

NEW ISSUE – BOOK-ENTRY ONLY

In the opinion of Schiff Hardin LLP, Chicago, Illinois, Bond Counsel, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest on the Offered Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the “Code”), except that no opinion is expressed as to such exclusion of interest on any Offered Bond for any period during which it is held by a person who, within the meaning of Section 147(a) of the Code, is a “substantial user” of the facilities financed with proceeds of the Offered Bond or a “related person,” (ii) interest on the Offered Bonds is treated as a preference item in calculating alternative minimum taxable income for purposes of the alternative minimum tax imposed on individuals and corporations under the Code, and (iii) under the Illinois Housing Development Act, interest on the Offered Bonds is exempt from Illinois income tax. See “TAX MATTERS.”

\$35,000,000

ILLINOIS HOUSING DEVELOPMENT AUTHORITY HOUSING BONDS, consisting of

**\$25,000,000 2004 Series A (AMT) (Campbell Terrace Apartments) and
\$10,000,000 2004 Series B (Variable Rate - AMT) (Southern Hills/Orlando Apartments)**

Dated: See inside cover.

Due: See inside cover.

The Housing Bonds, 2004 Series A (AMT) (Campbell Terrace Apartments) (the “2004 Series A Bonds”) and the Housing Bonds, 2004 Series B (Variable Rate - AMT) (Southern Hills/Orlando Apartments) (the “2004 Series B Bonds” and collectively, with the 2004 Series A Bonds, the “Offered Bonds”) are issuable only in registered form. The Depository Trust Company (“DTC”), New York, New York, will act as securities depository of the Offered Bonds and its nominee, Cede & Co., will be the registered owner of the Offered Bonds. For further details on ownership, payments, notices and other matters under the book-entry only system, see “BOOK-ENTRY ONLY SYSTEM.” The Offered Bonds are issued pursuant to a Trust Indenture dated March 1, 1999 and Series Supplemental Indentures dated March 1, 2004 between the Authority and LaSalle Bank National Association, Chicago, Illinois, as Trustee. Principal of and premium, if any, and interest on the Offered Bonds will be paid by J.P. Morgan Trust Company, National Association, Chicago, Illinois, as Master Paying Agent.

The 2004 Series A Bonds are issuable as fully-registered bonds in denominations of \$5,000 principal amount or any integral multiple thereof. The 2004 Series A Bonds will bear interest from their dated date at the rates set forth on the inside cover page, payable on each January 1 and July 1, with the first interest payment date being July 1, 2004.

The 2004 Series B Bonds (sometimes referred to herein as the “Variable Rate Bonds”) may operate in a Short-Term Mode (including a Daily Mode, Weekly Mode or Flexible Mode) or a Long-Term Mode (including a Term Rate Mode or Fixed Rate Mode). Initially, the Variable Rate Bonds will operate in the Weekly Mode and bear interest for a Weekly Rate Period. While in the Weekly Mode, interest will be payable on the Variable Rate Bonds on the first business day of each month, with the first interest payment date being May 3, 2004. Additionally, the Variable Rate Bonds will be issuable as fully-registered bonds in denominations of \$100,000 principal amount or any integral multiple of \$5,000 in excess thereof and be subject to tender for purchase on any business day at the option of the registered owners thereof upon seven days’ prior notice given by such owners to the Trustee, as the initial Tender Agent. For interest payment dates, authorized denominations and tenders of purchase while operating in Short-Term Modes other than a Weekly Mode, see the captions, “THE OFFERED BONDS – The Variable Rate Bonds.”

The purchase of the Variable Rate Bonds may be made with the proceeds of the remarketing of such Bonds by Goldman Sachs & Co., as the Remarketing Agent (the “Remarketing Agent”). Funds for the timely payment of the purchase price of the Variable Rate Bonds tendered for purchase and not remarketed will be provided pursuant to a Standby Bond Purchase Agreement (the “Initial Liquidity Facility”) between the Authority, the Trustee and the Federal Home Loan Bank of Chicago (the “Initial Liquidity Provider”). The Initial Liquidity Facility expires on March 31, 2014 subject to earlier termination as provided therein and subject to extension or renewal. The Variable Rate Bonds will be subject to mandatory tender for purchase upon the expiration of the Initial Liquidity Facility in the event that the Initial Liquidity Facility is not renewed or an Alternate Liquidity Facility is not substituted therefor.

This Official Statement is not intended to describe the terms of any Variable Rate Bond after its conversion to a Long-Term Mode.

The Offered Bonds are subject to redemption prior to maturity, including at par without premium, as described herein under the captions, “THE OFFERED BONDS – The 2004 Series A Bonds – Redemption,” “THE OFFERED BONDS – The Variable Rate Bonds” and “THE OFFERED BONDS – Special Redemption of the Offered Bonds.” The Variable Rate Bonds are also subject to mandatory tender and, while in the Daily Mode or Weekly Mode, to optional tender as more fully described herein. See “THE OFFERED BONDS – The Variable Rate Bonds.”

Proceeds of the Offered Bonds, together with other available funds, will be used to (a) make a Loan to finance the acquisition and rehabilitation of a multi-family housing development located in Chicago, Illinois, and known as Campbell Terrace Apartments, (b) make a Loan to finance the acquisition and rehabilitation of two multi-family housing developments located in Decatur, Illinois, and known as Southern Hills Apartments and Orlando Apartments, (c) make a deposit to the Reserve Fund, (d) make a deposit to the Debt Service Account for capitalized interest, and (e) pay certain costs incurred in connection with the issuance of Offered Bonds (including the premium for the Bond Insurance Policy and the premium for the Debt Service Reserve Insurance Policy). See “PLAN OF FINANCE” and “SOURCES AND USES OF FUNDS.”

The Offered Bonds are general obligations of the Authority. The full faith and credit of the Authority (subject to the provisions of resolutions pledging particular moneys, assets or revenues to the payment of notes, bonds or other obligations other than the Offered Bonds) is pledged for payment of the principal and premium, if any, of and interest and Sinking Fund Installments on the Offered Bonds. The Offered Bonds are also secured by a pledge of the Trust Estate established under the Indenture, including Revenues, Funds and Accounts established under the Indenture and Series Supplemental Indentures (other than the Acquired Development Fund), Acquired Bonds, rights in Loans and security for the rights in Loans which rights are part of the Trust Estate, in each case solely to the extent such items are subject to the pledge, assignment, lien and security interest as provided in the Indenture. A Series Supplemental Indenture for a Series of Additional Bonds will specify whether such Additional Bonds will be the general obligation of the Authority and whether they will be secured on a parity basis with the Offered Bonds. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS.”

The scheduled payment of principal of and interest on the Offered Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Offered Bonds by **FINANCIAL SECURITY ASSURANCE INC.**



The Offered Bonds are not a debt of or guaranteed by the State of Illinois or the United States or any agency or instrumentality thereof. The Authority has determined by resolution that Section 26.1 of the Act, as amended, which requires the Governor to submit to the General Assembly the amount certified by the Authority as being required to pay debt service on its bonds because of insufficient moneys available for such payments, shall not apply to the Offered Bonds. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS.”

The Offered Bonds are offered when, as and if issued and received by the Underwriters, subject to prior sale, withdrawal or modification of the offer without notice, and to the approval of legality by Schiff Hardin LLP, Chicago, Illinois, Bond Counsel. Certain legal matters will be passed upon for the Authority by its General Counsel, Mary R. Kenney, Esq., and by its counsel, Mayer, Brown, Rowe & Maw LLP, Chicago, Illinois, and for the Underwriters by their counsel, Shefsky & Froelich Ltd., Chicago, Illinois. See “LEGAL MATTERS.” It is expected that the Offered Bonds will be available for delivery to DTC in New York, New York, on or about March 31, 2004.

Goldman Sachs & Co.†

First Albany Capital Inc.

Raymond James & Assoc.

The date of this Official Statement is March 25, 2004.

†Goldman Sachs & Co. is the sole underwriter for the Variable Rate Bonds.

\$35,000,000
ILLINOIS HOUSING DEVELOPMENT AUTHORITY
Housing Bonds, consisting of
\$25,000,000 2004 Series A (AMT) (Campbell Terrace Apartments) and
\$10,000,000 2004 Series B (Variable Rate - AMT) (Southern Hills/Orlando Apartments)

MATURITY SCHEDULES

Dated: Date of Delivery, expected to be March 31, 2004

\$25,000,000 2004 Series A Bonds (AMT)

\$1,500,000 2.90% Term Bonds due January 1, 2013

\$7,940,000 2.90% Term Bonds due July 1, 2013 **NOT REOFFERED**

\$2,825,000 4.05% Term Bonds due July 1, 2016 **NOT REOFFERED**

\$2,765,000 4.50% Term Bonds due July 1, 2024 **NOT REOFFERED**

\$4,335,000 4.60% Term Bonds due July 1, 2032 **NOT REOFFERED**

\$1,500,000 4.70% Term Bonds due January 1, 2039

\$4,135,000 4.70% Term Bonds due July 1, 2039 **NOT REOFFERED**

\$10,000,000 2004 Series B Bonds (AMT)

\$10,000,000 2004 Series B Bonds (Variable Rate - AMT) due July 1, 2034

PRICE FOR ALL OFFERED BONDS 100%

No person has been authorized by the Authority to give any information or to make any representations 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 the Authority or the Underwriters of the Offered Bonds. This Official Statement does not constitute an offer to sell or the solicitation of any offer to buy, nor shall there be any sale of, the Offered Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information and expressions of opinion in this Official Statement are subject to change without notice, and neither the delivery of this Official Statement nor any sale made under it shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority since the date as of which information is given in this Official Statement.

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THE OFFERED BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND THE RESOLUTIONS RELATING TO THE OFFERED BONDS HAVE NOT BEEN QUALIFIED UNDER THE TRUST INDENTURE ACT OF 1939, AS AMENDED, IN RELIANCE UPON EXEMPTIONS CONTAINED IN SUCH ACTS. THE REGISTRATION OR QUALIFICATION OF THE OFFERED BONDS IN ACCORDANCE WITH APPLICABLE PROVISIONS OF LAW OF THE STATES IN WHICH THE OFFERED BONDS HAVE BEEN REGISTERED OR QUALIFIED AND THE EXEMPTION FROM REGISTRATION OR QUALIFICATION IN OTHER STATES CANNOT BE REGARDED AS A RECOMMENDATION THEREOF.

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, THEIR 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 OFFERED BONDS HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

IN CONNECTION WITH THE OFFERING OF THE OFFERED BONDS (OTHER THAN THE 2004 SERIES A BONDS MATURING JULY 1, 2013, 2004 SERIES A BONDS MATURING JULY 1, 2016, 2004 SERIES A BONDS MATURING JULY 1, 2024, 2004 SERIES A BONDS MATURING JULY 1, 2032 AND 2004 SERIES A BONDS MATURING JULY 1, 2039 (THE "PLACED BONDS")), THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICES OF THOSE BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME WITHOUT NOTICE.

THE UNDERWRITERS MAY ENGAGE IN SECONDARY MARKET TRADING IN THE OFFERED BONDS (OTHER THAN THE PLACED BONDS), SUBJECT TO APPLICABLE SECURITY LAWS. THE UNDERWRITERS, HOWEVER, ARE NOT OBLIGATED TO REPURCHASE ANY OF THOSE BONDS AT THE REQUEST OF ANY OWNER THEREOF. FOR INFORMATION WITH RESPECT TO THE UNDERWRITERS, SEE "UNDERWRITING."

OTHER THAN WITH RESPECT TO THE INFORMATION CONCERNING FINANCIAL SECURITY ASSURANCE INC. (THE "BOND INSURER") CONTAINED UNDER THE CAPTION "THE BOND INSURANCE POLICY," APPENDIX G FORM OF "MUNICIPAL BOND INSURANCE POLICY AND FORM OF DEBT SERVICE RESERVE INSURANCE POLICY" HEREIN, NONE OF THE INFORMATION IN THIS OFFICIAL STATEMENT HAS BEEN SUPPLIED OR VERIFIED BY THE BOND INSURER AND THE BOND INSURER MAKES NO REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, AS TO (I) THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION; (II) THE VALIDITY OF THE OFFERED BONDS; OR (III) THE TAX EXEMPT STATUS OF THE INTEREST ON THE OFFERED BONDS.

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OFFICIAL STATEMENT
of
ILLINOIS HOUSING DEVELOPMENT AUTHORITY

Relating to

\$35,000,000
ILLINOIS HOUSING DEVELOPMENT AUTHORITY
Housing Bonds, consisting of
\$25,000,000 2004 Series A (AMT) (Campbell Terrace Apartments) and
\$10,000,000 2004 Series B (Variable Rate - AMT) (Southern Hills/Orlando Apartments)

INTRODUCTION

This Official Statement (including the cover page and appendices) is being distributed by the Illinois Housing Development Authority (the “Authority”) in order to furnish information in connection with the issuance by the Authority of its \$35,000,000 Housing Bonds, consisting of the \$25,000,000 2004 Series A (AMT) (Campbell Terrace Apartments) (the “2004 Series A Bonds”) and the \$10,000,000 2004 Series B (Variable Rate - AMT) (Southern Hills/Orlando Apartments) (the “Variable Rate Bonds” or “2004 Series B Bonds” and, together with the 2004 Series A Bonds, the “Offered Bonds”). The Offered Bonds are being issued by the Authority pursuant to the Illinois Housing Development Act, 20 ILCS 3805/1 *et seq.*, as amended (the “Act”).

The Offered Bonds are being issued under the provisions of: (i) a Trust Indenture dated as of March 1, 1999 (the “Indenture”) between the Authority and LaSalle Bank National Association, Chicago, Illinois (the “Trustee”), as Trustee; (ii) with respect to the 2004 Series A Bonds, a Series Supplemental Indenture dated as of March 1, 2004 (the “2004 Series A Supplemental Indenture”); (iii) with respect to the 2004 Series B Bonds, a Series Supplemental Indenture dated as of March 1, 2004 (the “2004 Series B Supplemental Indenture” and, together with the 2004 Series A Supplemental Indenture, the “Offered Bonds Supplemental Indenture”); and (iv) the resolution of the Authority adopted on February 20, 2004, as supplemented by the respective Determinations of the Chairman and Executive Director of the Authority (the “Resolution”). Initially capitalized terms used but not otherwise defined in this Official Statement have the same meanings given them in the “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – Certain Definitions” and, with respect to the Variable Rate Bonds, “APPENDIX H – THE VARIABLE RATE BONDS – Definitions.”

The Indenture permits the Authority to undertake a variety of financings, including the financing or refinancing of multi-family developments and single family dwellings. Financings may be accomplished by making any loans that the Authority is authorized by law to make, by acquiring other bonds of the Authority which in turn financed or refinanced loans made by the Authority, or by refunding outstanding bonds of the Authority and acquiring the loans that had been financed by the refunded bonds. Multi-family developments financed directly or indirectly under the Program are referred to as “Financed Developments.”

The Authority has entered into a Remarketing Agreement dated March 31, 2004 with Goldman Sachs & Co. (the “Remarketing Agent”) pursuant to which the Remarketing Agent will use its best efforts to remarket the Variable Rate Bonds required to be purchased under the Indenture and to set the interest rate on the Variable Rate Bonds as provided therein.

The Offered Bonds are being issued for the following purposes:

- To make a Loan (as defined herein) to CT Associates of Illinois, L.P. (“CT Associates”). CT Associates will use the proceeds of the Loan to purchase and rehabilitate Campbell Terrace Apartments (“Campbell Terrace”), a multi-family housing development located in Chicago, Illinois. Campbell Terrace is a development that is currently financed with a mortgage loan made to the seller of Campbell Terrace with a portion of the proceeds of the Authority’s Multi-Family Housing Bonds, 1994 Subseries A and B.
- To make a Loan to Decatur Properties of Illinois, L.P. (“Decatur Properties”). Decatur Properties will use the proceeds of the Loan to purchase and rehabilitate Southern Hills Apartments and Orlando Apartments (collectively, “Southern Hills/Orlando”), multi-family housing developments located in Decatur, Illinois. Southern Hills Apartments and Orlando Apartments are developments that are currently financed with a mortgage loan made to the seller of Southern Hills/Orlando with a portion of the proceeds of the Authority’s Multi-Family Housing Bonds, 1991 Series C.

For further information on the use of proceeds of the Offered Bonds, see “PLAN OF FINANCE” and “SOURCES AND USES OF FUNDS.”

The Authority has previously issued \$150,970,000 aggregate original principal amount of bonds under the Indenture, and \$119,740,000 aggregate principal amount were outstanding as of December 31, 2003 (the “Prior Bonds”). The Offered Bonds are being issued on a parity basis with the Prior Bonds. The Prior Bonds, the Offered Bonds and all other bonds hereafter issued under the Indenture are referred to herein as the “Bonds.” Additional Bonds (the “Additional Bonds”), which may be secured by security in addition to the security for the Offered Bonds, may be issued by the Authority for purposes, upon the terms and subject to the conditions provided in the Indenture. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Additional Bonds.”

As further described under the caption “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS,” the Offered Bonds are general obligations of the Authority. The full faith and credit of the Authority (subject to the provisions of resolutions pledging particular moneys, assets or revenues to the payment of notes, bonds or other obligations other than the Offered Bonds) is pledged for payment of the principal and Redemption Price, if any, of and interest and Sinking Fund Installments on the Offered Bonds. The Offered Bonds are also secured on a parity basis with the Prior Bonds by a pledge of the Trust Estate established under the Indenture, including Revenues, Funds and Accounts established under the Indenture and Series Supplemental Indentures (other than the Acquired Development Fund), Acquired Bonds, rights in Loans and security for the rights in Loans which rights are part of the Trust Estate, in each

case solely to the extent such items are subject to the pledge, assignment, lien and security interest as provided in the Indenture. A Series Supplemental Indenture for a Series of Additional Bonds will specify whether such Additional Bonds will be the general obligation of the Authority and whether they will be secured on a parity basis with the Offered Bonds. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS.”

The scheduled payment or principal of and interest on the Offered Bonds when due will be guaranteed under an insurance policy (the “Policy”) to be issued concurrently with the delivery of the Offered Bonds by Financial Security Assurance Inc. (the “Bond Insurer”). For a description of certain provisions of the Policy and for certain information concerning the Bond Insurer, see “THE BOND INSURANCE POLICY” and “FORM OF MUNICIPAL BOND INSURANCE POLICY AND DEBT SERVICE RESERVE INSURANCE POLICY” attached as Appendix G.

The Offered Bonds are not a debt of or guaranteed by the State of Illinois (the “State”) or the United States or any agency or instrumentality thereof. The Authority has determined by resolution that Section 26.1 of the Act, as amended, which requires the Governor to submit to the General Assembly the amount certified by the Authority as being required to pay debt service on its bonds because of insufficient moneys available for such payments, shall not apply to the Offered Bonds. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS.”

The descriptions and summaries of various documents hereinafter set forth do not purport to be comprehensive or definitive, and reference is made to each document for the complete details of all terms and conditions. All statements herein are qualified in their entirety by reference to each document.

PLAN OF FINANCE

Proceeds of the Offered Bonds, together with other available funds, will be used to: (a) make a Loan to finance the acquisition and rehabilitation of a multi-family housing development located in Chicago, Illinois, and known as Campbell Terrace Apartments; (b) make a Loan to finance the acquisition and rehabilitation of two multi-family housing developments located in Decatur, Illinois, and known as Southern Hills Apartments and Orlando Apartments; (c) make a deposit to the Reserve Fund; (d) make a deposit to the Debt Service Account for capitalized interest; and (e) pay certain costs incurred in connection with the issuance of Offered Bonds (including the premium for the Bond Insurance Policy and the premium for the Debt Service Reserve Insurance Policy). See “SOURCES AND USES OF FUNDS.”

Campbell Terrace Loan

The Offered Bonds are being issued to finance the acquisition and rehabilitation of a Financed Development known as Campbell Terrace Apartments, located in Chicago, Illinois. See “FINANCED DEVELOPMENTS – Description of Financed Developments.” Campbell Terrace is a 249-unit, 12 story high-rise building that was built in 1985. It is located near the intersection of Western & Campbell Avenues in the Logan Square neighborhood on the Northwest side of Chicago. Campbell Terrace consists 100% of Section 8 units reserved for elderly tenants and consists of 248 one bedroom/one bath units and one two bedroom/one bath unit. Campbell Terrace will be financed by making a Loan to CT Associates in the principal amount of \$24,020,000 with proceeds of the Offered Bonds.

As a result of CT Associates acquiring Campbell Terrace, it is expected that the seller of Campbell Terrace will use the proceeds from its sale of Campbell Terrace to CT Associates to prepay an existing mortgage loan made to the seller with a portion of the proceeds of the Authority’s 1994 Subseries A and B Bonds, previously issued under the Authority’s Multi-Family Housing Bond Resolution, adopted February 26, 1975, as amended and supplemented, and a series resolution adopted pursuant thereto. It is anticipated that amounts received upon the prepayment of that existing mortgage loan will be used to redeem a portion of those bonds.

The Loan for this Financed Development will be evidenced and secured by a note, a first mortgage, a security agreement and assignment of rents and leases, a regulatory agreement, UCC financing statements, an environmental indemnity agreement and other security agreements. The Loan will be in an amount not to exceed \$25,000,000. It is anticipated that the loan will be originated upon the issuance of the 2004 Series A Bonds. The Loan will consist of two portions: (1) \$14,795,000 principal amount, amortized over 35 years and bearing interest at 5.405%; and (2) \$9,225,000 principal amount, amortized over 11.16 years and bearing interest at a rate of 4.73%. CT Associates must also pay to the Authority an annual loan servicing fee of 0.25 percent of the outstanding principal amount of the Loan, payable in equal monthly installments. The Loan will be nonrecourse. The Loan documents will require a Replacement Reserve Account and a Tax and Insurance Escrow Account. These accounts will be held by the Authority and are not pledged under the Indenture.

The Loan is not prepayable without the consent of the Authority, in whole or in part, until June 1, 2015. After that date, the Loan will be prepayable in whole but not in part, upon 40 days written notice to the Authority. In the event of a prepayment, CT Associates will be obligated to pay, in addition to the principal amount of the Loan remaining unpaid, other costs of the Authority associated with financing the Loan, which may include the following: (i) a proportionate share of the principal amount of the Offered Bonds issued for the purpose of paying issuance costs and making deposits in the Reserve Fund; (ii) the interest to accrue on all Offered Bonds to be redeemed by the Authority in connection with such prepayment; (iii) the redemption premium, if any, on the Offered Bonds to be redeemed; and (iv) the costs and expenses of the Authority in effecting the redemption of the Offered Bonds to be redeemed.

Prior to the expiration of the Section 8 Contract pertaining to the Campbell Terrace on May 31, 2015, the regulatory agreement for Campbell Terrace requires that at least 152 units be occupied by tenants whose family income is less than or equal to 30% of the median income and

at least 97 units be occupied by tenants whose family income is less than or equal to 50% of the median income. With respect to new tenants during this period, Campbell Terrace is subject to a different requirement pursuant to the regulatory agreement but the family income will be no higher than 50% of the median income. After the expiration of the Section 8 Contract, all units must be occupied by tenants whose family income is less than or equal to 60% of the median income.

As described below under the caption “THE OFFERED BONDS – Special Redemption of the Offered Bonds,” the 2004 Series A Bonds are subject to redemption as a result of a failure to make, in whole or in part, the Loan to CT Associates, such as, for example, because conditions to funding the Campbell Terrace Loan are not met.

Southern Hills/Orlando Loan

The Offered Bonds are being issued to finance the acquisition and rehabilitation of two Financed Developments known as Southern Hills Apartments and Orlando Apartments, located in Decatur, Illinois. See “FINANCED DEVELOPMENTS – Description of Financed Developments.” Southern Hills is a 125 unit family development built in 1982. It consists of 28 one and two story townhomes and contains a mix of 50 one bedroom, 63 two bedroom and 12 three bedroom units. Orlando Apartments, originally The Orlando Hotel, was built in 1930. The Orlando provides 87 units for elderly tenants. It is a seven story building consisting of 80 one bedroom and seven two bedroom units. Both Southern Hills and Orlando consist 100% of Section 8 units. Southern Hills/Orlando will be financed by making a Loan to Decatur Properties in the principal amount of \$10,000,000 with proceeds of the Offered Bonds.

As a result of Decatur Properties acquiring Southern Hills/Orlando, it is expected that the seller of Southern Hills/Orlando will use the proceeds from its sale of Southern Hills/Orlando to Decatur Properties to prepay an existing mortgage loan made to the seller with a portion of the proceeds of the Authority’s 1991 Series C Bonds, previously issued under the Authority’s Multi-Family Housing Bond Resolution, adopted February 26, 1975, as amended and supplemented, and a series resolution adopted pursuant thereto. It is anticipated that amounts received upon the prepayment of that existing mortgage loan will be used to redeem a portion of those bonds.

The Loan for this Financed Development will be evidenced and secured by a note, a first mortgage, a security agreement and assignment of rents and leases, a regulatory agreement, UCC financing statements, an environmental indemnity agreement and other security agreements. The Loan will be in an amount not to exceed \$11,000,000. It is anticipated that the loan will be originated upon the issuance of the 2004 Series B Bonds, amortize over 30 years and bear interest at a variable rate corresponding to the interest rate on the 2004 Series B Bonds. Decatur Properties must also pay to the Authority an annual loan servicing fee of 0.25 percent of the outstanding principal amount of the Loan, payable in equal monthly installments. The Loan will be nonrecourse. The Loan documents will require a Replacement Reserve Account and a Tax and Insurance Fund. These accounts and funds will be held by the Authority and are not pledged under the Indenture.

The Loan is not prepayable without the consent of the Authority, in whole or in part, until April 1, 2014. After that date, the Loan will be prepayable in whole but not in part, upon 40 days

written notice to the Authority. In the event of a prepayment, Decatur Properties will be obligated to pay, in addition to the principal amount of the Loan remaining unpaid, other costs of the Authority associated with financing the Loan, which may include the following: (i) a proportionate share of the principal amount of the Offered Bonds issued for the purpose of paying issuance costs and making deposits in the Reserve Fund; (ii) the interest to accrue on all Offered Bonds to be redeemed by the Authority in connection with such prepayment; (iii) the redemption premium, if any, on the Offered Bonds to be redeemed; and (iv) the costs and expenses of the Authority in effecting the redemption of the Offered Bonds to be redeemed.

Prior to the expiration of the Section 8 Contract pertaining to Southern Hills/Orlando on December 31, 2011, the regulatory agreement for Southern Hills/Orlando requires that at least 208 units be occupied by tenants whose family income is less than or equal to 50% of the median income and at least 4 units be occupied by tenants whose family income is less than or equal to 60% of the median income. With respect to new tenants during this period, Southern Hills/Orlando is subject to a different requirement pursuant to the regulatory agreement but the family income will be no higher than 60% of the median income. After the expiration of the Section 8 Contract, all units must be occupied by tenants whose family income is less than or equal to 60% of the median income.

As described below under the caption “THE OFFERED BONDS – Special Redemption of the Offered Bonds,” the 2004 Series B Bonds are subject to redemption as a result of a failure to make, in whole or in part, the Loan to Decatur Properties, such as, for example, because conditions to funding the Southern Hills/Orlando Loan are not met.

Assumptions

The interest rates, maturities and the payment dates for the Offered Bonds were established by the Authority in order that payments expected to be received under the Loans and other moneys and securities held under the Indenture and the income expected to be received thereon, will be sufficient to pay, when due, the debt service on and Expenses attributable to the Offered Bonds. In forming this expectation, the Authority has not considered the issuance of Additional Bonds or the application or investment of the proceeds thereof; however, a condition to issuing such Additional Bonds is the filing of a Rating Certificate. Because all Bonds issued under the Indenture (other than Subordinate Bonds) will rank equally and ratably with the Offered Bonds with respect to the security afforded by the Indenture, availability of money for repayment of the Offered Bonds could be significantly affected by the issuance, application, and investment of proceeds of Additional Bonds.

The maturities and Sinking Fund Installments of the Offered Bonds were established based on the assumption that (a) there would be no Loan Prepayments, Acquired Bonds Redemption Receipts or Recovery Payments related to Campbell Terrace, Southern Hills/Orlando or other Financed Developments, and (b) that surplus Revenues comprising regularly scheduled principal payments on certain Loans would be used to make other Loans or acquire Acquired Bonds. However, (i) the Authority may receive Loan Prepayments, Acquired Bonds Redemption Receipts and Recovery Payments related to Campbell Terrace, Southern Hills/Orlando and other Financed Developments, and (ii) the Authority is not obligated to recycle such surplus Revenues by making other Loans or acquiring Acquired Bonds. As

mentioned below under the caption “THE OFFERED BONDS,” Loan Prepayments, Acquired Bonds Redemption Receipts, Recovery Payments, and surplus Revenues may be used to redeem Bonds of any Series. Consequently, to the extent they are so used to redeem Offered Bonds, the average life of an Offered Bond may be significantly shorter than its stated maturity.

For a description of the circumstances under which the Authority may change the assumptions described herein, see “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – Rating Certificates, Compliance Certificates and Cash Flow Certificates.”

SOURCES AND USES OF FUNDS

The estimated sources and uses of funds (net of accrued interest) in connection with the issuance of the Offered Bonds are as follows:

Sources

Offered Bond Proceeds	\$ 35,000,000
Other Sources ¹	<u>1,956,269</u>
Total Sources	<u>\$ 36,956,269</u>

Uses

Campbell Terrace Loan	\$ 24,020,000
Southern Hills/Orlando Loan	10,000,000
Deposit to Reserve Fund ²	1,480,000
Deposit to Debt Service Account for Capitalized Interest	255,339
Costs of Issuance	929,200
Underwriters’ Fees ³	<u>271,730</u>
Total Uses	<u>\$ 36,956,269</u>

¹ Other Sources include borrowers’ equity including the value of the Debt Service Reserve Insurance Policy.

² Includes \$500,000 attributable to the value of the Debt Service Reserve Insurance Policy.

³ Includes \$35,029.86 for the premium for the Bond Insurance Policy and the premium for the Debt Service Reserve Insurance Policy that is being paid for by the Underwriters. See “UNDERWRITING.”

THE AUTHORITY

Powers and Duties

The Authority is a body politic and corporate of the State created by the Act for the purposes of assisting in the financing of decent, safe and sanitary housing for persons and families of low and moderate income in the State and assisting in the financing of residential mortgages in the State. To accomplish its purposes, the Authority is authorized by the Act to make mortgage or other loans to nonprofit corporations and limited-profit entities for the acquisition, construction or rehabilitation of dwelling accommodations, to make loans for housing related commercial facilities, to issue or provide for the issuance of obligations secured by or representing an ownership interest in residential mortgages, to acquire, and to contract and enter into advance commitments to acquire residential mortgage loans from lending institutions, and to develop and own rental housing developments. The Act also authorizes the Authority to issue its bonds and notes to fulfill its corporate purposes, including the financing of mortgage and construction loans, the acquisition of residential mortgage loans, the making of loans for housing related commercial facilities and the refunding of bonds and notes previously issued to finance mortgage and construction loans. The Authority has issued various bonds and notes to finance mortgage loans and construction loans, to purchase residential mortgage loans from lending institutions and to make loans to private lending institutions for making new residential mortgage loans.

The Authority has the power under the Act to have up to \$3,600,000,000 of bonds and notes outstanding, excluding those issued to refund its outstanding bonds and notes. As of December 31, 2003, the Authority has debt outstanding in the amount of \$1,946,134,943, which consists of general obligation debt, special limited obligation debt and conduit debt. The conduit debt, which is special limited obligation debt, accounts for \$283,178,900 of that total.

Multi-Family Housing Experience

The Authority has significant experience in the underwriting and servicing of multifamily mortgage loans. In its more than 30 years of operation, the Authority has financed over 200 multi-family developments throughout the State under several separate multi-family bond programs, excluding single project financings. Total loans and other assets outstanding under these programs as of December 31, 2003, were approximately \$1 billion.

The Authority is an FHA-Approved Mortgagee and is also an approved Seller/Servicer under the Fannie Mae Prior Approval Program. The Authority also serves as the State's administering agency for the Low Income Housing Tax Credit. As of December 31, 2003, the Authority's Multi-Family Programs and Technical Services Departments employed 54 people with a variety of skills in multi-family loan underwriting, market research, construction management, and subsidy contract administration, and its Asset Management Services Department employed 25 people in areas of asset management and other aspects of loan servicing.

Membership

The Authority consists of nine Members appointed by the Governor of the State (the “Governor”) with the advice and consent of the State Senate. The Act provides that not more than three Members shall be from any one county in the State, not more than five shall be of any one political party, and at least one shall be a person of age 60 or older. Members hold office from the second Monday in January of the year of their respective appointments for a term of four years and until their successors are appointed and qualified. The concurrence of five Members is required for action by the Authority. The Governor designates a Chairman from among the Members, and the Chairman is considered to be a Member for purposes of concurrence. The Chairman is the Authority’s chief executive officer. The Members of the Authority serve without compensation. The Authority has determined by resolution to indemnify its Members and officers for any actions taken or omitted to be taken in performing their duties, except actions or omissions which constitute gross negligence or malfeasance. The Members of the Authority are:

TERRY E. NEWMAN, Chairman – Partner, Katten Muchin Zavis Rosenman

GERALD SINCLAIR, Vice Chairman – Owner, Sinclair Investment Co.

ROBERT BARKER, Treasurer – President, Barker Brothers, Inc.

VELMA BUTLER, Secretary – Managing Partner, Velma Butler & Company, LTD.

JUDITH ANN DEANGELO, Member – President, JADE Carpentry Contractors, Inc.

RONALD J. GROTOVSKY, Member – Director, Will County Land Use Department

RICHARD KORDESH, Member – President, The Nucleus Community Institute

A.D. VAN METER, JR., Member – Chairman Emeritus, National City Bank-
Michigan/Illinois

There is currently one vacancy.

Management

The Authority employs a staff of approximately 200 persons, including persons who have experience and responsibilities in the areas of finance, accounting, law, mortgage loan underwriting, loan servicing, housing development, market analysis, construction, housing marketing and housing management. Certain members of the senior staff of the Authority are listed below.

KELLY KING DIBBLE, Executive Director, has extensive public and private real estate experience. As a deputy commissioner for the Chicago Department of Planning and Development, Ms. Dibble created initiatives to stimulate the residential and commercial development on the city’s near west and south sides. In the private sector, Ms. Dibble was a director of Chicago’s Hyatt Development Corp. from 1995 to 2000, providing analysis and

project leadership. For the next two years, she was vice president of business development for Rezmar Corp. of Chicago, specializing in hotel and commercial project development. Before graduating in 1985 from Harvard Law School, Ms. Dibble launched her long-standing interest in affordable housing and community development as president of the Harvard Real Estate and Urban Development Forum. Earlier, she earned a B.A. in economics from Wellesley College in 1982.

LAURA GERARD HASSAN, Deputy Executive Director, has significant private and public real estate experience. She practiced real estate law at Rudnick & Wolfe (now Piper Rudnick) from 1977 to 1992 and again from 1995 to 1998. From 1992 to 1994, Ms. Hassan expanded her experience outside of law as Deputy for Community Development in the Department of Planning and Development for the City of Chicago. Ms. Hassan returned to legal practice from August, 1998 to October, 2003 as Vice President-Legal at Equity Office Properties Trust, the largest office real estate investment trust in the United States. Ms. Hassan has participated in a number of boards, including serving on the City of Chicago's Community Development Commission since 1995. Ms. Hassan graduated from the University of Chicago Law School in 1977.

JANE R. BILGER, Assistant Executive Director and Chief of Staff, joined the Authority in 2003. Ms. Bilger has held various management positions in public and community development finance, including Director of Finance and Lending for the Illinois Facilities Fund, a statewide community development financial institution, Deputy Commissioner for Program Development for the City of Chicago Department of Housing, Vice President, Public Finance for W.H. Newbold's/American Capital Group and as Assistant Director-Program Coordination/Neighborhood Program Coordinator in Philadelphia, Pennsylvania. Ms. Bilger has a Bachelor of Arts degree in Urban Studies from the University of Pennsylvania.

ROBERT W. KUGEL, Chief Financial Officer, Assistant Treasurer and Assistant Executive Director, has served as Chief Financial Officer of the Authority since 1983. He has been with the Authority since 1975. Previously, he served as finance manager of Telco Marketing Services Inc. for three years and of a division of The Greyhound Corporation for four years. Mr. Kugel holds a Juris Doctor degree from John Marshall Law School, a Master of Business Administration degree from Loyola University of Chicago and a Bachelor of Science degree from Northern Illinois University.

MARY R. KENNEY, General Counsel, returned to the Authority in August 2000. She previously served as an administrator of the Authority's Portfolio Administration Department from 1988 through 1991 and earned her law degree from Loyola University of Chicago. After law school, she joined the Chicago law firm of Johnson & Bell in 1994 where she specialized in commercial litigation. Ms. Kenney has argued before various appellate courts and has participated in all phases of litigation at the trial court level. She also holds a Bachelor of Science degree in finance from DePaul University, where she concentrated in real estate and graduated with honors.

LINDA THURMOND, Assistant to the Executive Director for Multifamily Programs has been the Authority's Director of Asset Management Services since January 1999. In September 2003, she took on the added responsibilities for Multifamily Programs as part of the Authority's

business reorganization. She has a Masters in Management degree from the Kellogg School of Business at Northwestern University. Her previous experience includes asset management and loan servicing for Community Investment Corporation (CIC) as well as investment banking and loan securitization with AM&G Financial Services, Bankers Trust, and Oppenheimer & Company.

JAMES J. KREGOR, Controller, joined the Authority in December 1985. Prior to that time he served as International Financial Manager of Baker & McKenzie for three years and in various management positions with Northwest Industries, Inc. for eight years. A Certified Public Accountant, Mr. Kregor holds a Master of Business Administration degree from Northern Illinois University and a Bachelor of Business degree from Western Illinois University.

The offices of the Authority are located at 401 North Michigan Avenue, Suite 900, Chicago, Illinois 60611. The telephone number of the Authority is (312) 836-5200.

SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

General

The Offered Bonds are general obligations of the Authority. The full faith and credit of the Authority, subject to the provisions of resolutions pledging particular moneys, assets or revenues to the payment of notes, bonds or other obligations other than the Offered Bonds, is pledged for payment of the principal and Redemption Price, if any, of and interest and Sinking Fund Installments on the Offered Bonds, but is not pledged for the payment of the purchase price of any Variable Rate Bond that is tendered for purchase. See the captions, “THE OFFERED BONDS – The Variable Rate Bonds” and “APPENDIX H – THE VARIABLE RATE BONDS – Purchase of Bonds.”

Resolutions of the Authority which authorize the issuance of the Authority’s outstanding bonds and notes (other than the Prior Bonds and the Offered Bonds) pledge the revenues, assets and moneys of the Authority with respect to the developments and mortgage loans financed by those obligations to the payment of those obligations, and such revenues, assets and moneys are not available for the payment of the Bonds. The full faith and credit of the Authority are also pledged for payment of many other outstanding notes, bonds and other obligations of the Authority. See “OTHER PROGRAMS” and Note F to the Authority Annual Financial Statements contained in Appendix A. Amounts in the Authority’s Administrative Fund (exclusive of sums held in escrow) are subject to the pledge of the Authority’s full faith and credit for its various obligations. Except as may be limited by the Act, the Authority may use amounts in the Authority Administrative Fund for any lawful purpose and may pledge all or any portion of those funds with priority over the Bonds. See “AUTHORITY ANNUAL FINANCIAL STATEMENTS” in Appendix A.

The Offered Bonds are also secured on a parity basis with the Prior Bonds by a pledge of the Trust Estate established under the Indenture, including Revenues, Funds and Accounts established under the Indenture and Series Supplemental Indentures (other than the Acquired Development Fund) and all deposits and investments of those Funds and Accounts, Acquired Bonds, rights of the Authority to the payment of amounts in connection with Loans to the extent

the payments would be included in Revenues, including, to the extent they may be so pledged, any right to governmental subsidies payable to the Authority to be used to pay principal of or interest on Loans, and also security for the pledged rights in Loans including, without limitation, mortgages, assignments of rents and other security interests and agreements, in each case to the extent subject to the pledge, assignment, lien and security interest provided in the Indenture.

