of the Rule as announced by the Securities and Exchange Commission from time to time by giving not less than 20 days written notice of the intent to do so together with a copy of the proposed amendment to the Issuer. No such amendment shall become effective if the Issuer shall, within 10 days following the giving of such

notice, send a notice to the Disclosure Dissemination Agent in writing that it objects to such amendment.

SECTION 13. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Issuer, the Trustee of the Bonds, the Disclosure Dissemination Agent, the underwriter, and the Holders from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 14. Governing Law. This Disclosure Agreement shall be governed by the laws of the State of Florida (other than with respect to conflicts of laws).

SECTION 15. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

[Remainder of page intentionally left blank.]



The Disclosure Dissemination Agent and the Issuer have caused this Continuing Disclosure Agreement to be executed, on the date first written above, by their respective officers duly authorized.

DIGITAL ASSURANCE CERTIFICATION, L.L.C.,  
as Disclosure Dissemination Agent

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

[12] \_\_\_\_\_  
as Issuer

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**EXHIBIT A**

**NAME AND CUSIP NUMBERS OF BONDS**

Name of Issuer [A1] \_\_\_\_\_  
Obligated Person(s) [A2] \_\_\_\_\_  
Name of Bond Issue: [A3] \_\_\_\_\_  
Date of Issuance: [A4] \_\_\_\_\_  
Date of Official Statement [A5] \_\_\_\_\_

CUSIP Number: [A6] _____	CUSIP Number: _____
CUSIP Number: _____	CUSIP Number: _____
CUSIP Number: _____	CUSIP Number: _____
CUSIP Number: _____	CUSIP Number: _____
CUSIP Number: _____	CUSIP Number: _____
CUSIP Number: _____	CUSIP Number: _____
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CUSIP Number: _____	CUSIP Number: _____
CUSIP Number: _____	CUSIP Number: _____
CUSIP Number: _____	CUSIP Number: _____
CUSIP Number: _____	CUSIP Number: _____

[A7]  
Name of Issuer \_\_\_\_\_  
Obligated Person(s) \_\_\_\_\_  
Name of Bond Issue: \_\_\_\_\_  
Date of Issuance: \_\_\_\_\_

CUSIP Number: _____	CUSIP Number: _____
CUSIP Number: _____	CUSIP Number: _____
CUSIP Number: _____	CUSIP Number: _____
CUSIP Number: _____	CUSIP Number: _____
CUSIP Number: _____	CUSIP Number: _____
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CUSIP Number: _____	CUSIP Number: _____
CUSIP Number: _____	CUSIP Number: _____

**EXHIBIT B**

**NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT**

Issuer: [B1]\_\_\_\_\_

Obligor: [B2]\_\_\_\_\_

Name of Bond Issue: [B3]\_\_\_\_\_

Date of Issuance: [B4]\_\_\_\_\_

NOTICE IS HEREBY GIVEN that the Issuer has not provided an Annual Report with respect to the above-named Bonds as required by the Disclosure Agreement, dated as of [B5]\_\_\_\_\_, between the Issuer and Digital Assurance Certification, L.L.C., as Disclosure Dissemination Agent. The Issuer has notified the Disclosure Dissemination Agent that it anticipates that the Annual Report will be filed by [B6]\_\_\_\_\_.

Dated: [B7]\_\_\_\_\_

Digital Assurance Certification, L.L.C., as  
Disclosure Dissemination Agent, on behalf of the  
Issuer

---

cc: Issuer  
Obligated Person

**EXHIBIT C**  
**EVENT NOTICE COVER SHEET**

This cover sheet and material event notice will be sent to all Nationally Recognized Municipal Securities Information Repositories, and any State Information Depository, if applicable, pursuant to Securities and Exchange Commission Rule 15c2-12(b)(5)(i)(C) and (D).

Issuer's and/or Other Obligated Person's Name:

[C1] \_\_\_\_\_

Issuer's Six-Digit CUSIP Number:

[C2] \_\_\_\_\_

or Nine-Digit CUSIP Number(s) of the bonds to which this material event notice relates:

[C3] \_\_\_\_\_

Number of pages of attached: [C4] \_\_\_\_\_

\_\_\_\_ Description of Material Event Notice (Check One): [C5]

1.  Principal and interest payment delinquencies
2.  Non-Payment related defaults
3.  Unscheduled draws on debt service reserves reflecting financial difficulties
4.  Unscheduled draws on credit enhancements reflecting financial difficulties
5.  Substitution of credit or liquidity providers, or their failure to perform
6.  Adverse tax opinions or events affecting the tax-exempt status of the security
7.  Modifications to rights of securities holders
8.  Bond calls
9.  Defeasances
10.  Release, substitution, or sale of property securing repayment of the securities
11.  Rating changes
12.  Other material event notice (specify) \_\_\_\_\_

\_\_\_\_ Failure to provide annual financial information as required

I hereby represent that I am authorized by the issuer or its agent to distribute this information publicly:

Signature:

\_\_\_\_\_  
\_\_\_\_\_

Name: [C6] \_\_\_\_\_ Title: [C7] \_\_\_\_\_

Employer: Digital Assurance Certification, L.L.C.

Address: [C8] \_\_\_\_\_

City, State, Zip Code: \_\_\_\_\_

Voice Telephone Number: [C9] \_\_\_\_\_

**APPENDIX G**

**Audited Financial Statements for Fiscal Years Ended September 30, 2006 and 2005**

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District of Columbia Housing  
Finance Agency

Financial Statements With

Independent Auditor's Report

Years Ended September 30, 2006 and 2005

**TCBA**

**THOMPSON, COBB, BAZILIO & ASSOCIATES, PC**

1101 15th Street, NW    Suite 400    Washington, DC 20005  
PH 202.737.3300    ◻    FX 202.737.2684    ◻    [www.tcba.com](http://www.tcba.com)



**District of Columbia Housing  
Finance Agency**

**Financial Statements With**

**Independent Auditor's Report**

**Years Ended September 30, 2006 and 2005**



**DISTRICT OF COLUMBIA HOUSING FINANCE AGENCY  
FINANCIAL STATEMENTS WITH  
INDEPENDENT AUDITOR'S REPORT  
YEARS ENDED SEPTEMBER 30, 2006 AND 2005**

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**THOMPSON, COBB, BAZILIO & ASSOCIATES, PC**  
*Certified Public Accountants and Management, Systems, and Financial Consultants*

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■ Main Office:  
1101 15th Street, N.W.  
Suite 400  
Washington, DC 20005  
(202) 737-3300  
(202) 737-2684 Fax

□ Regional Office:  
100 Pearl Street  
14th Floor  
Hartford, CT 06103  
(860) 249-7246  
(860) 275-6504 Fax

□ Regional Office:  
21250 Hawthorne Boulevard  
Suite 500  
Torrance, CA 90503  
(310) 792-7001  
(310) 792-7004 Fax

**INDEPENDENT AUDITOR'S REPORT**

Board of Directors  
District of Columbia Housing Finance Agency

We have audited the accompanying basic financial statements, as listed in the table of contents, of the District of Columbia Housing Finance Agency ("the Agency"), a component unit of the District of Columbia Government, as of and for the years ended September 30, 2006 and 2005. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Agency as of September 30, 2006 and 2005, and the changes in its financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 18, 2007, on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of the testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 6 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Agency's basic financial statements. The combining financial statements on pages 46 through 50 are presented for purpose of additional analysis and are not a required part of the basic financial statements. The combining financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Washington, D.C.  
January 18, 2007

*Thompson, Cobb, Bazilio & Associates, PC*

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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Our discussion and analysis of the District of Columbia Housing Finance Agency's financial performance provides an overview of the Agency's financial activities for the year ended September 30, 2006. The financial statements, accompanying notes, and additional information should be read in conjunction with the following discussion.

### Overview

The District of Columbia Housing Finance Agency (the Agency) was established in 1979 to stimulate and expand homeownership and rental housing opportunities in Washington, D.C. The Agency accomplishes its mission by issuing mortgage revenue bonds that lower the homebuyers' costs of purchasing and rehabilitating homes and the developers' costs of acquiring, constructing, and rehabilitating rental housing. The Agency uses Funds to account for its financial activities. The General Fund is used to record the receipt of income not directly pledged for repayment of securities, to pay expenses related to the Agency's administrative functions, and to account for grant revenues and expenditures related to Section 8 grants from the United States Department of Housing and Urban Development (HUD) and for an intra-agency agreement entered with Department of Mental Health of the District to construct or rehab rental housing to address the critical need of mentally challenged persons residing in the City. The other funds are used to account for bond proceeds and debt service related to multifamily and single family mortgage revenue bonds and to account for certificates of participation, revenues and expenses related to the Building Finance Corporation.

### Financial Highlights

The following information is an analysis of the year ended September 30, 2006.

- The Agency's net assets increased by \$1.969 million, mainly from investment earnings on operating reserves and guaranteed investment agreements as a result of a rising interest rate environment during the fiscal year. A decline of \$ 4.220 million in unrealized fair market value adjustments which was recognized in prior years weighed negatively in this fiscal year's financial performance.
- Bonds issued increased by \$439.567 million as a result of the issuance of \$183.865 million in multifamily revenue bonds of which \$112.322 million was draw-down series, and of the \$359.905 million in single family issuances, \$272.855 million was draw-down series. In the aggregate, a total of \$49.204 million in bonds were redeemed from sinking fund maturities and prepayment calls.
- Revenues for the current year is \$88.139 million which is comprised of operating revenue of \$60.197 million and investment earnings of \$27.941 million and is 17.3% higher than last year, while operating expenses for the current year is \$85.903 million which is 18.9% over last year. In FY 2006, decline in interest earned on mortgage-backed securities of the single family bond program as a result of prepayments of mortgages contributed to a decrease in operating revenues of the single family bond program by 32.2% compared to FY 2005, however, such a decrease was made-up for by interest income earned from the two single family revenue bond series issued and the eight multifamily transactions closed in FY 2006.

**Table 1**  
**Condensed Balance Sheets**  
**September 30,**

	<u>2006</u>	<u>2005</u>
Current assets	\$ 48,895,479	\$ 42,066,905
Noncurrent assets	1,233,271,479	1,083,024,144
<b>Total Assets</b>	<u>\$1,282,166,958</u>	<u>\$1,125,091,049</u>
Current liabilities	\$ 120,367,539	\$ 54,307,821
Noncurrent Liabilities	1,072,456,225	983,408,600
<b>Total Liabilities</b>	<u>1,192,823,764</u>	<u>1,037,716,421</u>
Net assets:		
Invested in capital assets, net of related debt	853,206	951,697
Restricted for:		
Bond Fund and Risk Share Program	52,046,365	52,178,035
McKinney Act Fund	7,934,190	7,431,008
Total restricted	<u>59,980,555</u>	<u>59,609,043</u>
Unrestricted	<u>28,509,433</u>	<u>26,813,888</u>
<b>Total Net Assets</b>	<u>89,343,194</u>	<u>87,374,628</u>
<b>Total Liabilities and Net Assets</b>	<u>\$1,282,166,958</u>	<u>\$1,125,091,049</u>

**Table 2**  
**Condensed Statements of Revenues, Expenses,**  
**and Changes in Net Assets**  
**Years Ended September 30,**

	<u>2006</u>	<u>2005</u>
<b>Operating Revenues</b>		
Mortgage-backed security income	\$ 6,726,493	\$ 8,293,054
Interest on mortgage and construction loans	19,784,506	18,679,962
McKinney Act revenue	500,137	537,170
Application and commitment fees	124,543	90,729
HUD Section 8 housing assistance receipts	12,534,868	12,727,925
Service project receipts	7,192,215	7,048,178
Other	13,334,407	13,712,861
Total operating revenues	<u>60,197,169</u>	<u>61,089,879</u>
<b>Operating Expenses</b>	<u>85,902,969</u>	<u>72,241,861</u>
<b>Operating Loss</b>	<u>(25,705,800)</u>	<u>(11,151,982)</u>
Non-operating revenues	27,941,420	13,818,205
Extraordinary item – loss on extinguishment of debt	(267,054)	(83,926)
<b>Change in Net Assets</b>	<u>\$ 1,968,566</u>	<u>\$ 2,582,297</u>

## **New Business**

During fiscal year 2006, the Agency re-entered into the single family bond program of issuing tax-exempt bonds to make funds available to the residents of the District to purchase residences at favorable below market interest rate. Following this, the agency has made \$42 million in lendable money in FY 2006 and has assisted 67 residents of the district to be homeowners through September 30, 2006. The Agency, in its endeavor to address housing shortages in the District, was successful in effectively leveraging and strategically directing the investment of public and private funds into target communities. This resulted in Agency's financing a total of 1,165 units of affordable new, ownership and rehabilitated rental housing community investment of \$71.543 million in tax-exempt bonds. The Agency's satellite office east of the river at 4415 South Capitol Street, SW counseled over 2,000 clients citywide as part of its Single Family Homeownership Program. The Agency is resolute in refining its internal capacity to keep-up with its strong credit position in the financial markets.