A Series Supplemental Indenture for a Series of Additional Bonds will specify whether such Additional Bonds will be the general obligation of the Authority and whether they will be Subordinate Bonds (as defined herein) or secured by the Trust Estate on a parity basis with the Prior Bonds and the Offered Bonds.

The Offered Bonds are not a debt of or guaranteed by the State or the United States or any agency or instrumentality thereof. The Authority has determined by resolution that Section 26.1 of the Act, as amended, which requires the Governor to submit to the General Assembly the amount certified by the Authority as being required to pay debt service on its bonds because of insufficient moneys available for such payments, shall not apply to the Offered Bonds.

The Act provides that any pledge, assignment, lien, security interest or grant made pursuant to the Act, which includes the pledge and security interest made pursuant to the Indenture and any Series Supplemental Indenture, will be valid and binding and immediately effective upon its being made or granted without any physical delivery, filing, recording or further act. The pledge, assignment, lien, security interest or grant will be valid and binding as against, and will be superior to any claims of any others having claims of any kind against the Authority or any other person, irrespective of whether such other parties have notice of the pledge, assignment, lien, security interest or grant.

Except for the issuance of Bonds pursuant to the Indenture, the Authority has covenanted that it will not make or grant any pledge, assignment, lien or security interest in any of the Trust Estate which is senior to or on a parity with the security provided by the Indenture. Except with respect to Subordinate Bonds, and except as expressly provided in or pursuant to the Indenture, all security for the Bonds under the Indenture will be for the equal and proportionate benefit of the obligations of the Authority on all Bonds. Nonetheless, the Authority may issue a Series of Bonds which may be additionally secured by a credit facility or a bond insurance policy securing only such Series of Bonds or a portion of such Series of Bonds as determined by the applicable Series Supplemental Indenture.

Revenues

Under the Indenture, “Revenues” means all money received by or on behalf of the Authority or the Trustee representing (i) principal and interest and related payments on Acquired Bonds and Loans, payments of service and other fees or charges to the Authority with respect to Loans, payments on Loans to reimburse the Authority for costs of issuance of Bonds (or other costs of the Authority with respect to Bonds payable from the Revenue Fund) and also including, without limitation, Loan Prepayments, Acquired Bond Redemption Receipts and Recovery Payments; (ii) Acquired Development Operating Income; (iii) Insurance Proceeds; (iv) Proceeds; (v) any Derivative Payments by a counterparty with respect to a Series of Bonds to the extent the

related Series Supplemental Indenture provides for those Derivative Payments to be included in Revenues; and (vi) subject to certain limitations contained in the Indenture, interest and other investment earnings received on the investment of amounts in any Account or Fund (other than the Acquired Development Fund or the Rebate Fund), all in the manner and to the extent described in the Indenture and the Series Supplemental Indentures. Except as provided in a Series Supplemental Indenture, Revenues do not include (a) discount, points or other initial Loan fees charged by the Authority; (b) any payment of interest on a Loan or other payment with respect to a Loan to the extent to be used for paying mortgage insurance premiums or other fees for credit enhancement of the Loan; or (c) Development Receipts.

The Authority will immediately transfer all Revenues received by it, other than Acquired Development Operating Income, to the Trustee. All Revenues received by the Trustee will be deposited in the Revenue Fund.

Acquired Bonds

The Offered Bonds will also be secured on a parity basis with the Prior Bonds by a pledge of all right, title and interest of the Authority in and to the Acquired Bonds. “Acquired Bonds” means any bond or other obligation of the Authority not issued pursuant to the Indenture that a Series Supplemental Indenture authorizes the Authority to acquire with amounts deposited in the Funds and Accounts (as specified in the Series Supplemental Indenture) and includes any instrument evidencing an ownership interest in or security for such obligation. There are no Acquired Bonds currently held under the Indenture. The Indenture permits the Authority to acquire Acquired Bonds in the future.

Loans

The Offered Bonds will also be secured on a parity basis with the Prior Bonds by a pledge of certain rights of the Authority in and to the Loans and security for rights in Loans that are pledged as part of the Trust Estate. “Loan” means any loan authorized by a Series Supplemental Indenture financed with proceeds of Bonds or other amounts deposited in the Funds and Accounts (as specified in the Series Supplemental Indenture) and includes any instrument evidencing an ownership interest in or security for such loan and also includes any loan financed by any Obligations refunded by Bonds to the extent the Series Supplemental Indenture for those Bonds so determines that such a loan shall be a Loan under this Indenture. A Loan may be a first mortgage loan, a subordinate mortgage loan or an unsecured mortgage loan, and may be for a multi-family development or a single family dwelling. The documents, instruments and agreements used to evidence or secure Loans may differ from time to time at the discretion of the Authority. The Indenture does not mandate any underwriting criteria for Loans.

Reserve Fund

The Indenture establishes a Reserve Fund to be used to pay debt service on Bonds other than Subordinate Bonds or payments under Derivative Agreements relating to Bonds, other than Subordinate Bonds, to the extent no other funds are available for that purpose. The “Reserve Requirement,” as of any particular date of calculation, is equal to the sum of all amounts established as Series Reserve Requirements in the Series Supplemental Indentures for all Series

of Bonds Outstanding. The “Series Reserve Requirement” is an amount established by a Series Supplemental Indenture as the reserve requirement for the Bonds of the Series while those Bonds are Outstanding. Series Supplemental Indentures for more than one Series of Bonds may establish a composite Series Reserve Requirement applicable to all those Series of Bonds.

A Series Supplemental Indenture may provide that the Series Reserve Requirement with respect to the applicable Series of Bonds may be funded in whole or in part through Cash Equivalents, including a letter of credit, insurance policy, surety, guarantee or other security arrangement. Amounts held in the Reserve Fund as of any date in excess of the Reserve Requirement, taking into account any Cash Equivalents in the Reserve Fund, will upon an Authority Request, be transferred to the Revenue Fund or a Series Program Account, unless otherwise provided in the Series Supplemental Indenture.

The 2004 Series A Supplemental Indenture establishes a Reserve Requirement for the 2004 Series A Bonds. The Reserve Requirement for the 2004 Series A Bonds is an amount, from time to time, equal to the maximum principal and interest due on the 2004 Series A Bonds on any semi-annual interest payment date after January 1, 2005. For purposes of these calculations, principal due on any date includes principal payable at maturity and principal payable pursuant to Sinking Fund Installments.

The 2004 Series B Supplemental Indenture establishes a Reserve Requirement for the 2004 Series B Bonds. That Series Reserve Requirement shall be funded by the deposit of a Debt Service Reserve Insurance Policy issued by Financial Security Assurance Inc. (“Financial Security”) in the amount of \$500,000 (the “Debt Service Reserve Insurance Policy”).

The Debt Service Reserve Insurance Policy will be held by the Trustee in the Reserve Fund and is provided as an alternative to the Authority depositing funds equal to the Reserve Requirement for outstanding 2004 Series B Bonds. The Debt Service Reserve Insurance Policy will be issued in the face amount equal to \$500,000. The premium for the Debt Service Reserve Insurance Policy will be fully paid at the time of delivery of the Offered Bonds. The available amount of the Debt Service Reserve Insurance Policy is the initial face amount of the Debt Service Reserve Insurance Policy less the amount of any previous deposits by the Bond Insurer with the Trustee which have not been reimbursed by the Authority.

Financial Security will make payments to the Trustee on the later of the Business Day (as such term is defined in the Debt Service Reserve Insurance Policy) on which such principal and interest becomes Due for Payment (as such term is defined in the Debt Service Reserve Insurance Policy) or on the Business Day next following the Business Day on which Financial Security shall have received Notice of Nonpayment (as such term is defined in the Debt Service Reserve Insurance Policy) in a form reasonably satisfactory to it. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 pm (New York time) on such Business Day; otherwise it will be deemed received on the next Business Day. Payment by Financial Security to the Trustee under the Debt Service Reserve Insurance Policy shall, to the extent thereof, discharge the obligation of Financial Security under the Debt Service Reserve Insurance Policy. Upon such payment, Financial Security shall become entitled to reimbursement of the amount so paid (together with interest and expenses) pursuant to the 2004 Series B Supplemental Indenture.

The amount available under the Debt Service Reserve Insurance Policy for payment shall not exceed the Policy Limit (as such term is defined in the Debt Service Reserve Insurance Policy). The amount available at any particular time to be paid to the Trustee shall automatically be reduced by any payment under the Debt Service Reserve Insurance Policy. However, after such payment, the amount available under the Debt Service Reserve Insurance Policy shall be reinstated in full or in part but only up to the Policy Limit, to the extent of the reimbursement of such payment (exclusive of interest and expenses) to Financial Security by or on behalf of the Authority.

In no event shall Financial Security incur duplicate liability for the same amounts owing with respect to the Bonds that are covered under the Debt Service Reserve Insurance Policy and any other insurance policy or surety bond that Financial Security has issued.

The Authority will be required to reimburse Financial Security to the extent of payments made, interest and expenses incurred by Financial Security in connection with the Debt Service Reserve Insurance Policy. The obligation of the Authority to reimburse Financial Security such amounts will be subordinate only to the rights of the Bondholders to receive regularly scheduled principal and interest payments on the Bonds.

For information regarding Financial Security Assurance Inc., see “THE BOND INSURANCE POLICY.”

See “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – Funds and Accounts - Reserve Fund” for a further discussion of the Reserve Fund.

Rating Certificate; Cash Flow Certificates and Compliance Certificates

The Indenture allows the Authority to take various actions subject to filing with the Trustee a Rating Certificate, a Cash Flow Certificate and/or a Compliance Certificate.

A “Rating Certificate” is a Certificate of an Authorized Representative filed with the Trustee, with respect to certain actions to be taken by the Authority, that the Authority has been advised by each Rating Agency that the Rating of that Rating Agency will not be reduced or withdrawn as a result of the Authority taking that action. “Rating” means at any date the then existing rating of Bonds (other than Subordinate Bonds) by a Rating Agency and, with respect to any Series of Bonds which has a rating based on bond insurance or other similar credit support for that Series of Bonds, the then existing underlying rating of such Bonds, without regard to such bond insurance or other similar credit support, as determined by a Rating Agency or in such other manner acceptable to the Trustee and the Authority.

A “Cash Flow Certificate” is a Certificate of an Authorized Representative stating that, as shown in the cash flow projections included in the Certificate and based upon the assumptions stated in the Certificate, there will at all times be available sufficient amounts in the Funds and Accounts, timely to pay all principal of and interest on the Bonds and make Derivative Payments under the assumptions stated in the Certificate for each set of then current cash flow scenarios (described below). Except as provided in the Series Supplemental Indenture, a Cash Flow Certificate for Bonds that are not Subordinate Bonds need only show the sufficiency of amounts so as to pay debt service and to make Derivative Payments for Bonds that are not Subordinate

Bonds. The Cash Flow Certificate must include projections of the amounts available for payment of debt service on Bonds and of Derivative Payments under the assumptions stated in the Certificate for each then current cash flow scenario and the assumptions used in computing the projections.

The Cash Flow Certificate must set forth various “cash flow scenarios,” which are sets of stated assumptions. Those assumptions include, without limitation, the following:

1. the timing and amounts of prepayments;
2. the timing and amounts of the receipt of payments of scheduled principal of and interest on Loans and Acquired Bonds;
3. the investment return on Funds and Accounts;
4. availability of amounts in the Reserve Fund;
5. expenses to be paid; and
6. the form of any Supplemental Coverage.

The Cash Flow Certificate must also include a set of operating policies setting forth rules or limitations to be followed with respect to discretionary activities of the Authority under the Indenture and Series Supplemental Indentures. Cash flow projections must take into account the financial position of the Loans and Acquired Bonds as of the stated date of the projection, must be consistent with this Indenture and the Series Supplemental Indentures and must assume compliance with the operating policies set forth in the Cash Flow Certificate and the various Series Program Determinations.

A Compliance Certificate with respect to any action is a Certificate of an Authorized Representative stating that the action complies with the operating policies of the Authority as set forth in the then current Cash Flow Certificate.

The actions for which filing a Rating Certificate is required are:

1. issuing any Series of Bonds;
2. making certain supplements or amendments to a Series Supplemental Indenture including, without limitation, the Series Reserve Requirement, the payment and security for Derivative Payments under a Derivative Agreement, the use of Cash Equivalents in the Reserve Fund, Supplemental Coverage, Permitted Investments or Series Program Determinations;
3. entering into any Derivative Agreement relating to any Series of Bonds after the date of issuance of such Bonds;
4. remarketing any Bonds in connection with a change in tender period except as required at the time of their issuance; or

5. releasing the pledge, assignment, lien or security interest of the Indenture in Loans or Acquired Bonds.

The actions for which either a Cash Flow Certificate or a Compliance Certificate must be filed are:

1. any purchase or redemption of Bonds (other than mandatory redemption pursuant to Sinking Fund Installments and certain purchases of Bonds in lieu of Sinking Fund Installments);
2. certain withdrawals of amounts from the Revenue Fund free and clear of the pledge and lien of the Indenture;
3. any amendment, encumbrance, sale or other disposition of any Loan or Acquired Bond not in default or any restructuring or compromising of any Loan;
4. any use of Acquired Bond Redemption Receipts, Prepayments or Recovery Payments for any use other than purchase or redemption of Bonds or payment of scheduled debt service; or
5. any material change in any operating policies or assumptions set forth in the most recent Cash Flow Certificate.

See “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – Rating Certificates, Compliance Certificates and Cash Flow Certificates” for further information regarding Rating Certificates, Compliance Certificates and Cash Flow Certificates.

Certain Factors Affecting Multi-Family Loans

The ability of the Authority to pay the principal of and interest on the Bonds is dependent on the revenues derived from Loans (and loans held under the resolutions and indentures pursuant to which Acquired Bonds are issued), including the timely receipt of debt service payments including, without limitation, any Section 8 or Section 236 subsidies and the proceeds of any FHA mortgage insurance. The ability of the owner of a development to make timely debt service payments depends upon a variety of factors, including, without limitation, the achievement and maintenance of sufficient levels of occupancy, sound management, timely receipt of any applicable subsidies, the ability to increase rents to cover increases in operating expenses, including taxes, utility charges and maintenance costs, general economic conditions and changes in laws and governmental regulations which affect the cost of operating the development.

In the case of developments subject to Section 8 subsidies, this ability to make timely debt service payments may also be affected by the term of any Section 8 subsidy contract, which varies with respect to any given development and in certain cases may be less than the term of the related mortgage loan. There may be a default on a mortgage loan when there are substantial increases in operating costs and either market conditions or HUD does not permit corresponding increases in rental levels on a timely basis, or substantial reductions in occupancy or a reduction,

loss or termination of Section 8 housing assistance payments occurs. See Appendix C for a description of and recent developments regarding the Section 8 program.

With respect to mortgage loans that are the subject of FHA mortgage insurance, under Section 221(d)(4) of the National Housing Act and the regulations promulgated thereunder, upon proper submission of a claim by the Authority and satisfaction of the process required for effecting a due assignment of the mortgage loan to FHA, FHA will pay 99 percent of the outstanding principal amount of the mortgage loan, less certain amounts which may be available to the Authority, plus interest on the insurance benefits at the FHA debenture rate, from the date of default (in the case of a monetary default, the date on which payment should have been received) to the date of the payment of the claim. The FHA debenture rate for a development is fixed at the time of the initial endorsement of the mortgage note by FHA. There can be no assurance that such debenture rate will be equal to or exceed the interest rate on the mortgage note. Payment of insurance benefits will be made in cash unless the mortgagee requests that insurance benefits be paid in debentures. If a claim is made under FHA mortgage insurance, the difference between the amounts due on the mortgage loan and the insurance benefits may (with respect to that portion of the mortgage loan financed by bonds secured by the Authority's general obligation) be paid from the Authority Administrative Fund. See Appendix D for a description of the FHA mortgage insurance program.

Derivatives

Except as expressly provided in a Series Supplemental Indenture, the Authority may from time to time enter into one or more Derivative Agreements with respect to one or more Series of Bonds. As provided in the related Series Supplemental Indenture, Derivative Payments payable by the Authority under any Derivative Agreement, other than with respect to Subordinate Bonds, may be payable from moneys on deposit in the Debt Service Account and, with respect to Subordinate Bonds, the Subordinate Bond Accounts, on a parity with, or, as provided in a related Series Supplemental Indenture, subordinate to interest payments on related Bonds. Notwithstanding anything to the contrary contained in the Indenture and as provided in the related Series Supplemental Indenture, Derivative Payments payable by the Authority pursuant to a Derivative Agreement, other than with respect to Subordinated Bonds, may be secured by and payable from moneys on deposit in the Debt Service Account and the Subordinate Bond Accounts, on a parity with, or, as provided in a related Series Supplemental Indenture, subordinate to interest payments on related Bonds; provided, however, in no event will any such Derivative Payment be paid with any amounts drawn under the credit facility or bond insurance policy securing the related Bond or remarketing proceeds derived from the related Bonds. Derivative Payments may include insurance premiums or insurance of the Authority's obligation to make such payments, as provided in the related Series Supplemental Indenture.

Additional Bonds

The Indenture provides that Additional Bonds may be issued subject to certain conditions and limitations. The Authority shall, at the time of issuance of a series of Additional Bonds, determine whether such series of Additional Bonds will be special, limited obligations of the Authority or general obligations of the Authority, to which its full faith and credit are pledged.

Unless otherwise provided in a Series Supplemental Indenture with respect to a series of Additional Bonds, Section 26.1 of the Act shall not apply to any such series of Additional Bonds.

In addition, except as may otherwise be provided in a Series Supplemental Indenture for Subordinate Bonds, such Series of Additional Bonds shall be secured and be payable on parity with and shall be entitled to the same benefits and security under the Indenture as all other Bonds issued under the Indenture, including the Offered Bonds. Nonetheless, the Authority may issue a Series of Bonds which may be secured by a credit facility or a bond insurance policy securing only such Series of Bonds or a portion of such Series of Bonds as determined by the applicable Series Supplemental Indenture.

The Indenture does not limit the aggregate principal amount of Bonds which may be issued, provided that the Authority does not exceed any limitation on the amount of its obligations established by law.

Before any Series of Additional Bonds (other than Subordinate Bonds) may be issued, the Authority must deliver to the Trustee a Rating Certificate.

State Certification

THE AUTHORITY HAS DETERMINED BY RESOLUTION THAT SECTION 26.1 OF THE ACT, WHICH REQUIRES THE GOVERNOR TO SUBMIT TO THE GENERAL ASSEMBLY THE AMOUNT CERTIFIED BY THE AUTHORITY AS BEING REQUIRED TO PAY DEBT SERVICE ON ITS BONDS BECAUSE OF INSUFFICIENT MONEYS AVAILABLE FOR SUCH PAYMENT, SHALL NOT APPLY TO THE OFFERED BONDS.

THE BOND INSURANCE POLICY

The information contained below under this caption “THE BOND INSURANCE POLICY” and the specimen Policy attached as Appendix G have been furnished by Financial Security Assurance Inc. for use in this Official Statement, and neither the Authority nor the Underwriters have undertaken any independent investigation of the operations of Financial Security. No representation is made herein as to the accuracy or adequacy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof. Neither the Authority nor the Underwriters make any representation as to the ability of Financial Security to make payments in accordance with the Policy.

The Policy

Concurrently with the issuance of the Offered Bonds, Financial Security Assurance Inc. (the “Bond Insurer”) will issue its Municipal Bond Insurance Policy for the Offered Bonds (the “Policy”). The Policy guarantees the scheduled payment of principal of and interest on the Offered Bonds when due as set forth in the form of the Policy included as Appendix G to this Official Statement.

The Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

Financial Security Assurance Inc.

The Bond Insurer is a New York domiciled financial guaranty insurance company and a wholly-owned subsidiary of Financial Security Assurance Holdings Ltd. (“Holdings”). Holdings is an indirect subsidiary of Dexia, S.A., a publicly held Belgian corporation, and of Dexia Credit Local, a direct wholly-owned subsidiary of Dexia, S.A. Dexia, S.A., through its bank subsidiaries, is primarily engaged in the business of public finance, banking and asset management in France, Belgium and other European countries. No shareholder of Holdings or the Bond Insurer is liable for the obligations of the Bond Insurer.

At September 30, 2003, the Bond Insurer’s total policyholders’ surplus and contingency reserves were \$2,021,327,000 and its total unearned premium reserve was approximately \$1,281,769,000 in accordance with statutory accounting practices. At September 30, 2003, the Bond Insurer’s total shareholders’ equity was approximately \$2,208,123,000 and its total net unearned premium reserve was approximately \$1,098,686,000 in accordance with generally accepted accounting principles.

The financial statements included as exhibits to the annual and quarterly reports filed by Holdings with the Securities and Exchange Commission are hereby incorporated herein by reference. Also incorporated herein by reference are any financial statements so filed from the date of this Official Statement until the termination of the offering of the Offered Bonds. Copies of materials incorporated by reference will be provided upon request to Financial Security Assurance Inc., 350 Park Avenue, New York, New York 10022, Attention: Communications Department, telephone: (212) 826-0100.

The Policy does not protect investors against changes in market value of the Offered Bonds, which market value may be impaired as a result of changes in prevailing interest rates, changes in applicable ratings or other causes. The Bond Insurer makes no representation regarding the Offered Bonds or the advisability of investing in the Offered Bonds. The Bond Insurer makes no representation regarding this Official Statement, nor has it participated in the preparation thereof, except that the Bond Insurer has provided to the Authority the information presented under this caption and Appendix G for inclusion in this Official Statement.

THE OFFERED BONDS

The 2004 Series A Bonds

General

The 2004 Series A Bonds are issuable only as fully registered bonds without coupons in denominations of \$5,000 principal amount or any integral thereof. The 2004 Series A Bonds will bear interest (calculated on the basis of a 360-day year of twelve 30-day months) from their dated date to maturity (or prior redemption) at the applicable rates set forth on the inside cover page of this Official Statement. Interest will be payable on July 1 and January 1 of each year, commencing on July 1, 2004.

Redemption

Mandatory Sinking Fund Redemption. The 2004 Series A Bonds maturing on January 1, 2013 are subject to mandatory redemption in part by lot, pursuant to Sinking Fund Installments, on the dates and in the amounts shown below, at a Redemption Price equal to the principal amount of the 2004 Series A Bonds to be redeemed plus accrued interest to the date of redemption, without premium:

<u>Redemption Date</u>	<u>Sinking Fund Installment</u>	<u>Redemption Date</u>	<u>Sinking Fund Installment</u>
January 1, 2005	\$115,000	July 1, 2009	\$90,000
July 1, 2005	75,000	January 1, 2010	90,000
January 1, 2006	80,000	July 1, 2010	90,000
July 1, 2006	75,000	January 1, 2011	90,000
January 1, 2007	80,000	July 1, 2011	95,000
July 1, 2007	80,000	January 1, 2012	95,000
January 1, 2008	85,000	July 1, 2012	100,000
July 1, 2008	80,000	January 1, 2013 [†]	95,000
January 1, 2009	85,000		

[†] Final maturity.

The 2004 Series A Bonds maturing on July 1, 2013 are subject to mandatory redemption in part by lot, pursuant to Sinking Fund Installments, on the dates and in the amounts shown below, at a Redemption Price equal to the principal amount of the 2004 Series A Bonds to be redeemed plus accrued interest to the date of redemption, without premium:

<u>Redemption Date</u>	<u>Sinking Fund Installment</u>	<u>Redemption Date</u>	<u>Sinking Fund Installment</u>
January 1, 2005	\$535,000	July 1, 2009	\$425,000
July 1, 2005	380,000	January 1, 2010	435,000
January 1, 2006	380,000	July 1, 2010	440,000
July 1, 2006	385,000	January 1, 2011	450,000
January 1, 2007	390,000	July 1, 2011	460,000
July 1, 2007	390,000	January 1, 2012	470,000
January 1, 2008	405,000	July 1, 2012	480,000
July 1, 2008	410,000	January 1, 2013	490,000
January 1, 2009	415,000	July 1, 2013 [†]	600,000

[†] Final maturity.

The 2004 Series A Bonds maturing on July 1, 2016 are subject to mandatory redemption in part by lot, pursuant to Sinking Fund Installments, on the dates and in the amounts shown below, at a Redemption Price equal to the principal amount of the 2004 Series A Bonds to be redeemed plus accrued interest to the date of redemption, without premium:

<u>Redemption Date</u>	<u>Sinking Fund Installment</u>	<u>Redemption Date</u>	<u>Sinking Fund Installment</u>
January 1, 2014	\$620,000	July 1, 2015	\$660,000
July 1, 2014	625,000	January 1, 2016	135,000
January 1, 2015	650,000	July 1, 2016 [†]	135,000

[†] Final maturity.

The 2004 Series A Bonds maturing on July 1, 2024 are subject to mandatory redemption in part by lot, pursuant to Sinking Fund Installments, on the dates and in the amounts shown below, at a Redemption Price equal to the principal amount of the 2004 Series A Bonds to be redeemed plus accrued interest to the date of redemption, without premium:

<u>Redemption Date</u>	<u>Sinking Fund Installment</u>	<u>Redemption Date</u>	<u>Sinking Fund Installment</u>
January 1, 2017	\$140,000	January 1, 2021	\$170,000
July 1, 2017	145,000	July 1, 2021	180,000
January 1, 2018	150,000	January 1, 2022	185,000
July 1, 2018	150,000	July 1, 2022	190,000
January 1, 2019	155,000	January 1, 2023	195,000
July 1, 2019	160,000	July 1, 2023	200,000
January 1, 2020	165,000	January 1, 2024	200,000
July 1, 2020	170,000	July 1, 2024 [†]	210,000

[†] Final maturity.

The 2004 Series A Bonds maturing on July 1, 2032 are subject to mandatory redemption in part by lot, pursuant to Sinking Fund Installments, on the dates and in the amounts shown below, at a Redemption Price equal to the principal amount of the 2004 Series A Bonds to be redeemed plus accrued interest to the date of redemption, without premium:

<u>Redemption Date</u>	<u>Sinking Fund Installment</u>	<u>Redemption Date</u>	<u>Sinking Fund Installment</u>
January 1, 2025	\$220,000	January 1, 2029	\$275,000
July 1, 2025	225,000	July 1, 2029	280,000
January 1, 2026	230,000	January 1, 2030	290,000
July 1, 2026	235,000	July 1, 2030	295,000
January 1, 2027	245,000	January 1, 2031	305,000
July 1, 2027	250,000	July 1, 2031	315,000
January 1, 2028	255,000	January 1, 2032	320,000
July 1, 2028	260,000	July 1, 2032 [†]	335,000

[†] Final maturity.

The 2004 Series A Bonds maturing on January 1, 2039 are subject to mandatory redemption in part by lot, pursuant to Sinking Fund Installments, on the dates and in the amounts shown below, at a Redemption Price equal to the principal amount of the 2004 Series A Bonds to be redeemed plus accrued interest to the date of redemption, without premium:

<u>Redemption Date</u>	<u>Sinking Fund Installment</u>	<u>Redemption Date</u>	<u>Sinking Fund Installment</u>
January 1, 2033	\$100,000	July 1, 2036	\$120,000
July 1, 2033	100,000	January 1, 2037	120,000
January 1, 2034	100,000	July 1, 2037	125,000
July 1, 2034	105,000	January 1, 2038	125,000
January 1, 2035	110,000	July 1, 2038	135,000
July 1, 2035	110,000	January 1, 2039 [†]	135,000
January 1, 2036	115,000		

[†] Final maturity.

The 2004 Series A Bonds maturing on July 1, 2039 are subject to mandatory redemption in part by lot, pursuant to Sinking Fund Installments, on the dates and in the amounts shown below, at a Redemption Price equal to the principal amount of the 2004 Series A Bonds to be redeemed plus accrued interest to the date of redemption, without premium:

<u>Redemption Date</u>	<u>Sinking Fund Installment</u>	<u>Redemption Date</u>	<u>Sinking Fund Installment</u>
January 1, 2033	\$240,000	July 1, 2036	\$300,000
July 1, 2033	250,000	January 1, 2037	310,000
January 1, 2034	265,000	July 1, 2037	310,000
July 1, 2034	265,000	January 1, 2038	330,000
January 1, 2035	275,000	July 1, 2038	335,000
July 1, 2035	280,000	January 1, 2039	350,000
January 1, 2036	290,000	July 1, 2039 [†]	335,000

[†] Final maturity.

The Sinking Fund Installments on the 2004 Series A Bonds maturing on any date may be reduced by the redemption of those 2004 Series A Bonds, other than pursuant to Sinking Fund Installments on the 2004 Series A Bonds (or by the purchase of those 2004 Series A Bonds from money otherwise to be used for such a redemption not pursuant to Sinking Fund Installments), on or prior to the due date of the particular Sinking Fund Installments, as may be specified by the Authority. The total credit against Sinking Fund Installments will equal the principal amount of the 2004 Series A Bonds so redeemed or purchased. The Authority, at the time of giving notice to the Trustee of an election or direction to redeem 2004 Series A Bonds, will specify any Sinking Fund Installments against which the redemption will be credited and the notice of the redemption will also include that information. The Authority will determine the amounts and due dates of the various Sinking Fund Installments against which the principal amount of 2004 Series A Bonds will be credited in such manner that there will be no material adverse effect on the ability of the Authority to continue to pay the principal of and Sinking Fund Installments and interest on 2004 Series A Bonds remaining Outstanding.

Optional Redemption. On or after July 1, 2014, the 2004 Series A Bonds may be called for redemption, at par, at the option of the Authority, in any order of maturity as determined by the Authority, and by lot within a maturity, in whole or in part at any time, from any moneys available for such purpose at the Redemption Price of par plus accrued interest, if any, to the date of redemption, without redemption premium.

Special Redemption. In addition to the option redemption provisions described above, the 2004 Series A Bonds are subject to special redemption; see the caption “THE OFFERED BONDS – Special Redemption of the Offered Bonds.”

The Variable Rate Bonds

The following information is furnished solely to provide summary information regarding the terms of the 2004 Series B Bonds (also sometimes referred to as the “Variable Rate Bonds”), the Initial Liquidity Facility, and the Initial Liquidity Provider and does not purport to be comprehensive. All such information is qualified in its entirety by reference to the more detailed descriptions and definitions appearing in Appendices H and I to this Official Statement and by

reference to the Indenture, 2004 Series B Supplemental Indenture and Resolution relating to the Variable Rate Bonds and should be read together therewith.

This Official Statement is not intended to describe the terms of any Variable Rate Bond after its conversion to a Long-Term Mode.

General

The Variable Rate Bonds will be dated the date of their delivery and will mature on the maturity date set forth on the inside cover page of this Official Statement.

The Variable Rate Bonds will be issued in authorized denominations of (a) \$100,000 principal amount or any integral multiple of \$5,000 in excess thereof during any Daily Rate Period or Weekly Rate Period, or (b) \$100,000 principal amount or any integral multiple of \$1,000 in excess thereof during any Flexible Rate Period.

The Variable Rate Bonds will initially bear interest for a Weekly Rate Period. The Variable Rate Bonds will continue to bear interest for a Weekly Rate Period until adjusted at the option of the Authority to bear interest for a Daily Rate Period, a Flexible Rate Period or a Long-Term Interest Period, as more fully described herein, at the rate or rates determined during such Interest Period. Variable Rate Bonds shall not bear interest at a rate higher than the Maximum Rate (as defined herein). As used herein, "Maximum Rate" means, (A) with respect to all Variable Rate Bonds other than Purchased Bonds (as defined below) the lesser of (i) 12 percent, or (ii) the maximum interest rate permitted by applicable law, and (B) with respect to Purchased Bonds, the lesser of (i) 25 percent, or (ii) the maximum interest rate permitted by applicable law. Currently, under applicable law, there is no maximum interest rate limitation.

As described herein, the Variable Rate Bonds are subject to mandatory purchase on the following dates (each a "Mandatory Purchase Date") (i) with respect to a Flexible Rate Bond, on the first Business Day following the last day of each Flexible Rate Period with respect to the Variable Rate Bond, (ii) any Mode Change Date (except a change in Mode between the Daily Mode and the Weekly Mode), (iii) the date upon which an Alternate Liquidity Facility is substituted for the Initial Liquidity Facility then in effect (a "Substitution Date"), (iv) the fifth Business Day prior to the date the Initial Liquidity Facility expires (an "Expiration Date") (other than as a result of a Termination Event, as that term is defined in Appendix H), and (v) the date which is a Business Day that is no less than three nor more than five days after the Trustee's receipt of notice from the Initial Liquidity Provider indicating the occurrence of a Termination Event under the Initial Liquidity Facility. *For the Expiration Date of, and events of default under, the Initial Liquidity Facility, see the caption, "THE OFFERED BONDS - Initial Liquidity Facility" and Appendix I attached hereto.*

In addition, for so long as the Policy is in full force and effect and insures the Variable Rate Bonds, unless the Bond Insurer otherwise agrees, the interest rate on all of the Variable Rate Bonds shall be converted to a Fixed Rate Mode and all Variable Rate Bonds shall therefore be subject to mandatory purchase: (i) upon failure of the Initial Liquidity Provider to purchase Variable Rate Bonds; (ii) upon expiration or termination of the Initial Liquidity Facility with no substitution of an Alternate Liquidity Facility; (iii) if Variable Rate Bonds are held as Purchased

Bonds for 45 days or more in any bond year; (iv) if there are two failed remarketings of the Variable Rate Bonds; (v) if Purchased Bonds bear interest at the Maximum Rate; or (vi) if the Authority fails to replace the Initial Liquidity Facility when required pursuant to the 2004 Series B Supplemental Indenture.

Variable Rate Bonds purchased by or on behalf of and/or held for the account of the Initial Liquidity Provider will be “Purchased Bonds.” Purchased Bonds will bear interest at the rate or rates and shall be payable and subject to redemption in such amounts and in such manner, as provided in the Initial Liquidity Facility.

Upon the occurrence of a Termination Event under the Initial Liquidity Facility, the Initial Liquidity Provider’s obligation to purchase Variable Rate Bonds under the Initial Liquidity Facility will terminate thirty days after delivery of notice of termination to the Authority, and thereafter, the Initial Liquidity Provider shall be under no obligation to purchase Variable Rate Bonds.

Payment of the purchase price for tendered Variable Rate Bonds is expected to be made from (i) proceeds of remarketing of such Variable Rate Bonds and (ii) amounts available under the Initial Liquidity Facility (or any Alternate Liquidity Facility). ***Neither the Authority nor the Bond Insurer guaranty or insure the payment of the purchase price for any tendered Variable Rate Bond.***

The following summarizes certain terms of the Variable Rate Bonds during each Interest Period other than the Long-Term Interest Period.

Weekly Rate Period

Interest Rate. The Weekly Rate for each seven day period (each, a “Weekly Rate Period”), Thursday through Wednesday, inclusive, shall be determined by the Remarketing Agent on Wednesday or on the next preceding Business Day if any such Wednesday is not a Business Day.

The Weekly Rate shall be the rate of interest per annum determined by the Remarketing Agent on and as of the applicable Rate Determination Date (defined below) to be the minimum rate which, in the opinion of the Remarketing Agent under then-current market conditions, would result in the sale of such Variable Rate Bonds in the Weekly Rate Period on such date of determination (the “Rate Determination Date”) at a price equal to the principal amount thereof plus interest, if any, accrued through the Rate Determination Date during the then current Interest Accrual Period. If the: (i) Remarketing Agent fails to establish a Weekly Rate for any week, (ii) method by which the Remarketing Agent determines the Weekly Rate is held to be unenforceable by a court of law, or (iii) Remarketing Agent suspends its remarketing effort pursuant to the Remarketing Agreement, then the Weekly Rate for such week will be the Alternate Rate in effect on the first day of the Interest Period.

Generally, the “Alternate Rate” will be a rate per annum equal to the BMA Municipal Swap Index of Municipal Market Data (f/k/a the PSA Municipal Swap Index) (the “BMA Rate”) most recently available as of the Rate Determination Date. In the event the BMA Rate is no longer available or published, the Alternate Rate will be the Kenny Index and if neither the BMA

Rate nor the Kenny Index are available or published, the Alternate Rate will be an index determined to equal 110% of the prevailing rate determined by the Remarketing Agent for tax exempt state and local government bonds meeting the criteria determined in good faith by the Remarketing Agent to be comparable, under the circumstances, to the criteria used by the Bond Market Association to determine the BMA Rate just prior to when such rate was no longer available or published.

Interest during a Weekly Rate Period shall be computed on the basis of a 365- or 366-day year, as appropriate, for the actual number of days elapsed.

Monthly Interest Payment. Interest shall accrue from and including the last Interest Payment Date to which interest has been paid or, if no interest has been paid on Variable Rate Bonds operating in a Weekly Mode, from the date of original authentication and delivery of the Variable Rate Bonds or the Mode Change Date, as the case may be, to and including the day preceding the next Interest Payment Date. Interest will be payable on the first Business Day of the month including any Maturity Date and Mode Change Date, except a change between the Daily Mode and Weekly Mode. The Record Date for the payment of interest shall be the last Business Day immediately preceding the Interest Payment Date.

Bondholder Election to have Variable Rate Bonds Purchased. The Beneficial Owners of Variable Rate Bonds bearing interest at a Weekly Rate may elect to have any of their Variable Rate Bonds (or portions thereof in amounts equal to Authorized Denominations) purchased on any Business Day by giving written notice to the Tender Agent (which notice will be delivered by the Tender Agent to the Remarketing Agent) by 5:00 p.m., New York City time, on a Business Day at least seven days prior to the Business Day selected by the owner for such purchase. If a book-entry system is not in effect, Variable Rate Bonds to be purchased must be delivered to the Tender Agent by 12:00 noon, New York City time, on the date designated for purchase.

Optional Redemption. The Variable Rate Bonds operating in a Weekly Mode are subject to optional redemption, in whole or in part, by the Authority, on any date during a Weekly Rate Period, at a Redemption Price equal to the principal amount thereof plus accrued interest, if any, from the end of the preceding Interest Accrual Period to the Redemption Date.

Change of Interest Period. The Variable Rate Bonds operating in a Weekly Mode may be changed to any other Mode at the times and in the manner described below. Subsequent to a change in Mode, the Variable Rate Bonds may again be changed to a different Mode at the times and in the manner provided below. The Mode may be changed at any time upon the Authority providing written notice to the Trustee, Authority, Tender Agent, Remarketing Agent, Master Paying Agent, Credit Provider, Liquidity Provider and Obligor (each, a “Notice Party”) at least 30 days (or such shorter time as may be agreed to by the Authority, Trustee, Tender Agent and Remarketing Agent) prior to the effective date of such change. The Variable Rate Bonds are subject to mandatory purchase on each Mandatory Purchase Date. Notice of the change in Mode will be given by the Tender Agent to the Owners of the Variable Rate Bonds at least 15 days prior to the Mode Change Date.

Daily Rate Period

Interest Rate. The Daily Rate shall be determined by the Remarketing Agent on each Business Day. The Daily Rate shall be the rate of interest per annum determined by the Remarketing Agent on and as of the applicable Rate Determination Date to be the minimum rate which, in the opinion of the Remarketing Agent under then-current market conditions, would result in the sale of such Variable Rate Bonds in a Daily Rate Period on such Rate Determination Date at a price equal to the principal amount thereof plus interest, if any, accrued through the Rate Determination Date during the then current Interest Accrual Period. If the: (i) Remarketing Agent fails to establish a Daily Rate for any week, (ii) method by which the Remarketing Agent determines the Daily Rate is held to be unenforceable by a court of law or (iii) Remarketing Agent suspends its remarketing effort pursuant to the Remarketing Agreement, then the Daily Rate for such day will be the Alternate Rate in effect on the first day of the Interest Period.

Interest during a Daily Rate Period shall be computed on the basis of a 365- or 366-day year, as appropriate, for the actual number of days elapsed.

Monthly Interest Payment. Interest shall accrue from and including the first day of a Daily Rate Period and thereafter from and including the first day of each calendar month through and including the day preceding the next Interest Payment Date, and shall be payable on the first Business Day of the next calendar month. The Record Date for the payment of interest shall be the last Business Day preceding the Interest Payment Date.