## **Debt Administration**

The Agency's outstanding debt increased by 12% over the prior year. In fiscal year 2006, the Agency issued \$71.543 million in multifamily revenue bonds to finance the construction and rehabilitation of eight projects. 1,165 rental units will be made available upon completion of these projects. The Agency also issued \$42 million in single family tax-exempt bonds to be lent for purchase of single family residences during fiscal year 2006.

The Agency redeemed \$15.916 million in multifamily revenue bonds and \$33.178 million in single family revenue bonds. The Agency also redeemed \$54.993 million and \$322.065 million in drawdown bonds of multifamily and single family respectively.

## **Capital Assets**

The Agency issued \$2.4 million of Certificates of Participation in 1998 to finance the acquisition of the building at 815 Florida Avenue, N.W., Washington, D.C. and entered into a lease agreement with the D. C. Building Finance Corporation to lease the office space. The lease term is through June 2018, however, the Agency has an annual right to terminate the lease in the event that the Agency fails to appropriate sufficient amounts due under the lease terms for the ensuing fiscal year. The Agency has the option to purchase the building at any time during the lease at an amount necessary to discharge the Certificates. As of September 30, 2006, the lease agreement has approximately thirteen years remaining, and an outstanding balance of \$1.640 million of Certificates of Participation. The Agency redeemed \$0.110 million of Certificates of Participation in fiscal year 2006.

## **Programs**

Multifamily: In fiscal year 2006, the DCHFA financed over 1,165 rental units, of which 238 units are new housing. While 342 units will be for seniors, 583 units will be occupied by households earning less than 50% of the area median income.

Single Family: The Agency has started participating in the single-family mortgage program and as result of which 67 residents of the District have become homeowners in FY 2006 and the Agency projects to make \$100 million available in tax-exempt funds to be used for originating loans in FY 2007.

### **Section 8 HAP Contract Administration**

The Agency has entered into a contractual agreement with the United States Department of Housing & Urban Development (HUD) to administer Section 8 Housing Assistance Payments for eleven projects. The HFA earned \$389,990 in contract administration fees during fiscal year 2006.

### **HUD Risk-Sharing Program**

The Agency has also entered into a risk-sharing agreement with HUD, where a multifamily project is insured by the Federal Housing Administration (FHA) for 90% of the mortgage while 10% of the mortgage is insured by the Agency. In order to participate in this program, the Agency deposited \$500,000 in a reserve account with Merrill Lynch. With every risk-share project, an FHA placement fee of 1% of the mortgage balance is collected and deposited into the reserve account. As of September 30, 2006, the reserve account has a balance of \$1.926 million.

### **Subsequent Events:**

The following subsequent events have occurred:

- On November 9, 2006, the agency issued single family revenue bonds Series 2006 D, E & F for \$102.145 million.
- On November 12, 2006, the agency issued multifamily housing revenue bonds of \$4.13 million for Azeze Bates Apartments.
- On December 1, 2006, the Agency redeemed \$1.94 million of Multifamily Housing Refunding Revenue Bonds Series 1992A.
- On December 11, 2006, the agency issued multifamily housing revenue bonds of \$11 million for Eastgate Family.
- On December 14, 2006, the agency issued multifamily housing revenue bonds of \$10.34 million for Wesley House.
- On January 4, 2007, the agency made McKinney Act loan of \$0.35 million to Hyacinth's Place LLC.

### **Conclusion**

The above discussion and analysis is presented to provide additional information regarding the activities of the Agency and also to meet the disclosure requirements of GASB 34. If you have questions about the report or need additional financial information, contact the Chief Financial Officer, Solomon Haile, District of Columbia Housing Finance Agency, (202) 777-1620, 815 Florida Avenue, N.W. Washington DC 20001, shaile@dchfa.org or go to our website at [www.dchfa.org](http://www.dchfa.org).

**DISTRICT OF COLUMBIA HOUSING FINANCE AGENCY**  
**BALANCE SHEETS**  
**SEPTEMBER 30, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
<b><u>ASSETS</u></b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 19,938,715	\$ 24,452,142
Restricted cash and cash equivalents	22,639,768	11,814,248
Accrued interest receivable-restricted	5,795,063	5,351,817
Other receivables	521,933	448,698
Total current assets	48,895,479	42,066,905
<b>NON-CURRENT ASSETS</b>		
Other assets:		
Investments	5,712,869	4,921,181
Loans receivable	140,000	140,745
Prepays	295,837	289,922
Bond issue costs-net	15,788,823	15,615,055
Total other assets	21,937,529	20,966,903
Restricted assets:		
Cash and cash equivalents	85,361	83,151
Investments held in trust	575,826,290	484,129,631
Mortgage-backed securities at fair value	203,392,447	204,535,869
Mortgage and construction loans receivable	424,209,954	367,710,580
Loans receivable	1,899,930	1,789,129
McKinney Act funds receivable	1,598,421	804,224
Other receivables	1,828,341	302,960
Total restricted assets	1,208,840,744	1,059,355,544
Capital assets:		
Land	573,000	573,000
Depreciable property and equipment	3,481,256	3,446,238
Leasehold improvements	1,127,040	1,122,042
Less accumulated depreciation and amortization	(2,688,090)	(2,439,583)
Total capital assets	2,493,206	2,701,697
Total non-current assets	1,233,271,479	1,083,024,144
<b>TOTAL ASSETS</b>	<b>\$ 1,282,166,958</b>	<b>\$ 1,125,091,049</b>

(Continued)

The accompanying notes are an integral part of these financial statements.



**DISTRICT OF COLUMBIA HOUSING FINANCE AGENCY**  
**BALANCE SHEETS**  
**SEPTEMBER 30, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
<b><u>LIABILITIES AND NET ASSETS</u></b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued liabilities	\$ 943,881	\$ 791,334
Accrued salary and vacation payable	302,207	292,129
Deferred revenue	829,818	739,009
Current portion of bonds payable	33,315,000	4,000,000
Current portion of certificates of participation	115,000	110,000
Total current liabilities	<u>35,505,906</u>	<u>5,932,472</u>
<b>CURRENT LIABILITIES PAYABLE FROM</b>		
Tenant subsidy funds	851,412	618,707
Escrow deposits	3,108,368	2,704,937
Deferred credits	65,334,356	28,480,594
Deferred revenue	4,781,573	6,130,090
Interest payable	10,785,924	10,441,021
Total current liabilities payable from restricted	<u>84,861,633</u>	<u>48,375,349</u>
<b>NON-CURRENT LIABILITIES</b>		
Loans payable	463,929	465,884
Bonds payable—less current portion	1,070,467,296	981,302,716
Certificates of participation—less current portion	1,525,000	1,640,000
Total non-current liabilities	<u>1,072,456,225</u>	<u>983,408,600</u>
Total liabilities	<u>1,192,823,764</u>	<u>1,037,716,421</u>
<b>NET ASSETS</b>		
Invested in capital assets—net of related debt	<u>853,206</u>	<u>951,697</u>
Restricted for:		
Bond Fund and Risk Share	52,046,365	52,178,035
McKinney Act Fund	7,934,190	7,431,008
Total restricted net assets	<u>59,980,555</u>	<u>59,609,043</u>
Unrestricted net assets	<u>28,509,433</u>	<u>26,813,888</u>
Total net assets	<u>89,343,194</u>	<u>87,374,628</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>\$ 1,282,166,958</u></u>	<u><u>\$ 1,125,091,049</u></u>

The accompanying notes are an integral part of these financial statements.

**DISTRICT OF COLUMBIA HOUSING FINANCE AGENCY**  
**STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS**  
**YEARS ENDED SEPTEMBER 30, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
<b>OPERATING REVENUES</b>		
Mortgage-backed security income	\$ 6,726,493	\$ 8,293,054
Interest on mortgage and construction loans	19,784,506	18,679,962
McKinney Act revenue	500,137	537,170
Application and commitment fees	124,543	90,729
HUD Section 8 housing assistance receipts	12,534,868	12,727,925
Service project receipts	7,192,215	7,048,178
Other (Note 13)	13,334,407	13,712,861
Total operating revenues	<u>60,197,169</u>	<u>61,089,879</u>
<b>OPERATING EXPENSES</b>		
Operations	4,875,342	5,052,302
Personnel and related costs	3,801,585	3,568,871
Interest expense	53,756,296	37,534,745
Depreciation	248,507	257,111
Federal program payments	7,192,215	7,048,178
Housing assistance payments	12,534,868	12,727,925
Bond amortization	745,688	679,783
Trustee fees and other expenses	2,748,468	5,372,946
Total operating expenses	<u>85,902,969</u>	<u>72,241,861</u>
OPERATING LOSS	(25,705,800)	(11,151,982)
<b>NON-OPERATING REVENUES</b>		
Investment income	<u>27,941,420</u>	<u>13,818,205</u>
Excess Of Revenue Over Expenses Before Extraordinary Item	2,235,620	2,666,223
Extraordinary Item - Loss On Extinguishment Of Debt	<u>(267,054)</u>	<u>(83,926)</u>
Change In Net Assets	1,968,566	2,582,297
Net Assets, Beginning Of Year	87,374,628	84,792,331
Net Assets, End Of Year	<u>\$ 89,343,194</u>	<u>\$ 87,374,628</u>

The accompanying notes are an integral part of these financial statements.

**DISTRICT OF COLUMBIA HOUSING FINANCE AGENCY**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED SEPTEMBER 30, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
<b>Operating Activities</b>		
Cash receipts from loans and interest	\$ 64,825,827	\$ 37,270,289
Other cash receipts	9,685,754	13,018,229
Cash payments to vendors	(4,496,414)	(1,661,173)
Cash payments to employees	(3,791,507)	(3,568,871)
Receipts of federal program income	19,727,083	19,851,532
Payments of federal program expenses	(19,724,125)	(19,776,102)
Other cash payments	(1,777,686)	(9,589,236)
Net Cash Provided by Operating Activities	<u>64,448,932</u>	<u>35,544,668</u>
<b>Capital and Related Financing Activities</b>		
Acquisition of fixed assets	(40,017)	(68,699)
Payments of bonds and long-term debt	(110,000)	(105,000)
Payments of interest and charges	(91,875)	(96,968)
Net Cash Used in Capital and Financing Activities	<u>(241,892)</u>	<u>(270,667)</u>
<b>Non-Capital Financing</b>		
Funds disbursed for multi-family rehab	(2,082,275)	(36,359,283)
Proceeds from long-term bonds	559,366,574	167,290,000
Payments of long-term debt	(441,997,238)	(59,354,352)
Interest paid on bonds	(53,399,464)	(36,036,275)
Net Cash Provided by Non-Capital Financing Activities	<u>61,887,597</u>	<u>35,540,090</u>
<b>Investing Activities</b>		
Receipts of interest and dividends	27,934,700	12,541,973
Principal payments (purchases) on mortgage and construction loans	(60,901,205)	14,468,398
Sale of investments and mortgage-backed securities	703,162,821	481,062,632
Purchase of investments and mortgage-backed securities	(789,976,650)	(570,583,552)
Net Cash Used in Investing Activities	<u>(119,780,334)</u>	<u>(62,510,549)</u>
NET INCREASE IN CASH	6,314,303	8,303,542
Cash and cash equivalents at October 1	36,349,541	28,045,999
Cash and cash equivalents at September 30	<u>\$ 42,663,844</u>	<u>\$ 36,349,541</u>

(Continued)

The accompanying notes are an integral part of these financial statements.

**DISTRICT OF COLUMBIA HOUSING FINANCE AGENCY**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED SEPTEMBER 30, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
<b>Reconciliation of Operating Loss to Net Cash</b>		
<b>Provided by Operating Activities</b>		
Operating loss	\$ (25,705,800)	\$ (11,151,982)
Interest expense	53,669,596	37,534,745
Depreciation	574,127	257,111
Bad debt expense	-	6,740
Miscellaneous non-operating revenue	-	30,872
Decrease (increase) in assets		
Receivables	(1,106,823)	1,166,029
Other current assets	437,570	1,850,820
Loans receivables	745	(104,340)
Increase (decrease) in liabilities		
Payables	152,546	5,067,346
Accrued liabilities	10,078	(33,694)
Deferred revenue and credits	35,596,054	(136,317)
Escrow deposits	403,431	445,222
Current liabilities and changes in mortgage loans	417,408	612,116
Net cash provided by operating activities	<u>\$ 64,448,932</u>	<u>\$ 35,544,668</u>

The accompanying notes are an integral part of these financial statements.

**DISTRICT OF COLUMBIA HOUSING FINANCE AGENCY**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2006 AND 2005**

**NOTE 1: ORGANIZATION AND PURPOSE**

The District of Columbia Housing Finance Agency (the Agency) was created as a corporate body which has a legal existence separate from the Government of the District of Columbia (the District) but which is an instrumentality of the District, created to effectuate certain public purposes. The Agency is empowered to, among other activities, generate funds from public and private sources to increase the supply and lower the cost of funds available for residential mortgages and notes and for the construction of permanent multi-family rental properties.

In 1991, the Governmental Accounting Standards Board issued Statement No. 14, *The Financial Reporting Entity*. The definition of the reporting entity is based primarily on the notion of financial accountability. In determining financial accountability for legally separate organizations, the Agency considered whether its officials appoint a voting majority of an organization's governing body and is either able to impose its will on that organization or if there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the Agency. The Agency also considered whether there are organizations that are fiscally dependent on it. It was determined that there are no component units of the Agency.

The Agency is included in the District's Comprehensive Annual Financial Report as a Discretely Presented Component Unit.

The Agency established the District of Columbia Building Finance Corporation (the Building Corporation) as a nonprofit corporation under the laws of the District of Columbia in July 1998. The Building Corporation's financial transactions are included as a separate fund of the Agency.

The bonds issued by the Agency and the Corporation are payable principally from repayments of mortgage loans financed by or purchased from the proceeds of such bonds and are not a debt of the Agency or the District. Neither the faith and credit nor the taxing power of the District is pledged for the repayment of the bonds.

The following is a summary of significant accounting policies:

**Basis of Accounting** – For financial reporting purposes only, the Agency is a component unit of the District of Columbia Government. The Agency's operations are accounted for as an enterprise fund on an accrual basis in order to recognize the flow of economic resources. The Agency's financial activities are recorded in funds, each of which represents a separate accounting entity. The Agency uses the accrual method of accounting, whereby revenues are recognized when earned and expenses are recognized when incurred.

**DISTRICT OF COLUMBIA HOUSING FINANCE AGENCY**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2006 AND 2005**

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The following is a description of the funds maintained by the Agency:

**General Fund** - The General Fund is used to record the receipt of income not directly pledged for repayment of securities, to pay expenses related to the Agency's administrative functions, and to account for grant revenues and expenditures related to the Section 8A grants from HUD.

**Multi-Family Program Fund** - The Multi-Family Program Fund is used to account for the proceeds of multi-family mortgage revenue bond issues, investments held pursuant to the indenture authorizing the issuance of the bonds, the debt service requirements on the bonds, and the related mortgage loan financing for newly constructed or rehabilitated multi-family rental housing in the District of Columbia.

**Single-Family Program Fund** - The Single-Family Program Fund is used to account for the proceeds of single-family mortgage revenue bond issues, investments held pursuant to the indenture authorizing the issuance of the bonds, the debt service requirements on the bonds, and debt service collected from mortgage loans purchased for the financing of owner-occupied single-family residences in the District of Columbia.

**D.C. Building Finance Corporation Fund** - The D.C. Building Finance Corporation Fund is used to account for the lease and Certificates of Participation issued by the Agency to finance the purchase of a building.

**Investments** - Investments of the General Fund are made in accordance with the Agency's investment policy, which generally includes instruments issued or secured by the United States Government or covered by Federal insurance programs. These funds have been designated for use by the Agency for mortgage insurance premiums, maintenance costs related to federal financial assistance programs, and other contingencies.

Investments in the other funds consist of those permitted by the respective trust indentures adopted by the Agency providing for the issuance of notes and bonds.

The Governmental Accounting Standards Board issued Statement No. 40, Deposit and Investment Risk Disclosures, to be implemented effective for financial statements for periods beginning after June 15, 2004. The Agency implemented GASB Statement No. 40 in fiscal year 2003.

**DISTRICT OF COLUMBIA HOUSING FINANCE AGENCY**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2006 AND 2005**

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Mortgage-Backed Securities** - Mortgage-backed securities represent certificates issued by the Government National Mortgage Association (“Ginnie Mae”) and FANNIE MAE which guarantee the receipt by the Agency’s trustee of monthly principal and interest from mortgages originated under the Agency’s Single-Family and Multi-Family Loan Programs.

**Mortgage and Construction Loans Receivable** - Mortgage and construction loans are carried at amounts advanced, net of collections and allowances for potential loan losses, if any. As of September 30, 2006 and 2005, no allowance for potential loan losses was necessary.

**Property, Furniture and Equipment** - Property, furniture and equipment purchases are capitalized at cost and depreciated using the straight-line method over the estimated useful lives ranging from five to seven years.

**Leasehold Improvements** - Capital improvements to leased space are recorded as leasehold improvements and amortized over the shorter of the applicable lease life or the useful life of the improvement.

**Bond Issuance Costs** - Costs related to the issuance of bonds and certificates of participation are amortized over the life of the related debt on a straight-line basis, which approximates the effective yield method, or are recognized upon early redemption of the bonds.

**Bond Discounts and Premiums** - Bond discount or premium arising from the sale of serial or term bonds is amortized using the straight-line method which approximates the effective yield method, over the life of the bond issue.

**Bond Accretion** - Interest on multiplier bonds or capital appreciation bonds (which do not pay interest during the life of the bonds) is added to the bond principal outstanding as interest is earned. The increase in value is recorded as a liability in bonds payable on the combined balance sheet and as interest expense on the combined statement of revenues, expenses and changes in net assets.

**Loan Origination and Commitment Fees** - The Agency originates single family mortgage loans and earns fees for these loan originations. The Agency also charges application and financing fees to developers and participating lenders for commitments on financing. These fees are recognized as revenue when the services have been performed.

**DISTRICT OF COLUMBIA HOUSING FINANCE AGENCY**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2006 AND 2005**

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

**NOTE 3: CASH/CASH EQUIVALENTS AND INVESTMENTS**

**Cash and Cash Equivalents** - The Agency's combined cash balance as of September 30, 2006, consists primarily of amounts held in trust accounts that are under the control of the Agency's trustees. Those amounts held in trust accounts and other demand deposit accounts are insured by Federal Deposit Insurance Corporation (FDIC) to the extent required by law.

\$6,228,402 (McKinney Act Savings) are restricted in nature as they are to be used to benefit very low income persons. The DCHFA Minority Contractor Loan Fund Escrow of \$49,987 and the Department of Mental Health (DMH) fund of \$10,457,170 are also restricted.

As of September 30, 2006 and 2005, the Agency's general fund had the following deposits:

	<u>2006</u>	<u>2005</u>
Insured	\$ 659,576	\$ 906,318
Collateralized:		
Collateral held by Federal Reserve in joint name	30,750,723	24,259,331
Collateral held by bank through a tri-party agreement	8,579,918	7,630,235
Corporate Bonds	250,000	-
U.S. Treasury Bills (maturing in ninety days)	2,338,766	3,470,506
Total deposits	<u>\$ 42,578,983</u>	<u>\$ 36,266,390</u>



**DISTRICT OF COLUMBIA HOUSING FINANCE AGENCY**  
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**NOTE 3: CASH/CASH EQUIVALENTS AND INVESTMENTS (Continued)**

Custodial credit risk is the risk that in the event of a bank failure, the Agency's deposits may not be recovered. The Agency does not have a formal custodial credit risk policy, but ensures that deposits with banks are fully collateralized.

**Investments – General Fund**

The Agency follows general investment guidelines approved by its Board of Directors with regard to its general fund. The policy states that investment securities shall be of investment grade rating, principal guaranteed and offer reasonable returns. The Agency adheres to the specific covenants as stipulated in the indenture of trust and other regulatory agreements of the bond programs and certificates of participation (COPs) regarding investments relating to its bond programs.

As of September 30, 2006, the Agency had the following investments relating to its general fund:

<u>Investment Type</u>	<u>Fair value of investments with maturities less than 5 years</u>	<u>Rating</u>	
Fannie Mae	\$ 836,046	AAA	13%
Corporate Bonds	491,005	A	7%
US Treasuries	5,263,254	Not Rated	80%
Total	<u>\$ 6,590,305</u>		<u>100%</u>

As of September 30, 2005, the Agency had the following investments relating to its general fund:

<u>Investment Type</u>	<u>Fair value of investments with maturities less than 5 years</u>	<u>Rating</u>	
Certificates of Deposit	\$ 388,000	Not Rated	8%
Fannie Mae	1,213,499	AAA	25%
Corporate Bonds	741,863	A-AAA	15%
Merrill Lynch - Equities Index	1,409,688	Not Rated	28%
US Treasuries	1,168,131	Not Rated	24%
Total	<u>\$ 4,921,181</u>		<u>100%</u>

**DISTRICT OF COLUMBIA HOUSING FINANCE AGENCY**  
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**NOTE 3: CASH/CASH EQUIVALENTS AND INVESTMENTS (Continued)**

Rated securities have a minimum of A. The Agency practices a prudent policy of staggering maturities of its investments to manage its cash flow needs and also to lessen the effect of changes in interest rates.

The Agency's investment policy stipulates that the securities be rated investment grade and that the principal be secured. As of September 30, 2006, the Agency's investments were invested in fully diversified securities. The above securities are insured, rated between medium to top and guarantee payment of principal at maturity.

The Agency uses weighted average maturity method that considers the investment's time horizons and maturities. In FY 2006, the weighted average maturity of the Agency's investment was less than a year.

**Investments – Bonds and Certificates of Participation**

As of September 30, 2006, the Agency had the following investments relating to its bonds and certificates of participation:

Investment Type	Fair Value	Less than 5 years	Maturities		Rating	
			6-10 years	over 10 years		
Guaranteed Investment Contract – I/A	\$ 265,004,183	\$ 220,201,851	\$ 12,663,375	\$ 32,138,957	Not rated	35%
Money Market Funds	298,298,315	298,298,315	-	-	AAA	38%
U.S. Treasury Bills and Strips	11,646,190	7,835,229	3,810,961	-	Not rated	1%
Ginnie Mae – Mortgage – backed securities	173,029,148	25,225,830	3,045,000	144,758,318	AAA	22%
Fannie Mae – Mortgage – backed securities	30,363,300	10,479,171	-	19,884,129	AAA	4%
<b>Total</b>	<b>\$ 778,341,136</b>	<b>\$ 562,040,396</b>	<b>\$ 19,519,336</b>	<b>\$ 196,781,404</b>		<b>100%</b>

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**NOTE 3: CASH/CASH EQUIVALENTS AND INVESTMENTS (Continued)**

As of September 30, 2005, the Agency had the following investments relating to its bonds and certificates of participation:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Less than 5 years</u>	<u>Maturities</u>		<u>Rating</u>	
			<u>6-10 years</u>	<u>over 10 years</u>		
Guaranteed Investment Contract – I/A	\$ 443,040,239	\$ 392,518,123	\$ 11,193,672	\$ 39,328,444	Not rated	64%
Money Market Funds	29,848,804	29,848,804	-	-	AAA	4%
U.S. Treasury Bills and Strips	11,240,587	8,588,736	2,651,851	-	Not rated	2%
Ginnie Mae – Mortgage – backed securities	183,451,710	5,418,614	1,828,979	176,204,117	AAA	27%
Fannie Mae – Mortgage – backed securities	<u>21,084,160</u>	<u>1,641,386</u>	<u>141,021</u>	<u>19,301,753</u>	AAA	<u>3%</u>
<b>Total</b>	<u>\$ 688,665,500</u>	<u>\$ 438,015,663</u>	<u>\$ 15,815,523</u>	<u>\$ 234,834,314</u>		<u>100%</u>

Investments of proceeds from bond issuances are governed by the covenants of the indenture of trust entered between the issuer (the Agency), the respective trustee and the investment agreement provider. Normally, the investment agreements are with major financial institutions under which each financial institution:

- Has indemnified the Agency from market risk and has agreed to pay a guaranteed interest rate.
- Is required to deposit qualifying securities equivalent to principal and interest with the designated trustee to indemnify the Agency.

Credit risk is the risk that an issuer or other counter-party to an investment will not fulfill its obligations. Investment agreements are not rated; however, the contracts entered with major financial institutions require the institutions to notify the trustees when rating down-grades occur. If such down-grades place the securities below the agreed-upon rating, the provider is required to put up additional cash collateral as determined by the trustee to bring it to the agreed-upon rating at the time of executing the investment agreement.