Bondholder Election to Have Variable Rate Bonds Purchased. The Beneficial Owners of Variable Rate Bonds bearing interest at a Daily Rate may elect to have any of their Variable Rate Bonds (or portions thereof in amounts equal to Authorized Denominations) purchased on any Business Day by giving written notice to the Tender Agent (which notice will be delivered by the Tender Agent to the Remarketing Agent) by 11:00 a.m., New York City time, on such Business Day.

Optional Redemption. The Variable Rate Bonds are, while operating in a Daily Mode, subject to optional redemption by the Authority, in whole or in part, on any date during a Daily Rate Period, at a Redemption Price equal to the principal amount thereof plus accrued interest, if any, from the end of the preceding Interest Accrual Period to the Redemption Date.

Change of Interest Period. The Variable Rate Bonds operating in a Daily Mode may be changed to any other Mode at the times and in the manner described below. Subsequent to a change in Mode, the Variable Rate Bonds may again be changed to a different Mode at the times and in the manner provided below. The Mode may be changed at any time upon the Authority providing written notice to the Notice Parties at least 30 days (or such shorter time as may be agreed to by the Authority, Trustee, Tender Agent and Remarketing Agent) prior to the effective date of such change. The Variable Rate Bonds are subject to mandatory purchase on each Mandatory Purchase Date. Notice of the change in Mode will be given by the Tender Agent to the Owners of the Variable Rate Bonds at least 15 days prior to the Mode Change Date.

Flexible Rate Period

Interest Period and Flexible Rate. The Interest Period for a Variable Rate Bond in the Flexible Mode shall be a period from one to 270 days (which period must end on a day preceding a Business Day), determined by the Remarketing Agent, during which the Variable Rate Bond bears interest at the Flexible Rate. A Flexible Rate Bond can have an Interest Period, and bear interest at a Flexible Rate, different than another Flexible Rate Bond. In making the determinations with respect to Interest Periods, on each Rate Determination Date for a Flexible Rate Bond (generally, the first day of the Interest Period), the Remarketing Agent will select for the Variable Rate Bond the Interest Period which would result in the Remarketing Agent being able to remarket such bond at par in the secondary market at the lowest average interest cost for all Flexible Rate Bonds; provided, that if the Remarketing Agent has received notice from the Authority that the Variable Rate Bonds are to be changed from the Flexible Mode to any other Mode, the Remarketing Agent must select Interest Periods which do not extend beyond the resulting applicable Mandatory Purchase Date of the Variable Rate Bond.

The Remarketing Agent will determine the Interest Period (which should be a period of not less than one day nor more than 270 days) and Flexible Rates no later than 1:00 p.m., New York City time, on the Rate Determination Date. Any Flexible Rate Bond that is not remarketed by the Remarketing Agent shall have an Interest Period commencing on the first day following the last day of the current Interest Period to the next Business Day and thereafter will commence on each Business Day and extend to the next Business Day.

The Flexible Rate for any Flexible Rate Bond shall be the rate of interest per annum determined by the Remarketing Agent on and as of the applicable Rate Determination Date to be the minimum rate which, in the opinion of the Remarketing Agent under then-current market conditions, would result in the sale of such Flexible Rate Bond on the date and at the time determined at a price equal to that which would result in the Remarketing Agent being able to remarket such bond at par in the secondary market at the lowest average interest cost for all Flexible Rate Bonds. If the: (i) Remarketing Agent fails to determine the Interest Period for Variable Rate Bonds in the Flexible Mode or to establish a Flexible Rate for an Interest Period, (ii) method by which the Remarketing Agent determines the Flexible Rate is held to be unenforceable by a court of law or (iii) Remarketing Agent suspends its remarketing effort pursuant to the Remarketing Agreement, then the next Interest Period shall be from the first day following the last day of the current Interest Period to the next succeeding Business Day and thereafter, shall commence on each Business Day and extend to the next succeeding Business Day and the Flexible Rate for such Interest Period shall be the Alternate Rate in effect on the Business Day that begins the interest period in effect on the first day of the Interest Period.

Interest during a Flexible Rate Period shall be computed on the basis of a 365- or 366-day year, as appropriate, for the actual number of days elapsed.

Interest Payment. Interest with respect to each Flexible Rate Bond shall be payable on each Mandatory Purchase Date. The Record Date for the payment of interest shall be the Business Day immediately preceding such Interest Payment Date.

Mandatory Purchase of Variable Rate Bonds. Each Flexible Rate Bond shall be purchased on the Mandatory Purchase Date. The purchase price of any Flexible Rate Bond so purchased shall be payable only upon surrender of such Bond to the Tender Agent, when the Variable Rate Bonds are not in a Book-Entry System.

Optional Redemption. The Flexible Rate Bonds are subject to optional redemption by the Authority, in whole or in part, on their Mandatory Purchase Dates at a Redemption Price equal to the principal amount thereof.

Change of Interest Period. The Variable Rate Bonds operating in a Flexible Rate Mode may be changed to any other Mode at the times and in the manner described below. Subsequent to a change in Mode, the Variable Rate Bonds may again be changed to a different Mode at the times and in the manner provided below. The Mode may be changed at any time upon the Authority providing written notice to the Notice Parties at least 30 days (or such shorter time as may be agreed to by Authority, Trustee, Tender Agent and Remarketing Agent) prior to the effective date of such change. Notice of the change in Mode will be given by the Tender Agent to the Owners of the Variable Rate Bonds at least 15 days prior to the Mode Change Date.

Mandatory Tender for Purchase Upon Termination, Expiration, or Replacement of the Initial Liquidity Facility. The Variable Rate Bonds are subject to mandatory tender for purchase upon notice from the Tender Agent that the Variable Rate Bonds shall, on the date specified in such notice, cease to be payable from the Initial Liquidity Facility as a result of (i) the expiration of the term of the Initial Liquidity Facility (other than a termination as a result of a Termination Event), (ii) the Initial Liquidity Facility being replaced with the effect that the Variable Rate Bonds are no longer payable from the Initial Liquidity Facility, or (iii) the Initial Liquidity Provider notifying the Authority of the occurrence of a Termination Event and that the Initial Liquidity Provider is suspending or terminating the Initial Liquidity Facility in accordance with its terms as described under the caption “LIQUIDITY FACILITY FOR THE VARIABLE RATE BONDS – Liquidity Facility Events of Default” in Appendix I. See Appendix H under the caption “THE VARIABLE RATE BONDS – Purchase of Bonds – Mandatory Tender for Purchase Upon Termination, Expiration, or Replacement of the Initial Liquidity Facility” and Appendix I under the caption “Liquidity Facility Events of Default.”

In addition, for so long as the Policy is in full force and effect and insures the Variable Rate Bonds, unless the Bond Insurer otherwise agrees, the interest rate on all of the Variable Rate Bonds shall be converted to a Fixed Rate Mode and all Variable Rate Bonds shall therefore be subject to mandatory purchase (i) upon failure of the Initial Liquidity Provider to purchase Variable Rate Bonds, (ii) upon expiration or termination of the Initial Liquidity Facility with no substitution of an Alternate Liquidity Facility, (iii) if Variable Rate Bonds are held as Purchased Bonds for 45 days or more in any bond year, (iv) if there are two failed remarketings of the Variable Rate Bonds, (v) if Purchased Bonds bear interest at the Maximum Rate, or (vi) if the Authority fails to replace the Initial Liquidity Facility when required pursuant to the 2004 Series B Supplemental Indenture.

Duration of Interest Periods. Each Flexible Rate Period, Daily Rate Period, and Weekly Rate Period shall continue until the date on which an adjustment to an alternative Interest Period occurs or the Maturity Date, whichever is earlier.

Special Redemption of the Offered Bonds

The Offered Bonds are subject to redemption at the option of the Authority, in any order of maturity as determined by the Authority, and within a maturity by lot, at any time, in whole or in part, at their principal amount plus accrued interest, if any, to the Redemption Date, from the following sources:

- (i) Loan Prepayments and Recovery Payments with respect to any Loans (whether financed by Offered Bonds or other Bonds);
- (ii) payments made by the Authority, to the extent Loan Prepayments or Recovery Payments (excluding, in each case, amounts received for Bond redemption premium or other redemption costs) to be used to redeem Offered Bonds are less than the Outstanding principal amount of the Bonds that financed the portion of the Loans with respect to which that Loan Prepayment or Recovery Payment was received;
- (iv) money available from a reduction in the Debt Service Reserve Requirement as a result of the redemption or payment of Offered Bonds;
- (v) moneys available from surplus Revenues. See “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – Funds and Accounts - Revenue Fund;”
- (vi) in the case of the 2004 Series A Bonds only, from any amounts remaining in the 2004 Series A Account of the Program Fund as a result of a failure to make, in whole or in part, the Loan to Campbell Terrace as described above under “PLAN OF FINANCE” (such as, for example, because conditions to funding the Campbell Terrace Loan are not met or because less than all of the proceeds of the Campbell Terrace Loan are disbursed);
- (vii) in the case of the Variable Rate Bonds only, from any amounts remaining in the 2004 Series B Account of the Program Fund as a result of a failure to make, in whole or in part, the Loan to Southern Hills/Orlando as described above under “PLAN OF FINANCE” (such as, for example, because conditions to funding the Southern Hills/Orlando Loan are not met or because less than all of the proceeds of the Southern Hills/Orlando Loan are disbursed); and
- (viii) any money provided by the Authority, if, in the opinion of nationally recognized bond counsel selected by the Authority, the redemption of the Offered Bonds is required to prevent interest on them from being included in gross income of their owners for federal income tax purposes or if there occurs a final decree or judgment of a federal court, a determination of the Internal Revenue Service or an opinion of such bond counsel, that interest on the Offered Bonds is or was included in gross income of their owners within the meaning of the Code (except

for gross income on Offered Bonds held by a “substantial user” or “related person” within the meaning of the Code).

As used in the Indenture:

“*Acquired Bond Redemption Receipts*” means amounts received by the Trustee upon a redemption (other than pursuant to Sinking Fund Installments) of an Acquired Bond, and amounts received upon a voluntary sale of an Acquired Bond not in default.

“*Loan Prepayments*” means amounts received upon a voluntary payment of principal or interest on a Loan including any prepayment penalty or other amounts due upon a prepayment of a Loan and amounts received upon the encumbrance, sale or other disposition of Loans not in default. Loan Prepayments may include, without limitation, voluntary prepayments from proceeds of new loans made by the Authority, including new loans financed by Bonds or other obligations of the Authority. Loan Prepayments may also include moneys received upon a voluntary sale or disposition by the Authority of a Loan not in default, including a sale to secure obligations of the Authority other than Bonds.

“*Recovery Payments*” means amounts received with respect to any sale or enforcement of Loans or Acquired Bonds (other than Loan Prepayments or Acquired Bond Redemption Receipts) and received as Proceeds or Insurance Proceeds. Recovery Payments also include any recovery from Supplemental Coverage to the extent not included in Insurance Proceeds.

The mortgage loans for the Financed Developments generally contain the agreement of the respective borrowers that they will not prohibit prepayment or make any Loan Prepayments without the consent of the Authority until an agreed upon date. For the dates on and after which those Loans and the mortgage loans for the Financed Developments can be prepaid without the consent of the Authority, see the table included under the caption, “FINANCED DEVELOPMENTS” below. After the specified date, those loans may be prepaid without the consent of the Authority, subject to compliance with certain provisions of the Act and the Indenture (or in the case of the Acquired Bonds, their respective authorizing resolutions). The Authority may consent to a voluntary prepayment (which could be financed by proceeds of a new mortgage loan from the Authority) prior to such date in which event the Offered Bonds will be called for special redemption at par, subject only to the restrictions set forth in the Act and the Indenture (or in the case of the Acquired Bonds, their respective authorizing resolutions). Some of the Financed Developments have been financed with multiple Loans.

As of December 31, 2003, Loans in the aggregate outstanding principal amount of \$69,123,949 are past their respective earliest optional prepayment dates, and, accordingly, may be prepaid at any time without the consent of the Authority. Such prepayments may result in the special redemption of Offered Bonds at par as described above.

Moneys received from the prepayment of a Loan or the redemption of an Acquired Bond may, upon filing a Cash Flow Certificate and delivery of a Bond Counsel Opinion, be used to make other Loans or to purchase other Acquired Bonds in lieu of redeeming Offered Bonds as described above. Any such new Loan or Acquired Bond will become security under the

Indenture. No assurances can be given that such moneys will be used to make new Loans or purchase other Acquired Bonds.

In addition, the maturity dates of many of the Loans held under the Indenture (see the table under “FINANCED DEVELOPMENTS – Description of Financed Developments”) are less than the stated maturities of many of the Bonds, including the Offered Bonds. Accordingly, some the assumptions upon which the maturities and Sinking Fund Installments of the Offered Bonds were established include assumptions that (a) there would be no Loan Prepayments, Acquired Bonds Redemption Receipts or Recovery Payments related to these Financed Developments, and (b) that surplus Revenues comprising regularly scheduled principal payments on certain Loans would be used to make other Loans or to acquire Acquired Bonds. However, the Authority may receive Loan Prepayments, Acquired Bonds Redemption Receipts and Recovery Payments related to the Financed Developments, and the Authority is not obligated to recycle such surplus Revenues by making other Loans or by acquiring Acquired Bonds. Instead, as described above under the caption “THE OFFERED BONDS – Special Redemption of the Offered Bonds,” Loan Prepayments, Acquired Bonds Redemption Receipts, Recovery Payments, and surplus Revenues may be used to redeem Offered Bonds. Consequently, to the extent such monies are so used to redeem Offered Bonds, the average life of an Offered Bond may be significantly shorter than its stated maturity.

General Redemption Provisions

Offered Bonds Held in Book-Entry Only System. As long as the Offered Bonds are held by Cede & Co., as nominee of DTC, notice of any redemption will be mailed not less than 30 days and not more than 90 days prior to the date set for redemption. Notices will be furnished to DTC. The Authority has been informed that DTC will in turn forward the information to Direct Participants (as defined below), which will then provide the appropriate notification to Indirect Participants and Beneficial Owners (as defined below). Failure to so mail any such notice to DTC or any Bondowner (as defined below) will not affect the validity of the proceedings for the redemption of the Offered Bonds. **Failure of DTC or any Direct or Indirect Participant to provide notice to any Beneficial Owner will not affect the validity of the proceedings for the redemption of the Offered Bonds.**

“Bondowner” as used herein, means the registered owner of any Offered Bond. As long as DTC is the securities depository of the Offered Bonds, such Bonds will be registered in the name of Cede & Co., as the nominee of DTC, and the certificates for the Offered Bonds will be held by DTC.

Offered Bonds Not Held in Book-Entry Only System. If the Offered Bonds are not held by the nominee of DTC or the nominee of any successor securities depository, at least 30 days but not more than 90 days before the redemption date of any Offered Bonds, the Trustee (or Master Paying Agent, if one is appointed and serving) will cause a notice of any such redemption, either in whole or in part, signed by the Trustee (or Master Paying Agent, if one is appointed and serving) to be mailed, first class postage prepaid, to all Registered Owners of Offered Bonds to be redeemed at their addresses as they appear on the registration books kept by the Trustee (or Master Paying Agent, if one is appointed and serving). Each notice of redemption will set forth the date fixed for redemption, the Redemption Price to be paid, the place or places

where amounts due upon such redemption will be payable and, if less than all of the Offered Bonds then Outstanding are called for redemption, the series or subseries, the maturities and the distinctive numbers, if any, of such Offered Bonds to be redeemed and, in the case of Offered Bonds to be redeemed in part only, the portion of the principal amount to be redeemed. *The notice of redemption may be conditional.* If conditional, the notice will set forth in summary terms the conditions precedent to such redemption and that if such conditions have not been satisfied on or prior to the redemption date, such notice will be of no force and effect and such Offered Bonds will not be redeemed. If such conditions are not satisfied, or if the Authority by written notice to the Trustee and the Master Paying Agent given prior to the date fixed for redemption revokes the redemption (other than a mandatory redemption), the redemption will not be made and the Trustee (or Master Paying Agent, if one is appointed and serving) will within a reasonable time give notice to the affected Owners, in the manner in which the notice of redemption was given, that such conditions were not satisfied. An affidavit of the Trustee (or Master Paying Agent, if one is appointed and serving) of mailing the notice of redemption will be conclusive and binding upon the Authority and owners of the Offered Bonds. *Once notice of redemption is sent in accordance with the provisions of the Indenture, it will be effective whether or not received by a Bondowner.* If any Offered Bond is to be redeemed in part only, the notice of redemption which relates to such Offered Bond will state also that on or after the redemption date, upon surrender of such Offered Bond, a new Offered Bond of the same maturity and series, bearing interest at the same rate and in principal amount equal to the unredeemed portion of such Offered Bond, will be issued.

On the designated redemption date, if (i) the conditions precedent, if any, to such redemption have been satisfied, (ii) the required notice has been given or waived, and (iii) with respect to a redemption other than a mandatory redemption, if sufficient money to pay the Redemption Price and accrued interest are held by the Trustee in trust for the Owners of the Offered Bonds or portions of Offered Bonds to be redeemed, the Offered Bonds or portions of Offered Bonds so called for redemption will become and be due and payable at their Redemption Price, such Offered Bonds or portions of Offered Bonds will cease to be Outstanding, interest on the Offered Bonds or portions of Offered Bonds so called for redemption will cease to accrue, such Offered Bonds or portions of Offered Bonds will cease to be entitled to any benefit or security under the Indenture and the Owners of such Offered Bonds or portions of Offered Bonds will have no other rights except to receive payment of the Redemption Price and the accrued interest on such Offered Bonds to the date of redemption and, to the extent applicable, to receive Offered Bonds for any unredeemed portion of Offered Bonds.

If less than all of the Offered Bonds of one Series (and subseries, if applicable) and one maturity bearing the same interest rate (and otherwise of like tenor) are called for redemption, the particular Offered Bonds of such Series (and subseries if applicable) and maturity bearing the same rate of interest (and otherwise of like tenor) to be redeemed will be selected not later than 45 days prior to the date fixed for redemption or such lesser number of days as is acceptable to the Trustee and the Master Paying Agent in such manner as directed by the Authority. If no such direction is received by the Trustee (or Master Paying Agent, if one is appointed and serving), it will select the Offered Bonds to be redeemed by lot or in such other manner as it in its discretion may determine. The portion of Offered Bonds of any Series (and subseries, if applicable) to be redeemed will be in the minimum Authorized Denomination, and in selecting Offered Bonds for redemption, the Trustee (or Master Paying Agent, if one is appointed and serving) will treat each

Offered Bond as representing that number of Offered Bonds which is obtained by dividing the principal amount of such Offered Bond by such minimum Authorized Denomination.

If less than all of the Outstanding Offered Bonds that are Term Bonds of any one maturity of a Series (or subseries, if applicable) are purchased for cancellation or called for redemption (other than in satisfaction of Sinking Fund Installments), the principal amount of such Term Bonds that are so purchased or redeemed will be credited, to the extent practicable, except as otherwise provided in an Authority Request, against all remaining Sinking Fund Installments for the Term Bonds of such Series (and subseries, if applicable) and maturity in the proportion which the then remaining balance of each such Sinking Fund Installment bears to the total of all Offered Bonds of such Series (and subseries, if applicable) and maturity then Outstanding. A Master Paying Agent will notify the Trustee in writing of its selection of Offered Bonds to be redeemed as provided in this paragraph and the Trustee will provide the Master Paying Agent with all necessary information as to the Outstanding Offered Bonds for that selection to be made.

If part but not all of an Outstanding Offered Bond is selected for redemption, the Owner of such Offered Bond or the Owner's agent or legal representative shall present and surrender such Offered Bond with, if the Authority or the Trustee (or Master Paying Agent, if one is appointed and serving) so requires, due endorsement by, or a written instrument of transfer in form satisfactory to the Authority and the Trustee (or Master Paying Agent, if one is appointed and serving) duly executed by the Owner or the Owner's agent or legal representative) to the Trustee (or Master Paying Agent, if one is appointed and serving) for payment of the principal amount so called for redemption. The Authority shall execute and the Trustee (or Master Paying Agent, if one is appointed and serving) shall authenticate and deliver to or upon the order of such Owner or his legal representative, without charge, a new Offered Bond for the unredeemed portion of the principal amount of the Offered Bond so surrendered. The new Offered Bond shall be issued in any Authorized Denomination at the option of such Owner or the Owner's agent, shall be of the same maturity and subseries, shall bear interest at the same rate and shall otherwise be of same tenor as the Offered Bond partially redeemed.

Master Paying Agent and Trustee

The Authority has consolidated all paying agent, registration, transfer and exchange functions for all of its outstanding bonds (including the Offered Bonds) in a master paying agent (defined in the Indenture as the "Master Paying Agent") appointed from time to time by the Authority. Currently, the Master Paying Agent for the Bonds is J.P. Morgan Trust Company, National Association, Chicago, Illinois. The Authority reserves the right to remove and appoint successor Master Paying Agents upon the same terms and in the same manner as it may remove, and appoint, successor Trustees. All paying agent, registration, transfer and exchange functions with respect to the Offered Bonds will be performed by the Master Paying Agent.

LaSalle Bank National Association, Chicago, Illinois serves as Trustee under the Indenture.

The Indenture provides for the Trustee to perform certain duties with respect to the Offered Bonds. The Trustee will perform certain fiduciary duties for the Bondowners, such as

maintaining the funds and accounts established under the Indenture. The foregoing notwithstanding, the duties of the Trustee to the Bondowners of the Offered Bonds will run solely to DTC or its nominee as the registered owner of the Offered Bonds, except in connection with certain notices of default and redemption.

Remarketing Agent

Goldman Sachs & Co. has been appointed Remarketing Agent under the Indenture and Remarketing Agreement. The Remarketing Agent will, so long as no event of default under the Remarketing Agreement has occurred and is continuing, use its best efforts to remarket all Variable Rate Bonds tendered for purchase at a price of 100% of the principal amount thereof, plus accrued interest, if any, to such purchase date. The Remarketing Agent may, at any time, resign and be discharged of the duties and obligations under the Remarketing Agreement by giving at least ten (10) days' notice to the Notice Parties. The Remarketing Agent may be removed at any time, at the direction of the Authority upon ten (10) days' notice to the Remarketing Agent. Any successor Remarketing Agent will be selected by the Authority.

Initial Liquidity Facility

The Authority, the Trustee and the Federal Home Loan Bank of Chicago (the "Initial Liquidity Provider") intend to enter into a Standby Bond Purchase Agreement dated as of March 31, 2004 (the "Initial Liquidity Facility") with respect to the Variable Rate Bonds. The following summary is qualified in its entirety by reference to the more detailed descriptions appearing in Appendix I to this Official Statement and by reference to the Initial Liquidity Facility as set forth in the Standby Bond Purchase Agreement, a copy of such Standby Bond Purchase Agreement is available from the Trustee. ***Any Variable Rate Bond that is converted to a Long-Term Mode will no longer have the benefit of the Initial Liquidity Facility except for those Variable Rate Bonds operating in a Term Rate Mode having a Term Rate Period of 364 days or less.***

Subject to the terms of the Initial Liquidity Facility, and provided that no Bond Insurer Event of Default (as hereinafter defined), which would result in a termination or suspension of the Initial Liquidity Provider's obligations to purchase Variable Rate Bonds under the Initial Liquidity Facility, has occurred, the Initial Liquidity Provider agrees, at the request from time to time of the Trustee on behalf of the Authority, to purchase, during the "Initial Liquidity Commitment Period" (as such term is defined herein), any Variable Rate Bonds tendered for purchase in accordance with the Indenture with respect to which the Trustee does not, on the date any such tendered Variable Rate Bonds are required to be purchased pursuant to the Indenture, have sufficient funds from, among other sources, the remarketing of such tendered Variable Rate Bonds, to make such purchase.

The "Available Commitment" (as defined in the Initial Liquidity Facility) initially means \$10,111,781 (\$10,000,000 being the "Available Principal Commitment" and \$111,781 being the "Available Interest Commitment") which is calculated based on 34 days of interest at an assumed rate of 12% per annum, subject to reduction for the principal amount of Variable Rate Bonds previously purchased by the Initial Liquidity Provider and not resold as well as any Variable Rate Bonds which are redeemed by the Authority and increased (but not above the

amount of the Available Commitment) for the principal amount of Variable Rate Bonds which are held for the account of the Initial Liquidity Provider and remarketed. As a result, the Available Commitment will, during the Initial Liquidity Commitment Period, always equal at least 100% of the principal amount of Variable Rate Bonds outstanding, plus 34 days of accrued interest at an assumed rate of 12% per annum, less the principal amount of any Variable Rate Bonds held for the account of the Initial Liquidity Provider from time to time.

The obligation of the Initial Liquidity Provider to purchase any Variable Rate Bond on a Purchase Date is subject to: (i) receipt by the Initial Liquidity Provider of a notice from the Trustee that funds are needed for the purchase of Variable Rate Bonds which have been tendered and for which remarketing proceeds are not available (a “Notice of Bank Purchase,” as provided for in the Initial Liquidity Facility), and (ii) the condition that no Bond Insurer Event of Default (as defined below) (other than a Bond Insurer Event of Default described in clause (f) below) shall have occurred and be continuing.

Each of the following constitutes a “Bond Insurer Event of Default” under the Initial Liquidity Facility:

(a) the occurrence and continuance of one or more of the following events: (i) the issuance of an order of rehabilitation, liquidation or dissolution of the Bond Insurer; (ii) the commencement by the Bond Insurer of a voluntary case or other proceeding seeking liquidation, reorganization or other relief with respect to itself or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect including, without limitation, the appointment of a trustee, receiver, liquidator, custodian or other similar official for itself or any substantial part of its property; (iii) the commencement against the Bond Insurer of any involuntary case or other proceeding seeking any relief referred to in the preceding clause (ii) and such case or proceeding shall not have been dismissed within 90 days following the commencement thereof; (iv) the making by the Bond Insurer of an assignment of the benefit of creditors; (v) the failure of the Bond Insurer to generally pay its debts (provided that “debts” in this clause shall not include any obligation of the Bond Insurer under any insurance policy or surety bond) as they become due; or (vi) the initiation by the Bond Insurer of any actions to authorize any of the foregoing;

(b) the Bond Insurer shall fail, wholly or partially to make a payment when due of principal or interest to the Trustee as required under the Policy;

(c) the Bond Insurer shall, in writing, claim that the Policy, with respect to the payment of principal of or interest on the Bonds, is not valid and binding on the Bond Insurer, and repudiate the obligations of the Bond Insurer under the Policy, with respect to payment of principal of and interest on the Bonds, or the Bond Insurer shall initiate any legal proceedings to seek an adjudication that the Policy, with respect to the payment of principal of or interest on the Bonds, is not valid and binding on the Bond Insurer;

(d) any governmental authority with jurisdiction to rule on the validity of the Policy shall announce, find or rule that the Policy or any provision thereof regarding the obligation of the Bond Insurer to make a payment with respect to the Bonds is not valid and binding on the Bond Insurer;

(e) the Policy is cancelled or terminated for any reason without the consent of the Initial Liquidity Provider; or

(f) the occurrence of a Bond Insurer Downgrade Event.

“Initial Liquidity Commitment Period” means the period from March 31, 2004 to and including the earliest of: (i) the close of business March 31, 2014 or such extended date as may be agreed upon by the Initial Liquidity Provider pursuant to the Initial Liquidity Facility (the “Expiration Date”); (ii) the close of business on the date on which all Variable Rate Bonds have been converted to a Long-Term Mode except for those Variable Rate Bonds operating in a Term Rate Mode having a Term Rate Period of 364 days or less; (iii) the date on which the Available Commitment has been (A) reduced to zero by reason of a redemption, repayment or other payment of all of the principal amount of Variable Rate Bonds so that such Bonds cease to be outstanding, or (B) terminated in its entirety or by reason of the issuance by the Initial Liquidity Provider of a Notice of Termination Date; or (iv) the close of business on the date on which an Alternate Liquidity Facility is delivered by the Authority to the Trustee and becomes effective (the “Substitution Date”).

Any Variable Rate Bond purchased by the Initial Liquidity Provider will bear interest at rates and shall be payable and subject to redemption in such amounts and in such manner as provided in the Initial Liquidity Facility.

Liquidity Facility Events of Default. Under certain circumstances described below, the obligation of the Initial Liquidity Provider to purchase the Variable Rate Bonds tendered by the owners thereof or subject to mandatory tender may be terminated or suspended, and in such event, sufficient funds may not be available to purchase such tendered Variable Rate Bonds. The Authority is not obligated to purchase Variable Rate Bonds and the policies of the Bond Insurer do not insure payment of the purchase price of the tendered Variable Rate Bonds under such conditions.

In the case of the occurrence of (i) an Event of Default under the Initial Liquidity Facility specified in item 2 below, or (ii) a Bond Insurer Downgrade Event (as defined below) (each a “Termination Event”), the Initial Liquidity Provider’s obligation to purchase Variable Rate Bonds under the Initial Liquidity Facility will terminate on the 30th day (or if such day is not a Business Day, the next following Business Day) after such written notice of such Termination Event and termination of the Initial Liquidity Facility (“Notice of Termination Date”) is received by the Authority, and thereafter the Initial Liquidity Provider will be under no obligation to purchase Variable Rate Bonds. As used in the Initial Liquidity Facility, a “Bond Insurer Downgrade Event” means there is not in effect for an uninterrupted period of 90 days at least two of the following in respect of the Bond Insurer: in the case of Fitch, Inc. (“Fitch”), a financial strength rating of “AA-” (or its equivalent) or higher; in the case of Moody’s Investors Service, Inc. (“Moody’s”), a financial strength rating of “Aa3” (or its equivalent) or higher; and in the case of Standard & Poor’s Rating Services, a division of The McGraw-Hill Companies, Inc. (“S&P”), a financial strength rating of “AA-” (or its equivalent) or higher.

The Liquidity Facility Events of Default under the Initial Liquidity Facility include:

1. The Authority shall default in the payment when due of any principal of or interest on any Variable Rate Bond, whether or not a Purchased Bond, or the Authority shall default in the payment of any increased costs described in the Initial Liquidity Facility.
2. The Authority shall fail to pay any commitment fee described under the Initial Liquidity Facility within a specified time period.
3. Any representation or warranty of the Authority made or deemed to be made in the Initial Liquidity Facility or in any other documents relating to the Bonds or any Related Document or any other writing or certificate furnished by or on behalf of the Authority to the Initial Liquidity Provider for the purposes of or in connection with the Initial Liquidity Facility or any such other related document is or shall be incorrect when made in any material respect.
4. The Authority shall amend, modify, terminate or grant, or permit the amendment, modification, termination or grant of; any waiver under, or consent to, or permit or suffer to occur any action or omission which results in, or is equivalent to, an amendment, modification, or grant of a waiver under any document related to the Bonds without the prior written consent of the Initial Liquidity Provider, except the amendments relating to the issuance from time to time of additional bonds under the Indenture or other amendments which do not negatively affect the terms of the Variable Rate Bonds or the obligations of the Initial Liquidity Provider under the Initial Liquidity Facility.
5. The Authority shall default in the due performance or observance of any covenant or agreement contained in the Initial Liquidity Facility or in any other Related Document (defined therein), and such default shall continue unremedied for a period of 30 days after notice thereof shall have been given to the Authority by the Initial Liquidity Provider.
6. A default shall occur in the payment when due (subject to any applicable grace period), whether by acceleration or otherwise, of any indebtedness of the Authority (other than the Variable Rate Bonds) having a principal amount, individually or in the aggregate, in excess of \$5,000,000, or a default shall occur in the performance or observance of any obligation or condition with respect to such indebtedness if the effect of such default is to accelerate the maturity of any such indebtedness or such default shall continue unremedied for any applicable period of time to permit or cause such indebtedness to become due and payable prior to its expressed maturity.
7. Any judgment or order for the payment of money in excess of \$1,000,000 shall be rendered against the Authority and such judgment or order shall remain unstayed, unsatisfied, or bonded for more than 30 days or enforcement proceedings shall have been commenced by a creditor upon such judgment or order.
8. The Authority shall (i) become insolvent or generally fail to pay or admit in writing its inability or unwillingness to pay, debts as they become due; (ii) apply for, consent to, or acquiesce in, the appointment of a trustee, receiver, or other custodian for the Authority or any property of any thereof, or make a general assignment for the benefit of creditors; (iii) in the absence of such application, consent, or acquiescence, permit or suffer to exist the appointment

of a trustee, receiver, or other custodian for the Authority, which appointment shall not be discharged within 60 days; (iv) permit or suffer to exist the commencement of any bankruptcy, reorganization, debt arrangement or other case or proceeding under any bankruptcy or insolvency law, or any dissolution, winding up or liquidation proceeding, in respect of the Authority, and, if any such case or proceeding is not commenced by the Authority, such case or proceeding shall be consented to or acquiesced in by the Authority or shall result in the entry of an order for relief or shall remain for 60 days undismissed; or (v) take any action authorizing, or in furtherance of, any of the foregoing.

9. The Variable Rate Bonds shall be rated lower than “A-” by S&P or “A3” by Moody’s, or the Variable Rate Bonds shall become unrated.

10. The Authority shall repudiate any of its obligations with respect to the Variable Rate Bonds or under any of the Related Documents, or any agency or official having authority over the Authority shall repudiate any such obligations of the Authority.

Upon the occurrence of a Liquidity Facility Event of Default, the Initial Liquidity Provider will have all remedies that the Initial Liquidity Provider is entitled to pursue under the Initial Liquidity Facility, the Indenture, the 2004 Series B Supplemental Indenture or any other document related thereto, or otherwise pursuant to law or equity including, without limitation, specific performance; *provided, however*, other than upon the occurrence of a Termination Event, the Initial Liquidity Provider agrees to purchase Variable Rate Bonds on the terms and conditions of the Initial Liquidity Facility, notwithstanding the occurrence of the Liquidity Facility Event of Default.

Covenant Relating to Maintenance of Bond Insurance. During the term of the Initial Liquidity Facility, the Authority covenants, among other things, to: (i) maintain the Policy so that such Policy (a) provides coverage in an amount equal to all payments of principal of and interest on the Variable Rate Bonds, and (b) remains in full force and effect for so long as any payment of principal or interest is outstanding with respect to any of the Variable Rate Bonds (including Purchased Bonds); (ii) promptly forward to the Initial Liquidity Provider all notices, if any, received by the Authority from the Bond Insurer under the Policy; and (iii) in the event that the rating of the Bond Insurer is downgraded to a rating below “Aa2” by Moody’s and below “AA” by S&P, provide for the delivery to the Trustee of alternate bond insurance policies with respect to the Variable Rate Bonds, subject to the prior written consent of the Initial Liquidity Provider, Moody’s and S&P.

Alternate Liquidity Facility; Alternate Credit Enhancement

The Authority may provide an Alternate Liquidity Facility or Alternate Credit Enhancement on any date no later than the fifth Business Day prior to the Expiration Date of the Liquidity Facility or Credit Enhancement then in effect. The Authority will give the Notice Parties written notice of the proposed substitution of an Alternate Liquidity Facility or Alternate Credit Enhancement upon 20 days’ prior to the proposed Substitution Date. The Trustee will give notice of such proposed substitution and of the resultant mandatory purchase of the Variable Rate Bonds by mail to the Owner of the Variable Rate Bonds at least 15 days prior to the proposed Substitution Date. On or before the Substitution Date there must be delivered to the

Trustee or the Tender Agent, as applicable: (i) the Alternate Liquidity Facility or Alternate Credit Enhancement in substitution for the Liquidity Facility or Credit Enhancement then in effect, (ii) a Favorable Opinion of Bond Counsel, (iii) a written opinion of counsel for the provider of the Alternate Liquidity Facility or Alternate Credit Enhancement, as applicable, to the effect that such Alternate Liquidity Facility or Alternate Credit Enhancement is a valid, legal and binding obligation of the provider thereof, and (iv) unless waived by such entity, written evidence satisfactory to the Liquidity Provider and Credit Provider of the provision for purchase from the Liquidity Provider of all bonds purchased by the Liquidity Provider, at a price equal to the principal amount thereof plus accrued and unpaid interest, and payment of all amounts due to the Credit Provider and the Liquidity Provider under the Reimbursement Agreement(s) on or before the effective date of such Alternate Liquidity Facility or Alternate Letter of Credit. Upon the satisfaction of the conditions described in the preceding sentence, the Trustee will accept the Alternate Liquidity Facility or Alternate Letter of Credit on the close of business the Substitution Date and will surrender the Liquidity Facility or Credit Enhancement then in effect to the provider thereof on the Substitution Date. If any condition to the substitution is not satisfied, the substitution will not occur but the Variable Rate Bonds will remain subject to mandatory purchase on the proposed Substitution Date.

For so long as the Policy is in full force and effect and insures the Variable Rate Bonds, the Initial Liquidity Provider (or any Alternate Liquidity Provider, if applicable) shall have a rating of at least “A-1” by S&P or “P-1” by Moody’s. If the rating of the Initial Liquidity Provider (or any Alternate Liquidity Provider, if applicable) is withdrawn, suspended or downgraded below the above-described level, the Authority shall replace the Initial Liquidity Provider (or any Alternate Liquidity Provider, if applicable). Pursuant to the Initial Liquidity Facility, the Authority’s termination of the Initial Liquidity Facility is conditioned upon (1) the payment to the Initial Liquidity Provider of all fees, expenses and other amounts payable under the Initial Liquidity Facility, and (2) the payment to the Initial Liquidity Provider of all principal and accrued interest owing on any Purchased Bonds.

BOOK-ENTRY ONLY SYSTEM

The information in this section concerning DTC and DTC’s book-entry only system has been obtained from sources the Authority and the Underwriters believe to be reliable, but neither the Authority nor the Underwriters take any responsibility for the accuracy or completeness thereof.

DTC will act as securities depository for 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 Bond certificate will be issued for each maturity of the Bonds of each Subseries, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

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 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC 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, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, GSCC, MBSCC, 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.

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 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 the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

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 DTC 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.

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

Redemption notices will be sent to DTC. If less than all of the Bonds of a Series 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.

Neither DTC nor Cede & Co. (nor any 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 the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments (including redemption proceeds) 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 the Trustee or the Authority, 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, the Trustee or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest (including redemption proceeds) to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority 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.

A Beneficial Owner must give notice to elect to have its 2004 Series B Bonds purchased or tendered through its Participant to the Tender Agent and shall effect delivery of such bonds by causing the Direct Participant to transfer the Participant's interest in the 2004 Series B Bonds on DTC's records, to the Tender Agent. The requirement for physical delivery of such bonds in connection with an optional tender or mandatory purchase will be deemed satisfied when the ownership rights in the 2004 Series B Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered 2004 Series B Bonds to the Tender Agent's DTC account.

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

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

THE TRUSTEE, ANY PAYING AGENT AND THE AUTHORITY WILL NOT HAVE ANY RESPONSIBILITY OR OBLIGATION TO ANY PARTICIPANT, ANY PERSON CLAIMING A BENEFICIAL OWNERSHIP INTEREST IN ANY BOND UNDER OR

THROUGH DTC OR ANY PARTICIPANT, OR ANY OTHER PERSON THAT IS NOT SHOWN ON THE REGISTRATION BOOKS OF THE TRUSTEE AS BEING A BONDOWNER, WITH RESPECT TO THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY PARTICIPANT, THE PAYMENT BY DTC OR ANY PARTICIPANT OF ANY AMOUNT IN RESPECT OF PRINCIPAL OF OR PREMIUM, IF ANY, OR INTEREST ON ANY BOND, ANY NOTICE THAT IS REQUIRED TO BE GIVEN TO BONDOWNERS UNDER THE INDENTURE (EXCEPT IN CONNECTION WITH CERTAIN NOTICES OF DEFAULT AND REDEMPTION), THE SELECTION BY DTC OR ANY PARTICIPANT OF ANY PERSON TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF THE BONDS, OR ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC OR ITS NOMINEE AS THE REGISTERED OWNER OF THE BONDS.

FINANCED DEVELOPMENTS

General

Under the Indenture, the Authority issues its Bonds for the purpose of financing Developments located throughout the State intended for occupancy principally by persons and families of low and moderate income. Upon issuance of the Offered Bonds, 34 Financed Developments will be financed, directly or indirectly, under the Indenture. A schedule of the Financed Developments is set forth below.

Description of Financed Developments

The following table sets forth, the Mortgage Loan number, the name and location of the development, the mortgage rate for the Mortgage Loan, the approximate unpaid principal amount of the Mortgage Loan, the number of units and units subject to Section 8 assistance, the percentage of occupancy, the latest expiration dates of the respective Section 8 contracts and the prepayment dates of the Mortgage Loan for each Financed Development, including information for Campbell Terrace Apartments and Southern Hills/Orlando Apartments.

FINANCED DEVELOPMENTS

Mortgage Loan No.	Name of Development	Location	Mortgage Rate ⁴ (%)	Approx. Unpaid Principal Balance ¹	Total Units/ Subsidized Units ⁶	Occupancy (%)	Expiration Date of § 8 Contract	Prepayment Date ²
ML-001	Harper Square Cooperative	Chicago	5.53/7.81	\$7,738,625	591/365	99	n/a	
ML-002	Winfield Village I	Savoy	5.53/7.81	1,478,518	160/160	100	n/a	
ML-003	Vermilion Garden Apartments	Danville	5.53	1,744,483	240/240	92	n/a	3
ML-004	Huntington Square	Mt. Prospect	5.53	2,942,246	324/108	93	n/a	3
ML-006	University Village I	Dekalb	5.53	2,009,307	246/246	97	n/a	3
ML-013	Cumberland Green	St. Charles	5.53/7.81/9.00	2,712,652	204/204	99	n/a	
ML-019	Innsbruck	Bolingbrook	7.49/9.00	6,548,732	475/150	88	n/a	
ML-020	Carriage House I	Decatur	7.81	1,278,498	120/120	99	n/a	
ML-021	Cedar Point at Pinebrook	Springfield	7.95/7.49	1,957,475	160/160	96	n/a	
ML-022	River Run	Macomb	7.81	1,063,174	100/100	92	n/a	
ML-024	Indian Trails	Addison	7.49	3,122,324	200/66	91	n/a	
ML-025	West Wind Towers	Elgin	7.81	1,467,332	150/149	94	n/a	
ML-029	East Court Village	Kankakee	7.95	1,494,247	133/133	99	n/a	
ML-030	Winfield Village II	Savoy	7.81	2,371,258	188/188	99	n/a	
ML-033	Colony Park	Carol Stream	7.49	2,846,516	284/284	98	n/a	
ML-035	Lincolnshire	Charleston	7.81	1,287,000	114/114	95	n/a	
ML-037	St. Clair Village	Belleville	7.49	3,491,056	240/79	90	n/a	
ML-038	Constitution House	Aurora	7.81	2,586,434	232/232	99	n/a	
ML-039	University Village II	Dekalb	7.95	2,344,992	168/126	95	n/a	3
ML-040	Burnham Oaks ⁵	University Park	7.81	749,461	59/59	100	5/28/2002	
ML-043	Valley View	Rockford	7.95	2,107,065	179/179	89	n/a	
ML-044	Leisure Acres	Washington	7.95	1,460,749	101/101	97	n/a	
ML-045	Westport Village	Freeport	7.81	1,383,369	121/121	83	n/a	
ML-049	Woodcrest Apartments	Ottawa	7.81	1,217,836	92/92	93	n/a	
ML-056	Thornwood House	University Park	7.81	2,872,435	183/183	94	n/a	
ML-061	New Vistas I	Chicago	7.86/9.00	2,195,607	148/148	97	n/a	
ML-082	Atrium Village	Chicago	9.00	8,174,590	309/309	85	n/a	
ML-199	Columbia Lakes Apartments	Columbia	5.95	5,765,288	138/0	94	n/a	05/01/2005
ML-209	HICA Redevelopment Project	Chicago	8.30	4,871,008	120/120	96	12/27/2005	
ML-216	Austin Renaissance	Chicago	5.50	2,647,988	71/71	92	12/30/2004	
ML-289	Country Club Heights	Quincy	5.14/4.40	6,275,000	200/175	88	n/a	09/01/2015
ML-290	Northpoint	Chicago	6.07/5.55	20,155,000	304/304	100	12/31/2012	09/01/2015
TEB-2000	Campbell Terrace	Chicago	5.405/4.73	24,020,000 ⁷	249/249	100	5/31/2015	06/01/2015
TEB-2001	Southern Hills/Orlando	Decatur	Variable	10,000,000 ⁷	212/212	99	12/31/2011	04/01/2014

1. As of December 31, 2003, except for the information under the column entitled "Occupancy (%)" which is as of November 30, 2003, the latest date upon which information is available.
2. Unless a date is shown in the table, this loan has passed its earliest optional prepayment date.
3. The borrower has no right to prepay this loan.
4. Some borrowers have more than one note.
5. The Authority initiated foreclosure proceedings against this Financed Development.
6. All developments except those identified by loan numbers – ML-040, ML-199, ML-209, ML-216, ML-290, TEB-2000 and TEB-2001 – are subject to Section 236 subsidies.
7. These amounts are as of the closing date of the Loans and assume that the Loans are made as described herein under the caption, "PLAN OF FINANCE."

Of the Financed Developments reflected in the foregoing table, 27 Financed Developments are subject to Section 236 subsidies. In 1999, Congress passed legislation that permits owners of Section 236 developments to refinance their mortgages (if such mortgages are otherwise eligible for prepayment) while retaining the Section 236 subsidy. See “Appendix C – Description of Federal Section 236 Interest Rate Reduction Program and Section 8 Subsidy Program.”

As of December 31, 2003, of the mortgage loans listed in the foregoing table, Burnham Oaks was delinquent in excess of 60 days. The total outstanding principal amount in delinquency is approximately \$750,000, and the Authority has initiated foreclosure proceedings against Burnham Oaks.

OTHER PROGRAMS

Other Multi-Family Mortgage Loan Programs

Information regarding the Authority’s multi-family mortgage loan programs is provided below for purposes of general reference only. Many of the developments financed under these programs depend upon subsidies by the United States Department of Housing and Urban Development (“HUD”) under Section 8 (“Section 8”) of the United States Housing Act of 1937, as amended (the “1937 Housing Act”) to meet their mortgage loan payments to the Authority. For a further discussion of the multi-family mortgage loan programs, see “AUTHORITY ANNUAL FINANCIAL STATEMENTS – Note E – Program Loans Receivable,” “– Note F – Bonds and Notes Payable” and “– Note I – Other Liabilities” attached as Appendix A and for a description of the Section 8 Program, see Appendix C.

Multi-Family Program Bonds. Under this program the Authority issues Multi-Family Program Bonds in series to make mortgage loans for the purpose of: (i) financing the acquisition, construction, equipping, installation, renovation or rehabilitation of multi-family rental housing developments for persons and families of low and moderate income in the State of Illinois, (ii) preserving the availability of low and moderate income housing in existing developments, (iii) retiring outstanding Multi-Family Program Bonds and (iv) retiring other indebtedness of the Authority or other Persons issued for the purpose of financing or refinancing a development. The developments financed from the proceeds of the outstanding Multi-Family Program Bonds are fully or partially subsidized by HUD under Section 8 of the 1937 Housing Act, although it is not a requirement of this program that such developments or developments to be financed under this program in the future be subsidized. The bonds issued under this program (other than the two most recent series issued) are general obligations of the Authority, but are not subject to certification pursuant to Section 26.1 of the Act. The two new series of these bonds are not general obligations of the Authority or subject to certification pursuant to Section 26.1 of the Act. However, there is a partial pledge of the Authority’s general obligation to secure the Authority’s reimbursement obligations to the provider of the bond insurance insuring such series of bonds.

Multi-Family Housing Bonds. Under this program, the Authority finances multi-family housing mortgage loans to provide for the construction or rehabilitation and permanent financing of rental multi-family housing developments through the issuance of Multi-Family Housing

Bonds and Multi-Family Housing Bond Anticipation Notes. Housing developments so financed are designed primarily for occupancy by persons and families of low and moderate income and, generally, the multi-family housing mortgage loans are made for developments that are or are expected to be the subject of future housing assistance payments by HUD under Section 8 of the 1937 Housing Act, for all or a portion of the units therein, or FHA mortgage insurance under Section 221(d)(4) of the National Housing Act of 1934, as amended. All but a series of these bonds issued in 1995 are general obligations of the Authority. However, there is a partial pledge of the Authority's general obligation to secure the Authority's reimbursement obligations to the provider of the bond insurance insuring such series of these bonds issued in 1995. All bonds issued under this program prior to 1995 are also subject to certification pursuant to Section 26.1 of the Act. These bonds are the general obligations of the Authority, but not subject to certification pursuant to Section 26.1 of the Act.

Affordable Housing Program Trust Fund Bonds. The Authority is designated the administrator of the Illinois Affordable Housing Program. The program is funded by the Illinois Affordable Housing Trust Fund with funds generated by an increase in the State real estate transfer tax. The Authority is authorized to pledge an aggregate of \$10 million annually of the revenues and amounts on deposit or to be deposited to the Affordable Housing Trust Fund as security for affordable housing bonds that the Authority issues under this program to finance low and very low income single-family and multi-family housing. The Authority has pledged and may in the future pledge its general obligation in certain limited respects as security for some of these bonds, but such bonds are not and will not be subject to certification under Section 26.1 of the Act.

On May 8, 2002, the Authority entered into a forward swap transaction under this program. Aspects of this transaction would include the Authority's agreement to issue variable rate refunding bonds in the summer of 2004, proceeds of which would be used to redeem all or a portion of the Series 1994A Bonds issued under the program, as well as enter into a variable to fixed rate swap agreement for those variable rate bonds.

Multi-Family Variable Rate Demand Bonds. The Authority established this program to assist in the construction, rehabilitation and permanent financing of multi-family, rental developments intended for occupancy principally by persons and families of low and moderate income. The Authority issued bonds for the first time under this program in April 1996, and used their proceeds and other moneys to refund all of its then outstanding short term commercial paper notes. These bonds are not the general obligation of the Authority or subject to certification pursuant to Section 26.1 of the Act. However, the reimbursement obligations to the bond insurer and the provider of the liquidity facility for these bonds are the general obligation of the Authority, but not subject to certification pursuant to Section 26.1 of the Act.

Multi-Family Housing Revenue Bonds. In November 1997, the Authority issued its Multi-Family Housing Revenue Bonds, Series 1997 (AMT) (Camelot Development) to pay or redeem certain of the Authority's outstanding Multi-Family Housing Bonds (proceeds of which were used to finance the Camelot Development), pay or reimburse the Authority for costs of rehabilitation and improvement of the Camelot Development, and certain other uses. In June 2000, the Authority issued its Multi-Family Housing Revenue Bonds, Series 2000A (Lakeshore Plaza Development) to pay or redeem certain of the Authority's outstanding Multi-Family

Housing Bonds (proceeds of which were used to refinance the Lakeshore Plaza Development), and certain other uses. These two series of bonds are general obligations of the Authority but are not subject to certification pursuant to Section 26.1 of the Act.

Housing Finance Bonds. The Authority issued bonds for the first time under this program in December 1999. Bonds issued under this program are anticipated to be used to finance multi-family developments under the Risk Sharing Program, and/or HUD's so-called Section 8 "mark-to-market" program, as well as to finance multi-family developments providing assisted living services to low income persons under an assisted living pilot project sponsored by the Illinois Department of Public Aid. The bonds issued under this program to date are not general obligations of the Authority and are not subject to certification under Section 26.1 of the Act.

Risk Sharing Program. In June 1994, the Authority entered into a Risk Sharing Agreement with HUD that permitted the Authority to participate in HUD's Risk Sharing Pilot Program. In October 2000, Congressional legislation made the Risk-Sharing Pilot Program into a permanent program that allows the Authority to submit an unlimited amount of loans for Risk-Sharing loan credit enhancement. Under the Risk Sharing Program, HUD insures certain mortgage loans on multi-family housing developments ("Risk Sharing Loans"). Under the Risk Sharing Agreement, the Authority will underwrite Risk Sharing Loans following its own underwriting guidelines. HUD will insure these Risk Sharing Loans and, in the event of a foreclosure, will bear 10 to 90 percent of the loss, as elected by the Authority at the time the loan is made. The Authority will bear the remainder of the risk. The Authority has made a number of Risk Sharing Loans, and is currently reviewing a number of other applications for Risk Sharing Loans, and anticipates entering into commitments for, and closing, additional Risk Sharing Loans.

Ambac-Insured Mortgage Loan Program. In December, 2000, the Authority received a commitment from Ambac Assurance Corporation ("Ambac") under which Ambac will insure mortgage loans ("Ambac Loans") on multi-family housing developments under the Authority's Mortgage Participation Certificate Program. Ambac has guaranteed repayment of principal and interest due on a timely or accelerated basis in accordance with the agreement between the Authority and Ambac. Once Ambac Loans are issued and minimum threshold requirements are met, Ambac and the Authority will enter into a sharing agreement on the remaining principal balance. The Authority has made a number of Ambac Loans, and is currently reviewing a number of other applications for Ambac Loans, and anticipates entering into commitments for, and closing, additional Ambac Loans.

Single Project Financings. The Authority issues from time to time special limited obligation bonds to finance single projects as further described in "AUTHORITY ANNUAL FINANCIAL STATEMENTS – Note F – Bonds and Notes Payable – Other Financings" attached as Appendix A. These bonds are generally conduit financings and are not general obligations of the Authority or subject to certification pursuant to Section 26.1 of the Act.

Single-Family Mortgage Purchase Programs

Information regarding the Authority's other single-family mortgage purchase programs is provided below for purposes of general reference only. For a further discussion of the single-family mortgage purchase programs, see "AUTHORITY ANNUAL FINANCIAL STATEMENTS – Note E – Program Loans Receivable," "– Note F – Bonds and Notes Payable," "– Note I – Other Liabilities" and "– Note N – Subsequent Events" attached as Appendix A.

Homeowner Mortgage Revenue Bonds. Proceeds of bonds issued under this program, which was commenced in 1994, are used to purchase single-family mortgage loans made to eligible borrowers for qualified dwellings. The Authority has issued several series of bonds under this program. The Authority anticipates issuing additional bonds under this program. These bonds are not general obligations of the Authority and are not subject to certification pursuant to Section 26.1 of the Act.

Residential Mortgage Revenue Bonds. The Authority adopted its 1983 Resolution for the purpose of purchasing mortgage loans from approved lending institutions located throughout the State, on owner-occupied, one-to-four unit dwellings acquired by eligible buyers. From 1983 through 1993, the Authority issued 32 series of bonds (a *de minimis* amount of which remain outstanding) under the 1983 Resolution for an aggregate amount of approximately \$1.8 billion in lendable proceeds. The Authority does not plan to issue additional bonds to purchase additional mortgage loans under this program.

Owner Occupied Housing Revenue Bonds. On July 15, 1994, the Authority adopted its Owner Occupied Housing Revenue Bonds General Resolution, permitting the Authority from time to time to issue bonds and to use the proceeds of such sales to refund on a replacement basis the Authority's outstanding Homeowner Mortgage Revenue Bonds and Residential Mortgage Revenue Bonds. A number of Owner Occupied Housing Revenue Bonds have been refunded with the proceeds of the Authority's Homeowner Mortgage Revenue Bonds. The Authority anticipates that its Owner Occupied Housing Revenue Bonds will continue to be so refunded. These bonds are general obligations of the Authority, but are not subject to certification pursuant to Section 26.1 of the Act.

Other Authorized Activities

In addition to the programs described above, the Authority is authorized under the Act to:

(i) make grants to non-profit corporations for operating, administrative and other expenses relating to developments financed under assisted or unassisted mortgage financing programs; (ii) make housing assistance grants to non-profit corporations and limited profit entities for the benefit of residents of developments in order to achieve lower rentals for some or all of the housing units in such developments financed under assisted or unassisted mortgage financing programs; (iii) make loans, grants or deferred payment loans to low and moderate income persons or to non-profit and limited profit entities to finance the improvement or rehabilitation of single-family residences; (iv) make non-interest bearing advances to non-profit corporations for constructing or rehabilitating developments to make housing available to low and moderate income persons; (v) make loans for housing related commercial facilities; (vi) act

as a developer of land or structures to provide developments, community facilities or housing related commercial facilities; and (vii) make loans or grants to encourage research in demonstration projects to develop new and better techniques for increasing the supply of housing for low and moderate income persons and families. The Authority may also provide technical assistance in the development of housing for low and moderate income persons and families.

The Authority is designated the administrator of the Illinois Affordable Housing Program. The program is funded by the Illinois Affordable Housing Trust Fund with funds generated by an increase in the State real estate transfer tax. Trust Fund moneys not otherwise pledged as security for Affordable Housing Program Trust Fund Bonds may be used, with the approval of the Authority, to make grants, mortgages or other loans to acquire, construct, rehabilitate, develop, operate, insure and retain affordable single-family and multi-family housing for low and very low income households. See “OTHER PROGRAMS – Other Multi-Family Mortgage Loan Programs.”

The Authority is designated the program administrator for the HOME Program for the State, as authorized by Title II of the National Affordable Housing Act of 1990. Under that Project, participating Mortgage Lenders that have been approved by the Authority may be allowed to originate Mortgage Loans on Qualified Dwellings. The HOME Program provides down payment and closing cost assistance to certain eligible borrowers whose income is at or below 80 percent of the median income for the area in which the Qualified Dwelling is located, as determined by HUD. Applications for HOME Program funds are accepted on a quarterly basis from for-profit and not-for-profit organizations, local and county governments and public agencies. HOME Program funds may be used, with the approval of the Authority, to make grants or loans for moderate or substantial rehabilitation, property acquisition, new construction, tenant-based rental assistance, reconstruction, site improvements, owner-occupied rehabilitation, demolition and relocation expenses, all in connection with providing housing for low and very low income persons.

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

The following is a summary of certain provisions of the Indenture. This summary does not purport to be comprehensive or definitive and is subject to all of the terms and provisions of the Indenture, to which reference is hereby made and copies of which are available from the Trustee or the Authority. Capitalized terms used in this summary that are not otherwise defined herein have the meanings set forth in the Indenture.

Certain Definitions

“*Accountant*” means a major national firm of independent certified public accountants of recognized national standing for auditing financial statements of major issuers of state and local government bonds throughout the United States.

“*Acquired Bond Redemption Receipts*” means amounts received by the Trustee upon a redemption (other than pursuant to Sinking Fund Installments) of an Acquired Bond, and amounts received upon a voluntary sale of an Acquired Bond not in default.

“*Acquired Bonds*” means any Obligations which are not issued pursuant to the Indenture but which a Series Supplemental Indenture authorizes the Authority to acquire with amounts deposited in Funds and Accounts specified in the Series Supplemental Indenture.

“*Acquired Development*” means a Development which the Authority has (i) acquired or constructed and owns and operates on its own behalf or (ii) acquired title to, or taken possession of, through protection and enforcement of its rights conferred by law, contract or mortgage or security interest with respect to such Development, but only during the period of ownership or possession by the Authority, and the extent the Acquired Development is financed by Bonds (and not Acquired Bonds) or acquired with amounts in Funds and Accounts under the Indenture.

“*Acquired Development Expense Requirement*” means such amount of money as may from time to time be determined by the Authority to be necessary for the payment of the Acquired Development Expenses for an Acquired Development.

“*Acquired Development Expenses*” means all of the costs and expenses incurred by the Authority in connection with the acquisition, ownership or operation of an Acquired Development, including the repayments required to be paid pursuant to any mortgage on such Acquired Development, which mortgage does not secure a Loan, except as limited with respect to any Series of Bonds by the applicable Series Supplemental Indenture.

“*Acquired Development Fund*” means the Fund of that name established pursuant to the Indenture.

“*Acquired Development Operating Income*” means the amount during any period by which Acquired Development Receipts from an Acquired Development exceed Acquired Development Expenses for the Acquired Development.

“*Acquired Development Receipts*” means all moneys received by the Authority in connection with its acquisition, ownership or operation of an Acquired Development, except as limited with respect to any Series of Bonds by the related Series Supplemental Indenture.

“*Act*” means the Illinois Housing Development Act, 20 ILCS 3805/1 *et seq.*, as amended from time to time.

“*Additional Bonds*” means any additional Bonds issued pursuant to the Indenture.

“*Amortized Value*” means the purchase price of securities, excluding accrued interest, plus an amortization of any discount or less an amortization of any premium on the purchase price. The premium or discount shall be amortized on a straight line basis by multiplying the amount of that premium or discount by a fraction, the numerator of which is the number of days having then passed from the date of purchase and the denominator is the number of days from the date of purchase to the maturity date.

“*Appreciated Amount*” shall mean with respect to a Deferred Interest Bond, as of any date of computation, an amount equal to its initial principal amount plus the interest accrued on it from the date of its original issuance to the earlier of the date of computation or the date, if any, set forth in the related Series Supplemental Indenture on which interest to be paid on a current

interest payment date shall begin to accrue. The accrued interest shall be calculated at the rate or rates per year set forth in the related Series Supplemental Indenture, and shall be compounded on such dates set forth in that Series Supplemental Indenture, with accrual between compounding dates in equal daily amounts.

For the purposes of actions, requests, notifications, consents or directions of Bondowners under the Indenture, the calculation of the Appreciated Amount shall be as of the interest payment date or compounding date preceding such date of calculation (unless such date of calculation shall be an interest payment date or compounding date, in which case it shall be as of the date of calculation).

“*Authority Request*” means a written request or direction of the Authority signed by an Authorized Representative.

“*Authorized Representative*” means the Chairman, Vice Chairman, Executive Director, Deputy Executive Director or any Assistant Executive Director of the Authority and any other authorized representative as from time to time may be designated by resolution or by law to act on behalf of the Authority under the Indenture.

“*Bond*” or “*Bonds*” means any Bond or Bonds issued pursuant to the Indenture.

“*Bond Counsel Opinion*” means an opinion of a lawyer or firm of lawyers nationally recognized as bond counsel, selected by the Authority.

“*Bondowner*” or “*Owner of Bonds*” or “*Owner*” means the registered owner of any registered Bond.

“*Cash Equivalent*” means a letter of credit, insurance policy, surety, guarantee or other security arrangement upon which the Authority or the Trustee may make a draw for or acquire funds as needed for the Reserve Fund or to provide Supplemental Coverage.

“*Cash Flow Certificate*” means a certificate of an Authorized Representative filed with the Trustee and meeting the requirements of the Indenture.

“*Certificate*” means a signed document either attesting to or acknowledging the circumstances, representations or other matters stated in it or setting forth matters to be determined pursuant to the Indenture or a Series Supplemental Indenture.

“*Code*” means applicable provisions of the Internal Revenue Code of 1986, as amended, and the applicable regulations under it, or predecessor or successor provisions, as applicable.

“*Compliance Certificate*” means a certificate of an Authorized Representative filed with the Trustee and meeting the requirements of the Indenture.

“*Costs of Issuance*” means items of expense payable or reimbursable directly or indirectly by the Authority and related to the authorization, sale, issuance and remarketing of the Bonds, as certified by an Authorized Representative.

“*Counsel’s Opinion*” means an opinion of a lawyer or firm of lawyers selected by the Authority, including a lawyer in the regular employment of the Authority.

“*Debt Service Account*” means the Account of that name in the Revenue Fund established pursuant to the Indenture.

“*Deferred Interest Bond*” means any Bond designated as such by the related Series Supplemental Indenture.

“*Derivative Agreement*” means an agreement, with respect to any Bonds, such as an interest rate swap, collar, floor, cap, or other functionally similar agreement, creating Derivative Payments, between the Authority and a counterparty whose long-term unsecured debt is, at the time the Authority enters into the Derivative Agreement, rated by each Rating Agency at least equal to that Rating Agency’s existing Rating on the Bonds, but only if the Derivative Payments to the Authority are to be included in Revenues or the Derivative Payments by the Authority are to be payable from Revenues, as provided in the related Series Supplemental Indenture.

“*Derivative Payment*” means a payment obligation created by a Derivative Agreement, which payment is equal to interest on an amount, based upon a fixed or a variable rate index or formula, or to interest on amount above or below an interest rate cap or floor. Derivative Payments include only payments under a Derivative Agreement determined by reference to such interest on an amount and shall not, except as provided in the Related Series Supplemental Indenture, include any other payments under such agreement (for example, any termination fee, indemnification obligation or other fee payment to the counterparty).

“*Development*” means a development, as such term is defined in the Act, as amended from time to time, in respect of which the Authority is authorized by law and under a Series Supplemental Indenture either to make a Loan to an eligible borrower or acquire, construct and operate on its own behalf.

“*Development Receipts*” means amounts held, or received by the Authority to be held, in custodial escrow or other accounts as funds of the owner or for the benefit, of a Development for which there is a Loan. Development Receipts include, without limitation, amounts for payments of real property taxes and insurance, repair and replacement reserves, working cash reserves and capital improvement reserves.

“*Event of Default*” means any of the events of default described in the Indenture.

“*Expenses*” means any money required by the Authority to pay the fees or expenses of the Trustee and any expenses which the Authority lawfully may pay relating to servicing, maintaining, administering, collecting, enforcing and insuring Loans or Acquired Bonds or the Bonds and also including, without limitation, fees or premiums for Supplemental Coverage, and costs of the redemption of Bonds, except as limited with respect to any Series of Bonds by the related Series Supplemental Indenture. Expenses shall not include Acquired Development Expenses.

“*Fiscal Year*” means the year beginning on the first day of July and ending on the last day of June in the next succeeding year.

“*Fund*” or “*Account*” means a Fund or Account created by or pursuant to the Indenture or a Series Supplemental Indenture.

“*Government Obligations*” means (i) direct obligations of or obligations fully guaranteed as to timely payment by the United States of America which may include, but are not limited to: United States Treasury obligations; Separate Trading or Registered Interest and Principal of Securities (STRIPS) and Coupons Under Book-Entry Safekeeping (CUBES), provided that the underlying United States Treasury obligation is not callable prior to maturity; certificates of beneficial ownership of the Farmers Home Administration; participation certificates of the General Services Administration; guaranteed Title IX financings of the U.S. Maritime Administration; guaranteed participation certificates and guaranteed pool certificates of the Small Business Administration; guaranteed mortgage-backed securities and guaranteed participation certificates of the Government National Mortgage Association; local authority bonds guaranteed by the U.S. Department of Housing and Urban Development; guaranteed transit bonds of the Washington Metropolitan Area Transit Authority and (ii) interest obligations of the Resolution Funding Corporation (REFCORP), including, but not limited to, interest obligations of REFCORP stripped by the Federal Reserve Bank of New York.

“*Insurance Proceeds*” means payments received with respect to Acquired Developments, Loans or Acquired Bonds under any bond insurance policy, guarantee or fidelity bond, including amounts available under any Supplemental Coverage, less any expenses incurred in realizing such payments and less any reimbursement of advances due the insurer or provider of such guarantee or bond. Insurance Proceeds do not include amounts received for casualty insurance on Developments or otherwise with respect to property securing Loans or Acquired Developments to the extent applied to the repair, reconstruction or replacement of the insured property.

“*Lender*” means any entity or person approved by the Authority from whom Loans may be acquired.

“*Loan*” means any loan authorized by a Series Supplemental Indenture and financed with proceeds of Bonds or other amounts deposited in the Funds and Accounts (as specified in the Series Supplemental Indenture) and includes any instrument evidencing an ownership interest in or security for such a loan, and includes also any loan financed by any Obligations refunded by Bonds to the extent the Series Supplemental Indenture for those Bonds so determines that such a loan shall be a Loan under the Indenture.

“*Loan Prepayments*” means amounts received upon a voluntary payment of principal or interest on a Loan including any prepayment penalty or other amounts due upon a prepayment of a Loan and amounts received upon the encumbrance, sale or other disposition of Loans not in default.

“*Master Paying Agent*” means a Master Paying Agent, designated from time to time by the Authority pursuant to the Indenture and currently J.P. Morgan Trust Company, National Association, Chicago, Illinois, or its successor.

“*Obligations*” means bonds, notes or other obligations of the Authority for borrowed money which are not Bonds.

“*Outstanding*” means, with respect to any Bonds as of any date, all Bonds authenticated and delivered by the Trustee under the Indenture to that date, except:

- (i) any Bond deemed paid in accordance with the Indenture;
- (ii) any Bond cancelled by, or delivered for cancellation to, the Trustee because of payment at maturity or redemption or purchase prior to maturity; and
- (iii) any Bond in lieu of or in substitution for which another Bond has been authenticated and delivered pursuant to the Indenture, unless proof satisfactory to the Trustee is presented that any Bond for which such Bond has been authenticated and delivered is held by a bona fide purchaser, as that term is defined in Article Eight of the Illinois Uniform Commercial Code, as amended, in which case both the Bond so substituted and replaced and the Bond or Bonds authenticated and delivered in lieu of, or in substitution for, it shall be deemed outstanding.

“*Permitted Investments*” means, to the extent authorized by law at the time of such investment,

- (i) (A) Government Obligations, or (B) obligations with the highest long term rating by each Rating Agency at the time of purchase, 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 Government Obligations;
- (ii) (A) notes, bonds, debentures or other obligations issued by Student Loan Marketing Association (excluding securities which do not have a fixed par value and/or whose terms do not promise a fixed dollar amount at maturity or call date), Federal Home Loan Banks, the Tennessee Valley Authority, Farm Credit System, Federal Home Loan Mortgage Corporation (which guarantees full and timely payment of principal and interest), the Resolution Trust Corporation and the Small Business Administration; or (B) bonds, debentures or other obligations issued by Federal National Mortgage Association; in each case (1) excluding mortgage securities which are valued greater than par on the portion of unpaid principal or mortgage securities which represent payments of principal only or interest only with respect to the underlying mortgage loans and (2) with a rating by each Rating Agency at the time of purchase at least equal to that Rating Agency’s existing Rating on the Bonds, other than Subordinate Bonds;
- (iii) any other obligations of any agency controlled or supervised by and acting as an instrument of the United States pursuant to authority granted by the Congress of the United States, as set forth in a Series Supplemental Indenture, with a rating by each Rating Agency at the time of purchase at least equal to that Rating Agency’s existing Rating on the Bonds, other than Subordinate Bonds;
- (iv) 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 United States, including the Trustee (as used in this (iv), “deposits” shall mean obligations evidencing deposit liability which rank at least

on a parity with the claims of general creditors in liquidation), which are fully insured by the Federal Deposit Insurance Corporation;

(v) certificates of deposit or time deposits of any bank, including the Trustee, trust company or savings and loan association, if all of the direct, unsecured debt obligations of such bank, trust company or savings and loan association at the time of purchase of such certificates of deposit or time deposits which have a rating by each Rating Agency at the time of purchase at least equal to that Rating Agency's existing Rating on the Bonds, other than Subordinate Bonds, or are rated in the highest rating category assigned by each such Rating Agency (without regard to any refinement or gradation of rating category by numerical modifier or otherwise) for short-term obligations if the investment is for a period not exceeding one year;

(vi) repurchase agreements backed by or related to obligations described in (i), (ii) or (iii) above, structured and secured in such a manner as set forth in a Series Supplemental Indenture or by action of an Authorized Representative upon filing a Rating Certificate with the Trustee, (A) with any institution whose unsecured debt securities which have a rating by each Rating Agency at the time of purchase at least equal to that Rating Agency's then existing Rating on the Bonds, other than Subordinate Bonds (or the highest rating for short-term obligations if the investment is for a period not exceeding one year) or (B) with members of the Association of Primary Dealers in any United States Government Securities which do not qualify under (A) and as to whom a Rating Certificate is filed with the Trustee;

(vii) investment agreements, structured and secured in such a manner as set forth in a Series Supplemental Indenture, secured or unsecured, as required by the Authority, (A) with any institution whose debt securities have a rating by each Rating Agency at the time of purchase at least equal to that Rating Agency's existing Rating on the Bonds, other than Subordinate Bonds (or the highest rating of short-term obligations, if the investment is for a period not exceeding one year), or (B) with members of the Association of Primary Dealers in any United States Government Securities which do not qualify under (A) and as to whom a Rating Certificate is filed with the Trustee;

(viii) direct and general obligations of or obligations guaranteed by any state, municipality or political subdivision or agency of a state or municipality, and certificates of participation in obligations of the State which obligation may be subject to annual appropriations which obligations have a rating by each Rating Agency at the time of purchase at least equal to that Rating Agency's existing Rating on the Bonds, other than Subordinate Bonds;

(ix) bonds, debentures, or other obligations (excluding securities that do not have a fixed par value and/or whose terms do not promise a fixed dollar amount at maturity or call date) issued by any bank, trust company, national banking association, insurance company, corporation, government or governmental entity (foreign or domestic), provided that such bonds, debentures or other obligations (A) are payable in any coin or currency of the United States of America which at the time of payment will be legal tender for the payment of public and private debts and (B) have a rating by each

Rating Agency at the time of purchase at least equal to that Rating Agency's lowest Rating on the Bonds, other than Subordinate Bonds;

(x) commercial paper (having original maturities of not more than 365 days) with the highest short-term rating by each Rating Agency at the time of purchase;

(xi) money market and similar funds (including a common trust fund managed by the Trustee or one of its affiliates or subsidiaries) which invest their assets exclusively in obligations described in clauses (i) through (x) above and which have been rated by each Rating Agency in the highest rating category assigned by each such Rating Agency (without regard to any refinement or gradation of rating category by numerical modifier or otherwise), provided that with respect to Standard & Poor's such funds have ratings with the subscripts "m" or "m-G"; and

(xii) any investments authorized in a Series Supplemental Indenture authorizing Bonds.

The definition of Permitted Investments may be amended and additional obligations included by a Supplemental Indenture upon filing of a Rating Certificate with the Trustee.

For purposes of this definition, "institution" means an individual, partnership, corporation, trust or unincorporated organization, or a government or agency, instrumentality, program, account, fund, political subdivision or corporation of a government.

Any reference in this definition to the highest rating of short-term obligations or to a rating category shall be without regard to any refinement or gradation such as a "+" or a "1".

"*Principal*" means (i) with respect to the principal amount of a Deferred Interest Bond, the Appreciated Amount and (ii) with respect to any other Bond, the stated principal amount.

"*Proceeds*" means the amounts received by the Authority or the Trustee, other than Loan Prepayments, upon any sale, encumbrance, taking, disposition or enforcement of any Loans or security for pledged rights in Loans, Acquired Developments and Acquired Bonds, less any costs and expenses incurred in realizing such amounts.

"*Program Fund*" means the Fund of that name and Accounts in it established pursuant to the Indenture.

"*Rating*" means at any date the then existing rating of Bonds (other than Subordinate Bonds) by a Rating Agency and, with respect to any Series of Bonds which has a rating based on bond insurance or other similar credit support for that Series of Bonds, the then existing underlying rating of such Bonds, without regard to such bond insurance or other similar credit support, as determined by a Rating Agency or in such other manner as shall be acceptable to the Trustee and the Authority.

"*Rating Agency*" means any nationally recognized rating agency maintaining a rating of any Bonds (other than Subordinate Bonds), pursuant to a request for a rating by the Authority.

“*Rating Certificate*” means, in connection with certain actions to be taken by the Authority, a Certificate of an Authorized Representative filed with the Trustee that the Authority has been advised by each Rating Agency that the Rating of that Rating Agency will not be reduced or withdrawn as a result of the Authority taking that action.

“*Rebate Fund*” means the Fund of that name and Accounts in it which may be created and designated in Series Supplemental Indentures pursuant to the Indenture.

“*Recovery Payments*” means amounts received with respect to any sale or enforcement of Loans or Acquired Bonds (other than Loan Prepayments or Acquired Bond Redemption Receipts) and received as Proceeds or Insurance Proceeds. Recovery Payments also include any recovery from Supplemental Coverage to the extent not included in Insurance Proceeds.

“*Redemption Account*” means the Account of that name in the Revenue Fund established pursuant to the Indenture.

“*Redemption Price*” means, with respect to a Bond or portion of a Bond, the portion of the principal amount of such Bond or portion plus the applicable premium, if any, payable upon redemption of a Bond in the manner contemplated by the Indenture and the related Series Supplemental Indenture.

“*Reserve Fund*” means the Fund of that name established pursuant to the Indenture.

“*Reserve Requirement*” means, as of any particular date of calculation, an amount equal to the sum of all amounts established as Series Reserve Requirements in the Series Supplemental Indentures for all Series of Bonds Outstanding authorizing the issuance of such Outstanding Bonds, other than Subordinate Bonds. The Trustee may rely upon a Certificate from an Authorized Representative of the Authority which states the Reserve Requirement as of the date of the Certificate.

“*Revenues*” means all money received by or on behalf of the Authority or the Trustee representing (i) principal and interest and related payments on Acquired Bonds and Loans, payments of service and other fees or charges to the Authority with respect to Loans, payments on Loans to reimburse the Authority for costs of issuance of Bonds (or other costs of the Authority with respect to Bonds payable from the Revenue Fund) and also including, without limitation, Loan Prepayments, Acquired Bond Redemption Receipts and Recovery Payments; (ii) Acquired Development Operating Income; (iii) Insurance Proceeds; (iv) Proceeds; (v) any Derivative Payments by a counterparty with respect to a Series of Bonds to the extent the related Series Supplemental Indenture provides for those Derivative Payments to be included in Revenues; and (vi) subject to certain limitations contained in the Indenture, interest and other investment earnings received on the investment of amounts in any Account or Fund (other than the Acquired Development Fund or the Rebate Fund), all in the manner and to the extent described in the Indenture and the Series Supplemental Indentures. Except as provided in a Series Supplemental Indenture, Revenues do not include (a) discount, points or other initial Loan fees charged by the Authority; (b) any payment of interest on a Loan or other payment with respect to a Loan to the extent to be used for paying mortgage insurance premiums or other fees for credit enhancement of the Loan; or (c) Development Receipts.

“*Serial Bonds*” means Bonds which are not Term Bonds.

“*Series*” means one of the series of Bonds issued under the Indenture pursuant to a Series Supplemental Indenture.

“*Series Program Accounts*” means the Series Program Accounts in the Program Fund established by Series Supplemental Indentures.

“*Series Program Determinations*” means determinations by the Authority as to the terms of and security for Loans in connection with a Series of Bonds, as provided in a Series Supplemental Indenture.

“*Series Reserve Requirement*” means an amount established by a Series Supplemental Indenture as the reserve requirement in respect of the Bonds of the Series while those Bonds are Outstanding. Series Supplemental Indentures for more than one Series of Bonds may establish a composite Series Reserve Requirement applicable to all those Series of Bonds.

“*Series Supplemental Indenture*” means a Supplemental Indenture of the Authority authorizing the issuance of a Series of Bonds and executed prior to issuance of those Bonds. The term “Series Supplemental Indenture” includes any supplemental indenture of the Authority amending a Series Supplemental Indenture as provided in the Indenture.

“*Sinking Fund Installments*” means, as of any particular date of calculation, with respect to the Term Bonds of any Series and maturity, the amount of money required to be applied on any applicable date to the redemption prior to maturity or the purchase of those Bonds. Sinking Fund Installments may be established as fixed dollar amounts or by formula.

“*Special Receipts Account*” means the account of that name in the Revenue Fund established pursuant to the Indenture.

“*Subordinate Bonds*” means Bonds payable on a basis as set forth in the related Series Supplemental Indenture with a claim to payment which is subordinate to the claim of Bonds which are not Subordinate Bonds.

“*Subordinate Bonds Account*” means the account of that name in the Revenue Fund established pursuant to the Indenture.

“*Supplemental Coverage*” means the coverage, if any, whether in the form of insurance, Cash Equivalents or additional pledged funds, of losses from Loan or Acquired Bond defaults, as provided in a Series Supplemental Indenture. Supplemental Coverage may include any insurance or reserve fund funded by the Authority.

“*Supplemental Indenture*” means any supplemental indenture of the Authority supplementing or amending the Indenture, including Series Supplemental Indentures.

“*Term Bonds*” means the Bonds of a Series with respect to which Sinking Fund Installments have been established.