Money market funds are short-term in nature and are held by trust banks for the benefit of projects. They are top rated by nationally recognized statistical rating organizations, such as Standard & Poor's and Moody's Investors Service. U.S. Treasury Strips are zero-coupon, accreted semi-annually to appreciate to the par

**DISTRICT OF COLUMBIA HOUSING FINANCE AGENCY**  
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**NOTE 3: CASH/CASH EQUIVALENTS AND INVESTMENTS (Continued)**

value of the strips at maturity. Fannie Mae mortgage-backed pass-through securities are top rated by Standard & Poor's and Moody's Investors Service. Though there is no explicit guarantee that Fannie Mae mortgage-backed securities are backed by the full faith and credit of the U.S. government, there is an implicit guarantee, as government-sponsored entities are created by Congress.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Guaranteed investment contracts protect the Agency from interest rate risk as stipulated in the terms of the contracts entered with the investment providers. Money market funds of the bond programs are short-term by their nature as they are to be used to meet debt service obligations and project construction or rehabilitation payments. The effect of changes in interest rate is inconsequential. U.S. Treasury Strips are highly sensitive investments, backed by the full faith and credit of the federal government. They represent \$4.745 million or 0.61% of the portfolio's investments. Ginnie Mae and Fannie Mae mortgage-backed securities are investments that are highly sensitive to changes in interest rates. Generally, when interest rates fall, mortgage borrowers tend to prepay their loans taking advantage of the lower rates through refinancing, thus eliminating the stream of interest payments that would have been received under the original amortization schedule. This reduces cash flow and diminishes the fair value of mortgage pass-through securities. Such securities represent \$203,392,448 or 26.13% of the portfolio's investments.

Investments of bond programs are restricted and can only be used for the benefit of the respective bond series. Bond calls made from prepayments of mortgages are not subject to any premium. In effect, prepayments resulting from refinancing are used to redeem bonds on the next debt service payment date. The effective interest rate reduction could be the difference in the rate between the mortgage rate and the investment rate from the date of prepayment to the next debt service date, which could range from two to eight months.

Investments of the bond programs are with major financial institutions under which each financial institution has insured the Agency from market risk and has agreed to pay a guaranteed interest rate. In addition, each financial institution has deposited with its trust department, in the Agency's name, qualifying securities in an amount equivalent to principal and interest.

Investments are reported at fair value in the balance sheet and changes in the fair value of investments are recognized in the statement of revenue, expenses and changes in net assets.

**DISTRICT OF COLUMBIA HOUSING FINANCE AGENCY**  
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**NOTE 4: MORTGAGE AND CONSTRUCTION LOANS RECEIVABLE**

Mortgage and construction loans receivable are secured by deeds of trust evidencing first mortgage liens on related real property. These loans are either insured by the Federal Housing Administration ("FHA"), the Veteran Administration ("VA"), or by private mortgage insurance up to a maximum of 90% of the outstanding mortgages. Both FHA and VA are U.S. Government agencies. Interest rates on these loans range from 3.65% to 9.5% and the loans have a repayment period of up to 40 years.

The Agency's Single Family Program recorded unrealized losses of \$1,608,196 and \$1,960,267 for fiscal years 2006 and 2005, respectively. The Agency's Multifamily Program recorded unrealized loss of \$2,656,109 and \$1,487,241 for fiscal years 2006 and 2005, respectively. These significant variances in fair value are caused by interest rate fluctuations and would be realized only upon sale of the securities, resulting from prepayment of mortgage loans.

Restricted mortgage and construction loans as of September 30, 2006 and 2005, were \$424,209,954 and \$367,710,580, respectively.

**NOTE 5: PROPERTY, FURNITURE AND EQUIPMENT**

Property, furniture and equipment consist of the following:

	September 30, 2005	Additions	September 30, 2006
Land	\$ 573,000	\$ -	\$ 573,000
Building	1,795,238	-	1,795,238
Furniture and equipment	1,428,329	11,768	1,440,097
Software	222,671	23,250	245,921
Total	<u>4,019,238</u>	<u>35,018</u>	<u>4,054,256</u>
Leasehold improvements	1,122,042	4,998	1,127,040
Total	<u>5,141,280</u>	<u>40,016</u>	<u>5,181,296</u>
Depreciation	(1,861,712)	(205,947)	(2,067,659)
Amortization	(577,871)	(42,560)	(620,431)
Less accumulated depreciation and amortization	<u>(2,439,583)</u>	<u>(248,507)</u>	<u>(2,688,090)</u>
Total Capital Assets	<u>\$ 2,701,697</u>	<u>\$ (208,491)</u>	<u>\$ 2,493,206</u>

**DISTRICT OF COLUMBIA HOUSING FINANCE AGENCY**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 5: PROPERTY, FURNITURE AND EQUIPMENT (Continued)**

Property, furniture and equipment consist of the following:

	September 30, 2004	Additions	September 30, 2005
Land	\$ 573,000	\$ -	\$ 573,000
Building	1,795,238	-	1,795,238
Furniture and equipment	1,373,500	54,829	1,428,329
Software	210,863	11,808	222,671
Total	<u>3,952,601</u>	<u>66,637</u>	<u>4,019,238</u>
Leasehold improvements	1,119,979	2,062	1,122,041
Total	<u>5,072,580</u>	<u>68,699</u>	<u>5,141,279</u>
Depreciation	(1,647,422)	(214,290)	(1,861,712)
Amortization	<u>(535,049)</u>	<u>(42,821)</u>	<u>(577,870)</u>
Less accumulated depreciation and amortization	<u>(2,182,471)</u>	<u>(257,111)</u>	<u>(2,439,582)</u>
Total Capital Assets	<u>\$ 2,890,109</u>	<u>\$ (188,412)</u>	<u>\$ 2,701,697</u>

There were no disposals during the years ended September 30, 2006 and 2005. Depreciation and amortization expenses for fiscal years 2006 and 2005 were \$248,507 and \$257,111, respectively.

**NOTE 6: BONDS PAYABLE**

Bonds payable consists of term and serial bonds which are subject to redemption at the option of the Agency or borrower in accordance with the terms of the respective bond indenture and bond resolution, in whole or in part, on various dates at prescribed redemption prices. Included in certain bond issues are capital appreciation bonds. The principal amount of these bonds appreciate based on either annual or semi-annual compounding on the original principal balance. These bonds are recorded in the financial statements at their current appreciated amounts. Bonds which have been issued to provide financing for the Agency's housing programs are collateralized by:

- Mortgage loans made on the related multi-family developments or single-family residential mortgage loans purchased.
- Substantially all revenues, mortgage payments, and recovery payments received by the Agency from mortgage loans made on the related developments.
- Certain accounts, generally debt service reserve funds, established pursuant to the indenture authorizing issuance of the bonds.

**DISTRICT OF COLUMBIA HOUSING FINANCE AGENCY**  
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**NOTE 6: BONDS PAYABLE (Continued)**

The following is a summary of bonds outstanding by program fund (subject to varying redemption provisions) as of September 30, 2006 and 2005:

<b>Single Family Program Fund</b>	<b><u>2006</u></b>	<b><u>2005</u></b>
The Single-Family Mortgage Bonds outstanding are as follows:		
1) 1986 Series I serial and capital appreciation bonds due March 1, 2000 through September 1, 2016 with interest rates of 7.75%.	\$1,725,000	\$2,035,000
2) 1988 Series E2 serial bonds due December 1, 1997 through December 1, 2022 with interest rates ranging of 7.70%.	25,000	4,190,000
3) 1988 Series E4 serial bonds due June 1, 1999 through June 1, 2026 with interest rates of 6.38%.	8,590,000	9,455,000
4) 1988 Series F1 serial bonds due June 1, 2026 with interest rates of 6.38%.	125,000	715,000
5) 1990 Series B serial bonds due December 1, 2024 with interest rates of 7.10%.	1,480,000	2,505,000
6) 1990 Series C4 serial bonds due December 1, 2024 with interest rates of 6.35%.	3,140,000	3,140,000
7) 1994 Series A serial bonds due December 1, 2027 with an interest rate of 7.05%.	25,000	3,235,000
8) 1995 Series A serial bond due December 1, 2005 through December 1, 2026 with interest rates ranging from 6.25% to 6.40%.	25,000	3,025,000

**DISTRICT OF COLUMBIA HOUSING FINANCE AGENCY**  
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**NOTE 6: BONDS PAYABLE (Continued)**

<b>Single Family Program Fund</b>	<b><u>2006</u></b>	<b><u>2005</u></b>
9) 1996 Taxable Series capital appreciation bonds due November 1, 2011 with interest rates of 7.63%.	68,326	428,188
10) 1996 Series A serial and term bonds due December 1, 2006 through December 1, 2028 with interest rates ranging from 5.30% to 6.75%.	6,700,000	8,545,000
11) 1997 Series B serial and term bonds due December 1, 2006 through December 1, 2028 with interest rates ranging from 5.10% to 6.35%.	6,035,000	8,585,000
12) 1998 Series A bonds due December 1, 2006 through December 1, 2029 with interest rates ranging from 4.70% to 6.25%.	11,375,000	15,785,000
13) 1999 Series A bonds due December 1, 2006 through June 1, 2030 with interest rates ranging from 4.75% to 6.65%.	9,395,000	12,455,000
14) 2000 Series A bonds due December 1, 2006 through June 1, 2031 with interest rates ranging from 5.50% to 7.50%.	4,790,000	6,505,000
15) 2000 Series C bonds due December 1, 2010 through June 1, 2031 with interest rates ranging from 5.75% to 6.25%.	940,000	1,050,000
16) 2000 Series D bonds due December 1, 2010 through June 1, 2031 with interest rates ranging from 5.65% to 7.45%.	4,055,000	6,555,000
17) 2001 Series A serial bond due December 1, 2006 through June 1, 2032 with interest rates ranging from 4.35% to 6.85%.	6,860,000	8,995,000



**DISTRICT OF COLUMBIA HOUSING FINANCE AGENCY**  
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**NOTE 6: BONDS PAYABLE (Continued)**

<b>Single Family Program Fund</b>	<b><u>2006</u></b>	<b><u>2005</u></b>
18) 2003 Series bond due December 1, 2053 with a variable interest rate of 3.84%	-	272,855,000
19) 2005 Series A serial bond due December 1, 2025 with an interest rate of 5.55%	8,740,000	-
20) 2005 Series B serial bonds due June 1, 2035 with interest rates ranging from 4.75% to 5.63%	17,000,000	-
21) 2005 Series bond due December 1, 2055 with a variable interest rate of 5.25%	223,645,000	-
22) 2006 Series A bond due December 1, 2026 with an interest rate of 4.95%	5,000,000	-
23) 2006 Series B serial bonds due June 1, 2037 interest rates ranging from 5.10% to 5.35%	25,000,000	-
24) 2006 Series C bond due July 16, 2007 with an interest rate of 4.00%	<u>30,000,000</u>	<u>-</u>
Subtotal	374,738,326	370,058,188
Add: Unamortized Bond Premium	5,255,265	4,298,664
Less: Unamortized Bond Discount	<u>(586,156)</u>	<u>(623,544)</u>
Total Single-Family Program Fund	<u>\$379,407,435</u>	<u>\$373,733,308</u>

**DISTRICT OF COLUMBIA HOUSING FINANCE AGENCY**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 6: BONDS PAYABLE (Continued)**

<b>Multi-Family Program Fund</b>	<b><u>2006</u></b>	<b><u>2005</u></b>
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The Multi-Family Mortgage Bonds outstanding are as follows:

1) 1988 Series serial bonds due February 1, 2008 through August 1, 2030 with interest rates ranging from 5% to 5.85%.		
• Mayfair Mansions	\$ 13,055,000	\$ 13,275,000
2) 1989 Series A serial bonds due October 1, 2006 through October 1, 2019 with an interest rate of 1.147%.		
• Fort Lincoln	6,765,000	7,045,000
3) 1991 Series serial bond due December 1, 2011 with an interest rate of 7.4%.		
• New Parkchester Apartments	5,740,000	6,025,000
4) 1992 Series A & B serial bonds due September 1, 2012 through March 1, 2024 with interest rates ranging from 7.10% to 7.15%.		
• Euclid, Kenyon, Franklin, Garfield and Ritch Homes	1,940,000	1,980,000
5) 1992 Series D & E serial bonds due July 1, 2024 with interest rate of 6.375%.		
• Ivy City	2,310,000	5,775,000

**DISTRICT OF COLUMBIA HOUSING FINANCE AGENCY**  
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**NOTE 6: BONDS PAYABLE (Continued)**

<b>Multi-Family Program Fund</b>	<b><u>2006</u></b>	<b><u>2005</u></b>
6) 1993 Series A & B serial bonds due July 1, 1997 through January 1, 2025 with interest rates ranging from 5.25% to 6%. <ul style="list-style-type: none"> <li>• Southview II</li> </ul>	-	4,780,000
7) 1994 Series D serial bond due January 1, 2023 with interest rate of 7.00%. <ul style="list-style-type: none"> <li>• Oak Street</li> </ul>	1,620,000	1,670,000
8) 1995 Series bonds due July 31, 2025 with an interest rate of 7.52%. <ul style="list-style-type: none"> <li>• Tyler House</li> </ul>	24,200,000	24,200,000
9) 1997 Series bond due January 1, 2012 with interest rate of 6.3%. <ul style="list-style-type: none"> <li>• Benning Road</li> </ul>	2,550,000	2,885,000
10) 1998 A-1 Series bonds due January 1, 2027 with interest rate 5.2% <ul style="list-style-type: none"> <li>• Benning Heights</li> </ul>	5,935,000	5,935,000
11) 1998 Series A-2 bonds due January 1, 2022 with an interest rate of 6.5%. <ul style="list-style-type: none"> <li>• Temple Courts</li> </ul>	3,660,000	3,750,000
12) 1998 Series A-3 bonds due July 1, 2028 with an interest rate of 6.5%. <ul style="list-style-type: none"> <li>• Parcel 13</li> </ul>	1,305,000	1,305,000

**DISTRICT OF COLUMBIA HOUSING FINANCE AGENCY**  
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**NOTE 6: BONDS PAYABLE (Continued)**

<b>Multi-Family Program Fund</b>	<b><u>2006</u></b>	<b><u>2005</u></b>
13) 1998 B Series taxable bonds due January 1, 2008 with an interest rate of 6%. <ul style="list-style-type: none"> <li>• Benning Heights: Temple Court, Parcel 13 and Congress Park</li> </ul>	35,000	290,000
14) 1999 Series bonds due December 1, 2017 through December 1, 2027 with interest rates of 5.85% to 5.95%. <ul style="list-style-type: none"> <li>• Colorado Avenue</li> </ul>	880,000	895,000
15) 1999 Series bonds due August 1, 2008 through August 1, 2026 with interest rates ranging from 4.4% to 5.15% <ul style="list-style-type: none"> <li>• Burke, Randolph, Ft. Stevens and 7<sup>th</sup> St.</li> </ul>	8,150,000	8,350,000
16) 1999 Series bonds due February 20, 2009 through February 20, 2041 with interest rates ranging from 5.2% to 5.75%. <ul style="list-style-type: none"> <li>• Rockburne Estates</li> </ul>	8,215,000	8,285,000
17) 1999 Series bonds due July 1, 2031 with an interest rate of 7.25%. <ul style="list-style-type: none"> <li>• Garfield Park Apartments</li> </ul>	3,069,426	3,112,066
18) 1999 A Series bonds due December 1, 2039 with an interest rate of 6.1%. <ul style="list-style-type: none"> <li>• Walbraff Apartments</li> </ul>	1,925,000	1,940,000
19) 1999 Series bonds due May 1, 2032 with an interest rate of 7.375% <ul style="list-style-type: none"> <li>• Barnaby Manor Apartments</li> </ul>	4,286,248	4,340,895
20) 1999 Series bonds due January 1, 2036 with an interest rate of 6.9% <ul style="list-style-type: none"> <li>• Fort Chaplin Apartments</li> </ul>	24,561,887	24,813,838

**DISTRICT OF COLUMBIA HOUSING FINANCE AGENCY**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 6: BONDS PAYABLE (Continued)**

<b>Multi-Family Program Fund</b>	<b><u>2006</u></b>	<b><u>2005</u></b>
21) 1999/2000 Series bond due November 1, 2010 through May 1, 2042 with interest rates ranging from 5.6% to 6.28%		
• Staten Glenn Apartments	22,810,000	22,955,000
22) 2000 Series bond due April 1, 2032 with interest rate 7.30%		
• Widrich Court Apartments	3,417,923	3,460,810
23) 2000 Series bond due November 20, 2015 through November 20, 2036 with interest rates ranging from 5.95% to 6.25%.		
• Congress Park Plaza	3,355,000	3,385,000
24) 2000 Series C bond due June 1, 2040 with interest rate 6.5%.		
• 636 Coop	590,000	595,000
25) 2000 Series bonds due March 1, 2033 with interest rate 6.15%.		
• Aspen Court	3,940,000	3,990,000
26) 2000 Series A bonds due December 1, 2042 with interest rate 6.5%.		
• Haven House	800,000	810,000
27) 2000 Series D serial bonds due December 1, 2041 with an interest rate of 6.10%.		
• Chesapeake/Hartford/Knox	4,490,000	4,520,000
28) 2000 Series Revenue bonds due September 1, 2013 through September 1, 2033 with interest rates ranging from 5.7% to 6.05%.		
• Carver Terrace	14,845,000	15,025,000

**DISTRICT OF COLUMBIA HOUSING FINANCE AGENCY**  
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**NOTE 6: BONDS PAYABLE (Continued)**

<b>Multi-Family Program Fund</b>	<b><u>2006</u></b>	<b><u>2005</u></b>
29) 2000 Series Mortgage Revenue bonds due December 1, 2033 with an interest rate of 2.804%. <ul style="list-style-type: none"> <li>• WDC 1 Limited Partnership Development</li> </ul>	8,355,000	8,520,000
30) 2001 Series A serial bonds due June 1, 2043 with an interest rate of 5.9%. <ul style="list-style-type: none"> <li>• Douglas Knoll (Douglas Gardens)</li> </ul>	9,819,000	9,879,000
31) 2001 Series Mortgage Revenue bonds due December 1, 2033 with an interest rate of 6.29%. <ul style="list-style-type: none"> <li>• Clifton Terrace</li> </ul>	5,322,941	5,396,953
32) 2001 Series B serial bonds due December 1, 2031 through December 1, 2042 with interest rates ranging from 5.5% to 5.6%. <ul style="list-style-type: none"> <li>• Parkway Overlook</li> </ul>	11,600,000	11,600,000
33) 2001 Series C serial taxable term bonds due December 1, 2013 through December 1, 2019 with interest rates ranging from 6.625% to 7.125%. <ul style="list-style-type: none"> <li>• Parkway Overlook</li> </ul>	2,150,000	2,240,000
34) 2001 Series D tax exempt term bonds due December 1, 2008 with an interest rate of 5.00%. <ul style="list-style-type: none"> <li>• Parkway Overlook</li> </ul>	320,000	430,000
35) 2001 Series D serial bonds due December 1, 2037 with interest an rate of 5.70%. <ul style="list-style-type: none"> <li>• Meridian Manor Apartments</li> </ul>	2,350,000	2,370,000
36) 2001 Series Woodmont Crossing Apartments bonds due September 1, 2034 with an interest rate of 5.45%. <ul style="list-style-type: none"> <li>• Woodmont Crossing Apartments</li> </ul>	10,170,000	10,290,000

**DISTRICT OF COLUMBIA HOUSING FINANCE AGENCY**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 6: BONDS PAYABLE (Continued)**

<b>Multi-Family Program Fund</b>	<b><u>2006</u></b>	<b><u>2005</u></b>
37) 2001 Series E serial bonds due June 1, 2038 with an interest rate of 5.45%.		
• Huntwood Apartments	6,665,000	6,735,000
38) 2001 Series serial bonds due November 20, 2006 through May 20, 2043 with interest rates ranging from 5.5% to 7%		
• Columbia Heights	34,115,000	34,345,000
39) 2002 Series serial bonds due July 20, 2022 through July 20, 2043 with interest rates ranging from 5.65% to 5.80%		
• Jeffrey Gardens	11,945,000	12,025,000
40) 2002 Series serial bonds due January 1, 2035 with an interest rate of 3.691%		
• Trenton Park	6,245,000	6,305,000
41) 2002 Series serial bonds due March 1, 2039 with an interest rate of 7.2%		
• Faircliff Plaza	6,878,609	6,929,793
42) 2002 Series A serial bonds due June 1, 2039 with an interest rate of 5.75%		
• Chapin St./Euclid St.	1,435,000	1,445,000
43) 2002 Series C serial bonds due June 1, 2039 with an interest rate of 5.75%		
• Chapin St./Euclid St.	1,210,000	1,220,000

**DISTRICT OF COLUMBIA HOUSING FINANCE AGENCY**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2006 AND 2005**

**NOTE 6: BONDS PAYABLE (Continued)**

<b>Multi-Family Program Fund</b>	<b><u>2006</u></b>	<b><u>2005</u></b>
44) 2002 Series G and H serial bonds due December 1, 2012 through December 1, 2038 with interest rates ranging from 4.65% to 5.55%		
• Trinity Towers	8,520,000	8,600,000
45) 2002 Series E serial bonds due June 1, 2013 through December 1, 2044 with interest rates ranging from 4.75% to 5.7%		
• Golden Rule	6,310,000	6,350,000
46) 2002 Series revenue bonds due November 1, 2035 with an interest rate of 5.35%		
• Capitol Park Plaza/Capitol Park Twin Towers Apartments	30,000,000	30,000,000
47) 2003 Series C serial bonds due December 1, 2023 with an interest rate of 5.4%		
• St Paul Senior Living	710,000	730,000
48) 2003 Series C serial bonds due December 1, 2033 with an interest rate of 5.50%		
• St Paul Senior Living	905,000	905,000
49) 2003 Series C serial bonds due June 1, 2045 with an interest rate of 5.60%		
• St Paul Senior Living	1,945,000	1,945,000
50) 2003 Series D serial bonds due December 1, 2005 with an interest rate of 2.0%		
• St Paul Senior Living	-	600,000



**DISTRICT OF COLUMBIA HOUSING FINANCE AGENCY**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2006 AND 2005**

**NOTE 6: BONDS PAYABLE (Continued)**

<b>Multi-Family Program Fund</b>	<b><u>2006</u></b>	<b><u>2005</u></b>
51) 2003 Series GNMA Collateralized serial bonds due June 20, 2023 with an interest rate of 4.50%		
• Bowling Green Apartments	2,395,000	2,480,000
52) 2003 Series GNMA Collateralized serial bonds due December 20, 2044 with an interest rate of 4.70%		
• Bowling Green Apartments	8,230,000	8,230,000
53) 2003 Series B serial bonds due June 1, 2044 with an interest rate of 5.25%		
• Urban Village Apartments	6,250,000	6,290,000
54) 2003 Series A serial bonds due December 1, 2022 with an interest rate of 4.95%		
• Elsinore Courtyard Apartments	1,235,000	1,280,000
55) 2003 Series A serial bonds due December 1, 2032 with an interest rate of 5.05%		
• Elsinore Courtyard Apartments	1,510,000	1,510,000
56) 2003 Series A serial bonds due December 1, 2044 with an interest rate of 5.15%		
• Elsinore Courtyard Apartments	3,170,000	3,170,000
57) 2003 Series GNMA Collateralized serial bonds due September 20, 2008 with an interest rate of 5.30%		
• Wingate Towers and Garden Apartments	50,000	50,000
58) 2003 Series GNMA Collateralized serial bonds due September 20, 2023 with an interest rate of 5.30%		
• Wingate Towers and Garden Apartments	8,990,000	8,990,000

**DISTRICT OF COLUMBIA HOUSING FINANCE AGENCY**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2006 AND 2005**

**NOTE 6: BONDS PAYABLE (Continued)**

<b>Multi-Family Program Fund</b>	<b><u>2006</u></b>	<b><u>2005</u></b>
59) 2003 Series GNMA Collateralized serial bonds due September 20, 2033 with an interest rate of 5.40%		
• Wingate Towers and Garden Apartments	10,915,000	10,915,000
60) 2003 Series GNMA Collateralized serial bonds due September 20, 2045 with an interest rate of 5.50%		
• Wingate Towers and Garden Apartments	25,045,000	25,045,000
61) 2002 Series I serial bonds due December 1, 2045 with an interest rate of 5.40%		
• Henson Ridge	4,050,000	4,070,000
62) 2002 Series J serial bonds due December 1, 2012 with an interest rate of 4.50%		
• Fairmont I and II Apartments	1,200,000	1,350,000
63) 2002 Series J serial bonds due December 1, 2022 with an interest rate of 5.10%		
• Fairmont I and II Apartments	2,870,000	2,870,000
64) 2002 Series J serial bonds due December 1, 2040 with an interest rate of 5.30%		
• Fairmont I and II Apartments	11,905,000	11,905,000
65) 2004 Series A serial bonds due December 1, 2009 with an interest rate of 3%		
• 1330 7TH Street	660,000	815,000