“*Trust Estate*” means Revenues, Funds and Accounts established under the Indenture and Series Supplemental Indentures (other than the Acquired Development Fund), Acquired Bonds, rights in Loans and security for the rights in Loans which rights are part of the Trust Estate, in each case solely to the extent such items are subject to the pledge, assignment, lien and security interest as provided in the Indenture.

“*Trustee*” means the institution named in the Indenture designated to act as trustee with respect to the Bonds and its successors as provided in the Indenture.

Certain Authority Covenants

In the Indenture, the Authority covenants that it will promptly pay the principal of and interest, if any, on each and every Bond issued under the provisions of the Indenture at the places, on the dates and in the manner specified in the Indenture and the Series Supplemental Indenture and the respective Bonds. The Authority covenants that it will pay any premium required for the retirement of Bonds by purchase or redemption according to their true intent and meaning. This covenant for a Series of Bonds may be limited to the Trust Estate by a Series Supplemental Indenture. The Authority covenants that it will faithfully perform at all times all covenants, undertakings, stipulations, provisions and agreements contained in the Indenture, each Series Supplemental Indenture and in each Bond. The Authority will not directly or indirectly extend or assent to the extension of the time for the payment of any principal of or interest on any Bond and will not directly or indirectly be a party to any arrangement for that purpose without the consent of any Bondowner materially adversely affected by the arrangement. The Authority covenants that it will do, execute, acknowledge and deliver or cause to be done, executed, acknowledged and delivered, such supplemental indentures and such further acts, instruments and transfers as may be necessary or desirable to confirm, make effective or otherwise implement the pledge, assignment, lien and security interest granted by the Indenture or any Series Supplemental Indenture.

Authorization of Bonds; Nature of Authority Obligation

The Indenture creates an issue of Bonds of the Authority to be designated as “Housing Bonds,” and creates a continuing pledge and lien to secure the full and final payment of the principal and Redemption Price of and interest and Sinking Fund Installments on all the Bonds issued pursuant to the Indenture. Except as may be provided in a Series Supplemental Indenture with respect to Bonds authorized by that Series Supplemental Indenture, the Bonds shall be general obligations of the Authority, subject to the present or future pledge, assignment or grant of a security interest or lien on specific property or amounts, other than the Trust Estate to the payment of other obligations of the Authority. The State is not liable on the Bonds, and the Bonds are not a debt of the State. Except as may be provided in a Series Supplemental Indenture with respect to Bonds authorized by that Series Supplemental Indenture, Section 26.1 of the Act shall not apply to the Bonds.

Pledge of the Indenture

As security for the payment of interest on and principal of and the redemption premium, if any, of the Bonds, and subject to application as provided in the Indenture and any Series

Supplemental Indentures, and subject to the rights of the Authority specified in the Indenture, the Authority pledges and assigns and grants a lien on and security interest to the Trustee in all:

- (i) Funds and Accounts held by the Trustee and all deposits and investments of those Funds and Accounts;
- (ii) Acquired Bonds (which shall be registered in the name of the Trustee);
- (iii) Revenues; and
- (iv) rights of the Authority to the payments of amounts in connection with Loans to the extent the payments would be included in Revenues, including, to the extent they may be so pledged, any right to governmental subsidies payable to the Authority to be used to pay principal of or interest on Loans, and also all security for the pledged rights in Loans including, without limitation, mortgages, assignments of rents and other security interests and agreements.

To the extent provided in a Series Supplemental Indenture, instruments evidencing Loans or security for Loans will be deposited with the Trustee. The Trustee will have no duty to examine any of these instruments and documents but only to retain them on deposit or apply them as provided in the Indenture. Loans, and the security for them, are subject to release by the Trustee to the Authority upon an Authority Request in connection with a sale, a disposition, an enforcement action, a restructuring of a Loan by the Authority as provided in the following paragraph.

Notwithstanding the assignment, pledge and grant described above, the Authority shall, if no Event of Default has occurred and is continuing, and except as may be provided in a Series Supplemental Indenture, have the right to sell, encumber, or dispose of Acquired Bonds or Loans as provided in the Indenture and shall have the right to restructure and enforce Loans in such manner as determined by the Authority in its discretion consistent with the provisions of the Indenture, including the ability to compromise, and release security for, Loans. The Trustee shall not remove the Trust Estate from Illinois except as authorized in writing by the Authority.

Any pledge, assignment, lien and security interest made pursuant to the Indenture and any Series Supplemental Indenture shall be valid and binding and effective upon its being made or granted, or upon property becoming subject to it, without any physical delivery, filing, recording or further act. The pledge, assignment, lien and security interest shall be valid and binding as against, and shall be superior to any claims of any others having claims of any kind against the Authority or any other person, irrespective of whether such other parties have notice of the pledge, assignment, lien or security interest other than as may otherwise be required by law in the case of any interest in real property. Notwithstanding the preceding two sentences, upon an Event of Default, the Authority shall upon the written request of the Trustee, or Owners of not less than 25 percent of the principal of the Outstanding Bonds other than Subordinate Bonds, take such actions to make the assignment of a mortgage or other interest in real estate effective, including, if necessary, recording of the assignment, and any assignment of a mortgage or other interest in real estate shall be effective only upon such actions.

Except for the issuance of Bonds pursuant to the Indenture, the Authority shall not make or grant any pledge, assignment, lien or security interest in any of the Trust Estate which is senior to or on a parity with the security provided by the Indenture. *Except with respect to Subordinate Bonds, and except as expressly provided in or pursuant to the Indenture, all security for the Bonds under the Indenture shall be for the equal and proportionate benefit of the obligations of the Authority on all Bonds; provided, however, a Series of Bonds may be further secured by a credit facility or a bond insurance policy not applicable to any one or more other Series of Bonds, as shall be provided by the applicable Series Supplemental Indenture in addition to the security provided in the Indenture.*

Except as may be limited by a Series Supplemental Indenture, upon all Bonds of any Series that financed or continued the financing of any particular Loan or Loans having been paid or treated as paid under the Indenture, the pledge, assignment, lien and security interest of the Trustee with respect to that Loan or Loans and any security for it or them shall be released to the Authority but only upon filing a Rating Certificate with the Trustee. Except as may be limited by a Series Supplemental Indenture, upon all Bonds of any Series that have financed the acquisition of Acquired Bonds, or that refinanced Acquired Bonds, having been paid or treated as paid under the Indenture, the pledge, assignment, lien and security interest of the Trustee with respect to those Acquired Bonds shall be released and those Acquired Bonds shall be registered as the Authority shall direct, but only upon filing a Rating Certificate with the Trustee.

Issuance of Bonds

Each Series of Bonds shall be authorized and issued under and secured by the Indenture pursuant to the authorization contained in a Series Supplemental Indenture. The Bonds of each Series shall be designated as provided by the Series Supplemental Indenture. The Bonds shall be in such subseries (if any), shall be in such denominations, shall be dated, shall bear interest at a rate or rates not exceeding the maximum rate then permitted by law payable beginning on such date, shall be stated to mature on such dates, shall be made redeemable at such times and prices, shall have such Series Reserve Requirements, shall have such interest payment dates, shall be numbered and the Term Bonds of such Series shall have such Sinking Fund Installments, all as may be provided by the Series Supplemental Indenture for such Bonds. Except as may otherwise be provided for Subordinate Bonds in a related Series Supplemental Indenture, such Bonds shall be secured and be payable on a parity with and shall be entitled to the same benefits and security under the Indenture as all other Bonds issued under the Indenture. Nonetheless, the Authority may issue a Series of Bonds which may be secured by a credit facility or a bond insurance policy securing only such Series of Bonds or a portion of such Series of Bonds as determined by the applicable Series Supplemental Indenture.

Each Series Supplemental Indenture authorizing the issuance of a Series of Bonds shall specify and determine:

- (i) the authorized principal amount of such Series of Bonds;
- (ii) the purposes for which such Series of Bonds are being issued, which shall be one or more of the following purposes: (a) the acquisition, construction, renovation, rehabilitation, improvement, expansion or equipping of any Development, including any

Acquired Development and including providing reserves for those purposes, (b) the purchase, acquisition or making of Loans, (c) the purchase or acquisition of Acquired Bonds, (d) the making of such deposits in amounts, if any, required by the Indenture or the Series Supplemental Indentures to be paid into various Funds and Accounts, (e) the refunding of Bonds including prior to their redemption or maturity dates, (f) the acquisition, purchase, redemption or refunding of Obligations or (g) other lawful purposes of the Authority as specified in the Series Supplemental Indenture;

(iii) the maturity date or dates, the amounts of each maturity, and the interest payment dates of the Bonds of such Series;

(iv) the interest rate or rates of the Bonds of such Series (which may be a variable rate or rates) or method of determining the rate or rates;

(v) the denomination or denominations of, and the manner of dating, numbering and lettering the Bonds of such Series;

(vi) in the case of Term Bonds, if any, provision for Sinking Fund Installments;

(vii) in the case of Deferred Interest Bonds, the provisions as to accrual and compounding of interest;

(viii) the Redemption Price or Redemption Prices, if any, the time or times and the terms and conditions upon which the Bonds of such Series may be redeemed prior to their maturities, including without limitation the method of selection for redemption as among maturities;

(ix) the amounts to be deposited from the proceeds of such Series of Bonds in the Funds and Accounts created and established by the Indenture and the Series Supplemental Indenture;

(x) any Series Reserve Requirement with respect to Bonds other than Subordinate Bonds, the extent to which the Series Reserve Requirement may be met by a Cash Equivalent or accumulated over time, the amounts, including proceeds of the Bonds of such Series, which shall be deposited in the Series Reserve Account or used to acquire a Cash Equivalent for deposit in the Series Reserve Account and any limitation on investments of the Series Reserve Account;

(xi) the Series Program Determinations, if any;

(xii) whether there shall be any Derivative Agreement with respect to the Series of Bonds, the extent to which the related Derivative Payments by the counterparty are to be included in Revenues and whether the Derivative Payments by the Authority are to be payable from amounts in the Revenue Fund;

(xiii) whether the Series of Bonds shall be Subordinate Bonds;

- (xiv) instruments to be deposited with the Trustee pursuant to the Indenture; and
- (xv) any other provisions deemed advisable by the Authority not in conflict with the provisions of the Indenture.

Except as expressly provided in a Series Supplemental Indenture, the Authority may from time to time supplement or amend a Series Supplemental Indenture without consent of Owners of Bonds to amend or supplement any provisions in a Series Supplemental Indenture for the Series Reserve Requirement, the payment and security for Derivative Payments on a Derivative Agreement relating to that Series of Bonds from the Revenue Fund and the extent to which Derivative Payments with respect to that Series of Bonds are to be treated as Revenues, the use of Cash Equivalents in the Reserve Fund, Supplemental Coverage, Permitted Investments or the Series Program Determination, but only upon filing a Rating Certificate.

Funds and Accounts

The Indenture establishes the following Funds and Accounts, each of which, other than the Acquired Development Fund, are to be held by the Trustee:

- Program Fund
 - Series Program Accounts
- Revenue Fund
 - Debt Service Account
 - Special Receipts Account
 - Redemption Account
 - Subordinate Bond Accounts
- Reserve Fund
- Acquired Development Fund
- Rebate Fund
 - Series Rebate Accounts

Additional Funds and Accounts may be created and designated in Series Supplemental Indentures. The full designation of each such Fund and Account shall include the term “Illinois Housing Development Authority Housing Bonds,” which term shall precede the designation as set forth above. Each such Fund and Account shall be held by the Trustee (other than the Acquired Development Fund), in trust, separate and apart from all other funds of the Authority, for the purposes provided in the Indenture. In Series Supplemental Indentures, the Authority may provide for the deposit of amounts in Funds and Accounts, which amounts shall be subject to the pledge, assignment, lien and security interest of the Indenture in the amounts and for the purposes and period of time set forth in the applicable Series Supplemental Indenture.

Program Fund. For each Series of Bonds there is a Series Program Account in the Program Fund. Except as may be provided by a Series Supplemental Indenture for Subordinate Bonds, amounts received upon the sale of a Series of Bonds will be deposited in the Program Fund and credited to the related Series Program Account in the amount, if any, provided in the applicable Series Supplemental Indenture. In addition, amounts shall be deposited in the Program Fund from the Revenue Fund as described below and shall be credited to the Series

Program Account as specified in the Authority Request directing the transfer. Amounts available from or upon the refunding of Obligations shall be deposited in Funds and Accounts as provided in the applicable Series Supplemental Indenture. For a series of bonds issued as convertible option bonds there may be a Series Program Account (COB Rate Period) and a Series Program Account (Fixed Rate Period) as provided in the Series Supplemental Indenture.

Amounts in a Series Program Account shall be used to pay Costs of Issuance of the related Series of Bonds, or to reimburse the Authority for Costs of Issuance, in either case in the amount specified in or pursuant to the Series Supplemental Indenture, upon a requisition stating generally the nature and amount of those Costs of Issuance signed by an Authorized Representative. Amounts in Series Program Accounts other than amounts used or to be used to pay Costs of Issuance shall be applied by the Trustee to finance the purposes for which such Series of Bonds were issued as specified in the Series Supplemental Indenture.

The Trustee shall transfer unexpended amounts in a Series Program Account to the Revenue Fund to the credit of the Redemption Account, or to the Reserve Fund, in either case as specified by an Authority Request. The Trustee shall transfer amounts from the Program Fund to the Debt Service Account as described below or to the Rebate Fund upon an Authority Request. The Trustee shall transfer amounts in a Series Program Account for Bonds refunded in whole or in part by Bonds to the Series Program Account for the refunding Bonds, if so directed by the Series Supplemental Indenture for the refunding Bonds.

Revenue Fund. The Authority is required to immediately transfer all Revenues received by it, other than Acquired Development Operating Income, to the Trustee. Acquired Development Operating Income will be deposited in the Revenue Fund as described below under the subcaption "*Acquired Development Fund.*" All Revenues received by the Trustee are to be deposited in the Revenue Fund. The Trustee shall transfer to and deposit in the Revenue Fund all amounts transferred to it from the Program Fund as described above under the subcaption "*Program Fund*" or from the Reserve Fund as described below under the subcaption "*Reserve Fund*" and shall credit those amounts to the Accounts as specified in those descriptions. Amounts received upon the sale of a Series of Bonds shall be deposited in the Revenue Fund in the amount, if any, provided in the applicable Series Supplemental Indenture, for credit to the Debt Service Account to pay debt service as specified in the Series Supplemental Indenture.

The Authority shall identify and notify the Trustee in writing of the amount of any Revenues that are Acquired Bond Redemption Receipts, Loan Prepayments or Recovery Payments. Those Revenues shall be credited to the Special Receipts Account. Except as may be limited by a Series Supplemental Indenture, amounts in the Special Receipts Account may be transferred at any time upon an Authority Request to the Redemption Account, the Debt Service Account or, upon filing with the Trustee a Cash Flow Certificate, any Series Program Account.

All Derivative Payments with respect to any Subordinate Bonds shall be credited to the related Subordinate Bond Account of the Revenue Fund.

At any time, upon Authority Request, the Trustee shall apply amounts in the Revenue Fund not credited to any Account in the Fund to pay the accrued interest portion of the cost of acquiring any Loan or Acquired Bond consistent with the related Series Supplemental Indenture.

Upon their receipt, the Authority shall notify the Trustee as to any amounts which have been received for accrued interest with respect to Loans made or acquired, or Acquired Bonds acquired, from amounts which were expended from a Series Program Account (to the extent not so funded from a transfer from the Revenue Fund). The Trustee shall transfer those amounts to the credit of the applicable Series Program Account.

On or prior to each debt service payment date for the Bonds (or any due date of Derivative Payments by the Authority) the Trustee shall credit or transfer all amounts in the Revenue Fund not in any Account in the Revenue Fund to the credit of Funds and Accounts, in the following priority:

- (1) credit to the Debt Service Account, an amount sufficient, together with amounts on deposit in that Account, timely to pay interest and principal, at maturity or mandatory redemption, due on such debt service payment date on the Bonds, other than Subordinate Bonds, to pay any fees in connection with tender option features, letter of credit, standby bond purchase agreements and other forms of credit or liquidity related to such Bonds as set forth in the Series Supplemental Indenture or a Supplemental Indenture and to pay any Derivative Payments related to such Bonds (other than Subordinate Bonds) due on such debt service payment date as set forth in the Series Supplemental Indenture or a Supplemental Indenture;
- (2) transfer amounts to the Rebate Fund for Series Rebate Accounts for Bonds other than Subordinate Bonds as set forth in an Authority Request;
- (3) pay Expenses specified in a Series Supplemental Indenture, or such other Expenses provided in an Authority Request accompanied by a Compliance Certificate or Cash Flow Certificate, as applicable;
- (4) transfer to the Reserve Fund, an amount sufficient to cause the amount on deposit in that Fund, including Cash Equivalents permitted by a Series Supplemental Indenture, to equal the Reserve Requirement;
- (5) credit to the Redemption Account an amount as specified in an Authority Request accompanied by a Compliance Certificate or Cash Flow Certificate, as appropriate;
- (6) transfer to any Series Program Account in the Program Fund an amount as specified in an Authority Request accompanied by a Compliance Certificate or Cash Flow Certificate, as appropriate;
- (7) credit to any Subordinate Bond Accounts, an amount sufficient together with amounts on deposit in that Account, established by a Series Supplemental Indenture for Subordinate Bonds, timely to pay interest and principal, at maturity or mandatory redemption, due on such succeeding debt service payment date on the Subordinate Bonds, to pay any fees in connection with tender option features, letters of credit, standby bond purchase agreements and other forms of credit or liquidity related to such Bonds as set forth in the Series Supplemental Indenture or a Supplemental Indenture and to pay any Derivative Payments related to such Bonds due on such debt service payment date as

set forth in the Series Supplemental Indenture or a Supplemental Indenture, or to provide any reserve with respect to Subordinate Bonds; or

(8) pay to the Authority, for any other purpose authorized or required under the Act free and clear of the pledge and lien of the Indenture. No such payment shall be made except upon filing of a Compliance Certificate or Cash Flow Certificate, as appropriate.

In addition, at any time upon Authority Request, the Trustee shall apply amounts in the Revenue Fund not credited to any Account for the following purposes: (i) to make required arbitrage rebates together with amounts in the Rebate Fund to the United States as required by the Code, (ii) to the purchase of Bonds at the times, in the manner and for the purposes set forth below, and (iii) to pay Expenses, upon filing a Compliance Certificate or a Cash Flow Certificate.

Debt Service Account. The Trustee shall, on each principal and interest payment date, withdraw from the Debt Service Account and pay to the Master Paying Agent, if one is appointed and serving, by wire transfer (or other method of transfer acceptable to the Authority and the Master Paying Agent or as provided in Series Supplemental Indentures) the amounts required for making all payments then due from the Debt Service Account, as described above under the subcaption “*Revenue Fund.*” The Trustee (or Master Paying Agent, if one is appointed and serving) shall remit by mail or as otherwise provided in the Series Supplemental Indentures to each Owner of Bonds, other than Subordinate Bonds, the amounts required for paying the interest on such Bonds as such interest becomes due and payable. Amounts for paying principal shall be held in trust by the Trustee (or Master Paying Agent, if one is appointed and serving) for paying that principal. The Trustee (or Master Paying Agent, if one is appointed and serving) shall remit to any credit or liquidity provider, as described above under the subcaption “*Revenue Fund,*” its fees in connection with such credit or liquidity arrangement. The Trustee (or Master Paying Agent, if one is appointed and serving) shall remit to the counterparty under a Derivative Agreement, as described above under the subcaption “*Revenue Fund,*” the Derivative Payments due to the counterparty under the Derivative Agreement. An Authorized Representative of the Authority shall advise the Trustee (or Master Paying Agent, if one is appointed and serving) in writing regarding the amount of any such liquidity fees and Derivative Payments and when payment is due.

Purchase of Bonds From Revenue Fund. Amounts on deposit in the Revenue Fund and not credited to any Account in it may be applied as applicable to the purchase of Term Bonds of each Series then Outstanding subject to Sinking Fund Installments on the next date in such year (ending January 1). Such payments are scheduled as described under this subcaption. The Trustee (or Master Paying Agent, if one is appointed and serving), upon an Authority Request, shall endeavor to purchase from such amounts the Term Bonds or portions of Term Bonds of each Series stated to mature on the next maturity date or to be redeemed pursuant to Sinking Fund Installments for Term Bonds of such Series then Outstanding, on the next such redemption date, in each case in the same year (ending January 1) at a price not to exceed the Redemption Price (plus accrued interest to the date of redemption) which would be payable on the next redemption date to the Owners of such Term Bonds under the provisions of the applicable Series

Supplemental Indenture if such Term Bonds or portions of Term Bonds should be called for redemption on such date.

Subject to applicable law, notwithstanding the maximum purchase price set forth in the prior paragraph, if the investment earnings on the money in the Revenue Fund and not credited to any Account in it available for such a purchase shall be less than the interest accruing on the Bonds to be redeemed on such date from such Sinking Fund Installment, then the Trustee (or Master Paying Agent, if one is appointed and serving) may pay a purchase price for any such Bond in excess of the Redemption Price which would be payable on the next redemption date to the Owner of such Bond under the provisions of the applicable Series Supplemental Indenture if an Authorized Representative certifies to the Trustee and the Master Paying Agent that the amount paid in excess of such Redemption Price is expected to be less than the interest which is expected to accrue on the Bond less any investment earnings on such available money during the period from the settlement date of the proposed purchase to the redemption date. The Trustee shall pay the interest accrued on such Term Bonds or portions of Term Bonds to the date of settlement for the Term Bonds from the Revenue Fund. No such purchase of a Bond shall be made by the Trustee after the giving of notice of redemption as to that Bond by the Trustee. Purchased Bonds shall be cancelled by the Trustee.

Subordinate Bond Account(s). Amounts on deposit in the Revenue Fund to the credit of any Subordinate Bond Account(s) shall be applied as provided in the Series Supplemental Indenture authorizing those Bonds.

Use of Amounts in Redemption Account. The Trustee shall apply money in the Redemption Account for the purchase or redemption of Bonds as follows:

(1) The Trustee (or Master Paying Agent, if one is appointed and serving), upon Authority Request accompanied by evidence that a Compliance Certificate or a Cash Flow Certificate, as appropriate, has been filed with the Trustee, shall endeavor to purchase, from such amounts, Bonds or portions of Bonds then Outstanding, whether or not such Bonds or portions of Bonds shall then be subject to redemption, at a price not to exceed the Redemption Price (plus accrued interest, if any, to the date of redemption) which would be payable on the next redemption date to the owners of such Bonds if such Bonds or portions of Bonds should be called for redemption. Such maximum purchase price may be exceeded as described above under “*Purchase of Bonds From Revenue Fund.*” The interest accrued on such Bonds to the date of settlement shall be paid from the Debt Service Account or the Revenue Fund (not credited to any Account in it), but no such purchase shall be contracted for by the Trustee (or Master Paying Agent, if one is appointed and serving) after the Trustee (or Master Paying Agent, if one is appointed and serving) has given notice that such Bonds have been called for redemption except from money other than the money set aside in the Redemption Account or other Account established by Series Supplemental Indenture for the redemption of such Bonds.

(2) The Trustee (or Master Paying Agent, if one is appointed and serving), upon Authority Request accompanied by evidence that a Compliance Certificate or Cash Flow Certificate, as appropriate, has been filed with the Trustee, shall call Bonds for redemption, on the earliest practicable date on which those Bonds are subject to

redemption, from money in the Redemption Account, and, with respect to interest on such Bonds payable upon redemption, the Debt Service Account or the Revenue Fund (not credited to any Account in it).

(3) Upon an Authority Request, amounts in the Redemption Account not required for redemption of Bonds for which notice of redemption has been given or for payment of a contract for purchase of Bonds, shall be transferred to any Account of the Program Fund, upon filing with the Trustee either a Compliance Certificate or Cash Flow Certificate, if appropriate, or to the Revenue Fund and not in an account.

Reserve Fund. The Authority shall deposit amounts in the Reserve Fund as provided in the Series Supplemental Indentures and as described above under the subcaptions “*Program Fund*” and “*Revenue Fund*.” The Trustee shall transfer money held in the Reserve Fund to the Debt Service Account, as described below under the subcaption “*Debt Service Account*,” to be applied to pay the principal of and interest on the Bonds other than Subordinate Bonds or payments under Derivatives relating to Bonds, other than Subordinate Bonds, to the extent no other funds (other than the Program Fund) are available for that purpose. Amounts held in the Reserve Fund as of any date in excess of the Reserve Requirement, taking into account any Cash Equivalents in the Reserve Fund, shall upon an Authority Request, be transferred to the Revenue Fund or a Series Program Account, unless otherwise provided in the Series Supplemental Indenture. A Series Supplemental Indenture may provide that the Series Reserve Requirement with respect to the applicable Series of Bonds may be funded in whole or in part through Cash Equivalents.

Deficiencies in Debt Service Account. In the event that amounts in the Debt Service Account are insufficient on any interest payment date or principal payment date to pay the principal of and interest on the Bonds (but only for Bonds other than Subordinate Bonds) due and unpaid on such date, whether at the stated payment or maturity date or by the retirement of such Bonds in satisfaction of the Sinking Fund Installments, the Trustee shall withdraw amounts from the following Funds and Accounts in the following order of priority to the extent necessary to eliminate such deficiency:

- (a) Revenue Fund (not credited to any Account);
- (b) Special Receipts Account;
- (c) Redemption Account;
- (d) Reserve Fund; and
- (e) Program Fund.

No amounts on deposit in the Revenue Fund being held to pay the Redemption Price of Bonds called for redemption or purchase shall be used for such purpose to the extent that such amounts have been set aside for the payment of Bonds which have been identified for purchase or called for redemption, and no amounts on deposit in any Series Program Account shall be used for such purpose to the extent that the Authority is contractually obligated to finance identified Loans or Acquired Bonds or other purposes acceptable for financing with amounts on deposit in that Series Program Account.

Acquired Development Fund. The Acquired Development Fund shall be held by the Authority. It shall be held separate and apart from all other funds and accounts of the Authority and investments of the Acquired Development Fund shall not be commingled with any other investments of the Authority. All Acquired Development Receipts shall be deposited in and held in the Acquired Development Fund and may be used to pay Acquired Development Expenses.

The Authority at any time may, and not less than two days prior to the date any interest or principal payments or Derivative Payments are due on or with respect to any Bonds, other than Subordinate Bonds, shall, transfer all Acquired Development Operating Income to the Revenue Fund.

Rebate Fund. The Rebate Fund shall be used to make arbitrage rebate payments as provided by Authority Request or, to the extent determined by the Authority not to be needed for that purpose, shall be transferred to the Revenue Fund, upon Authority Request.

Security for Deposits and Investment of Funds

Any and all money held by the Trustee or the Master Paying Agent under the Indenture, except as otherwise expressly provided in the Indenture, shall be held in trust, shall be applied only in accordance with provisions of the Indenture and shall not be subject to any lien, charge or attachment by any creditor of the Authority.

All money deposited with the Trustee in any Account or Fund created under the Indenture shall, until invested in Permitted Investments as described below, to the extent such deposits are in excess of the amount guaranteed by the Federal Deposit Insurance Corporation or other federal agency, be continuously secured for the benefit of the Authority and the Owners of the Bonds either (i) by lodging with a bank or trust company selected by the Authority as custodian, or, if then permitted by law, by setting aside under control of the trust department of the bank holding such deposit as collateral security, Government Obligations or, with the approval of the Trustee, other marketable securities eligible as security for the deposit of trust funds under regulations of the Comptroller of the Currency of the United States of America, having a market value at all times (exclusive of accrued interest) not less than the amount of such deposit or (ii) if the furnishing of security as provided in clause (i) of this paragraph is not permitted by applicable law, then in such other manner as may then be required or permitted by applicable State or federal laws and regulations regarding the security for, or granting a preference in the case of, the deposit of trust funds. However, it shall not be necessary, except as otherwise provided in the Indenture, for the Trustee to give security for any money which shall be represented by obligations purchased under the provisions of the Indenture as an investment of such money.

All money deposited with the Trustee pursuant to the Indenture shall be credited to the particular Account or Fund to which such money belongs.

Money deposited with the Trustee under the Indenture shall, as nearly as is practicable, be fully and continuously invested or reinvested by the Trustee upon the direction of an Authorized Representative (promptly confirmed by delivery of an Authority Request) in Permitted Investments which shall be in such amounts and bear interest at such rates that

sufficient money will be available to pay the principal and interest due on the Bonds and to make required Derivative Payments and shall mature, or which shall be subject to redemption by the holder at the option of the holder, such that sufficient money will be available for the purposes intended. The Trustee may conclusively rely on such an investment direction with respect to the suitability and legality of such investments, in accordance with the terms of the Indenture. The Trustee upon receipt of an Authority Request shall sell Permitted Investments and reinvest the proceeds in Permitted Investments meeting the requirements of the Indenture or apply the proceeds as provided in the Indenture.

Any Permitted Investments so purchased in any Account or Fund shall be deemed at all times to be part of such Account or Fund. Except as may be provided in a Series Supplemental Indenture with respect to a Series Program Account, any interest paid on the investment in any Account or Fund (except the Rebate Fund and the Acquired Development Fund) shall be credited to the Revenue Fund and shall be treated as Revenues. Any interest paid on the investment of the Rebate Fund shall be credited to the Rebate Fund and interest paid on the investment of the Acquired Development Fund shall be paid to that Fund. Any profit or loss resulting from an investment shall be credited to or charged against the applicable Account or Fund of which it is an investment. The Trustee shall sell or present for redemption any obligations so purchased whenever it shall be necessary so to do in order to provide money to meet any payment or transfer from any such Account or Fund. The Trustee when authorized by an Authorized Representative may make any and all such investments through its own investment department or that of its affiliates or subsidiaries, and trade with itself in the purchase and sale of securities for such investment. Neither the Trustee nor the Authority shall be liable or responsible for any loss resulting from any such investment.

For the purposes of making any investment, the Trustee may consolidate money in any Fund or Account with money in any other Fund or Account and may transfer an interest in an investment from one Fund or Account to another without liquidating the investment.

Except as may be provided in a Series Supplemental Indenture with respect to the Reserve Fund, in computing the amount on deposit to the credit of any Account or Fund, Permitted Investments in such Account or Fund shall be valued at Amortized Value plus the amount of interest on such obligations purchased with money in such Account or Fund.

Although the Authority recognizes that it may obtain a broker confirmation or written statement containing comparable information at no additional cost, the Authority agrees that confirmations of investments made by the Trustee as described above are not required to be issued by the Trustee for each month in which a monthly statement is rendered pursuant to the Indenture. No such statement need be rendered pursuant to the provisions described above if no activity occurred in the fund or account during such preceding month.

Rating Certificates, Compliance Certificates and Cash Flow Certificates

Prior to taking any of the following actions the Authority shall file with the Trustee a Rating Certificate:

- (i) issuing any Series of Bonds;

(ii) making certain supplements or amendments to a Series Supplemental Indenture including, without limitation, the Series Reserve Requirement, the payment and security for Derivative Payments under a Derivative Agreement, the use of Cash Equivalents in the Reserve Fund, Supplemental Coverage, Permitted Investments or Series Program Determinations;

(iii) entering into any Derivative Agreement relating to any Series of Bonds after the date of issuance of such Bonds;

(iv) remarketing any Bonds in connection with a change in tender period except as required at the time of their issuance;

(v) releasing the pledge, assignment, lien or security interest of the Indenture in Loans or Acquired Bonds.

Prior to taking any of the following actions, the Authority shall file with the Trustee either a Compliance Certificate or a Cash Flow Certificate, as appropriate:

(i) any purchase or redemption of Bonds (other than mandatory redemption pursuant to Sinking Fund Installments and purchases of Bonds from amounts on deposit in the Revenue fund as described above);

(ii) certain withdrawals of amounts from the Revenue Fund free and clear of the pledge and lien of the Indenture (as described in clauses (3), (5), (6) or (8) under the subcaption "*Revenue Fund*" above);

(iii) any amendment, encumbrance, sale or other disposition of any Loan or Acquired Bond not in default or any restructuring or compromising of any Loan;

(iv) any use of Acquired Bond Redemption Receipts, Prepayments or Recovery Payments for any use other than purchase or redemption of Bonds or payment of scheduled debt service; or

(v) any material change in any operating policies or assumptions set forth in the most recent Cash Flow Certificate.

A Compliance Certificate with respect to any action is a certificate of an Authorized Representative stating that the action complies with the operating policies of the Authority as set forth in the then current Cash Flow Certificate.

A Cash Flow Certificate is a Certificate of an Authorized Representative stating that, as shown in the cash flow projections included in the Certificate and based upon the assumptions stated in the Certificate, there will at all times be available sufficient amounts in the Funds and Accounts, timely to pay all principal of and interest on the Bonds and make Derivative Payments under the assumptions stated in the Certificate for each set of then current cash flow scenarios. Except as provided in the Series Supplemental Indenture, a Cash Flow Certificate for Bonds that are not Subordinate Bonds need only show the sufficiency of amounts so as to pay debt service and to make Derivative Payments for Bonds that are not Subordinate Bonds. The Cash Flow

Certificate must include projections of the amounts available for payment of debt service on Bonds and of Derivative Payments under the assumptions stated in the Certificate for each then current cash flow scenario and the assumptions used in computing the projections.

The Cash Flow Certificate shall set forth various cash flow scenarios, that is, sets of stated assumptions including, without limitation, the following:

- (i) the timing and amounts of prepayments;
- (ii) the timing and amounts of the receipt of payments of scheduled principal of and interest on Loans and Acquired Bonds;
- (iii) the investment return on Funds and Accounts;
- (iv) availability of amounts in the Reserve Fund;
- (v) Expenses to be paid; and
- (vi) the form of any Supplemental Coverage.

The Cash Flow Certificate shall also include a set of operating policies setting forth rules or limitations to be followed with respect to discretionary activities of the Authority under the Indenture and Series Supplemental Indentures. Cash flow projections shall take into account the financial position of the Loans and Acquired Bonds as of the stated date of the projection, shall be consistent with the Indenture and the Series Supplemental Indentures and shall assume compliance with the operating policies set forth in the Cash Flow Certificate and the various Series Program Determinations.

A copy of each Cash Flow Certificate and Compliance Certificate filed with the Trustee shall also be provided to each Rating Agency prior to the Authority taking any of the actions for which a Cash Flow Certificate or Compliance Certificate is required as described in clauses (i) – (vi) above under the second paragraph of this caption and, for actions described in clause (ii) and (iii) above under the second paragraph of this caption at least ten days prior to taking such action.

Covenants Relating to Loans and Acquired Bonds

Notwithstanding any pledge, assignment or grant of a lien on or security interest in any Loan or Acquired Bonds, the Authority shall have the right, if no Event of Default exists, and covenants to enforce all its rights and obligations under and pursuant to the Loans and the Acquired Bonds as necessary to obtain payment of amounts to be paid to the Trustee as due and to comply with the Act and all covenants with regard to federal income taxation of interest on Bonds, and agrees that the Trustee, in the name of the Authority, upon an Event of Default, may enforce all rights of the Authority under and pursuant to the Loans and the Acquired Bonds for and on behalf of the Bondowners pursuant to the Indenture. The Trustee shall be under no obligation to service Loans itself, but shall use its best efforts at the expense of the Authority to obtain servicing for the Loans to the extent that the Authority informs the Trustee in writing, or the Trustee concludes upon an Event of Default, that the Authority is unable to perform or obtain such servicing.

Certain Other Covenants

Among other covenants made by the Authority in the Indenture are those related to the following matters:

Maintenance of Security. The Authority covenants that, except as otherwise expressly permitted by the Indenture as supplemented by Series Supplemental Indentures, it will not sell, convey, mortgage, encumber or otherwise dispose of the money or investments held for the credit of any Fund or Account created under the Indenture, or the Revenues.

Corporate Existence. The Authority shall at all times use its best efforts to maintain its corporate existence and to maintain, preserve and renew all its rights, powers, privileges and franchises, and it will comply with all valid acts, rules, regulations, orders and directions of any legislative, administrative or judicial body applicable to the Indenture and any Series Supplemental Indenture.

Books and Records. The Trustee shall keep proper books of record and account in which complete and correct entries shall be made of all transactions relating to the receipts, disbursements, allocations and applications of all money received by the Trustee under the Indenture, and such books shall be available for inspection by the Authority and any Bondowner during business hours, upon reasonable notice and under reasonable conditions. On or before the tenth Business Day of each month the Trustee shall furnish to the Authority a written statement of the Funds and Accounts held pursuant to the Indenture and any Series Supplemental Indenture. The Authority shall keep proper books of records and account for all its transactions, other than those recorded in the books maintained by the Trustee as described above, and such books shall be available for inspection by the Trustee and any Bondowner during business hours and upon reasonable notice.

Annual Audit. The Authority shall annually, within 120 days of the end of each Fiscal Year, file with the Trustee and each Rating Agency a copy of its audited financial statements for its previous Fiscal Year, accompanied by the related report of an Accountant.

Notice of an Event of Default. The Authority shall promptly notify the Trustee in writing of the occurrence of an Event of Default.

Defaults and Remedies

The Indenture declares each of the following events an “Event of Default”:

(a) payment of interest on or the principal or Redemption Price of any of the Bonds is not made when due and payable; or

(b) default in the due and punctual performance of any other covenants or agreements contained in the Bonds or in the Indenture or any Series Supplemental Indenture and such default continues for 90 days after written notice requiring the default to be remedied, has been given to the Authority by the Trustee. The Trustee may give such notice in its discretion and shall give such notice at the written request of the owners of not less than 25 percent in aggregate principal amount of Bonds then Outstanding. However, if such default can be remedied, so long as

following such notice the Authority is diligently taking actions to remedy such default, such default shall not be an Event of Default.

An Event of Default with respect to Subordinate Bonds is not an Event of Default on Bonds which are not Subordinate Bonds. For purposes of determining the percentages of Owners of Bonds as provided in the Indenture, only Bonds other than Subordinate Bonds shall be taken into account unless the Event of Default relates only to Subordinate Bonds in which case the percentage relates only to Subordinate Bonds. In the case of an Event of Default relating only to Subordinate Bonds any acceleration or other remedy shall relate only to Subordinate Bonds.

It shall not be an Event of Default for the Authority to fail to foreclose upon or otherwise to enforce its rights to payment under Loans to the extent the Authority applies other moneys (other than withdrawals from the Reserve Fund) sufficient to make all required payments due from the Debt Service Account.

Acceleration of Maturity. Upon the happening and continuance of any Event of Default under paragraph (a) above (except as may be limited in a Series Supplemental Indenture, as set forth in the last paragraph under “*Enforcement of Remedies*” below), then and in every such case the Trustee may and, subject to indemnification of the Trustee as described below, upon the written direction of the Owners of not less than 2/3 in aggregate principal amount of the Outstanding Bonds and receipt of indemnification satisfactory to the Trustee shall, by notice in writing to the Authority, declare the principal of all the Outstanding Bonds (if not then due and payable) to be due and payable immediately. Upon such declaration, the principal of all Outstanding Bonds shall become immediately due and payable, anything contained in the Bonds or in the Indenture to the contrary notwithstanding. However, if at any time after the principal of the Bonds shall have been so declared to be due and payable, and before the entry of final judgment or decree in any suit, action or proceeding instituted on account of such Event of Default, or before the completion of the enforcement of any other remedy under the Indenture, money shall have accumulated in the Debt Service Account sufficient to pay the principal of all matured Bonds and all arrears of interest, if any, upon all the Outstanding Bonds (except the principal and interest of any Bonds which have become due and payable by reason of such declaration and except the principal of any Bonds not then due and payable by their terms and the interest accrued on such Bonds since the last interest payment date), and the charges, compensation, expenses, disbursements, advances and liabilities of the Trustee and the Authority and all other amounts then payable by the Authority under the Indenture have been paid or a sum sufficient to make that payment has been deposited with the Trustee, and every other default known to the Trustee in the observance or performance of any covenant, condition or agreement or provision contained in the Bonds or in the Indenture (except a default in the payment of the principal of such Bonds then due and payable only because of a declaration under this paragraph) has been remedied to the satisfaction of the Trustee, then and in every such case the Trustee may, and upon the written request of the Owners of not less than 2/3 in aggregate principal amount of the Outstanding Bonds not then due and payable by their terms shall, by written notice to the Authority, rescind and annul such declaration and its consequences. No such rescission or annulment shall extend to or affect any subsequent default or impair any right consequent to it. If an Event of Default applies to Bonds other than Subordinate Bonds then any reference under this

subcaption to Bonds is to Bonds that are not Subordinate Bonds. If an Event of Default applies to Subordinate Bonds, then reference under this subcaption to Bonds is to Subordinate Bonds.