**DISTRICT OF COLUMBIA HOUSING FINANCE AGENCY**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2006 AND 2005**

**NOTE 6: BONDS PAYABLE (Continued)**

<b>Multi-Family Program Fund</b>	<b><u>2006</u></b>	<b><u>2005</u></b>
66) 2004 Series A serial bonds due December 1, 2014 with an interest rate of 4.1% <ul style="list-style-type: none"> <li>• 1330 7TH Street</li> </ul>	1,155,000	1,155,000
67) 2004 Series A serial bonds due December 1, 2024 with an interest rate of 4.8% <ul style="list-style-type: none"> <li>• 1330 7TH Street</li> </ul>	1,875,000	1,875,000
68) 2004 Series A serial bonds due December 1, 2034 with an interest rate of 4.9% <ul style="list-style-type: none"> <li>• 1330 7TH Street</li> </ul>	3,140,000	3,140,000
69) 2004 Series A serial bonds due June 1, 2045 with an interest rate of 5% <ul style="list-style-type: none"> <li>• 1330 7TH Street</li> </ul>	6,150,000	6,150,000
70) 2004 Series serial bonds due March 1, 2041 with an interest rate of 6.7% <ul style="list-style-type: none"> <li>• Congress Park</li> </ul>	4,879,206	4,900,000
71) 2004 Series B & C term bonds due December 1, 2015 with an interest rate of 4.25% <ul style="list-style-type: none"> <li>• J W King Seniors Center</li> </ul>	470,000	485,000
72) 2004 Series B & C term bonds due December 1, 2025 due December with an interest rate of 4.9% <ul style="list-style-type: none"> <li>• J W King Seniors Center</li> </ul>	815,000	815,000
73) 2004 Series B & C term bonds due December 1, 2035 with an interest rate of 5.05% <ul style="list-style-type: none"> <li>• J W King Seniors Center</li> </ul>	1,390,000	1,390,000

**DISTRICT OF COLUMBIA HOUSING FINANCE AGENCY**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2006 AND 2005**

**NOTE 6: BONDS PAYABLE (Continued)**

<b>Multi-Family Program Fund</b>	<b><u>2006</u></b>	<b><u>2005</u></b>
74) 2004 Series B & C term bonds due December 1, 2045 with an interest rate of 5.15%		
• J W King Seniors Center	2,600,000	2,600,000
75) 2004 Series B & C term bonds due June 1, 2006 with an interest rate of 2.25%		
• J W King Seniors Center	-	515,000
76) 2004 term bonds due December 20, 2014 with an interest rate of 4.1%		
• Savannah Heights	570,000	570,000
77) 2004 term bonds due December 20, 2034 with an interest rate of 4.95%		
• Savannah Heights	3,235,000	3,235,000
78) 2004 term bonds due June 20, 2045 with an interest rate of 5.1%		
• Savannah Heights	2,045,000	2,045,000
79) 2004 term bonds due December 20, 2045 with an interest rate of 5.1%		
• Savannah Heights	2,045,000	2,045,000
80) 2004 Series D & E term bonds due June 1, 2025 with an interest rate of 4.65%		
• Henson Ridge Phase II	1,365,000	1,365,000
81) 2004 Series D & E term bonds due June 1, 2035 with an interest rate of 4.85%		
• Henson Ridge Phase II	1,460,000	1,460,000
82) 2004 Series D & E term bonds due June 1, 2047 with an interest rate of 4.9%		
• Henson Ridge Phase II	3,065,000	3,065,000
83) 2004 Series D & E term bonds due June 1, 2015 with an interest rate of 4.1%		
• Henson Ridge Phase II	1,105,000	1,105,000

**DISTRICT OF COLUMBIA HOUSING FINANCE AGENCY**  
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**NOTE 6: BONDS PAYABLE (Continued)**

<b>Multi-Family Program Fund</b>	<b><u>2006</u></b>	<b><u>2005</u></b>
84) 2004 Series D & E term bonds due June 1, 2029 with an interest rate of 5% <ul style="list-style-type: none"> <li>• Henson Ridge Phase II</li> </ul>	1,350,000	1,350,000
85) 2004 Series D & E term bonds due June 1, 2037 with an interest rate of 5.1% <ul style="list-style-type: none"> <li>• Henson Ridge Phase II</li> </ul>	5,155,000	5,155,000
86) 2004 term bonds due January 1, 2008 with an interest rate of 2.9% <ul style="list-style-type: none"> <li>• Arthur Capper Sr. I</li> </ul>	9,000,000	9,000,000
87) 2005 term bonds due May 1, 2008 with an interest rate of 3.91% <ul style="list-style-type: none"> <li>• Capitol Gateway Project</li> </ul>	11,125,000	11,125,000
88) 2005 term bonds due January 1, 2008 with an interest rate of 4.75% <ul style="list-style-type: none"> <li>• Faircliff Plaza- West</li> </ul>	11,877,087	11,910,301
89) 2005 Series Term bonds due July 1, 2007 through July 1, 2025 with interest rates ranging from 3.0% to 5.0% <ul style="list-style-type: none"> <li>• DCHA Modernization Program</li> </ul>	74,030,000	76,045,000
90) 2005 Series Term bonds due June 1, 2010 through June 1, 2038 with interest rates ranging from 3.75% to 4.8% <ul style="list-style-type: none"> <li>• Shipley Park Apartments</li> </ul>	11,920,000	11,920,000
91) 2005 Series Term bonds due January 1, 2009 with an interest rate of 3.9% <ul style="list-style-type: none"> <li>• Arthur Capper Sr. II</li> </ul>	9,070,000	-
92) 2005 Series Term bonds due February 1, 2008 with an interest rate of 4.43% <ul style="list-style-type: none"> <li>• Eastgate Seniors I</li> </ul>	6,400,000	-
93) 2005 Series Term bonds due December 1, 2055 with an interest rate of 5.24% <ul style="list-style-type: none"> <li>• MF Drawdown</li> </ul>	57,329,000	-

**DISTRICT OF COLUMBIA HOUSING FINANCE AGENCY**  
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**NOTE 6: BONDS PAYABLE (Continued)**

<b>Multi-Family Program Fund</b>	<b><u>2006</u></b>	<b><u>2005</u></b>
94) 2006 Series Term bonds due January 1, 2048 with an interest rate of 6.25%		
• Hunter Pines	10,633,000	-
95) 2006 Series Term bonds due October 1, 2049 with an interest rate of 5.875%		
• George Washington Carver Senior Apts.	8,870,000	-
96) 2006 Series Term bonds due ranging from August 1, 2008 to July 1, 2036 with interest rates ranging from 4% to 5%		
• Garfield Hills Apts.	5,110,000	-
97) 2006 Series Term bonds due February 1, 2049 with an interest rate of 2.875%		
• Gallen Terrace	5,660,000	-
98) 2006 Series Term bonds due ranging from February 1, 2009 to June 1, 2048 with an interest rate of 6.25%		
• Southview I & II	13,200,000	-
99) 2006 Series Term bonds due April 15, 2048 with an interest rate of 5.3%		
• Golden Rule Apartments	<u>12,600,000</u>	<u>-</u>
Sub-Total	720,599,327	607,643,656
Add: Unamortized Bond Premium	3,927,211	4,133,448
Less: Unamortized Bond Discount	<u>(151,677)</u>	<u>(207,696)</u>
Total Multi-Family Program Fund	<u>724,374,861</u>	<u>611,569,408</u>
Total Bonds Payable	1,103,782,296	985,302,716
Less: amounts due within 1 year	<u>(33,315,000)</u>	<u>(4,000,000)</u>
	<u>\$1,070,467,296</u>	<u>\$ 981,302,716</u>

**DISTRICT OF COLUMBIA HOUSING FINANCE AGENCY**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2006 AND 2005**

**NOTE 6: BONDS PAYABLE (Continued)**

The Agency or the borrower has the option to redeem the various bonds at premiums ranging up to 5%. This option generally cannot be exercised until the bonds have been outstanding for ten years as provided in the various indentures. Term bonds are generally subject to redemption, without premium, from mandatory sinking fund payments.

Amounts payable subsequent to 2006, when actually due, will include additional accretion on capital appreciation bonds and the effects of amortization of both premium and discount.

Principal payments related to bond indebtedness for the next five years and the subsequent years in five year increments are as follows:

<b>Fiscal Year Ending September 30</b>	<b>Multi-Family Program Fund</b>	<b>Single Family Program Fund</b>	<b>Total</b>
2007	\$ 2,670,000	\$ 30,645,000	\$ 33,315,000
2008	42,927,087	580,000	43,507,087
2009	14,355,000	595,000	14,950,000
2010	4,695,000	470,000	5,165,000
2011	3,775,000	653,326	4,428,326
2012-2016	36,580,000	2,330,000	38,910,000
2017-2021	32,520,000	9,200,000	41,720,000
2022-2026	89,250,000	25,270,000	114,520,000
2027-2031	29,414,426	35,895,000	65,309,426
2032-2036	149,353,999	20,455,000	169,808,999
2037-2041	70,497,815	25,000,000	95,497,815
2042-2046	135,204,000	-	135,204,000
2047-2051	52,028,000	-	52,028,000
2052-2056	57,329,000	223,645,000	280,974,000
Subtotal	720,599,327	374,738,326	1,095,337,653
Add:			
Unamortized Bond Premium	3,927,211	5,255,265	9,182,476
Less:			
Unamortized Bond Discount	(151,677)	(586,156)	(737,833)
<b>Totals</b>	<b>\$ 724,374,861</b>	<b>\$ 379,407,435</b>	<b>\$ 1,103,782,296</b>

**DISTRICT OF COLUMBIA HOUSING FINANCE AGENCY**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2006 AND 2005**

**NOTE 6: BONDS PAYABLE (Continued)**

Interest payments related to bond indebtedness for the next five years and the following in five year increments are as follows:

<b>Fiscal Year Ending September 30</b>	<b>Multi-Family Program Fund</b>	<b>Single Family Program Fund</b>	<b>Total</b>
2007	\$ 39,064,242	\$ 19,652,652	\$ 58,716,894
2008	37,967,037	18,673,164	56,640,201
2009	36,867,753	18,643,045	55,510,798
2010	36,556,047	18,618,105	55,174,152
2011	36,397,576	18,583,639	54,981,215
2012-2016	175,716,971	92,721,920	268,438,891
2017-2021	168,056,059	90,893,715	258,949,774
2022-2026	152,687,398	87,563,953	240,251,351
2027-2031	133,425,430	77,546,275	210,971,705
2032-2036	110,993,751	69,285,502	180,279,253
2037-2041	78,175,300	59,581,813	137,757,113
2042-2046	46,651,883	58,706,813	105,358,696
2047-2051	19,977,406	58,706,813	78,684,219
2052-2056	12,516,832	48,922,344	61,439,176
<b>Total</b>	<b>\$ 1,085,053,685</b>	<b>\$ 738,099,753</b>	<b>\$ 1,823,153,438</b>

**NOTE 7: DEFERRED CREDIT**

The deferred credit balance represents funds contributed by the owners of the projects and/or funds received from tax credit providers (low income housing tax credits); D.C. Government agencies; and the Department of Housing and Urban. In fiscal year 2006, the Agency included in the financial statements funds received from these providers to the extent of unexpended monies in the project accounts.

**NOTE 8: DEFERRED REVENUE**

Deferred revenue represents funds received in advance and unearned at year end, or funds related to non-refundable fees and costs associated with financing activities. Funds are deferred and recognized over the life of the mortgage.



**DISTRICT OF COLUMBIA HOUSING FINANCE AGENCY**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 9: CERTIFICATES OF PARTICIPATION**

On July 1, 1998, the Agency entered into a lease agreement with the District of Columbia Building Finance Corporation (the Building Corporation) to lease office space at 815 Florida Avenue, NW, Washington, D.C. (the Building). The Building was financed by proceeds from the Agency's issuance of Certificates of Participation, Series 1998 (the Certificates) evidencing assignments of interest in rights to receive payments under the lease.

The lease term is through June 2018; however, the Agency has an annual right to terminate the lease in the event that the Agency fails to appropriate sufficient amounts due under the lease terms for the ensuing fiscal year. The Agency also has the option to purchase the Building at any time during the lease at an amount necessary to discharge the Certificates.

The Board of Directors of the Building Corporation is comprised fully of members of the Agency's management. Since the Corporation is controlled by the Agency and it is the Agency's intention to continue the lease until title to the Building is acquired by the Agency, the Building and Certificates are presented in the financial statements as if the Agency owned and financed the Building. This activity is recorded in a separate fund, the D.C. Building Finance Corporation Fund (Building Fund). Inter-fund transactions are recorded between the General Fund and the Building Fund to reflect the lease activity. Rental income for the year ended September 30, 2006, amounted to \$208,927 and is included in Building Fund revenue. Rental expense of \$208,927 is reflected in the General Fund expenses. Improvements are funded by and recorded in the General Fund. Leasehold improvements are amortized over the shorter of the estimated useful life or the lease term.

The Certificates were issued in an original principal amount of \$2,400,000, with a balance at September 30, 2006, of \$1,640,000. Interest is payable semi-annually at 4.85% for Certificates due June 1, 2008, and 5.35% for Certificates due June 1, 2018.