Enforcement of Remedies. Upon the happening and continuance of any Event of Default, then and in every such case the Trustee may, and upon the written direction of the Owners of not less than 25 percent in aggregate principal amount of the Outstanding Bonds shall proceed, subject to indemnification of the Trustee as described below, to protect and enforce its rights and the rights of the Bondowners under applicable laws or under the Indenture by such suits, actions or special proceedings in equity or at law, or by proceedings in the office of any board or officer having jurisdiction, either for the specific performance of any covenant or agreement contained in the Indenture or in aid or execution of any power granted in the Indenture or for the enforcement of any proper legal or equitable remedy, as the Trustee, being advised by counsel, deems most effectual to protect and enforce such rights.

In the enforcement of any remedy under the Indenture the Trustee is entitled (i) to sue for, enforce payment of and recover judgment for, in its own name as Trustee of an express trust, any and all amounts then or after any default becoming, and at any time remaining, due from the Authority for unpaid principal, premium, if any, interest or otherwise under any of the provisions of the Indenture or the Bonds, with, to the extent permitted by the applicable law, interest on overdue payments of principal of and interest at the rate or rates of interest specified in the Bonds, together with any and all costs and expenses of collection and of all proceedings under the Indenture and under the Bonds, without prejudice to any other right or remedy of the Trustee or of the Bondowners, and (ii) to recover and enforce any judgment or decree against the Authority, but solely as provided in the Indenture, the Series Supplemental Indenture and the Bonds, for any portion of such amounts remaining unpaid and interest, costs and expenses as above provided, and to collect, in any manner provided by law, the money adjudged or decreed to be payable.

Pro Rata Application of Funds

Notwithstanding anything in the Indenture to the contrary, if at any time the money in the Funds and Accounts (other than the Rebate Fund) maintained under the Indenture is not sufficient to pay the principal of or interest on the Bonds as they become due and payable (either by the terms of the Bonds or by acceleration of maturities as described above) such money, together with any money then or later available for such purpose, whether through the exercise of the remedies provided for in the Indenture or otherwise, shall be applied, following the satisfaction of any payments due to the Trustee under the indemnity provisions of the Indenture and payment of such Expenses as the Trustee concludes shall enhance the value of the Trust Estate, as follows:

(a) If the principal of all the Bonds (other than Subordinate Bonds) has not become or has not been declared due and payable, all such money shall be applied:

first: to the payment of all installments (except interest on overdue principal) of interest on Bonds, other than Subordinate Bonds, then accrued and unpaid in the chronological order in which such installments of interest accrued and, if the amount available is not sufficient to pay in full any particular installment, then to the payment,

ratably, according to the amounts due on such installment, on Bonds other than Subordinate Bonds, without any discrimination or preference except as to any difference in the respective rates of interest specified in the Bonds, other than Subordinate Bonds;

second: to the payment of the unpaid principal of any of the Bonds, other than Subordinate Bonds, which have become due and payable (except Bonds other than Subordinate Bonds called for redemption for the payment of which money is held pursuant to the provisions of the Indenture) in the order of their stated payment dates, with interest on the principal amount of such Bonds, other than Subordinate Bonds, at the respective rates specified in such Bonds from the respective dates upon which such Bonds, other than Subordinate Bonds, became due and payable, and, if the amount available is not sufficient to pay in full the principal of the Bonds, other than Subordinate Bonds, by their stated terms due and payable on any particular date together with such interest, then (1) to the payment first of such interest, ratably, according to the amount of such interest due on such date, and (2) to the payment of such principal, ratably, according to the amount of such principal due on such date, of Bonds, other than Subordinate Bonds, without any discrimination or preference except as to any difference in the respective rates of interest specified in the Bonds, other than Subordinate Bonds;

third: to the payment of the interest on and the principal of the Bonds, other than Subordinate Bonds, to the purchase and retirement of Bonds, other than Subordinate Bonds, and to the redemption of the Bonds, other than Subordinate Bonds, all in accordance with the provisions of the Indenture regarding redemption;

fourth: to the payment of interest (except interest on overdue principal) on Subordinate Bonds then accrued and unpaid in the chronological order in which such installments of interest accrued and, if the amount available is not sufficient to pay in full any particular installment, then to the payment, ratably, according to the amounts due on such installment, of Subordinate Bonds, without any discrimination or preference except as to any difference in the respective rates of interest specified in the Subordinate Bonds;

fifth: to the payment of the unpaid principal of any of the Subordinate Bonds which has become due and payable (except Subordinate Bonds called for redemption for the payment of which money is held pursuant to the provisions of the Indenture) in the order of their stated payment dates, with interest on the principal amount of such Subordinate Bonds at the respective rates specified in such Subordinate Bonds from the respective dates upon which such Subordinate Bonds became due and payable, and, if the amount available is not sufficient to pay in full the principal of the Subordinate Bonds by their stated terms due and payable on any particular date, together with such interest, then to the payment first of such interest, ratably, according to the amount of such interest due on such date on such Subordinate Bonds, and then to the payment of such principal, ratably, according to the amount of such principal due on such date, of Subordinate Bonds, without any discrimination or preference except as to any difference in the respective rates of interest specified in the Subordinate Bonds;

sixth: to the payment of the interest on and the principal of the Subordinate Bonds, to the purchase and retirement of Subordinate Bonds and to the redemption of Subordinate Bonds.

(b) If the principal of all the Bonds has become or has been declared due and payable, all such money shall be applied first, to the payment of the principal and premium, if any, and interest then accrued and unpaid upon the Bonds which are not Subordinate Bonds, without preference or priority of principal over interest or of interest over principal, or of any daily accrual of interest over any other daily accrual of interest, or of any Bond which is not a Subordinate Bond over any other Bond which is not a Subordinate Bond, ratably, according to the amounts due respectively for principal and interest, without any discrimination or preference except as to the respective rates of interest specified in the Bonds which are not subordinated Bonds, and second, to the payment of the principal and premium, if any, and interest then accrued and unpaid upon the Subordinate Bonds, without preference or priority of principal over interest or of interest over principal, or of any daily accrual of interest over any other daily accrual of interest, or of any Subordinate Bond over any other Subordinate Bond, ratably, according to the amounts due respectively for principal and interest, without any discrimination or preference except as to the respective rates of interest specified in the Subordinate Bonds.

(c) If the principal of all the Bonds has been declared due and payable and if such declaration has been rescinded and annulled as described above under the subcaption "*Acceleration of Maturity*," then, subject to the provisions of subparagraph (b) above, if the principal of all the Bonds later becomes or is declared to be due and payable, the money remaining in and later accruing to the Debt Service Account, any Subordinate Bond Debt Service Account of the Revenue Fund and the Reserve Fund, together with any other money held by the Trustee under the Indenture, shall be applied in accordance with the provisions of subparagraph (a) above.

The provisions of subparagraphs (a), (b) and (c) above are in all respects subject to the provisions of the Indenture that provides that neither the Trustee nor the Authority shall consent or agree directly or indirectly to extend the time for payment of the interest on any Bond. In case the time for the payment of the interest of any Bond shall be extended, whether or not such extension be by or with the consent of the Authority, such interest so extended shall not be entitled in case of default under the Indenture to the benefit or security of the Indenture unless the principal of and interest on all Outstanding Bonds (the time for the payment of interest which has not been extended) is paid in full.

Restrictions Upon Actions by Individual Bondowner

No Owner of any of the Bonds shall have any right to institute any suit, action or proceeding in equity or at law on any Bond or to enforce the Indenture or any Series Supplemental Indenture unless such Owner previously has given to the Trustee written notice of the Event of Default on account of which such suit, action or proceeding is to be instituted, and unless also the Owners of not less than 15 percent in aggregate principal amount of the Bonds then Outstanding (other than Subordinate Bonds) have made written request of the Trustee after the right to exercise such powers or right of action, as the case may be, has accrued, and have afforded the Trustee a reasonable opportunity either to proceed to exercise the powers granted by

the Indenture or to institute such action, suit or proceeding in its or their name, and unless, also, there shall have been offered to the Trustee reasonable security and indemnity against the costs, expenses and liabilities to be incurred as a result, and the Trustee has refused or neglected to comply with such request within a reasonable time. Such notification, request and offer of indemnity are declared in every such case, at the option of the Trustee, to be conditions precedent to the execution of the powers and trusts of the Indenture or to any other remedy under it. However, notwithstanding the foregoing described provision, the Owners of not less than 25 percent in aggregate principal amount of the Bonds then Outstanding may institute any such suit, action or proceeding in their own names for the benefit of all Owners of Bonds. Except as otherwise above provided, no one or more Owners of the Bonds secured by the Indenture shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the Indenture, or to enforce any right under it except in the manner provided in the Indenture. All suits, actions and proceedings at law or in equity shall be instituted and maintained in the manner provided and for the benefit of all Owners of such Outstanding Bonds. Any individual right of action or other right given to one or more of such Owners by law is restricted by the Indenture to the rights and remedies provided.

Notwithstanding the foregoing described provision, nothing shall affect or impair the right of any Bondowner to enforce the payment of the principal of and interest on that Owner's Bond, or obligation of the Authority to pay the principal of and interest on each Bond to its Owner at the time and place expressed in such Bond.

Limitations on Remedies for Series of Bonds

A Series Supplemental Indenture authorizing a Series of Bonds that are subject to bond insurance may provide limitations on remedies available with respect to those Bonds including, without limitation, acceleration of their maturity, without the consent of the bond insurer and may give the bond insurer rights of Owners of those Bonds with respect to remedies. See "Bond Insurer Provisions" below for certain information regarding the Authority's covenants to the Bond Insurer with respect to the Offered Bonds.

Trustee Entitled to Indemnity

The Trustee shall be under no obligation to institute any suit, or to take any remedial proceeding under the Indenture, or to enter any appearance or in any way defend in any suit in which it may be named as a defendant, or to take any steps in the execution of the trusts created or in the enforcement of any rights and powers, until it is indemnified to its satisfaction against any and all costs and expenses, outlays and counsel fees and other reasonable disbursements, and against all liability, including, but not limited to, any liability arising directly or indirectly under any federal, state or local statute, rule, law or ordinance related to the protection of the environment or hazardous substances and except liability which is adjudicated to have resulted from its negligence or willful default in connection with any action so taken. The Trustee may, nevertheless, begin suit, or appear in and defend suit, or do anything else in its judgment proper to be done by it as such Trustee, without indemnity. In such case the Authority shall reimburse the Trustee for all costs and expenses, outlays and counsel fees and other reasonable disbursements properly incurred in connection with such action.

Limitation of Obligations and Responsibilities of Trustee

The Trustee shall be under no obligation (i) to effect or maintain insurance or to renew any policies of insurance or to inquire as to the sufficiency of any policies of insurance carried by the Authority, (ii) to report, or make or file claims or proof of loss for, any loss or damage insured against or which may occur or (iii) to keep itself informed or advised as to the payment of any taxes or assessments, or to require any such payment to be made. The Trustee shall be under no obligation to record or file the Indenture, or any other security instruments and financing statements, or continuation statements with respect to it, except pursuant to directions from the Authority, in form and substance satisfactory to the Trustee, set forth in an Authority Request. The Trustee and the Master Paying Agent shall have no responsibility in respect of the validity, sufficiency, due execution or acknowledgment by the Authority of the Indenture, or in respect of the validity of the Bonds or their due execution or issuance. The Trustee shall be under no obligation to see that any duties imposed upon the Authority or any party other than itself, or any covenants on the part of any party other than itself to be performed, are done or performed, and the Trustee shall be under no obligation for failure to see that any such duties or covenants are so done or performed. The Trustee and the Master Paying Agent may execute any of the trusts or powers of the Indenture and perform any of its duties by or through attorneys, agents, receivers or employees but shall be answerable for the conduct of the same in accordance with the standard specified above and the Trustee and the Master Paying Agent shall be entitled to advice of counsel concerning all matters of trusts and duties under the Indenture, and may pay reasonable compensation to any lawyer or agent retained by it under the Indenture. The Trustee and the Master Paying Agent may act upon the opinion or advice of an attorney, surveyor, engineer or accountant selected by it in the exercise of reasonable care or, if selected or retained by the Authority, approved by the Trustee in the exercise of such care. The Trustee and the Master Paying Agent shall not be responsible for any loss or damage resulting from any action or nonaction based on its good faith reliance upon such opinion or advice.

Compensation and Indemnification of Trustee

Subject to the provisions of any contract between the Authority and the Trustee relating to the compensation of the Trustee, the Authority shall pay, from the Trust Estate, to the Trustee reasonable compensation for all services performed by it and also all its reasonable expenses, charges and other disbursements and those of its attorneys, agents and employees incurred in and about the administration and execution of the trusts created and the performance of its powers and duties, and from such source only, shall indemnify and save the Trustee harmless against any liabilities, losses, damages, costs and expenses (including attorney's fees and expenses of the Trustee), causes of action, suits, claims, demands and judgments of any kind and nature which it may incur in the exercise and performance of its powers and duties. Payment of compensation for the Master Paying Agent shall be by separate agreement.

Resignation and Removal of Trustee

No resignation or removal of the Trustee or the Master Paying Agent and no appointment of a successor Trustee pursuant to the Indenture shall become effective until the acceptance of appointment by the successor Trustee. Subject to the foregoing, the Trustee may resign and thereby become discharged from the trusts, by notice in writing to be given to the Authority and

mailed, first class, postage prepaid, to all Registered Owners of Bonds at their addresses as they appear on the registration books kept by the Trustee, not less than 60 days before such resignation is to take effect, but such resignation shall take effect immediately upon the appointment of a new Trustee, if such new Trustee is appointed before the time limited by such notice and then accepts the trusts. No resignation of the Trustee shall be effective if an Event of Default, or any event which upon the passage of time would be an Event of Default, has occurred and is continuing except upon the consent of Owners of a majority in principal amount of the Outstanding Bonds.

Subject to the first sentence of the prior paragraph, the Trustee may be removed at any time by an instrument or concurrent instruments in writing executed by the Owners of not less than a majority in principal amount of the Outstanding Bonds (other than Subordinate Bonds) and filed with the Authority. A facsimile copy of each such instrument must be delivered promptly by the Authority to the Trustee. The Trustee may also be removed at any time for reasonable cause by any court of competent jurisdiction upon the application of Owners of not less than ten percent in aggregate principal amount of the Outstanding Bonds (other than Subordinate Bonds). The Trustee may be removed at any time by the Authority if an Event of Default, or any event which upon the passage of time would be an Event of Default, has not occurred and is continuing.

Appointment of Successor Trustee

If at any time the Trustee resigns, is removed, dissolved or otherwise becomes incapable of acting, or the bank or trust company acting as Trustee is taken over by any governmental official, agency, department or board, the Authority shall appoint a successor and shall cause notice of such appointment to be mailed, first class, postage prepaid, to all registered Owners of Bonds at their addresses as they appear on the registration books kept by the Trustee. At any time within one year after any such resignation, removal, dissolution or incapacity has occurred, the owners of a majority in principal amount of the Outstanding Bonds (other than Subordinate Bonds), by an instrument or concurrent instruments in writing, executed by such Bondowners and filed with the Authority, may appoint a successor Trustee, which will supersede any Trustee appointed by the Authority prior to that filing. Facsimile copies of each such instrument will be delivered promptly by the Authority to the predecessor Trustee and to the Trustee so appointed by the Bondowners. If no appointment of a successor Trustee is made as described under this subcaption within ten days after the vacancy has occurred, the Owner of any Outstanding Bond or any retiring Trustee may apply to any court of competent jurisdiction to appoint a successor Trustee. Such court may, after such notice, if any, as such court may deem proper and prescribed, appoint a successor Trustee. Any Trustee appointed under the Indenture must be a bank or trust company having a principal corporate trust office in the State, duly authorized to exercise corporate trust powers and subject to examination by federal or State authority, of good standing, and having at the time of its appointment a combined capital and surplus aggregating not less than \$45 million, as shown on its most recently published report of its financial condition.

Master Paying Agent

The Indenture provides that a Master Paying Agent may be appointed. During such time as there is a Master Paying Agent (i) the Master Paying Agent shall perform all duties of the Trustee under the Indenture with respect to the authentication, registration, transfer, exchange, and delivery of Bonds, the disposition of Bonds upon payment and the payment to Bondowners of principal and redemption price of and interest on Bonds, and (ii) all references in the Indenture and the Official Statement to the Trustee with regard to any such duties shall refer instead to the Master Paying Agent and in that regard reference to an office of the Trustee shall refer instead to the comparable office of the Master Paying Agent. The Trustee and Master Paying Agent shall cooperate to carry out their respective duties under the Indenture and each shall provide the other with copies of all notices, reports and information necessary to the other.

Successor Master Paying Agent

The Master Paying Agent may at any time resign and be discharged of the duties and obligations created by the Indenture by giving at least 120 days' written notice to the Authority and the Trustee. The Master Paying Agent may be removed at any time by an instrument filed with it and the Trustee and signed by an Authorized Officer of the Authority. Any successor Master Paying Agent shall be appointed by the Authority and shall be a bank or trust company organized under the laws of any state of the United States or a national banking association, having a capital and surplus aggregating at least \$5 million and willing and able to accept the office of Master Paying Agent on reasonable and customary terms and authorized by law to perform all the duties imposed upon it by the Indenture.

Modifications of Resolutions and Outstanding Bonds

The Indenture provides procedures pursuant to which the Authority may amend the Indenture or any Series Supplemental Indenture by adoption of a Supplemental Indenture.

The Authority and the Trustee may, from time to time and at any time, enter into Supplemental Indentures:

- (a) to authorize the issuance of a Series of Bonds; or
- (b) to cure any ambiguity or defect or omission in the Indenture; or
- (c) to grant to or confer upon the Trustee for the benefit of the Bondowners any additional rights, remedies, powers, authority or security that may lawfully be granted to or conferred upon the Bondowners or the Trustee; or
- (d) to include as Revenues or in the Trust Estate any additional amounts, receipts or property; or
- (e) to cure any ambiguity, to correct or supplement any provision which may be inconsistent with any other provision, or to make any other provisions with respect to matters or questions arising under the Indenture which are not inconsistent with the

provisions of the Indenture, provided such action shall not materially adversely affect the interest of the Bondowners; or

(f) to add to the covenants and agreements of the Authority in the Indenture additional covenants and agreements to be observed by the Authority or to surrender any right or power reserved to or conferred upon the Authority; or

(g) to modify any of the provisions of the Indenture in any respect whatever not otherwise set forth in clauses (a) - (l) of this paragraph, provided (i) such modification shall apply only to Series of Bonds issued after the effective date of the Supplemental Indenture and shall not materially adversely affect the interests of the owners of Bonds of any Series Outstanding on the effective date of the Supplemental Indenture or (ii) (A) such modification 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 (B) such Supplemental Indenture shall be specifically referred to in the text of all Bonds of any Series authenticated and delivered after the date of the adoption of such Supplemental Indenture and of Bonds issued in exchange for, or in place of, such Bonds; or

(h) to modify, amend or supplement the Indenture or any Supplemental Indenture in such manner as to permit, if presented, the qualification of the Indenture and any Supplemental Indenture under the Trust Indenture Act of 1939 or any similar federal statute then in effect or under any state Blue Sky Law; or

(i) to surrender any right, power or privilege reserved to or conferred upon the Authority by the terms of the Indenture, provided that the surrender of such right, power or privilege is not contrary to or inconsistent with the covenants and agreements of the Authority contained in the Indenture or a Series Supplemental Indenture; or

(j) to add to the definition of "Permitted Investments" pursuant to the last proviso of that definition; or

(k) to modify, amend or supplement the Indenture or any Supplemental Indenture in such manner as to permit a trustee (other than the Trustee) with respect to any Subordinate Bonds issued under the Indenture; or

(l) to make any other change which, in the judgment of the Trustee, does not materially adversely affect the interests of the Bondowners.

The Indenture and any Series Supplemental Indenture may be modified, supplemented or amended by a Supplemental Indenture in ways not described above, as set forth below. No such Supplemental Indenture shall be effective except upon the consent of (i) the Owners of greater than 50 percent in aggregate principal amount of Outstanding Bonds (other than Subordinate Bonds); (ii) if less than all of the Outstanding Bonds are affected, the Owners of greater than 50 percent in principal amount of Bonds then Outstanding, other than Subordinate Bonds, so affected and, if Subordinate Bonds are affected, 50 percent of the aggregate principal amount of the Subordinate Bonds so affected; and (iii) in case the terms of any Sinking Fund Installments are changed, the Owners of greater than 50 percent in principal amount of the Outstanding Bonds

of the particular Series and maturity entitled to such Sinking Fund Installments. However, without the consent of all adversely affected Bondowners, no Supplemental Indenture shall (a) change the terms of redemption or of the maturity of the principal of or the interest on any Bond, or (b) reduce the principal amount of any Bond or the redemption premium or the rate of interest on it, or (c) create or grant a pledge, assignment, lien or security interest of the Trust Estate, or any part of it, other than as created or permitted by the Indenture without the Supplemental Indenture, or (d) create a preference or priority of any Bond or Bonds over any other Bond or Bonds, except as may be permitted by the Indenture or (e) reduce the aggregate principal amount or classes of the Bonds required for consent to such Supplemental Indenture. If any such modification, supplement or amendment will by its terms, not take effect so long as any Bonds of any specified Series and maturity remain Outstanding, the consent of the Owners of those Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Bonds under this paragraph. For the purpose of this paragraph, a Series shall be deemed to be affected by a modification or amendment of the Indenture if it adversely affects or diminishes the rights of the Owner of Bonds of such Series. The Trustee may in its discretion determine whether Bonds of any particular Series and maturity would be affected by any modification, supplement or amendment of the Indenture or a Supplemental Indenture and any such determination shall be binding and conclusive on the Authority and all Owners of Bonds.

Defeasance

If the Authority pays or causes to be paid, or there is otherwise paid, to the Registered Owners of the Bonds then Outstanding, the principal, Redemption Price, if any, and interest to become due on them, at the times and in the manner stipulated in the Indenture and in the Series Supplemental Indentures, then the covenants, agreements and other obligations of the Authority to the Registered Owners of the Bonds shall be discharged and satisfied. In such event, the Trustee shall pay over or deliver to the Authority all money or securities held by it pursuant to the Indenture which are no longer required for the payment or redemption of Bonds not already then surrendered for such payment or redemption and shall assign, transfer and convey to the Authority all its interest in Acquired Bonds and Loans.

Bonds for the payment or redemption of which money has been set aside and held in trust by the Trustee or the related Master Paying Agent (through deposit by the Authority of funds for such payment or redemption or otherwise), whether at or prior to the maturity or the redemption date of such Bonds, shall be deemed to have been paid within the meaning of and with the effect expressed above. All Bonds shall, prior to their maturity or redemption date, be deemed to have been paid within the meaning of and with the effect expressed above if: (i) there is deposited with such Trustee or Master Paying Agent either money in an amount which is sufficient, or Government Obligations the principal of and interest on which when due will provide money which, without reinvestment, when added to the money, if any, deposited with such Trustee or Master Paying Agent at the same time, is sufficient to pay the principal of those Bonds at maturity, or on sinking fund installment dates for Term Bonds, or the principal, redemption premium, if any, and interest due and to become due on those Bonds on and prior to the redemption date or maturity date (or sinking fund installment dates for Term Bonds) of the Bonds, as the case may be; (ii) there is deposited with the Trustee a report of an Accountant verifying the sufficiency of the deposit; (iii) in case any of the Bonds are to be redeemed on any

date prior to their maturity, the Authority has given to the Trustee(s) or Master Paying Agent(s) irrevocable instruction to give any required notice of redemption, which instruction the Trustee or Master Paying Agent has accepted in writing; and (iv) the Authority has received a Bond Counsel Opinion to the effect that the defeasance of the Bonds shall not cause interest on the tax-exempt Bonds to be included in “gross income” of the Registered Owners for federal income tax purposes if the Authority has covenanted in the Series Supplemental Indenture not to take such action.

Upon being defeased as provided above, Bonds shall continue to be payable as to principal, interest and redemption premium and to be subject to redemption, but shall have a claim for payment only with respect to the money or Governmental Obligations so held by the Trustee. The Authority may enter into an escrow agreement with the Trustee providing for funds to be so held.

Government Obligations, money deposited with the Trustee as described under this subcaption and principal or interest payments of any such Government Obligations shall not be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal (at maturity or pursuant to Sinking Fund Installments), Redemption Price, if any, and interest on those Bonds, provided that any cash received from such principal or interest payments on such Government Obligations, if not then needed for such purpose, shall, to the extent practicable, be reinvested in Government Obligations maturing at times and in principal amounts sufficient to pay when due the principal, redemption premium, if any, and interest to become due on those Bonds on and prior to such redemption date or maturity date of the Bonds, as the case may be.

Bond Insurer Provisions – Supplemental Indenture

For so long as the Policy is in full force and effect, the Authority will comply with the following provisions relating to the Offered Bonds:

(i) The Bond Insurer shall be deemed to be the sole holder of the Offered Bonds insured by the Bond Insurer (the “Insured Bonds”) for the purpose of exercising any voting right or privilege or giving any consent or direction or taking any other action that the holders of the Insured Bonds are entitled to take relating to defaults and remedies under the Indenture (see “Defaults and Remedies” above) and relating to the duties and obligations of the Trustee.

(ii) The maturity of Insured Bonds shall not be accelerated without the prior consent of the Bond Insurer and in the event the maturity of the Insured Bonds is accelerated, the Bond Insurer may elect, in its sole discretion, to pay accelerated principal and interest accrued or accreted, as applicable, on such principal to the date of acceleration (to the extent unpaid by the Authority) and the Trustee shall be required to accept such amounts. Upon payment of such accelerated principal and interest accrued or accreted, as applicable to the acceleration date as provided above, the Bond Insurer's obligations under the Policy with respect to such Insured Bonds shall be fully discharged.

(iii) No grace period for a covenant default shall exceed 30 days, nor be extended for more than 60 days, without the prior written consent of the Bond Insurer. No grace period shall be permitted for payment defaults.

(iv) Unless the Bond Insurer otherwise directs, upon the occurrence and continuance of an Event of Default under the Indenture or the occurrence and continuance of an event which with notice or lapse of time or both would constitute an Event of Default under the Indenture, amounts on deposit in the Program Fund shall not be disbursed but shall instead be applied to the payment of debt service or redemption price of the Insured Bonds.

(v) Any exercise by the Bond Insurer of any rights is merely an exercise of the Bond Insurer's contractual rights and shall not be construed or deemed to be taken for the benefit or on behalf of the Bondholders nor does such action evidence any position of the Bond Insurer, positive or negative, as to whether Bondholder consent is required in addition to consent of the Bond Insurer.

(vi) Claims Upon the Policy and Payments by and to the Bond Insurer:

If, on the third Business Day prior to the related scheduled interest payment date or principal payment date ("Payment Date") there is not on deposit with the Trustee, after making all transfers and deposits required under the Indenture, moneys sufficient to pay the principal of and interest on the Insured Bonds due on such Payment Date, the Trustee shall give notice to the Bond Insurer and to its designated agent (if any) (the "Insurer's Fiscal Agent") by telephone or telecopy of the amount of such deficiency by 12:00 noon, New York City time, on such Business Day. If, on the second Business Day prior to the related Payment Date, there continues to be a deficiency in the amount available to pay the principal of and interest on the Insured Bonds due on such Payment Date, the Trustee shall make a claim under the Policy and give notice to the Bond Insurer and the Insurer's Fiscal Agent (if any) by telephone of the amount of such deficiency, and the allocation of such deficiency between the amount required to pay interest on the Insured Bonds and the amount required to pay principal of the Insured Bonds, confirmed in writing to the Bond Insurer and the Insurer's Fiscal Agent by 12:00 noon, New York City time, on such second Business Day by filling in the form of Notice of Claim and Certificate delivered with the Insurance Policy.

In the event the claim to be made is for a mandatory sinking fund redemption installment, upon receipt of the moneys due, the Trustee shall authenticate and deliver to affected Bondholders who surrender their Insured Bonds a new Bond or Bonds in an aggregate principal amount equal to the unredeemed portion of the Insured Bond surrendered. The Trustee shall designate any portion of payment of principal on Insured Bonds paid by the Bond Insurer, whether by virtue of mandatory sinking fund redemption, maturity or other advancement of maturity, on its books as a reduction in the principal amount of Insured Bonds registered to the then current Bondholder, whether DTC or its nominee or otherwise, and shall issue a replacement Bond to the Bond Insurer, registered in the name of Financial Security Assurance Inc., in a principal amount equal to the amount of principal so paid (without regard to authorized denominations); provided that the Trustee's failure to so designate any payment or issue any replacement Bond shall have no effect on the amount of principal or interest payable by the Authority on any Insured Bond or the subrogation rights of the Bond Insurer.

The Trustee shall keep a complete and accurate record of all funds deposited by the Bond Insurer into the Policy Payments Account (defined below) and the allocation of such funds to payment of interest on and principal paid in respect of any Insured Bond. The Bond Insurer shall have the right to inspect such records at reasonable times upon reasonable notice to the Trustee.

Upon payment of a claim under the Policy, the Trustee shall establish a separate special purpose trust account for the benefit of Bondholders referred to herein as the "Policy Payments Account" and over which the Trustee shall have exclusive control and sole right of withdrawal. The Trustee shall receive any amount paid under the Policy in trust on behalf of Bondholders and shall deposit any such amount in the Policy Payments Account and distribute such amount only for purposes of making the payments for which a claim was made. Such amounts shall be disbursed by the Trustee to Bondholders in the same manner as principal and interest payments are to be made with respect to the Insured Bonds under the sections hereof regarding payment of Insured Bonds. It shall not be necessary for such payments to be made by checks or wire transfers separate from the check or wire transfer used to pay debt service with other funds available to make such payments.

Notwithstanding anything to the contrary otherwise set forth in the Indenture, and to the extent permitted by law, in the event amounts paid under the Policy are applied to claims for payment of principal of or interest on the Insured Bonds, interest on such principal of and interest on such Insured Bonds shall accrue and be payable from the date of such payment at the greater of (i) the per annum rate of interest, publicly announced from time to time by J.P. Morgan Chase Bank or its successor at its principal office in the City of New York, as its prime or base lending rate plus 3%, and (ii) the then applicable rate of interest on the Insured Bonds, provided that in no event shall such rate exceed the maximum rate permissible under applicable usury or similar laws limiting interest rates.

(vii) The Bond Insurer shall, to the extent it makes any payment of principal of or interest on the Insured Bonds, become subrogated to the rights of the recipients of such payments in accordance with the terms of the Policy. The obligations to the Bond Insurer shall survive discharge or termination of the Indenture or any other transaction documents including any underlying security agreement.

(viii) After payment of reasonable expenses of the Trustee, the application of funds realized upon default shall be applied to payment of expenses of the Authority or rebate only after the payment of debt service due and past due on the Insured Bonds, together with replenishment of the Reserve Fund.

(ix) The Bond Insurer shall be entitled to pay principal or interest on the Insured Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Authority (as such terms are defined in the Policy) and any amounts due on the Insured Bonds as a result of acceleration of the maturity thereof in accordance with the Indenture, whether or not the Bond Insurer has received a Notice of Nonpayment (as such terms are defined in the Policy) or a claim upon the Policy.

(x) In determining whether any amendment, consent or other action to be taken, or any failure to act, under the Indenture would adversely affect the security for the Insured Bonds or

the rights of the Bondholders, the Trustee shall consider the effect of any such amendment, consent, action or inaction as if there were no Policy.

TAX MATTERS

Summary of Bond Counsel Opinion

In the opinion of Schiff Hardin LLP, Bond Counsel, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest on the Offered Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Code, except that no opinion is expressed as to such exclusion of interest on any Offered Bond for any period during which the Offered Bond is held by a person who, within the meaning of Section 147(a) of the Code, is a “substantial user” of the facilities financed with the proceeds of the Offered Bonds or a “related person.” The interest on the Offered Bonds is treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code. In rendering its opinion, Bond Counsel will rely on certain representations, certifications of fact, and statements of reasonable expectations made by the Authority in connection with the Offered Bonds, and Bond Counsel will assume compliance by the Authority and the borrowers, CT Associates and Decatur Properties, with certain ongoing covenants to comply with applicable requirements of the Code assure the exclusion of interest on the Offered Bonds from gross income under Section 103 of the Code.

In addition, in the opinion of Bond Counsel, under existing statutes, interest on the Offered Bonds is exempt from Illinois income tax.

Bond Counsel will express no opinion regarding any other Federal or state tax consequences with respect to the Offered Bonds. Bond Counsel will render its opinion under existing statutes and court decisions as of the issue date, and will assume no obligation to update its opinion after the issue date to reflect any future action, fact or circumstance, or change in law or interpretation, or otherwise. Bond Counsel will express no opinion on the effect of any action hereafter taken or not taken in reliance upon an opinion of other counsel on the exclusion from gross income for Federal income tax purposes of interest on the Offered Bonds, or under state and local tax law.

Summary of Certain Federal Tax Requirements

Under applicable provisions of the Code, the exclusion from gross income of interest on the Offered Bonds for purposes of Federal income taxation requires that (i) at least 40 percent of the units in the Development financed by the Offered Bonds be occupied during the “Qualified Project Period” (as defined below) by individuals whose incomes, determined in a manner consistent with Section 8 of the United States Housing Act of 1937, as amended, do not exceed 60 percent of the median income for the area, and (ii) all of the units of the Development be rented or available for rental on a continuous basis during the Qualified Project Period. “Qualified Project Period” for a Development means a period commencing upon the later of (a) occupancy of ten percent of the units in the Development, or (b) the date of issue of the Offered Bonds and running until the later of (i) the date which is 15 years after occupancy of 50 percent of the units in the Development, (ii) the first date on which no tax-exempt private activity bonds

issued with respect to that Development are outstanding, or (iii) the first date on which any assistance provided with respect to the Development under section 8 of the United States Housing Act of 1937 terminates.

In the event of noncompliance with the above requirements arising from events occurring after the issuance of the Offered Bonds, the Treasury Regulations provide that the exclusion of interest on the Offered Bonds from gross income for Federal income tax purposes will not be impaired if the applicable borrower takes appropriate corrective action within a reasonable period of time after such noncompliance is first discovered or should have been discovered by such borrower.

The Code establishes certain additional requirements which must be met subsequent to the issuance and delivery of the Offered Bonds in order that interest on the Offered Bonds be and remain excluded from gross income under Section 103 of the Code. These requirements include, but are not limited to, requirements relating to the use and expenditure of the proceeds of the Offered Bonds, yield and other limits regarding investment of the proceeds of the Offered Bonds and other funds, and rebate of certain investment earnings on such amounts on a periodic basis to the United States.

The borrowers must agree to at all times do and perform all acts and things permitted by law necessary or desirable in order to assure that interest paid on the Offered Bonds shall be excluded from gross income for Federal income tax purposes. In furtherance thereof, each of the borrowers will enter into a regulatory agreement with the Authority to assure compliance with the Code. However, no assurance can be given that in the event of a breach of any such covenants, or noncompliance with the procedures or certifications set forth therein, the remedies available to the applicable borrower and/or Offered Bond owners can be judicially enforced in such manner as to assure compliance with the above-described requirements and therefore to prevent the loss of the exclusion of interest from gross income for Federal income tax purposes. Any loss of such exclusion of interest from gross income may be retroactive to the date from which interest on the Offered Bonds is payable.

Certain Collateral Federal Tax Consequences

The following is a brief discussion of certain collateral Federal income tax matters with respect to the Offered Bonds. It does not purport to address all aspects of Federal taxation that may be relevant to a particular owner of an Offered Bond. Prospective investors, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the Federal tax consequences of owning and disposing of the Offered Bonds.

As noted above, interest on the Offered Bonds is a preference item in determining the tax liability of individuals and corporations subject to the Federal alternative minimum tax imposed by Section 55 of the Code. In addition, interest on the Offered Bonds must be taken into account in determining the tax liability of foreign corporations subject to the branch profits tax imposed by Section 884 of the Code.

Prospective owners of the Offered Bonds should be aware that the ownership of Offered Bonds may result in collateral Federal income tax consequences to various categories of persons,

such as corporations (including S Corporations and foreign corporations), financial institutions, property and casualty and life insurance companies, individual recipients of Social Security and railroad retirement benefits, and individuals otherwise eligible for the earned income tax credit, and taxpayers deemed to have incurred or continued indebtedness to purchase or carry obligations the interest on which is not included in gross income for Federal income tax purposes.

Original Issue Discount

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

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

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

Bond Premium

In general, if an owner acquires a Bond for a purchase price (excluding accrued interest) or otherwise at a tax basis that reflects a premium over the sum of all amounts payable on the Bond after the acquisition date (excluding certain “qualified stated interest” that is unconditionally payable at least annually at prescribed rates), that premium constitutes “bond premium” on that Bond (a “Premium Bond”). In general, under Section 171 of the Code, an owner of a Premium Bond must amortize the bond premium over the remaining term of the Premium Bond, based on the owner’s yield over the remaining term of the Premium Bond, determined based on constant yield principles. An owner of a Premium Bond must amortize the bond premium by offsetting the qualified stated interest allocable to each interest accrual period under the owner’s regular method of accounting against the bond premium allocable to that

period. In the case of a tax-exempt Premium Bond, if the bond premium allocable to an accrual period exceeds the qualified stated interest allocable to that accrual period, the excess is a nondeductible loss. Under certain circumstances, the owner of a Premium Bond may realize a taxable gain upon disposition of the Premium Bond even though it is sold or redeemed for an amount less than or equal to the owner's original acquisition cost. Owners of any Premium Bonds should consult their own tax advisors regarding the treatment of bond premium for Federal income tax purposes, including various special rules relating thereto, and state and local tax consequences, in connection with the acquisition, ownership, amortization of bond premium on, sale, exchange, or other disposition of Premium Bonds.

Possible Government Action

Legislation affecting municipal bonds is regularly under consideration by the United States Congress. In addition, the Internal Revenue Service has established an expanded audit program for tax-exempt bonds. There can be no assurance that legislation enacted or proposed or an audit initiated by the Internal Revenue Service involving either the Offered Bonds or other tax-exempt bonds after the date of issuance of the Offered Bonds will not have an adverse effect on the tax-exempt status or the market price of the Offered Bonds.

Proposed Regulations: Change in Form of Bond Counsel Opinion

The U.S. Department of the Treasury has proposed modifications to Circular 230, which sets forth regulations governing the practice of attorneys and other tax advisors before the Internal Revenue Service. The proposed modified regulations (the "Proposed Regulations") impose certain mandatory requirements which must be met in connection with opinions relating to tax shelters. The Proposed Regulations revise the definition of tax shelter and eliminate an exclusion to such definition for municipal bonds that is contained in existing regulations; thus, the regulations relating to tax shelter opinions may be applicable to opinions delivered in connection with tax-exempt obligations. As proposed, the Proposed Regulations will apply to opinions delivered on or after the date the final regulations are published in the Federal Register, which could occur prior to delivery of the opinion relating to the Offered Bonds.

If the final regulations are adopted in their present form and are applicable to Bond Counsel's opinion relating to the Offered Bonds, Bond Counsel expects to deliver an opinion which conforms to the requirements of Circular 230 and which contains the same overall conclusion with respect to the exclusion of interest on the Offered Bonds from federal gross income as described above; however, certain additional matters will be discussed in the opinion in order to comply with the requirements of the tax shelter regulations, as described below.