Principal and interest payments related to the Certificates for the next five years and the following in five year increments are as follows:

<b>Fiscal Year</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
<b>Ending September 30</b>			
2007	115,000	84,681	\$ 199,681
2008	125,000	78,942	203,942
2009	110,000	72,938	182,938
2010	115,000	66,964	181,964
2011	120,000	60,723	180,723
2012-2016	715,000	196,969	911,969
2017-2018	340,000	21,489	361,489
<b>Total</b>	<b>\$ 1,640,000</b>	<b>\$ 582,706</b>	<b>\$ 2,222,706</b>

**DISTRICT OF COLUMBIA HOUSING FINANCE AGENCY**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2006 AND 2005**

**NOTE 10: NET ASSETS**

**McKinney Act Fund** - The Agency qualifies for 50% of the savings resulting from Financing Adjustment Factors (FAF) on Section (11)(b) bond refunding transactions. These funds are restricted in nature as they are only to be used to benefit very low-income persons. As a result, the Agency established a revolving loan fund for non-profit developers to, provide credit enhancement or loan guarantees, and finance certain special need projects, such as, shelter for the District's homeless and facilities for individuals who have contracted AIDS.

**Bond Fund and Risk Share Program** - The Agency's allocated net assets are reserved for the repayment of the respective bond issues. In addition, the initial deposit made to participate in the Risk Sharing Program and the 1% of the FHA insured mortgage balances in the Risk Sharing Program account are restricted.

**NOTE 11: FEDERAL FINANCIAL ASSISTANCE TRANSACTIONS WITH HUD**

**Section "8" Program** - In accordance with the terms of contracts between the Agency and HUD, the Agency administers a rental assistance program as HUD's agent for certain projects financed by the Agency. This program, referred to as the "Section 8 Program," allows eligible tenants to obtain adequate rental housing in the private marketplace while paying no more than 30% of their monthly income for rent.

The Agency earns an administrative fee on a formula basis for administering the program. This administrative fee is recognized as income when earned.

**Servicing Projects Grants** - In accordance with the terms of contracts between and among the Agency, HUD and certain owners, the Agency services the mortgages with funds received from HUD on behalf of the owners.

The Agency earns a servicing fee on a formula basis for servicing the mortgages. This servicing fee is recognized as income when earned. The Agency also earns an administrative fee received directly from the owners on a formula basis, and this fee is also recognized as income when earned.

**NOTE 12: RETIREMENT PLAN**

The Agency established a defined contribution, money purchase retirement plan, effective October 1, 1982, covering all eligible Agency employees. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings.

**DISTRICT OF COLUMBIA HOUSING FINANCE AGENCY**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2006 AND 2005**

**NOTE 12: RETIREMENT PLAN (Continued)**

The Agency amended its Retirement Plan, a Money Purchase Pension Plan (the Plan) effective August 10, 2002. Due to the amendment, future Agency contributions to the Plan ceased effective August 10, 2002. The amendment also provides that each participant and former participant with an account balance under the Plan as of such date shall be 100% vested in his or her account. Concurrent with the amendment, the Agency commenced participating in the Social Security and Medicare programs.

**NOTE 13: OTHER INCOME**

The Agency's other income for 2006 is comprised of the following:

Description	<u>General Fund</u>	<u>Single Family Program Fund</u>	<u>Multi-Family Program Fund</u>	<u>DC Building Finance Corporation Fund</u>	<u>Total</u>
Owner's contribution	\$ -	\$ -	\$ 6,851,102	\$ -	\$ 6,851,102
Amortization income	-	278,743	276,360	-	555,103
Financing fees	1,063,969	-	-	-	1,063,969
Annual administrative fees	2,041,113	-	-	-	2,041,113
Permitted spread	339,863	-	-	-	339,863
Construction & development monitoring fees	578,179	-	-	-	578,179
Tax credit fees	316,312	-	-	-	316,312
HAP audit fee	27,500	-	-	-	27,500
Service Acquisition Fee	110,826	-	-	-	110,826
HAP administrative	389,990	-	-	-	389,990
Housing counseling revenue	40,000	-	-	-	40,000
Rental income	-	-	-	208,927	208,927
Mortgage servicing fees	158,612	-	-	-	158,612
MIP Risk Share program	88,598	-	-	-	88,598
Interest Reduction					
Payment Subsidy	-	-	184,935	-	184,935
Letter of credit provider	-	-	93,735	-	93,735
Other	285,643	-	-	-	285,643
<b>Total Funds</b>	<u>\$ 5,440,605</u>	<u>\$ 278,743</u>	<u>\$ 7,406,132</u>	<u>\$ 208,927</u>	<u>\$ 13,334,407</u>

**DISTRICT OF COLUMBIA HOUSING FINANCE AGENCY**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2006 AND 2005**

**NOTE 13: OTHER INCOME (Continued)**

The Agency's other income for 2005 is comprised of the following:

Description	<u>General Fund</u>	<u>Single Family Program Fund</u>	<u>Multi-Family Program Fund</u>	<u>DC Building Finance Corporation Fund</u>	<u>Total</u>
Owner's contribution	\$ -	\$ -	\$ 6,385,193	\$ -	\$ 6,385,193
Amortization income		290,674	148,130	-	438,804
Financing fees	1,123,450	-	-	-	1,123,450
Annual administrative fees	2,425,013	-	-	-	2,425,013
Permitted spread	430,718	-	-	-	430,718
FHA financing fee	195,375	-	-	-	195,375
Construction & development monitoring fees	454,471	-	-	-	454,471
FHA placement fee	130,250	-	-	-	130,250
Tax credit fees	232,698	-	-	-	232,698
HAP audit fee	27,500	-	-	-	27,500
HAP administrative	387,992	-	-	-	387,992
Housing counseling revenue	68,750	-	-	-	68,750
Rental income	-	-	-	210,729	210,729
National mortgage loan originations	5,500	-	-	-	5,500
Mortgage servicing fees	155,533	-	-	-	155,533
MIP Risk Share program	57,564	-	-	-	57,564
Interest Reduction Payment Subsidy	-	-	180,377	-	180,377
Letter of credit provider	-	-	560,972	-	560,972
Other	211,297	-	30,675	-	241,972
<b>Total Funds</b>	<u>\$ 5,906,111</u>	<u>\$ 290,674</u>	<u>\$ 7,305,347</u>	<u>\$ 210,729</u>	<u>\$ 13,712,861</u>

**NOTE 14: FUND TRANSFERS**

The Agency records transfers between and among funds for various purposes, including subsidies for financing the Agency's programs. All operating transfers among program funds are recorded as inter-fund transfers and are classified as other financing sources and uses in the accompanying combined statement of revenues, expenses and changes in net assets.

**NOTE 15: EXTRAORDINARY ITEMS**

Multifamily Mortgage Bonds were redeemed during fiscal year 2006. The premiums paid on the redemptions and other directly related costs resulted in the recognition of an extraordinary loss of \$267,054 on early extinguishment of debt. This relates to the Southview I and Southview II Apartments property. In fiscal

**DISTRICT OF COLUMBIA HOUSING FINANCE AGENCY**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2006 AND 2005**

**NOTE 15: EXTRAORDINARY ITEMS (Continued)**

year 2005, premiums paid on redemptions and other directly related costs resulted in the recognition of an extraordinary loss of \$83,926 on early extinguishment of debt.

**NOTE 16: CORRECTION OF ERROR IN PREVIOUSLY ISSUED FINANCIAL STATEMENTS**

A combination of errors in assumptions in cash flow projections at refinancing of the bonds in 1993 for Southview II Apartments and subsequent servicing error starting February 2004 generated surplus or excess funds in the trust-estate. The mortgage note amount outstanding not collected by the trustee because of the excess funds collected in prior periods totaled \$1,272,731. This resulted in a restatement of the 2005 financial statements.

**NOTE 17: CONTINGENT LIABILITY**

**Contingent Interest**

The Multifamily Housing Revenue Bonds, Series 1995A - Tyler House Apartments, bear interest at a fixed rate of 7.52% per annum plus contingent interest in an amount equal to 3.48% per annum of the outstanding principal amount of bonds. The contingent interest is payable from 50% of the property's net cash flow and 33% of any net capital proceeds. The payment of such amounts is deferred, and accrues interest at 11% per annum, to the extent that the net cash flow and net capital proceeds are not sufficient to fully pay contingent interest.

The contingent interest including interest on deferred amounts was \$8,261,941 and \$7,327,143 as of September 30, 2006 and 2005, respectively.

**NOTE 18: SUBSEQUENT EVENTS**

On November 9, 2006, the Agency issued Single Family Revenue Bonds Series 2006 D, E & F for \$102.145 million. On November 12, 2006, the Agency issued Multifamily Housing Revenue Bonds of \$4.13 million for Azeze Bates Apartments. On December 1, 2006, the Agency redeemed \$1.94 million of Multifamily Housing Refunding Revenue Bonds Series 1992A. On December 11, 2006, the Agency issued Multifamily Housing Revenue Bonds of \$11 million for Eastgate Family. On December 14, 2006, the Agency issued Multifamily Housing Revenue Bonds of \$10.34 million for Wesley House. On January 4, 2007 the Agency made McKinney Act loan of \$0.35 million to Hyacinth's Place LLC.

**SUPPLEMENTAL INFORMATION**

**DISTRICT OF COLUMBIA HOUSING FINANCE AGENCY**  
**COMBINING BALANCE SHEET**  
**SEPTEMBER 30, 2006**

<u>ASSETS</u>	<u>General Fund</u>	<u>Single Family Fund</u>	<u>Multi-Family Fund</u>	<u>DC Building Finance Corporation</u>	<u>2006</u>	<u>2005</u>
<b>CURRENT ASSETS</b>						
Cash and cash equivalents	\$ 19,938,715	\$ -	\$ -	\$ -	\$ 19,938,715	\$ 24,452,142
Restricted cash and cash equivalents	22,639,768	-	-	-	22,639,768	11,814,248
Accrued interest receivable	98,554	1,247,773	4,448,736	-	5,795,063	5,351,817
Other receivables	520,433	1,500	-	-	521,933	448,698
Total current assets	<u>43,197,470</u>	<u>1,249,273</u>	<u>4,448,736</u>	<u>-</u>	<u>48,895,479</u>	<u>42,066,905</u>
<b>NON-CURRENT ASSETS</b>						
Other assets:						
Investments	5,712,869	-	-	-	5,712,869	4,921,181
Loans receivable	-	-	140,000	-	140,000	140,745
Prepays	273,489	-	-	22,348	295,837	289,922
Due from (to) other funds	2,715,357	(2,684,066)	(25,546)	(5,745)	-	-
Bond issue costs—net	-	2,600,184	13,108,857	79,782	15,788,823	15,615,055
Total other assets	<u>8,701,715</u>	<u>(83,882)</u>	<u>13,223,311</u>	<u>96,385</u>	<u>21,937,529</u>	<u>20,966,903</u>
Restricted assets:						
Cash and cash equivalents	-	5,504	79,857	-	85,361	83,151
Investments held in trust	877,603	314,719,082	259,966,566	263,039	575,826,290	484,129,631
Mortgage backed securities at fair value	-	74,495,073	128,897,374	-	203,392,447	204,535,869
Mortgage and construction loans receivable	-	2,471,203	421,738,751	-	424,209,954	367,710,580
Loans receivable	-	-	1,899,930	-	1,899,930	1,789,129
McKinney Act fund receivables	1,598,421	-	-	-	1,598,421	804,224
Other receivables	107,418	-	1,653,742	67,181	1,828,341	302,960
Total restricted assets	<u>2,583,442</u>	<u>391,690,862</u>	<u>814,236,220</u>	<u>330,220</u>	<u>1,208,840,744</u>	<u>1,059,355,544</u>
Capital assets:						
Land	-	-	-	573,000	573,000	573,000
Depreciable property and equipment	1,686,018	-	-	1,795,238	3,481,256	3,446,238
Leasehold improvements	1,127,040	-	-	-	1,127,040	1,122,042
Less accumulated depreciation and amortization	(2,143,241)	-	-	(544,849)	(2,688,090)	(2,439,583)
Total capital assets	<u>669,817</u>	<u>-</u>	<u>-</u>	<u>1,823,389</u>	<u>2,493,206</u>	<u>2,701,697</u>
Total non-current assets	<u>11,954,974</u>	<u>391,606,980</u>	<u>827,459,531</u>	<u>2,249,994</u>	<u>1,233,271,479</u>	<u>1,083,024,144</u>
<b>TOTAL ASSETS</b>	<u>\$ 55,152,444</u>	<u>\$ 392,856,253</u>	<u>\$ 831,908,267</u>	<u>\$ 2,249,994</u>	<u>\$ 1,282,166,958</u>	<u>\$ 1,125,091,049</u>

(Continued)

See Accompanying Independent Auditor's Report.