First, such a revised opinion will provide that Bond Counsel has concluded, based on its review of the relevant facts and law and after consideration of the representations and covenants of the Authority and others including the Borrowers, that subject to compliance by the Authority and the Borrowers with their respective obligations relating to the Offered Bonds and the Developments, that there is no federal tax issue for which the Internal Revenue Service has a reasonable basis for a successful challenge and the resolution of which could have a significant adverse impact under any reasonably foreseeable circumstance on the opinion regarding the exclusion of interest on the Offered Bonds from income for federal tax purposes. Second, such a

revised opinion will provide that the opinion set forth therein with respect to federal tax matters may not be sufficient for a Bondholder to use for the purpose of avoiding penalties relating to a substantial understatement of income tax under section 6662(d) of the Code and will further provide that Bondholders should seek advice based on their individual circumstances with respect to any material federal tax issue relating to the Offered Bonds from their own tax advisors. Last, such revised opinion would note that Bond Counsel's fee will be paid by the Authority and, though Bond Counsel is engaged from time to time to serve as counsel for underwriters and market participants, including the underwriters of the Offered Bonds, there is no referral agreement or other arrangement between Bond Counsel (or any of its attorneys) and any other person with respect to the promoting, marketing, recommending and sale of the Offered Bonds. There can be no assurance that the market value of the Offered Bonds will not be adversely affected if the opinion of Bond Counsel delivered at the time of issuance of the Offered Bonds includes a discussion of the additional matters described in the preceding paragraph. Bond Counsel expects that its opinion will be delivered to conform to the requirements of the final regulations contained in Circular 230 if and to the extent applicable to Bond Counsel's opinion relating to the Offered Bonds; however, purchasers of the Offered Bonds should be aware that there can be no assurance that the final tax shelter regulations to be included in Circular 230 will be the same as or similar to the Proposed Regulations.

Bond Counsel expects to deliver an opinion at the time of issuance of the Offered Bonds substantially in the form set forth in Appendix E hereto, subject to the matters discussed above.

LEGAL MATTERS

The approving opinion of Schiff Hardin LLP, Chicago, Illinois, Bond Counsel, will be delivered with the Offered Bonds. Certain legal matters will be passed upon for the Authority by its General Counsel, Mary R. Kenney, Esq., and by its counsel, Mayer, Brown, Rowe & Maw LLP, Chicago, Illinois, and for the Underwriters by their counsel, Shefsky & Froelich Ltd., Chicago, Illinois.

LITIGATION

The Authority is not engaged in and has not been threatened with any litigation of any nature which seeks to restrain or enjoin the issuance, sale, execution or delivery of the Offered Bonds or which in any way contests the validity of the Offered Bonds or any proceedings of the Authority taken with respect to their issuance, remarketing or sale or the pledge or application of any moneys or the security provided for the payment of the Bonds, including the Offered Bonds, or which contests the existence of the Authority.

The Authority is a party to litigation incident to the conduct of its programs. The Authority is not engaged in and has not been threatened with any litigation with respect to its statutory powers or otherwise which in the judgment of the Authority is material to the performance of its programs or its obligations with respect to notes and bonds, including the Offered Bonds, of the Authority.

LEGALITY FOR INVESTMENT

Under the Act, the Offered Bonds, in the State, are securities in which all public officers and bodies of the State and all its municipalities and municipal subdivisions, all insurance companies and associations, and other persons carrying on an insurance business, all banks, trust companies, savings banks and savings associations, savings and loan associations, investment companies, all administrators, guardians, executors, trustees and other fiduciaries, and all other persons authorized to invest in bonds or other obligations of the State, may properly and legally invest funds, including capital, in their control or belonging to them. State laws governing specific types of investors may, however, impose restrictions on such investors with respect to the legality of purchases of the Offered Bonds and may also contain limitations which permit purchases of the Offered Bonds only with specified percentages of their assets.

RATINGS

The Offered Bonds have received long term ratings of “AAA” from Standard & Poor’s Rating Services, a division of The McGraw-Hill Companies, Inc. (“S&P”), and “Aaa” from Moody’s Investors Service, Inc. (“Moody’s”). The 2004 Series B Bonds have received short term ratings of “A-1+” from S&P and “P-1” from Moody’s. Ratings assigned to the Offered Bonds reflect only the views of the respective rating agencies and an explanation of the significance of such ratings may be obtained only from the respective rating agencies. There is no assurance that the ratings that have been assigned to the Offered Bonds will continue for any given period of time or that they will not be revised or withdrawn entirely by such rating agencies if, in the judgment of the rating agencies, circumstances so warrant. A downward revision or withdrawal of the ratings may have an adverse effect on the market price of the Offered Bonds.

UNDERWRITING

The 2004 Series A Bonds (other than the 2004 Series A Bonds maturing July 1, 2013, 2004 Series A Bonds maturing July 1, 2016, 2004 Series A Bonds maturing July 1, 2024, 2004 Series A Bonds maturing July 1, 2032 and 2004 Series A Bonds maturing July 1, 2039 (the “Placed Bonds”)) are being purchased by the Underwriters listed on the cover page of this Official Statement. The Underwriters will jointly and severally agree to purchase the 2004 Series A Bonds (other than the Placed Bonds) at the purchase price (expressed as a percentage of the aggregate initial principal amount of the 2004 Series A Bonds) of 100 percent pursuant to the terms of a purchase contract. The obligation to make such purchase is subject to certain terms and conditions and the approval of certain legal matters by counsel. The Variable Rate Bonds are being purchased by Goldman Sachs & Co. at a purchase price (expressed as a percentage of the aggregate initial principal amount of the Variable Rate Bonds) of 100 percent pursuant to the terms of a purchase contract. The obligation to make such purchase is subject to certain terms and conditions and the approval of certain legal matters by counsel. The Underwriters will receive a fee of \$25,510.72 (which includes \$2,145.42 for the Policy premium that is being paid for by the Underwriters) for their services in connection with the issuance and delivery of the 2004 Series A Bonds (other than the Placed Bonds) and a fee of \$192,433.57 (which includes \$15,733.05 for the Policy premium that is being paid for by the Underwriters) for their services in connection with the placement of the Placed Bonds, both to be paid by the Authority.

Additionally, Goldman Sachs & Co. will receive a fee of \$53,785.71 (which includes \$17,151.39 for the Policy and Debt Service Reserve Insurance Policy premiums that are being paid for by Goldman Sachs & Co.) for its services connection with the issuance, remarketing and delivery of the Variable Rate Bonds, to be paid by the Authority. The Underwriters may offer and sell the Offered Bonds (other than the Placed Bonds) offered to the public to certain dealers (including dealers depositing the Offered Bonds into unit investment trusts, certain of which may be sponsored or managed by an Underwriter) and others at prices lower than the public offering prices stated on the cover page hereof.

FINANCIAL STATEMENTS

The financial statements of the Authority as of and for the year ended June 30, 2003, included in Appendix A, have been audited by KPMG LLP, independent auditors, to the extent and for the period indicated in their report, which is also included in Appendix A.

As discussed in Note M to the Authority annual financial statements for the year ended June 30, 2003, included in Appendix A, the Authority changed its financial statement presentation fund structure for proprietary funds. Additionally, for the year ended June 30, 2003, the Authority adopted Governmental Accounting Standards Board Statement No. 40, "Deposit and Investment Risk Disclosures." The report of KPMG LLP makes reference to these accounting changes.

The interim financial statements of the Authority as of and for the six-month period ended December 31, 2003, are included in Appendix B. These financial statements are unaudited.

INVESTMENT POLICY

The Authority's management of funds under its control is governed by the Act and the Authority's Investment and Cash Management Policy, as amended from time to time. The Act permits the Authority to invest its funds in any investments as may be lawful for fiduciaries in the State of Illinois, for Illinois or nationally chartered banks and savings banks and fiduciaries subject to the Employment Retirement Income Security Act of 1974.

The Authority's Investment and Cash Management Policy (the "Investment Policy"), contains the following stated objectives:

- Safety of principal. Each investment transaction shall seek to ensure that capital losses within the investment portfolio are avoided, whether they be from securities defaults or erosion of market value.
- Liquidity. The investment portfolio shall remain sufficiently flexible to enable the Authority to meet all operating requirements which may be reasonably anticipated in any fund.
- Maximum rate of return. The investment portfolio shall be designed with the purpose of regularly exceeding the average return of United States Treasury obligations of comparable maturities. The investment program shall seek to

augment returns above this threshold, consistent with risk limitations identified herein and prudent investment principles.

In addition, the Investment Policy contains the following provision with respect to instruments commonly known as derivative securities:

- Leveraging agreements such as reverse repurchase agreements and derivative investments such as interest only strips and principal only strips of mortgage backed securities, inverse floaters, future contracts and options on future contracts, interest rate caps, floors, and swaps (“Derivatives”) shall be purchased and used only in conjunction with interest rate risk management. Such leveraging agreement or Derivatives shall be matched with an underlying existing asset in the portfolio or employed in conjunction with a specific bond or note financing program and shall be used to offset or hedge a specific quantifiable risk to that underlying asset or bond or note financing program. These securities underlying such arrangement or agreement shall be Permitted Investments.

The preponderance of the Authority’s investments are demand repurchase agreements concerning obligations of the United States or its agencies or direct investments in such obligations.

For additional information regarding the Authority’s investments as of June 30, 2003, see “AUTHORITY ANNUAL FINANCIAL STATEMENTS – Note C – Cash and Investments” attached as Appendix A.

CONTINUING DISCLOSURE

In order to assist the Underwriters in complying with certain amendments to Rule 15c2-12 of the Securities and Exchange Commission, the Authority has agreed in the Offered Bonds Series Supplemental Indenture to provide to certain parties certain annual financial information and operating data and notices of certain material events. A summary of that portion of the Offered Bonds Series Supplemental Indenture containing the Authority’s undertaking in this regard is included as Appendix F to this Official Statement. This undertaking may be enforced by any beneficial or registered owner of Offered Bonds, but the Authority’s failure to comply with this undertaking will not be a default under the Indenture.

In addition, pursuant to the Indenture, the Authority has agreed to file with the Trustee, within 120 days after the close of each Fiscal Year, a copy of its audited financial statements for the previous Fiscal Year, accompanied by the related report of its independent public accountants.

MISCELLANEOUS

All quotations from, and summaries and explanations of, the Constitution of the State, the Act and the Indenture contained in this Official Statement do not purport to be complete and reference is made to the Constitution of the State, the Act and the Indenture for full and complete statements of their provisions. Copies, in reasonable quantity, of the Indenture may be obtained upon request directed to the Authority at 401 North Michigan Avenue, Suite 900, Chicago, Illinois 60611.

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of facts. This Official Statement is not to be construed as a contract or agreement between the Authority and the purchasers or owners of any of the Offered Bonds. The execution and distribution of this Official Statement have been duly authorized by the Authority.

ILLINOIS HOUSING DEVELOPMENT AUTHORITY

/s/ Kelly King Dibble

Executive Director

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APPENDIX A

AUTHORITY ANNUAL FINANCIAL STATEMENTS

ILLINOIS HOUSING DEVELOPMENT AUTHORITY
(A Component Unit of the State of Illinois)

Financial Statements As of and For the Year Ended June 30, 2003

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303 East Wacker Drive
Chicago, IL 60601

Independent Auditors' Report

To the Honorable William G. Holland,
Auditor General of the State of Illinois,
and The Members of the Illinois
Housing Development Authority:

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Illinois Housing Development Authority (the Authority), a component unit of the State of Illinois, as of and for the year ended June 30, 2003, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Authority, as of June 30, 2003, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note M to the basic financial statements, during 2003, the Authority changed its fund structure for proprietary funds. Additionally, during 2003, the Authority adopted Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*.

The management's discussion and analysis on pages 3 through 10 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.





Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The Combining Mortgage Loan Program Fund and Combining Single Family Program Fund Schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Combining Mortgage Loan Program Fund and Combining Single Family Program Fund Schedules 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.

KPMG LLP

October 28, 2003

ILLINOIS HOUSING DEVELOPMENT AUTHORITY
(A Component Unit of the State of Illinois)
MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Illinois Housing Development Authority's (Authority) annual financial report presents management's discussion and analysis of the Authority's financial performance during the fiscal year that ended on June 30, 2003. Please read it in conjunction with the Authority's financial statements, which follow this section.

Financial Highlights

- Net assets of the Authority increased \$42.0 million, to \$605.3 million as of June 30, 2003, from increases in both the Authority's governmental (\$37.1 million) and business-type (\$4.9 million) activities.
- Operating income of the Authority's business-type activities declined \$4.0 million from the prior year results as decreases in interest on program loans (\$7.1 million) and investment income (\$1.7 million), and an increase in the allowance for estimated losses (\$1.0 million) were only partially offset by lower interest expense (\$6.0 million).
- The Authority's debt outstanding of \$1,782.9 million as of June 30, 2003 decreased \$105.4 million from the amount outstanding as of June 30, 2002. Debt issuances for the year totaled \$285.7 million.
- Loan originations for the year totaled \$140.8 million and \$49.7 million in the Authority's business-type and governmental activities, respectively.

Overview of the Financial Statements

The financial statements consist of three parts – management's discussion and analysis (this section), the basic financial statements, and supplementary information. The basic financial statements include two kinds of statements that present different views of the Authority:

- The first two statements are Authority-wide financial statements that provide information about the Authority's overall financial position and operations. These statements, which are presented on an accrual basis, consist of the Statement of Net Assets and the Statement of Activities.
- The remaining statements are fund financial statements of the Authority's two governmental funds, for which activities are funded primarily from State appropriations and for which the Authority follows a modified accrual basis of accounting, and of the Authority's major proprietary funds, which operate similar to business activities and for which the Authority follows an accrual basis of accounting.
- The basic financial statements also include a "Notes to Financial Statements" section, that explains some of the information in the Authority-wide and fund financial statements and provides more detailed data.

The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of these statements. The prior year results referred to throughout this section for comparison purposes are as previously reported. All percentage variances shown are calculated based on un-rounded amounts.

The Authority-wide statements report information about the Authority as a whole using accounting methods similar to those used by private sector companies. The Statement of Net Assets includes all of the Authority's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid. Most of the Authority's activities are business-type and are reported in its proprietary funds.

Fund Financial Statements

The fund financial statements provide more detailed information about the Authority's most significant funds and not the Authority as a whole. The Authority has two kinds of funds:

- Governmental funds – The Authority has two governmental funds. The Authority is the administrator of these funds, the revenues of which are appropriated to the Illinois Department of Revenue for the purpose of making housing grants and loans. These fund statements focus on how cash and other financial assets flowing into the funds have been used. Revenues converted to long-term loans comprise a substantial portion of the funds' net assets.
- Proprietary funds – The Authority's primary activities are in its proprietary funds, which activities are accounted for in a manner similar to businesses operating in the public sector. Funding has primarily arisen through the issuances of bonds, both tax-exempt and taxable, the proceeds of which are primarily used to make various types of loans to finance low and moderate-income housing. The net assets of these funds represent accumulated earnings since their inception and are generally restricted for program purposes.

Financial Analysis of the Authority as a Whole

Net Assets. The combined net assets of the Authority increased by \$42.0 million, or 7.4%, from the June 30, 2002 amount. The following table shows a summary of changes from prior year amounts.

Net Assets
(In millions of dollars)

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>		<u>Inc. / (Dec.)</u>	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>	<u>Amt</u>	<u>%</u>
Cash & investments – unrestricted	\$62.9	\$68.8	\$131.7	\$144.2	\$194.6	\$213.0	\$ (18.4)	(8.6)
Program loans receivable	8.2	5.7	35.8	38.1	44.0	43.8	.2	.4
Other current assets	<u>(1.2)</u>	<u>(1.3)</u>	<u>17.2</u>	<u>18.1</u>	<u>16.0</u>	<u>16.8</u>	<u>(.8)</u>	(4.9)
Total current assets	69.9	73.2	184.7	200.4	254.6	273.6	(19.0)	(7.0)
Investments - restricted			733.1	616.5	733.1	616.5	116.6	18.9
Net program loans receivable	251.3	210.7	1,319.0	1,518.7	1,570.3	1,729.4	(159.1)	(9.2)
Other assets	<u>.4</u>	<u>.6</u>	<u>65.2</u>	<u>68.6</u>	<u>65.6</u>	<u>69.2</u>	<u>(3.6)</u>	(5.1)
Total assets	321.6	284.5	2,302.0	2,404.2	2,623.6	2,688.7	(65.1)	(2.4)
Bonds and notes payable	-	-	138.8	49.5	138.8	49.5	89.3	180.2
Deposits held in escrow	-	-	150.5	142.0	150.5	142.0	8.5	6.0
Other current liabilities	<u>-</u>	<u>-</u>	<u>85.0</u>	<u>95.2</u>	<u>85.0</u>	<u>95.2</u>	<u>(10.2)</u>	(10.7)
Total current liabilities	-	-	374.3	286.7	374.3	286.7	87.6	30.5
Bonds & notes payable	<u>-</u>	<u>-</u>	<u>1,644.0</u>	<u>1,838.7</u>	<u>1,644.0</u>	<u>1,838.7</u>	<u>(194.7)</u>	(10.6)
Total liabilities	-	-	2,018.3	2,125.4	2,018.3	2,125.4	(107.1)	(5.0)
Net assets								
Invested in capital assets, net	-	-	.7	.7	.7	.7	-	9.8
Restricted	100.3	-	194.4	188.3	294.7	188.3	106.4	56.5
Unrestricted	<u>221.3</u>	<u>284.5</u>	<u>88.6</u>	<u>89.8</u>	<u>309.9</u>	<u>374.3</u>	<u>(64.4)</u>	(17.2)
Total net assets	<u>\$321.6</u>	<u>\$284.5</u>	<u>\$283.7</u>	<u>\$278.8</u>	<u>\$605.3</u>	<u>\$563.3</u>	<u>\$42.0</u>	7.4

Governmental Activities

Net assets of the Authority's governmental activities increased \$37.1 million, or 13.0% to \$321.6 million. Total program loans receivable (current and non-current), which are funded by a portion of the State Real Estate Transfer Tax and federal funds and for which there is no repayment liability, increased by \$43.1 million, or 19.9% to \$259.5 million. Cash and investments decreased by \$5.9 million, or 8.6% as loan and grant payouts, plus administrative expenses exceeded revenues and repayments of loans. State statute restricts the use of the Affordable Housing Trust Fund and the HOME programs to program activities. The Authority changed its classification of net assets of the HOME program to restricted in fiscal year 2003.

Business-type Activities

Net assets of the Authority's business-type activities increased \$4.9 million, or 1.8% to \$283.7 million. The increase primarily resulted from earnings of the Authority's various

multi-family lending and other programs, partially offset by losses in the Authority's Single Family Program Fund. Cash and investments (current and non-current) increased \$104.1 million, or 13.7% to \$864.8 million, due primarily to rapid prepayments of loans within the Single Family Program. Program loans receivable (current and non-current) decreased \$202.0 million, or 13.0% to \$1,354.8 million due mainly to decreases (\$182.2 million) in the Authority's Single Family Program Fund as loan prepayments exceeded loan originations. Total bonds and notes payable (current and non-current) decreased \$105.4 million, or 5.6%, due to retirement of debt, both from scheduled and special redemptions, primarily within the Authority's Single Family Program Fund.

Restricted net assets of the Authority's business-type activities increased \$6.1 million, or 3.2%. The increases in net assets within the Authority's various bond funds were \$5.7 million, all of which are classified as restricted. The remaining restricted increases in net assets were from the FAF program, earnings of which are recorded in the Authority's Administrative Fund.

Statement of Activities

The statement of activities shows the sources of the Authority's changes in net assets as they arise through its various programs and functions. Two programs, the Illinois Affordable Housing Trust Fund and the HOME program, are shown as governmental activities, and six programs are shown as business-type activities. The business-type activities include two housing lending programs, the results of which are primarily recorded within the funds comprising the two major bond funds (the Mortgage Loan Program Fund and the Single Family Program Fund), federal assistance activities, which involve the allocation of various federal subsidy funds directly to certain of the Authority's borrowers, and the tax credit authorization and monitoring, preservation, and FAF lending programs, all of which activities are recorded in the Authority's Administrative Fund.

A condensed statement of activities for the fiscal year ended June 30, 2003 is shown in the following table.

Changes in Net Assets
(In millions of dollars)

	Governmental Activities		Business- Type Activities		Total	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
Revenues:						
Program revenues						
Charges for services	\$2.7	\$3.3	\$132.2	\$142.1	\$134.9	\$145.4
Tax/grant/federal revenues	19.0	26.9	158.2	156.5	177.2	183.4
General revenues:						
Investment income	-	-	2.6	4.3	2.6	4.3
Real estate transfer taxes	<u>35.7</u>	<u>32.6</u>	=	=	<u>35.7</u>	<u>32.6</u>
Total revenues	57.4	62.8	293.0	302.9	350.4	365.7
Expenses:						
Direct	15.1	13.8	281.6	286.1	296.7	299.9
Administrative	=	=	<u>11.7</u>	<u>13.1</u>	<u>11.7</u>	<u>13.1</u>
Total expenses	15.1	13.8	293.3	299.2	308.4	313.0
Excess (deficit) before transfers	42.3	49.0	(.3)	3.7	42.0	52.7
Transfers	<u>(5.2)</u>	<u>(5.3)</u>	<u>5.2</u>	<u>5.3</u>	=	=
Increase in net assets	<u>\$37.1</u>	<u>\$43.7</u>	<u>\$4.9</u>	<u>\$9.0</u>	<u>\$42.0</u>	<u>\$52.7</u>

Governmental Activities

Revenues of the Authority's governmental activities declined by \$5.4 million from the prior year mainly from a decrease in federal program funds, which are used primarily to originate loans. A \$3.1 million increase in real estate transfer taxes partially offset the above decrease in federal program funds. Direct expenses, which consisted of grants (\$10.0 million), allocations of expenses incurred (\$3.6 million) to administer the programs and provisions for estimated losses on program loans receivable (\$1.5 million), increased \$1.3 million over the prior year due to an increase in grants. The transfer (\$5.2 million) from the governmental activities to the Authority's business-type activities represents an annual transfer, pursuant to the Illinois Affordable Housing Act, from the Illinois Affordable Housing Trust Fund to the Multi-Family Mortgage Loan Programs.

Business-type Activities

Revenues of the Authority's business-type activities declined \$9.9 million from the prior year from a similar decrease in charges for services, which consist primarily of interest income on program loans (\$94.1 million), program investment income (\$23.9 million) and servicing fee and application fee income. Program investment income is that income earned within the Authority's bond funds, the investments and the income of which is restricted to those funds. Interest income on program loans accounted for most (\$7.1 million) of the decrease compared to prior year.

Direct expenses of the Authority's business-type activities, which consist primarily of interest expense (\$118.3 million) on Authority debt incurred to fund its various lending programs and the pass-through of federal assistance programs' funds (\$158.2 million), declined \$4.5 million from the prior year, primarily from lower interest expense (\$6.0 million). The direct expenses also include Administrative Fund allocations of expenses of Authority departments directly involved in the production or monitoring activities associated with the programs, as well as certain costs, both internally and externally incurred, associated with these programs. Administrative expenses, which are incurred within the Authority's Administrative Fund and which includes all other administrative and supportive functions and all overhead expenses, was \$1.4 million below the prior year, which included \$1.1 million of non-recurring expense items.

The Authority's business-type activities also generated \$2.6 million of unrestricted investment income, which was used primarily to partially offset its administrative costs. Program revenues of the Multi-Family Mortgage Loan Programs exceeded direct expenses by \$13.3 million (See the Statement of Activities) and thus provided most of the Authority's increases in net assets. Direct expenses of the Single-Family Mortgage Loan Program exceeded program revenues by \$7.3 million, as the Program was adversely affected by a high level of prepayments of higher coupon mortgage loans, which were then reinvested, prior to the redemption of underlying bonds, at rates lower than the underlying bond interest rates.

Proprietary Fund Results

Net assets of the Authority's proprietary funds increased from the June 30, 2002 amount by \$4.9 million, or 1.8% to \$283.7 million. The following table summarizes the statement of revenues, expenses and changes in net assets of the Authority's proprietary funds for the fiscal years ended June 30, 2003 and June 30, 2002.

Changes in Net Assets/Proprietary Funds
(In millions of dollars)

	Administrative Fund	Mortgage Loan Program Fund	Single Family Program Fund	Total 2003	Total 2002	<u>Inc. / (Dec)</u>	
						<u>Amt</u>	<u>%</u>
Operating revenues:							
Interest earned on program loans	\$1.0	\$49.8	\$43.3	\$94.1	\$101.2	\$(7.1)	(7.0)
Investment income	2.6	11.7	12.2	26.5	28.2	(1.7)	(6.2)
Federal assistance programs	151.2	5.8	-	157.0	156.5	.5	.3
Service fees	8.2	-	-	8.2	8.4	(2)	(1.5)
Development fees	.6	-	-	.6	.1	.5	637.1
HUD savings	1.3	-	-	1.3	2.5	(1.2)	(46.4)
Other	<u>2.4</u>	<u>2.9</u>	<u>-</u>	<u>5.3</u>	<u>6.0</u>	<u>(.7)</u>	<u>(12.7)</u>
Total operating revenues	167.3	70.2	55.5	293.0	302.9	(9.9)	(3.2)
Operating expenses:							
Interest expense	-	57.6	60.7	118.3	124.3	(6.0)	(4.8)
Federal assistance programs	151.2	5.8	-	157.0	156.5	.5	.3
Salaries and benefits	10.4	-	-	10.4	9.9	.5	5.6
Professional fees	1.3	-	.1	1.4	1.7	(.3)	(19.9)
Other general and administrative	3.6	-	.2	3.8	4.7	(.9)	(19.7)
Financing costs	.4	.5	.5	1.4	2.1	(.7)	(34.3)
Provision for losses on							
program loans receivable	-	<u>1.0</u>	-	<u>1.0</u>	-	<u>1.0</u>	NA
Total operating expenses	166.9	64.9	61.5	293.3	299.2	(5.9)	(2.0)
Operating income	.4	5.3	(6.0)	(.3)	3.7	(4.0)	(108.1)
Transfers in (out)	<u>(.2)</u>	<u>5.3</u>	<u>.1</u>	<u>5.2</u>	<u>5.3</u>	<u>(.1)</u>	<u>(2.8)</u>
Change in net assets	.2	10.6	(5.9)	4.9	9.0	(4.1)	(45.5)
Net assets at beginning of year	<u>110.7</u>	<u>123.3</u>	<u>44.7</u>	<u>278.8</u>	<u>269.8</u>	<u>9.0</u>	3.3
Net assets at end of year	<u>\$110.9</u>	<u>\$133.9</u>	<u>\$38.8</u>	<u>\$283.7</u>	<u>\$278.8</u>	<u>\$4.9</u>	1.8

Interest earned on program loans decreased by \$7.1 million, or 7.0% due primarily to decreases of \$5.4 million within the Authority's Single Family Program Fund, due to lower loan amounts outstanding resulting from prepayments of higher yielding mortgage loans. Interest earned on program loans of the Authority's Mortgage Loan Program Fund also declined as the interest portion of debt service decreased, due to the scheduled amortizations of these loans.

Investment income decreased \$1.7 million, or 6.2%, and primarily reflected both lower investment yields. The primary decreases in investment income were within the Mortgage Loan Program Fund (\$1.6 million), and the Administrative Fund, which declined \$1.6 million due mainly from lower investment yields. Investment income of the Single Family Program Fund increased \$1.5 million and reflected increased investments held due to loan prepayments.

Investment income includes a \$3.3 million increase to adjust investments to fair value compared to a \$1.2 million similar adjustment for the prior year.

Interest expense decreased \$6.0 million, or 4.8% due primarily to decreased debt outstanding within the Mortgage Loan Program Fund.

The fiscal year 2003 increase in net assets of the Administrative Fund of \$.2 million was \$3.5 million below the prior year increase, due primarily to decreased investment income (\$1.7 million) and the absorption of administrative costs previously allocated to the Single Family Program Fund (\$2.4 million), due to losses in the program.

Net assets of the Single Family Program Fund decreased \$5.9 million, compared to a \$5.6 million decrease of the prior year. Results continued to be adversely affected by a high rate of prepayments of higher coupon loans, the reinvestment of prepayments at rates below their underlying debt until the debt could be extinguished, and accelerations of the amortization of bond issuance and loan origination costs due to high prepayment rates.

Net assets of the Mortgage Loan Program Fund increased \$10.6 million, slightly below the prior year's \$10.9 million increase.

Authority Debt

Authority debt issuances during fiscal year 2003 totaled \$285.7 million, with activity arising from the Single Family Program (\$245.5 million), and Mortgage Loan Program Fund (\$40.2 million). Total bonds and notes payable decreased \$105.4 million as debt issuances were more than offset by retirements of debt, primarily special redemptions necessitated by a high level of mortgage prepayments within the Authority's Single Family Program. For additional information, see Note F, Bonds and Notes Payable in the Notes to Financial Statements.

During fiscal year 2003, the Authority's Standard & Poor's Ratings Services Issuer Credit Rating remained at A+.

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ILLINOIS HOUSING DEVELOPMENT AUTHORITY
(A Component Unit of the State of Illinois)

STATEMENT OF NET ASSETS
As of June 30, 2003

<u>ASSETS</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Current Assets:			
Cash and cash equivalents	\$ 3,500,158	35,596,148	39,096,306
Funds held by State Treasurer	32,580,021		32,580,021
Investments	26,832,514	96,151,691	122,984,205
Investment income receivable	32,000	9,114,398	9,146,398
Program loans receivable	8,219,000	35,802,000	44,021,000
Interest receivable on program loans	132,663	6,704,946	6,837,609
Interfund accounts receivable (payable)	(1,391,571)	1,391,571	
Total current assets	69,904,785	184,760,754	254,665,539
Noncurrent assets:			
Investments - Restricted		733,082,980	733,082,980
Program loans receivable, net of current portion	262,763,717	1,341,552,105	1,604,315,822
Less allowance for estimated losses	(11,500,000)	(22,565,000)	(34,065,000)
Net program loans receivable	251,263,717	1,318,987,105	1,570,250,822
Unamortized bond issuance costs		23,058,301	23,058,301
Real estate held for sale (net)		31,157,149	31,157,149
Capital assets (net)		703,202	703,202
Other	426,168	10,232,016	10,658,184
Total noncurrent assets	251,689,885	2,117,220,753	2,368,910,638
Total assets	\$ 321,594,670	2,301,981,507	2,623,576,177
	<u>LIABILITIES</u>		
Current liabilities:			
Bonds and notes payable	\$	138,840,000	138,840,000
Accrued interest payable		39,120,746	39,120,746
Deposits held in escrow		150,446,579	150,446,579
Accrued liabilities and other		45,875,818	45,875,818
Total current liabilities		374,283,143	374,283,143
Noncurrent liabilities:			
Bonds and notes payable, net of current portion		1,644,042,816	1,644,042,816
Total liabilities	\$	2,018,325,959	2,018,325,959
	<u>NET ASSETS</u>		
Invested in capital assets (net)	\$	703,202	703,202
Restricted for bond resolution purposes		172,740,906	172,740,906
Restricted for loan and grant programs	100,262,538	21,612,594	121,875,132
Unrestricted	221,332,132	88,598,846	309,930,978
Total net assets	\$ 321,594,670	283,655,548	605,250,218

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

ILLINOIS HOUSING DEVELOPMENT AUTHORITY
(A Component Unit of the State of Illinois)

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2003

<u>FUNCTIONS / PROGRAMS</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expenses) / Revenues and Changes in Net Assets</u>		
		<u>Charges for Services and Interest Income</u>	<u>Operating Grant/Federal Revenues</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Governmental activities:						
Illinois Affordable Housing Trust Fund	\$ 7,748,196	1,845,673	500,000	(5,402,523)		(5,402,523)
HOME Program	7,387,746	898,405	18,467,260	11,977,919		11,977,919
Total governmental activities	<u>15,135,942</u>	<u>2,744,078</u>	<u>18,967,260</u>	<u>6,575,396</u>		<u>6,575,396</u>
Business-type activities:						
Administrative	11,704,683	20,992			(11,683,691)	(11,683,691)
Multi-Family Mortgage Loan Programs	60,778,810	74,067,920			13,289,110	13,289,110
Multi-Family Federal Assistance Programs	157,017,742		157,017,742			
Single-Family Mortgage Loan Programs	62,951,039	55,700,809			(7,250,230)	(7,250,230)
Tax Credit Authorization and Monitoring	666,908	2,267,385			1,600,477	1,600,477
Preservation	179,120	15,198			(163,922)	(163,922)
FAF Lending Program	1,026	119,665	1,195,572		1,314,211	1,314,211
Total business-type activities	<u>293,299,328</u>	<u>132,191,969</u>	<u>158,213,314</u>		<u>(2,894,045)</u>	<u>(2,894,045)</u>
Total Authority	<u>\$ 308,435,270</u>	<u>134,936,047</u>	<u>177,180,574</u>	<u>6,575,396</u>	<u>(2,894,045)</u>	<u>3,681,351</u>
				35,677,836		35,677,836
					2,599,996	2,599,996
				(5,200,000)	5,200,000	
				<u>30,477,836</u>	<u>7,799,996</u>	<u>38,277,832</u>
				37,053,232	4,905,951	41,959,183
				284,541,438	278,749,597	563,291,035
				<u>\$ 321,594,670</u>	<u>283,655,548</u>	<u>605,250,218</u>

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

ILLINOIS HOUSING DEVELOPMENT AUTHORITY
(A Component Unit of the State of Illinois)

GOVERNMENTAL FUNDS
BALANCE SHEET
As of June 30, 2003

<u>ASSETS</u>	<u>Illinois Affordable Housing Trust Fund</u>	<u>HOME Program Fund</u>	<u>Total</u>
Current assets:			
Cash	\$ 3,500,158		3,500,158
Funds held by State Treasurer	32,343,702	236,319	32,580,021
Investments	26,832,514		26,832,514
Investment income receivable	32,000		32,000
Program loans receivable	7,034,000	1,185,000	8,219,000
Interest receivable on program loans	70,746	61,917	132,663
Total current assets	69,813,120	1,483,236	71,296,356
Noncurrent assets:			
Program loans receivable, net of current portion	159,984,415	102,779,302	262,763,717
Less allowance for estimated losses	(7,500,000)	(4,000,000)	(11,500,000)
Net program loans receivable	152,484,415	98,779,302	251,263,717
Other		426,168	426,168
Total noncurrent assets	152,484,415	99,205,470	251,689,885
Total assets	\$ 222,297,535	100,688,706	322,986,241
 <u>LIABILITIES AND FUND BALANCES</u>			
Current Liabilities:			
Deferred revenue	\$ 70,746	61,917	132,663
Due to other funds	965,403	426,168	1,391,571
Total current liabilities	1,036,149	488,085	1,524,234
Fund balances:			
Reserved for loans receivable	152,484,415	98,779,302	251,263,717
Unreserved	68,776,971	1,421,319	70,198,290
Total fund balances	221,261,386	100,200,621	321,462,007
Total liabilities and fund balances	\$ 222,297,535	100,688,706	
Amounts reported for governmental activities in the statement of net assets are different due to interest receivable on program loans			132,663
Net assets of governmental activities			\$ 321,594,670

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

ILLINOIS HOUSING DEVELOPMENT AUTHORITY
(A Component Unit of the State of Illinois)

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
For the Year Ended June 30, 2003

	Illinois Affordable Housing Trust Fund	HOME Program Fund	Total
	<u> </u>	<u> </u>	<u> </u>
Revenues:			
Real estate transfer taxes	\$ 35,677,836		35,677,836
Federal HOME funds		18,467,260	18,467,260
Interest and investment income	1,805,228	911,581	2,716,809
Private donation	500,000		500,000
Application fees	39,000		39,000
Total revenues	<u>38,022,064</u>	<u>19,378,841</u>	<u>57,400,905</u>
Expenditures:			
Grants	4,605,792	5,459,587	10,065,379
General and administrative	2,142,404	1,428,159	3,570,563
Provision for estimated losses on program loans receivable	1,000,000	500,000	1,500,000
Total expenditures	<u>7,748,196</u>	<u>7,387,746</u>	<u>15,135,942</u>
Excess of revenues over expenditures	30,273,868	11,991,095	42,264,963
Other financing uses:			
Transfer out	(5,200,000)		(5,200,000)
Net change in fund balances	<u>25,073,868</u>	<u>11,991,095</u>	<u>37,064,963</u>
Fund balances at beginning of year	196,187,518	88,209,526	
Fund balances at end of year	<u>\$ 221,261,386</u>	<u>100,200,621</u>	
			<u>(11,731)</u>
			<u>\$ 37,053,232</u>

Amounts reported for governmental activities in the statement of net
activities are different due to interest on program loans receivable

Changes in net assets of governmental activities

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

ILLINOIS HOUSING DEVELOPMENT AUTHORITY
(A Component Unit of the State of Illinois)

PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
As of June 30, 2003

<u>ASSETS</u>	<u>Administrative Fund</u>	<u>Mortgage Loan Program Fund</u>	<u>Single Family Program Fund</u>	<u>Total</u>
Current assets:				
Cash and cash equivalents	\$ 26,669,343	2,013,917	6,912,888	35,596,148
Investments	96,151,691			96,151,691
Investment income receivable	376,773	3,860,551	4,877,074	9,114,398
Program loans receivable	275,000	24,420,000	11,107,000	35,802,000
Interest receivable on program loans	573,549	3,063,642	3,067,755	6,704,946
Due from other funds	7,241,809	24,580,590	363,098	32,185,497
Total current assets	<u>131,288,165</u>	<u>57,938,700</u>	<u>26,327,815</u>	<u>215,554,680</u>
Noncurrent assets:				
Investments - Restricted	156,442,143	252,133,592	324,507,245	733,082,980
Program loans receivable, net of current portion	30,217,028	689,483,048	621,852,029	1,341,552,105
Less allowance for estimated losses	(8,815,000)	(13,750,000)		(22,565,000)
Net program loans receivable	21,402,028	675,733,048	621,852,029	1,318,987,105
Unamortized bond issuance costs		10,357,780	12,700,521	23,058,301
Real estate held for sale (net)		29,881,739	1,275,410	31,157,149
Capital assets (net)	703,202			703,202
Other	8,264,265	1,967,751		10,232,016
Total noncurrent assets	<u>186,811,638</u>	<u>970,073,910</u>	<u>960,335,205</u>	<u>2,117,220,753</u>
Total assets	<u>\$ 318,099,803</u>	<u>1,028,012,610</u>	<u>986,663,020</u>	<u>2,332,775,433</u>
 <u>LIABILITIES</u>				
Current liabilities:				
Bonds and notes payable	\$	28,290,000	110,550,000	138,840,000
Accrued interest payable		19,590,207	19,530,539	39,120,746
Deposits held in escrow	150,446,579			150,446,579
Accrued liabilities and other	31,839,875	11,485,829	2,550,114	45,875,818
Due to other funds	24,898,707	4,088,132	1,807,087	30,793,926
Total current liabilities	<u>207,185,161</u>	<u>63,454,168</u>	<u>134,437,740</u>	<u>405,077,069</u>
Noncurrent liabilities:				
Bonds and notes payable, net of current portion		830,635,901	813,406,915	1,644,042,816
Total liabilities	<u>\$ 207,185,161</u>	<u>894,090,069</u>	<u>947,844,655</u>	<u>2,049,119,885</u>
 <u>NET ASSETS</u>				
Invested in capital assets (net)	\$ 703,202			703,202
Restricted for bond resolution purposes		133,922,541	38,818,365	172,740,906
Restricted for loan and grant programs	21,612,594			21,612,594
Unrestricted	88,598,846			88,598,846
Total net assets	<u>\$ 110,914,642</u>	<u>133,922,541</u>	<u>38,818,365</u>	<u>283,655,548</u>

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

ILLINOIS HOUSING DEVELOPMENT AUTHORITY
(A Component Unit of the State of Illinois)

PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
For the Year Ended June 30, 2003