**DISTRICT OF COLUMBIA HOUSING FINANCE AGENCY  
COMBINING BALANCE SHEET - CONTINUED  
SEPTEMBER 30, 2006**

LIABILITIES AND NET ASSETS	General Fund	Single Family Fund	Multi-Family Fund	DC Building Finance Corporation	2006	2005
<b>CURRENT LIABILITIES</b>						
Accounts payable and accrued liabilities	\$ 645,872	\$ 16,426	\$ 72,806	\$ 208,777	\$ 943,881	\$ 791,334
Accrued salary and vacation payable	302,207	-	-	-	302,207	292,129
Deferred revenue	747,794	-	-	82,024	829,818	739,009
Current portion of bonds payable	-	30,645,000	2,670,000	-	33,315,000	4,000,000
Current portion of certificates of participation	-	-	-	115,000	115,000	110,000
Total current liabilities	<u>1,695,873</u>	<u>30,661,426</u>	<u>2,742,806</u>	<u>405,801</u>	<u>35,505,906</u>	<u>5,932,472</u>
<b>CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS</b>						
Tenant subsidy funds	851,412	-	-	-	851,412	618,707
Escrow deposits	3,108,368	-	-	-	3,108,368	2,704,937
Deferred credits	10,457,169	6,150,000	48,727,187	-	65,334,356	28,480,594
Deferred revenue	-	577,423	4,204,150	-	4,781,573	6,130,090
Interest payable	-	2,378,016	8,379,060	28,848	10,785,924	10,441,021
Total current liabilities payable from restricted assets	<u>14,416,949</u>	<u>9,105,439</u>	<u>61,310,397</u>	<u>28,848</u>	<u>84,861,633</u>	<u>48,375,349</u>
<b>NON-CURRENT LIABILITIES</b>						
Loans payable	-	-	463,929	-	463,929	465,884
Bonds payable—less current portion	-	348,762,434	721,704,862	-	1,070,467,296	981,302,716
Certificates of participation—less current portion	-	-	-	1,525,000	1,525,000	1,640,000
Total non-current liabilities	<u>-</u>	<u>348,762,434</u>	<u>722,168,791</u>	<u>1,525,000</u>	<u>1,072,456,225</u>	<u>983,408,600</u>
Total liabilities	<u>16,112,822</u>	<u>388,529,299</u>	<u>786,221,994</u>	<u>1,959,649</u>	<u>1,192,823,764</u>	<u>1,037,716,421</u>
<b>NET ASSETS</b>						
Invested in capital assets—net of related debt	669,817	-	-	183,389	853,206	951,697
Restricted for:						
Bond Fund and Risk Share	1,926,182	4,326,954	45,686,273	106,956	52,046,365	52,178,035
McKinney Act Fund	7,934,190	-	-	-	7,934,190	7,431,008
Total restricted net assets	<u>10,530,189</u>	<u>4,326,954</u>	<u>45,686,273</u>	<u>290,345</u>	<u>60,833,761</u>	<u>60,560,740</u>
Unrestricted net assets	28,509,433	-	-	-	28,509,433	26,813,888
Total net assets	<u>39,039,622</u>	<u>4,326,954</u>	<u>45,686,273</u>	<u>290,345</u>	<u>89,343,194</u>	<u>87,374,628</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 55,152,444</u>	<u>\$ 392,856,253</u>	<u>\$ 831,908,267</u>	<u>\$ 2,249,994</u>	<u>\$ 1,282,166,958</u>	<u>\$ 1,125,091,049</u>

See Accompanying Independent Auditor's Report.



**DISTRICT OF COLUMBIA HOUSING FINANCE AGENCY**  
**COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**YEARS ENDED SEPTEMBER 30, 2006 AND 2005**

	<u>General Fund</u>	<u>Single Family Fund</u>	<u>Multi-Family Fund</u>	<u>DC Building Finance Corporation</u>	<u>2006</u>	<u>2005</u>
<b>OPERATING REVENUES</b>						
Mortgage-backed security income	\$ -	\$ 2,152,985	\$ 4,573,508	\$ -	\$ 6,726,493	\$ 8,293,054
Interest on mortgage and construction loans	-	204,439	19,580,067	-	19,784,506	18,679,962
McKinney Act revenue	500,137	-	-	-	500,137	537,170
Application and commitment fees	124,543	-	-	-	124,543	90,729
HUD Section 8 housing assistance receipts	12,534,868	-	-	-	12,534,868	12,727,925
Service project receipts	7,192,215	-	-	-	7,192,215	7,048,178
Other	5,440,605	278,743	7,406,132	208,927	13,334,407	13,712,861
Total operating revenues	<u>25,792,368</u>	<u>2,636,167</u>	<u>31,559,707</u>	<u>208,927</u>	<u>60,197,169</u>	<u>61,089,879</u>
<b>OPERATING EXPENSES</b>						
Operations	1,323,132	226,382	3,325,828	-	4,875,342	5,052,302
Personnel and related costs	3,801,585	-	-	-	3,801,585	3,568,871
Interest expense	-	18,958,053	34,708,146	90,097	53,756,296	37,534,745
Depreciation and amortization	182,017	-	-	66,490	248,507	257,111
Federal program payments	7,192,215	-	-	-	7,192,215	7,048,178
Housing assistance payments	12,534,868	-	-	-	12,534,868	12,727,925
Bond amortization	-	238,642	498,216	8,830	745,688	679,783
Trustee fees and other expenses	-	304,922	2,443,046	500	2,748,468	5,372,946
Total operating expenses	<u>25,033,817</u>	<u>19,727,999</u>	<u>40,975,236</u>	<u>165,917</u>	<u>85,902,969</u>	<u>72,241,861</u>
OPERATING INCOME (LOSS)	758,551	(17,091,832)	(9,415,529)	43,010	(25,705,800)	(11,151,982)
<b>NON-OPERATING REVENUES</b>						
Investment income	<u>1,435,742</u>	<u>15,042,361</u>	<u>11,449,745</u>	<u>13,572</u>	<u>27,941,420</u>	<u>13,818,205</u>
Excess (Deficiency) Of Revenue Over Expenses Before						
Extraordinary Item	2,194,293	(2,049,471)	2,034,216	56,582	2,235,620	2,666,223
Extraordinary Item - Loss On Extinguishment Of Debt	-	-	(267,054)	-	(267,054)	(83,926)
Change In Net Assets	<u>2,194,293</u>	<u>(2,049,471)</u>	<u>1,767,162</u>	<u>56,582</u>	<u>1,968,566</u>	<u>2,582,297</u>
Net Assets, Beginning Of Year	36,845,329	6,376,425	43,919,111	233,763	87,374,628	84,792,331
Net Assets, End Of Year	<u>\$ 39,039,622</u>	<u>\$ 4,326,954</u>	<u>\$ 45,686,273</u>	<u>\$ 290,345</u>	<u>\$ 89,343,194</u>	<u>\$ 87,374,628</u>

See Accompanying Independent Auditor's Report.

**DISTRICT OF COLUMBIA HOUSING FINANCE AGENCY  
COMBINING STATEMENT OF CASH FLOWS  
YEARS ENDED SEPTEMBER 30, 2006 AND 2005**

	<u>General Fund</u>	<u>Single Family Fund</u>	<u>Multi-Family Fund</u>	<u>DC Building Finance Corporation</u>	<u>2006</u>	<u>2005</u>
<b>Operating Activities</b>						
Cash receipts from loans and interest	\$ 6,584,024	\$ 4,153,154	\$ 54,088,649	\$ -	\$ 64,825,827	\$ 37,270,289
Other cash receipts	4,731,307	-	4,753,344	201,103	9,685,754	13,018,229
Cash payments to vendors	(938,166)	-	(3,558,248)	-	(4,496,414)	(1,661,173)
Cash payments to employees	(3,791,507)	-	-	-	(3,791,507)	(3,568,871)
Receipts of federal program income	19,727,083	-	-	-	19,727,083	19,851,532
Payments of federal program expenses	(19,724,125)	-	-	-	(19,724,125)	(19,776,102)
Other cash payments	(2,958)	(1,774,228)	-	(500)	(1,777,686)	(9,589,236)
<b>Net cash provided by Operating Activities</b>	<u>6,585,658</u>	<u>2,378,926</u>	<u>55,283,745</u>	<u>200,603</u>	<u>64,448,932</u>	<u>35,544,668</u>
<b>Capital and Related Financing Activities</b>						
Acquisition of fixed assets	(40,017)	-	-	-	(40,017)	(68,699)
Payments of bonds and long-term debt	-	-	-	(110,000)	(110,000)	(105,000)
Payments of interest and charges	-	-	-	(91,875)	(91,875)	(96,968)
<b>Net cash used in Capital Related Financing Activities</b>	<u>(40,017)</u>	<u>-</u>	<u>-</u>	<u>(201,875)</u>	<u>(241,892)</u>	<u>(270,667)</u>
<b>Non-Capital Financing Activities</b>						
Funds disbursed for multi-family rehab	-	-	(2,082,275)	-	(2,082,275)	(36,359,283)
Proceeds from long-term bonds	-	376,916,574	182,450,000	-	559,366,574	167,290,000
Payments of long-term debt	-	(371,087,908)	(70,909,330)	-	(441,997,238)	(59,354,352)
Interest paid on bonds	-	(18,853,296)	(34,546,168)	-	(53,399,464)	(36,036,275)
<b>Net cash provided (used) in Non-Capital Financing Activities</b>	<u>-</u>	<u>(13,024,630)</u>	<u>74,912,227</u>	<u>-</u>	<u>61,887,597</u>	<u>35,540,090</u>
<b>Investing Activities</b>						
Receipts of interest and dividends	1,429,022	15,042,361	11,449,745	13,572	27,934,700	12,541,973
Principal payments (purchases) on mortgage and construction loans	-	733,051	(61,634,256)	-	(60,901,205)	14,468,398
Sale of investments and mortgage-backed securities	23,738,341	540,561,996	138,862,484	-	703,162,821	481,062,632
Purchase of investments and mortgage-backed securities	(25,400,912)	(545,687,871)	(218,875,567)	(12,300)	(789,976,650)	(570,583,552)
<b>Net cash provided (used) in Investing Activities</b>	<u>(233,549)</u>	<u>10,649,537</u>	<u>(130,197,594)</u>	<u>1,272</u>	<u>(119,780,334)</u>	<u>(62,510,549)</u>
<b>NET INCREASE (DECREASE) IN CASH</b>	6,312,092	3,833	(1,622)	-	6,314,303	8,303,542
Cash at October 1	36,266,390	1,672	81,479	-	36,349,541	28,045,999
Cash at September 30	<u>\$ 42,578,482</u>	<u>\$ 5,505</u>	<u>\$ 79,857</u>	<u>\$ -</u>	<u>\$ 42,663,844</u>	<u>\$ 36,349,541</u>

(Continued)

See Accompanying Independent Auditor's Report.

**DISTRICT OF COLUMBIA HOUSING FINANCE AGENCY**  
**COMBINING STATEMENT OF CASH FLOWS - CONTINUED**  
**YEARS ENDED SEPTEMBER 30, 2006 AND 2005**

	<u>General Fund</u>	<u>Single Family Fund</u>	<u>Multi-Family Fund</u>	<u>DC Building Finance Corporation</u>	<u>2006</u>	<u>2005</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by</b>						
<b>Operating Activities</b>						
Operating income (loss)	\$ 758,551	\$ (17,091,832)	\$ (9,415,529)	\$ 43,010	\$ (25,705,800)	\$ (11,151,982)
Interest Expense	-	18,871,353	34,708,146	90,097	53,669,596	37,534,745
Depreciation	182,017	(172,596)	498,216	66,490	574,127	257,111
Bad debt expense	-	-	-	-	-	6,740
Miscellaneous non-operating revenue	-	-	-	-	-	30,872
Decrease (increase) in assets						
Receivables	(170,289)	(481,869)	(454,665)	-	(1,106,823)	1,166,029
Other current assets	(709,298)	1,137,926	-	8,942	437,570	1,850,820
Loans receivables	745	-	-	-	745	(104,340)
Increase (decrease) in liabilities						
Payables	384,966	-	(232,420)	-	152,546	5,067,346
Accrued liabilities	10,078	-	-	-	10,078	(33,694)
Deferred revenue and credits	5,492,752	(68,759)	30,179,997	(7,936)	35,596,054	(136,317)
Escrow Deposits	403,431	-	-	-	403,431	445,222
Current liabilities and changes in mortgage loans	232,705	184,703	-	-	417,408	612,116
<b>Net cash provided by operating activities</b>	<b>\$ 6,585,658</b>	<b>\$ 2,378,926</b>	<b>\$ 55,283,745</b>	<b>\$ 200,603</b>	<b>\$ 64,448,932</b>	<b>\$ 35,544,668</b>

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