	Administrative Fund	Mortgage Loan Program Fund	Single Family Program Fund	Total
Operating revenues:				
Interest and other investment income	\$ 2,384,293	9,443,801	11,326,929	23,155,023
Net increase in fair value of investments.....	215,703	2,243,831	867,740	3,327,274
Total investment income	2,599,996	11,687,632	12,194,669	26,482,297
Interest earned on program loans	1,002,580	49,779,098	43,332,249	94,113,927
Federal assistance programs	151,191,090	5,826,652		157,017,742
Service fees	8,211,732			8,211,732
Development fees	610,128			610,128
HUD savings	1,315,237			1,315,237
Other	2,336,136	2,918,080		5,254,216
Total operating revenues	167,266,899	70,211,462	55,526,918	293,005,279
Operating expenses:				
Interest expense		57,611,152	60,685,257	118,296,409
Federal assistance programs	151,191,090	5,826,652		157,017,742
Salaries and benefits	10,429,594		10,664	10,440,258
Professional fees	1,277,098	6,000	66,000	1,349,098
Other general and administrative	3,604,299		218,888	3,823,187
Financing costs	366,284	505,913	500,437	1,372,634
Provision for estimated losses				
on program loans receivable		1,000,000		1,000,000
Total operating expenses	166,868,365	64,949,717	61,481,246	293,299,328
Operating income (loss)	398,534	5,261,745	(5,954,328)	(294,049)
Other:				
Transfers in	182	5,309,886	1,967,418	7,277,486
Transfers out	(211,828)		(1,865,658)	(2,077,486)
Total other	(211,646)	5,309,886	101,760	5,200,000
Change in net assets	186,888	10,571,631	(5,852,568)	4,905,951
Net assets at beginning of year	110,727,754	123,350,910	44,670,933	278,749,597
Net assets at end of year	\$ 110,914,642	133,922,541	38,818,365	283,655,548

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

ILLINOIS HOUSING DEVELOPMENT AUTHORITY
(A Component Unit of the State of Illinois)

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2003

	Administrative Fund	Mortgage Loan Program Fund	Single Family Program Fund	Total
Cash flows from operating activities:				
Cash received from interest, service fees, and principal on program loans	\$ 21,490,695	79,382,951	341,931,568	442,805,214
Cash payments for loaned amounts	(6,448,267)	(19,127,750)	(115,180,213)	(140,756,230)
Cash received from federal assistance programs	147,434,153	4,331,736		151,765,889
Cash payments for federal assistance programs	(140,302,527)	(4,331,736)		(144,634,263)
Cash payments for operating expenses	(20,779,406)		(354,957)	(21,134,363)
Interest on investments	2,910,746	10,582,976	10,299,926	23,793,648
Other	2,485,651	3,709,993	(1,620,913)	4,574,731
Net cash provided by operating activities	<u>6,791,045</u>	<u>74,548,170</u>	<u>235,075,411</u>	<u>316,414,626</u>
Cash flows from noncapital financing activities:				
Proceeds from sale of revenue bonds and notes		40,240,000	245,485,000	285,725,000
Principal paid on revenue bonds and notes		(49,470,000)	(343,335,000)	(392,805,000)
Interest paid on revenue bonds and notes		(53,616,726)	(57,441,627)	(111,058,353)
Transfers in	182	5,309,886	1,967,418	7,277,486
Transfers out	(211,828)		(1,865,658)	(2,077,486)
Other		(2,184,384)	(1,884,976)	(4,069,360)
Net cash used in noncapital financing activities	<u>(211,646)</u>	<u>(59,721,224)</u>	<u>(157,074,843)</u>	<u>(217,007,713)</u>
Cash flows from investing activities:				
Purchase of investment securities	(557,342,884)	(367,402,647)	(794,946,199)	(1,719,691,730)
Proceeds from sales and maturities of investment securities	544,840,196	352,885,222	705,221,525	1,602,946,943
Developer escrow and other interest	3,586,246			3,586,246
Net cash used in investing activities	<u>(8,916,442)</u>	<u>(14,517,425)</u>	<u>(89,724,674)</u>	<u>(113,158,541)</u>
Net increase (decrease) in cash and cash equivalents	(2,337,043)	309,521	(11,724,106)	(13,751,628)
Cash and cash equivalents at beginning of year	29,006,386	1,704,396	18,636,994	49,347,776
Cash and cash equivalents at end of year	<u>\$ 26,669,343</u>	<u>2,013,917</u>	<u>6,912,888</u>	<u>35,596,148</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:				
Operating income (loss)	\$ 398,534	5,261,745	(5,954,328)	(294,049)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Interest expense		57,611,152	60,685,257	118,296,409
Depreciation and amortization	327,501	800,000		1,127,501
Provision for estimated losses on program loans receivable		1,000,000		1,000,000
Changes in assets and liabilities:				
Decrease (increase) in investment income receivable	348,584	6,939	(550,401)	(194,878)
Decrease in program loan and interest receivable	7,965,003	10,729,884	183,419,106	202,113,993
Increase (decrease) in due to/from other funds	(169,842)	(246,686)	441,030	24,502
Increase (decrease) in other liabilities	1,732,129	2,481,941	(1,619,784)	2,594,286
Increase in other assets	(1,859,283)	(139,939)	(483,993)	(2,483,215)
Other	(1,951,581)	(2,956,866)	(861,476)	(5,769,923)
Total adjustments	<u>6,392,511</u>	<u>69,286,425</u>	<u>241,029,739</u>	<u>316,708,675</u>
Net cash provided by operating activities	<u>\$ 6,791,045</u>	<u>74,548,170</u>	<u>235,075,411</u>	<u>316,414,626</u>

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

ILLINOIS HOUSING DEVELOPMENT AUTHORITY
(A Component Unit of the State of Illinois)
NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2003

NOTE A—AUTHORIZING LEGISLATION

The Illinois Housing Development Authority (the “Authority”) is a body politic and corporate of the State of Illinois (the “State”) created by the Illinois Housing Development Act, as amended (the “Act”), for the purposes of assisting in the financing of decent, safe and sanitary housing for persons and families of low and moderate income in the State and assisting in the financing of residential mortgages in the State. To accomplish its purposes, the Authority is authorized by the Act to make mortgage or other loans to nonprofit corporations and limited-profit entities for the acquisition, construction or rehabilitation of dwelling accommodations and to acquire, and to contract and enter into advance commitments to acquire, residential mortgage loans from lending institutions. The Act also authorizes the Authority to issue its bonds and notes to fulfill corporate purposes, including the financing of mortgage and construction loans, the acquisition of residential mortgage loans and the making of loans for housing related commercial facilities. The Authority has issued various bonds and notes to finance mortgage loans and construction loans, to purchase residential mortgage loans from lending institutions and to make loans to private lending institutions for making new residential mortgage loans.

The bonds and notes outstanding as of June 30, 2003, as shown on the Authority’s financial statements consist of both general and special limited obligations of the Authority (see Note F). The full faith and credit of the Authority are pledged for payment of general obligation bonds and notes. The Authority has the power under the Act to have up to \$3,600,000,000 of general and special limited obligation bonds and notes outstanding, excluding those issued to refund outstanding bonds and notes. At June 30, 2003, amounts outstanding against this limitation were approximately \$2,083,000,000.

NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following summarizes the significant accounting policies of the Authority:

Reporting Entity

As defined by accounting principles generally accepted in the United States established by the Governmental Accounting Standards Board (“GASB”), the financial reporting entity consists of the primary government, as well as its component units, which are legally separate organizations for which the elected officials of the primary government are financially accountable. Financial accountability is defined as:

- (1) Appointment of a voting majority of the component unit’s board, and either a) the ability of the primary government to impose its will, or b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government; or
- (2) Fiscal dependency on the primary government.

For financial reporting purposes, the Authority is a component unit of the State of Illinois. The Authority has no component units.

Basis of Presentation

Government-wide Statements. The government-wide statement of net assets and statement of activities report the overall financial activity of the Authority. Eliminations have been made to minimize the double-accounting of internal activities of the Authority. These statements distinguish between the *governmental* and *business-type* activities of the Authority. Governmental activities generally are financed through taxes, intergovernmental revenues and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the Authority and for each function of the Authority’s governmental activities. Direct

NOTES TO FINANCIAL STATEMENTS—(CONTINUED)

For the Year Ended June 30, 2003

expenses are those that are clearly identifiable with a specific function. Program revenues include (a) charges paid by the recipients for goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements. The fund financial statements provide information about the Authority’s funds. Separate statements for each fund category, governmental and proprietary, are presented. The emphasis on fund financial statements is on major governmental and proprietary (enterprise) funds, each displayed in a separate column. Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund including interest income, service fees and development fees. Exchange transactions are those in which each party receives and gives up essentially equal values.

The Authority reports the following major governmental funds:

Illinois Affordable Housing Trust Fund

The Authority is designated administrator of the Illinois Affordable Housing Program. The program is funded by the Illinois Affordable Housing Trust Fund with funds generated from a portion of the State real estate transfer tax collected by the Illinois Department of Revenue and held within the State Treasury. The funds are appropriated to the Illinois Department of Revenue by the General Assembly. In accordance with State statute, the Authority makes grants and low or no interest mortgages or other loans, some with deferred repayment terms, to acquire, construct, rehabilitate, develop, operate, insure and retain affordable single family and multi-family housing for low and very low income households.

HOME Investment Partnerships Program

The Authority is designated program administrator for the HOME Investment Partnerships Program (“HOME Program”) for the State, the funds of which are appropriated to the Department of Revenue by the General Assembly. Under this program, the Authority seeks applicants and approves funding commitments for federal affordable housing funds made available under the HOME Program provisions of the 1990 National Affordable Housing Act.

The Authority reports the following major proprietary funds:

Administrative Fund

Development fee and financing fee income related to multi-family mortgage loans, income from service fees and operating expenses of the Authority are accounted for in the Administrative Fund. In addition, the Administrative Fund has provided for supplemental financing of certain developments through residual income loans and below market financing for various developments through the Authority’s Housing Partnership Program (see Note E), and its lending program in conjunction with a debt service savings sharing agreement (“the FAF Savings Program”) with the United States Department of Housing and Urban Development (“HUD”) (see Note K).

The designations of the Authority’s Administrative Fund unrestricted net assets as of June 30, 2003 are as follows:

Housing Partnership Program.....	\$10,000,000
To pay expenses for programs under commitment or contract.....	3,000,000
Multi-Family development taxable financing program.....	6,000,000
To pay possible losses arising in the Multi-Family Bond Fund	
Program attributable, but not limited to, delinquencies or defaults	
on uninsured or unsubsidized loans.....	24,000,000
Provide reserves to support the Authority’s Multi-Family Housing	
Risk Sharing Program.....	10,000,000
Provide funds and reserves to purchase single family mortgage loans	
to be acquired under the Single Family Program from the proceeds	
of future issuances of IHDA bonds.....	15,000,000
Provide funds and reserves to support the Mortgage Participation	
Certificate Program.....	<u>20,000,000</u>
	<u>\$88,000,000</u>

NOTES TO FINANCIAL STATEMENTS—(CONTINUED)

For the Year Ended June 30, 2003

The designations of the Administrative Fund unrestricted net assets may be amended or rescinded by the Members of the Authority.

The Administrative Fund net assets that are classified as restricted by contractual agreement consist of the FAF Savings Program and income from insurance proceeds that was required to be disbursed as a loan to Lake Grove Village (ML-248).

Mortgage Loan Program Fund

The Mortgage Loan Program Fund accounts for the financing of low and moderate income housing developments from the proceeds of Housing Development Bonds, Multi-Family Housing Bonds, Fixed Rate Housing Bonds, Multi-Family Program Bonds, Multi-Family Variable Rate Demand Bonds, Multi-Family Housing Revenue Bonds, Housing Bonds, Housing Finance Bonds, Multifamily Housing Revenue Bonds (Marywood), Multifamily Bonds (Turnberry) and Affordable Housing Program Trust Fund Bonds, and for the retirement of such obligations.

The Authority holds first mortgage liens on such developments. Affordable Housing Trust Fund Bond accounts include a transfer of funds from the Illinois Affordable Housing Trust Fund.

Single Family Program Fund

The Single Family Program Fund accounts for the proceeds of Homeowner, Residential and Owner Occupied Mortgage Revenue Bonds issued to provide funds for the purchase from lending institutions of mortgage loans on owner-occupied, one to four unit dwellings acquired by eligible buyers.

The use of tax exempt financing to provide eligible borrowers with below market-rate mortgage loans involves federal restrictions on expenses chargeable to the program. Any expenses incurred in the program in excess of such maximum amounts are absorbed by the Administrative Fund.

Restrictions of Assets and Fund Equity

The use of assets of each of the program funds is restricted by the related bond and note resolutions of the Authority. Certain amounts in the above program funds are considered subject to the restriction that they be applied to the financing of housing for the respective program purposes or to the retirement of obligations issued for such purposes; these amounts may include certain investment earnings attributable to the respective fund net assets. State statute restricts the use of the Illinois Affordable Housing Trust Fund and the HOME Program as noted above. Accordingly, fund balances of these governmental funds are reserved for loans not due within one year. All net assets of the governmental activities column of the Authority-wide financial statements are restricted with respect to the use of cash investments and loan amounts that are to be repaid to the Authority. (See Note E for schedules of aging for the loans made under these programs. In addition, see the governmental funds – balance sheet, fund balance).

Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flow takes place. Nonexchange transactions, in which the Authority receives value without directly giving equal value in exchange, include revenues from federal assistance programs. Revenue from these sources is recognized in the fiscal year in which all eligibility requirements have been met.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal year.

Separate fund financial statements are provided for governmental and proprietary funds. Real estate transfer taxes of governmental funds are susceptible to accrual. All amounts susceptible to accrual were received prior to the end of the

NOTES TO FINANCIAL STATEMENTS—(CONTINUED)

For the Year Ended June 30, 2003

fiscal year. Major individual governmental funds and proprietary funds are reported as separate columns in the fund financial statements.

The Authority applies all GASB pronouncements for the Authority's proprietary funds, as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Statements and Interpretations of the Financial Accounting Standards Board, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to use estimates and assumptions that affect the reported amounts of 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 the estimates.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Authority considers all cash, certificates of deposits, time deposits and short-term repurchase agreements to be cash equivalents.

Investments

Investments of the Authority, which are generally held to maturity, are reported at fair value, with the exceptions of nonparticipating investment contracts ("demand repurchase agreements"), which are reported at cost, and money market investments that have a remaining maturity at time of purchase of one year or less, which are reported at amortized cost.

The investment of funds is restricted by various bond and note resolutions of the Authority and the Act, generally, to direct obligations of the United States government; specific bank obligations, certain of which are fully secured as required by the bond and note resolutions; and obligations of other governmental entities which meet defined standards. The type of collateral instruments that secure the demand repurchase agreements held by the Authority is subject to the same restrictions described above. Generally, collateral instruments are held by third party institutions.

Program Loans Receivable

Program Loans receivable include mortgage loans receivable, advances receivable and residual income loans receivable. Mortgage loans receivable include initial development fees and certain amounts of interest and service fees that have been charged by the Authority and added to the loan balance. The due dates for advances and residual income loans receivable are dependent upon future events as specified in the related loan or advance agreements. All loans are reported at undiscounted face value.

Capital Assets

Capital assets of the Authority consist of investments in furniture, fixtures and equipment, computer hardware and computer software are defined by the Authority as assets with an initial, individual cost of \$5,000 or more. Depreciation or amortization is on a straight-line basis over a period of five to ten years, depending upon the nature of the asset. Depreciation and amortization expenses for fiscal year 2003 were approximately \$328,000.

Real Estate Held for Sale

Real estate held for sale arises from foreclosures or other mortgage default-related actions on properties pledged as collateral on mortgage loans. Real estate held for sale in connection with the Single Family Program Fund is recorded at the unpaid principal balance of the loans. Since substantially all such loans are covered by pool insurance, based on the Authority's past experience, it is anticipated that the Authority will recover substantially all of the unpaid principal balances of the loans through proceeds arising from the sale of such property and certain insurance proceeds.

Real estate held for sale of the Mortgage Loan Program Fund represents the Authority's net carrying value of Lakeshore Plaza ("ML-181"), which the Authority acquired by deed in lieu of foreclosure on April 27, 1990.

NOTES TO FINANCIAL STATEMENTS—(CONTINUED)

For the Year Ended June 30, 2003

The Authority records depreciation against ML-181 on a straight-line basis over forty years, as past market conditions did not allow for a sale of the property. At June 30, 2003, the net carrying value of ML-181 was \$29,881,739 and accumulated depreciation was \$7,811,000.

The real estate held for sale is reported at the lower of amortized cost or fair market value. The determination of fair market value is based upon periodic valuations that consider changes in market condition, development and disposition costs, and estimated holding period. Net operating income of ML-181 is recorded as other income and is applied primarily toward the Authority's debt service obligations of the bonds issued to refinance the development.

It is the intent of the Authority to continue to own and operate ML-181 until the Authority determines that a sale or other disposition of the development would be in the best interests of the Authority. The Authority cannot predict at this time as to the dates on which, or the circumstances pursuant to which, such determinations might be made.

Bond Discount and Issuance Costs

Discount on bonds is deferred and amortized using a method approximating the interest method. Debt issuance costs are deferred in the corresponding bond accounts and amortized over the life of the related bonds using a method approximating the interest method. When these costs exceed the designated amounts per the bond agreements, the excess bond issuance costs are expensed to the Administrative Fund.

Operations

Development fee and financing fee income are deferred and amortized over the contractual life of the loan as a yield adjustment using the interest method. Such amortized fees are recognized as interest income. Fees earned on loans, which the Authority does not directly originate, such as loans financed through Other Financings (see Note F), are recognized as income in the Administrative Fund generally at the time of initial closing.

Annual service fees charged by the Authority to loan recipients, which are deposited in the respective program funds or added to program loans receivable, are recorded as income in the Administrative Fund through interfund accounts.

Operating expenses include general and administrative expenses of the Authority; salaries and benefits; costs and expenses incurred in connection with the amortization, issuance and sale of certain bonds and notes; fees and expenses of trustees and depository and paying agents; and costs related to analyses, surveys, appraisals and other matters pertaining to maintenance and evaluation of program loans receivable. Operating costs and expenses are charged to expense as incurred, except those directly related to loan or program originations, which are deferred, netted against fee income for loans originated, and amortized over the contractual life of the related loan or program.

A portion of the Authority's operating expenses of administering the Illinois Affordable Housing Trust Fund and the HOME Program is absorbed by these programs. Similarly, related resolutions of various bonds issued allow for the bond accounts to absorb a certain level of operating expenses. Expense in excess of the allowable ceilings set forth in the resolutions are charged to the Administrative Fund.

Direct expenses as shown in the statement of activities include allocations of Administrative Fund expenses of Authority departments directly involved in the production or monitoring activities associated with the programs, as well as certain costs, both internally and externally incurred, associated with these programs. Administrative costs include certain administrative and supportive functions and all overhead expenses.

Compensated Absences

The Authority grants vacation and sick leave to all employees and accrues for unused compensated absences. Vacations are allotted on a calendar year basis and are intended to be taken during that year. Unused sick leave allowance is carried forward and accumulated. In the event of termination, employees are paid for all earned but unused vacation time and, within a maximum time limit, for one half of accumulated sick leave earned. At June 30, 2003, unused compensated absences, which are included in Other Liabilities, were \$442,766. The Authority has no other post-employment benefits.

NOTES TO FINANCIAL STATEMENTS—(CONTINUED)

For the Year Ended June 30, 2003

Provision for Estimated Losses on Program Loans

The Authority provides for estimated losses on program loans in its proprietary and governmental funds based upon the periodic review and evaluation of the loan portfolio and provides additional amounts, if it deems necessary, for estimated losses for individual loans in the funds. In making such review and evaluation, the Authority considers current economic conditions, occupancy and rental level projections, financial statement analyses, on-site inspections, independent appraisals of certain developments, insurance coverages and such other factors as it deems necessary.

NOTE C—CASH AND INVESTMENTS

Statutes of the State and resolutions of the Authority authorize the Authority to invest in obligations of the United States Government, agencies and instrumentalities of the United States Government, demand repurchase agreements and other banking arrangements. The Authority may also invest its funds in such investments as may be lawful for fiduciaries in the State. Except for a portion of the funds of the Affordable Housing Trust Fund and HOME Program, all funds are held outside of the State Treasury in various banks and financial institutions.

The Authority's Investments and Cash Management Policy (the "Investment Policy") contains the following stated objectives:

- Safety of principal. Each investment transaction shall seek to ensure that capital losses within the investment portfolio are avoided, whether they be from securities defaults or erosion of market value.
- Liquidity. The investment portfolio shall remain sufficiently flexible to enable the Authority to meet all operating requirements which may be reasonably anticipated in any fund.
- Maximum rate of return. The investment portfolio shall be designed with the purpose of regularly exceeding the average return of United States Treasury obligations of comparable maturities. The investment program shall seek to augment returns above this threshold, consistent with risk limitations identified herein and prudent investment principles.

As of June 30, 2003, the Authority had the following investments, maturities and credit quality.

Investment	Carrying Amount	Investment Maturities (in Years)				Custodial Credit Risk
		Less Than 1	1-5	6-10	More Than 10	
Demand Repurchase Agreements.....	\$431,161,034	\$92,327,902	\$11,660,572	\$ -	\$327,172,560	\$396,484
United States Agency Obligations.....	331,631,869	309,759,604	13,944,289	-	7,927,976	-
United States Government Obligations..	57,963,178	38,612,027	611,404	411,375	18,328,372	-
Acquired Bonds.....	31,649,900	1,700,000	9,608,338	6,867,613	13,473,949	-
Municipal Obligations and Other.....	<u>3,661,204</u>	<u>104,751</u>	<u>184,307</u>	<u>1,386,282</u>	<u>1,985,864</u>	-
	<u>\$856,067,185</u>	<u>\$442,504,284</u>	<u>\$36,008,910</u>	<u>\$ 8,665,270</u>	<u>\$368,888,721</u>	<u>\$396,484</u>

Demand repurchase agreements are collateralized by obligations of the United States Government or its agencies, or direct investments of such obligations and have one-day demand of funds provisions exercisable at the Authority's option. The market value of securities subject to such agreements must be maintained at least equal to 100 percent of the principal of and accrued interest on the invested funds by marking to market at least weekly and using an immediate under value cure provision. The Authority invests in demand repurchase agreements for both short-term (generally program funds) and long-term (generally reserve) investments. On June 30, 2003, approximately \$104 million was invested in such short-term agreements having various maturity dates out to September 1, 2005, primarily at rates ranging from 1.03% to 2.31% and approximately \$327 million was invested in such long-term agreements having maturity dates ranging from January 31, 2015, to August 1, 2032, primarily at rates ranging from 4.20% to 10.21%.

NOTES TO FINANCIAL STATEMENTS—(CONTINUED)

For the Year Ended June 30, 2003

The counterparties to the demand repurchase agreements are institutions whose unsecured debt securities are rated at least equal to the ratings on the Authority's debt, or in the case of short-term program fund investments, the highest short-term rating category.

During a prior fiscal year, the Authority issued its Housing Bonds, 1999 Series A, to refinance, directly or indirectly, all or a portion of 11 multi-family developments. A portion of the proceeds were used to purchase 1999 Series A Bonds ("Acquired Bonds") issued from the Authority's Housing Development and Multi-Family Housing Bond Accounts, the proceeds of which in turn were used to redeem previously issued bonds.

These Acquired Bonds are accounted for as an investment within the Housing Bond Account and as bonds outstanding within the Housing Development and Multi-Family Housing Bond Accounts.

NOTE D—INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

Interfund Balances

The Authority reports interfund balances among its funds. These balances generally consist of accruals for various revenues or expenses due to a fund, but received or paid to another, and subsidy transfers between funds. These amounts are paid or received within the subsequent fiscal year.

Interfund accounts receivable (payable) balances at June 30, 2003 consisted of the following:

Due To	Due From					Total
	Illinois Affordable Housing Trust	HOME Program	Administrative	Mortgage Loan Program	Single Family Program	
Administrative.....	\$ 965,403	\$ 426,168	\$ -	\$ 4,088,132	\$ 1,762,106	\$ 7,241,809
Mortgage Loan Program.....	-	-	24,580,590	-	-	24,580,590
Single Family Program.....	-	-	318,117	-	44,981	363,098
	<u>\$ 965,403</u>	<u>\$ 426,168</u>	<u>\$ 24,898,707</u>	<u>\$ 4,088,132</u>	<u>\$ 1,807,087</u>	<u>\$ 32,185,497</u>

Interfund accounts receivable (payable) between the Mortgage Loan Program and the Administrative Fund primarily consists of a fiscal year 2000 operating transfer of \$10.4 million to the Multi-Family Housing Revenue Bond Accounts made from the Administrative Fund in conjunction with the issuance of the Multi-Family Housing Revenue Bonds, Series 2000A (Lakeshore Plaza Development) and the corresponding transfer of the carrying value of real estate held for sale, ML-181, to these Funds. This interfund receivable is expected to be reduced over a period of successive fiscal years.

The Authority records transfers between program funds for various purposes including fund closings, earnings transfers, program subsidies, and equity contributions for the initial financing of the Authority's programs.

Transfers for the year ended June 30, 2003 consisted of the following:

Transfer To	Transfer From			Total
	Illinois Affordable Housing Trust	Administrative	Single Family Program	
Administrative.....	\$ -	\$ 182	\$ -	\$ 182
Mortgage Loan Program.....	5,200,000	109,886	-	5,309,886
Single Family Program.....	-	101,760	1,865,658	1,967,418
	<u>\$ 5,200,000</u>	<u>\$ 211,828</u>	<u>\$ 1,865,658</u>	<u>\$ 7,277,486</u>

NOTES TO FINANCIAL STATEMENTS—(CONTINUED)

For the Year Ended June 30, 2003

Pursuant to the Illinois Affordable Housing Act, amounts up to \$10,000,000 in any fiscal year may be transferred, following an annual Authority certification to the Illinois Department of Revenue of the amounts required to be withdrawn, from the Illinois Affordable Housing Trust Fund to the Affordable Housing Program Trust Fund Bond Accounts. The amounts transferred during the year ended June 30, 2003 totaled \$5,200,000.

NOTE E—PROGRAM LOANS RECEIVABLE

The Authority has loans throughout the State, of which approximately two-thirds are in the Chicago metropolitan area. Loans receivable in the Mortgage Loan Program Fund are secured by first mortgage liens on the related developments. Each development is subject to a regulatory agreement under which the Authority has certain powers relating to rents, profits, occupancy, management and operations. Monies are required to be deposited in reserve accounts monthly by all mortgagors for real estate tax reserves and by substantially all mortgagors for insurance and replacement reserves. See Note G regarding these reserves and other deposits held in escrow.

The ability of the mortgagors to make required payments on the mortgage loans receivable depends principally upon the related developments achieving and sustaining sufficient occupancy and rental levels to support such payments. With respect to most developments financed from proceeds of Multi-Family Housing Bonds and Multi-Family Program Bonds, the Authority, HUD and the owners of the developments have entered into agreements whereby HUD will make, under its Section 8 Program, housing assistance payments for the developments. With respect to Housing Development Bonds, Fixed Rate Housing Bonds and Housing Bonds, the Authority has made loans to finance developments entitled to interest reduction payments by HUD under Section 236 of the National Housing Act for all or a portion of the dwelling units in the developments. Such federal subsidies, together with the rents to be paid by the tenants, are estimated by the Authority, prior to its issuing an initial mortgage loan commitment, to provide sufficient funds to pay the costs of operation, maintenance, administration, mortgage payments, and Authority fees with respect to each of the developments.

During the year ended June 30, 2003, HUD subsidy payments were received and disbursed as follows:

<u>Program</u>	<u>Received</u>	<u>Disbursed</u>
Section 8	\$151,191,090	\$149,636,132
Section 236	5,826,652	5,826,652

The Authority records HUD Section 8 housing assistance transactions in its Administrative Fund. HUD Section 236 transactions are recorded in the Housing Development, Fixed Rate Housing and Housing Bond Accounts.

At June 30, 2003, for loans financed under the Mortgage Loan Program Fund, amounts in arrears equal to more than two months debt service payments and required deposits to tax and insurance and/or replacement reserves were \$305,550 and \$62,381, respectively.

For certain past delinquencies, the related developments have not been able to generate net rental income sufficient to pay scheduled debt service and reserve deposits in full. In the opinion of the Authority, these deficiencies of net rental income have arisen for various reasons including (i) the existence of physical defects in the development which have caused operational problems, (ii) higher than anticipated operating expenses of the development and (iii) depressed rental market conditions in the development's local area.

In certain cases, cash deficiencies of developments, including certain developments as to which the related mortgage loans are not delinquent as to scheduled debt service payments or required reserve deposits, have been funded in part by advances from the owners of the respective developments. However, there generally can be no assurance that the owners will make additional advances for this purpose. For certain mortgage loans, the Authority holds reserve deposits and letters of credit that may be applied toward delinquencies.

The Authority has pursued actions available under the mortgage and regulatory agreements to cure certain delinquencies. With respect to some developments, the need for capital improvements, repairs, marketing campaigns and other expenditures may be indicated. Where necessary and appropriate, the Authority has committed and/or advanced residual income loans from the Administrative Fund or mortgage loan increases from the related program accrual to finance these expenditures. In certain instances the Authority has initiated actions to effect necessary changes in the management of the developments. In addition, the Authority has, in some cases, filed suit against the applicable general contractors and/or bonding companies seeking corrections of the development's physical defects and has instituted foreclosure proceedings for certain developments.

NOTES TO FINANCIAL STATEMENTS—(CONTINUED)

For the Year Ended June 30, 2003

The Authority has a second mortgage agreement relating to a \$6.7 million first mortgage for Innsbruck Apartments, ML-19. Under this agreement, upon the development's payment of a debt service amount as set forth in the agreement, the Authority, from its Administrative Fund, was obligated to subsidize debt service payments related to the first mortgage up to a maximum of \$6.2 million. The subsidy payments were applied to receivables of the Housing Development Bond and the Fixed Rate Housing Bond accounts. The maximum subsidy amount was reached in May 1999, after which the development became fully obligated for debt service of the receivables of the above bond accounts. The development is obligated to reimburse the Administrative Fund debt service subsidy payments from a portion of residual receipts generated from the development.

The Authority's policy for converting mortgage loans to non-accrual status is based upon the recording of a specifically identifiable allowance for estimated loss. The accrual of interest and service fee income has been suspended on approximately \$10.0 million of mortgage loans in the Mortgage Loan Program Fund and \$7.1 million of mortgage loans in the Administrative Fund at June 30, 2003, for which allowances for estimated losses have been provided, and such income is being recognized only as received. Interest and service fee income due but not accrued was approximately \$35,000 in the Mortgage Loan Program Fund and \$523,000 in the Administrative Fund at June 30, 2003. In addition, the Authority does not accrue interest income on approximately \$14.5 million of mortgage loans recorded in the Administrative Fund. Payments made on such loans, which generally are payable from residual receipts, if any, of the affected development funds, are recognized only as received. The annual amount of interest on these loans is approximately \$328,000.

The Authority, through its Housing Partnership Program, provides loans to not-for-profit organizations, community groups and cities to finance the rehabilitation of existing housing and for the construction of new housing for low and moderate income persons and families. The program's activities are recorded in the Administrative Fund. At June 30, 2003, loans receivable under this program were approximately \$7,561,352.

In June 1994, the Authority entered into a Risk Sharing Agreement ("Agreement") with HUD that permitted the Authority to participate in HUD's Pilot Risk Sharing Program, which has since been converted to a permanent program. Under this program, HUD will insure certain mortgage loans on multi-family housing developments ("Risk Sharing Loans"). HUD has authorized the Authority to make an unlimited amount of loans for such developments. Under the Agreement, the Authority will underwrite Risk Sharing Loans following its underwriting guidelines. HUD will insure the Risk Sharing Loans and will bear 10 to 90 percent of the loss, as elected by the Authority, in the event of a foreclosure. The Authority will bear the remainder of the risk.

The Authority, as of June 30, 2003, has entered into twenty-six Risk Sharing Loans totaling \$130,028,353 and elected that HUD assume 10 to 50 percent of the loss with respect to those loans. Except for three loans totaling \$16,591,000 which were financed through the issuance of the Authority's Housing Finance Bonds and two loans totaling \$10,993,148 which were financed through the issuance of the Authority's Multi-Family Housing Bonds, these loans are not included in the Authority's financial statements as the Authority sold 100 percent participation interests in the loans to outside parties. The program's service and insurance fee incomes are recorded in the Administrative Fund.

In December 2000, the Authority received a commitment from Ambac Assurance Corporation ("Ambac") under which Ambac will insure mortgage loans ("Ambac Loans") on multi-family housing developments under the Authority's Mortgage Participation Certificate Program. Ambac has guaranteed repayment of principal and interest due on a timely or accelerated basis in accordance with the agreement between the Authority and Ambac. Once Ambac Loans are issued and minimum threshold requirements are met, Ambac and the Authority will enter into a sharing agreement on the remaining principal balance on each mortgage loan. As of June 30, 2003, the Authority has entered into six Ambac Loans totaling \$24,743,000.

At June 30, 2003, for loans financed under the Risk Sharing and Mortgage Participation Certificate Programs, there were no amounts in arrears equal to more than two months debt service payments or required deposits to tax and insurance and/or replacement reserves.

With respect to mortgage loans funded by Residential Mortgage Revenue Bonds, substantially all delinquent mortgage loans receivable at June 30, 2003, were covered by pool insurance, which provides for loss coverage to an aggregate limit equal to at least ten percent of the aggregate original principal amount of the mortgage loans so covered.

NOTES TO FINANCIAL STATEMENTS—(CONTINUED)

For the Year Ended June 30, 2003

With respect to the mortgage loans funded by the Homeowner Mortgage Revenue Bonds, substantially all delinquent mortgage loans receivable at June 30, 2003, were covered by pool insurance, which provides for an aggregate limit equal to 3.5% of the aggregate original principal amount of mortgage loans so covered, less a deductible ranging from zero to 1.0% of the aggregate of the original amount of all mortgage loans covered.

Loans made through the Illinois Affordable Housing Trust Fund are to acquire, construct, rehabilitate, develop, operate, insure and retain affordable single family and multi-family housing for low and very low-income households. Interest rates on these loans are set at below market rates and have ranged from 0% to 7.5%, with most rates set at 2.0% or below. Loans have maturities of up to 40 years, with some loans carrying deferred payment terms. The approximate aging of the Illinois Affordable Housing Trust Fund receivables as of June 30, 2003, is as follows:

Interest Rate - %	Principal Due By June 30				
	2004	2009	2019	After 2019	Total
	(\$ in thousands)				
0 - .99.....	\$ 4,265	\$ 5,819	\$ 10,979	\$ 47,984	\$ 69,047
1 - 1.99.....	2,283	6,530	20,507	54,805	84,125
2 - 3.99.....	431	1,237	2,946	7,730	12,344
4 - 7.00.....	<u>55</u>	<u>173</u>	<u>507</u>	<u>767</u>	<u>1,502</u>
	<u>\$ 7,034</u>	<u>\$13,759</u>	<u>\$34,939</u>	<u>\$ 111,286</u>	<u>\$ 167,018</u>

The approximate aging of the receivables of the HOME program as of June 30, 2003, is as follows:

Interest Rate - %	Principal Due By June 30				
	2004	2009	2019	After 2019	Total
	(\$ in thousands)				
0 - .99.....	\$ 93	\$ 533	\$ 3,937	\$ 29,940	\$ 34,503
1 - 1.99.....	948	3,861	17,717	41,966	64,492
2 - 3.99.....	144	581	1,461	548	2,734
4 - 6.00.....	<u>0</u>	<u>0</u>	<u>0</u>	<u>2,235</u>	<u>2,235</u>
	<u>\$ 1,185</u>	<u>\$ 4,975</u>	<u>\$ 23,115</u>	<u>\$ 74,689</u>	<u>\$ 103,964</u>

The Authority has reviewed each program loan receivable, including those for developments in the construction or rent-up phases, for the purpose of determining ultimate collectibility. The Authority believes that the allowances for estimated losses at June 30, 2003 in the accompanying financial statements are adequate to cover estimated losses of the various funds. For fiscal year 2003, the Authority increased the allowances for estimated losses for its Mortgage Loan Program Fund and the Illinois Affordable Housing Trust Fund by \$1,000,000 each, and increased the allowances for estimated losses for the HOME Program Fund by \$500,000. No other write-offs or other adjustments were made.

Scheduled receipts of principal on proprietary fund program loans receivable in the five years subsequent to June 30, 2003 and thereafter are as follows:

2004.....	\$35,802,000
2005.....	37,932,000
2006.....	40,940,000
2007.....	45,537,000
2008.....	49,359,000
After 2008.....	<u>1,167,784,000</u>
	<u>\$1,377,354,000</u>

NOTES TO FINANCIAL STATEMENTS—(CONTINUED)

For the Year Ended June 30, 2003

NOTE F—BONDS AND NOTES PAYABLE

Bonds and notes outstanding are general obligations (G.O.) of the Authority with the exception of Homeowner Mortgage Revenue Bonds, Affordable Housing Program Trust Fund Bonds, Multi-Family Variable Rate Demand Bonds, Housing Finance Bonds, Multifamily Housing Revenue Bonds (Marywood), Multifamily Bonds (Turnberry), Multi-Family Housing Bonds, 1995 Series A, Multi-Family Program Bonds, Series 7 and 8, and Multi-Family Housing Revenue Bonds, 2000 Series A, which are special limited obligations (S.L.O.) of the Authority, payable from pledged property as defined in their respective general resolutions. The Authority has also pledged its general obligation to the payment of the Affordable Housing Program Trust Fund Bonds to a limited extent and amounts.

Bonds and notes outstanding at June 30, 2003 are as follows. The June 30, 2002 amounts are shown for comparative purposes only.

Mortgage Loan Program Fund

Bonds outstanding of the Mortgage Loan Program Fund are as follows:

	Maturity Dates	Interest Rate Range-%	Debt Class	Amount	
				June 30, 2002	June 30, 2003
Housing Development Bonds:					
1993 Series A	2003-2018	5.10 – 6.00	G.O.	\$58,700,000	\$56,505,000
1999 Series A	2003-2015	3.94 – 5.19	G.O.	<u>23,600,000</u>	<u>22,155,000</u>
				82,300,000	78,660,000
Less unamortized discount thereon.				<u>134,363</u>	<u>121,118</u>
				<u>\$82,165,637</u>	<u>\$78,538,882</u>
Multi-Family Housing Bonds:					
1979 Series B	2019-2023	6.00	G.O.	275,000	275,000
1982 Series B	2011-2017	7.00	G.O.	18,840,000	18,840,000
1982 Series C	2015-2025	5.00	G.O.	29,705,000	29,705,000
1983 Series A (1)	2006-2025	10.75	G.O.	12,177,479	13,521,739
1991 Series A	2003-2016	8.00-8.25	G.O.	64,685,000	62,325,000
1991 Series C	2003-2023	6.75-7.35	G.O.	8,665,000	8,180,000
1992 Series A	2003-2026	6.45-7.10	G.O.	39,845,000	37,950,000
1993 Series A	2004-2025	6.05-6.13	G.O.	42,935,000	42,935,000
1993 Series B (Taxable)	2003-2003	6.85	G.O.	1,715,000	880,000
1993 Series C	2003-2028	5.80-6.10	G.O.	12,010,000	12,010,000
1993 Series D (Taxable)	2003-2003	6.80	G.O.	325,000	130,000
1994 Series A and B	2003-2020	6.40-6.80	G.O.	4,620,000	3,785,000
1995 Series A	2003-2021	4.80-5.95	S.L.O.	22,230,000	21,525,000
1999 Series A	2003-2028	3.94-5.31	G.O.	9,790,000	9,605,000
2001 Series B	2003-2043	4.60-5.50	S.L.O.	<u>10,990,000</u>	<u>10,895,000</u>
				278,807,479	272,561,739
Less unamortized discount thereon.				<u>16,215,685</u>	<u>15,889,720</u>
				<u>\$262,591,794</u>	<u>\$256,672,019</u>

- (1) Capital appreciation term bonds which were originally issued in the amount of \$1,750,000 and which are scheduled for redemption in part, on a semi-annual basis from July 1, 2009 through July 1, 2025, at accreted values aggregating \$45,941,387.

Fixed Rate Housing Bonds:					
1984 Series A	2003-2021	7.25	G.O.	\$8,795,000	\$8,585,000
1984 Series D	2003-2015	7.25	G.O.	<u>2,020,000</u>	<u>1,935,000</u>
				<u>\$10,815,000</u>	<u>\$10,520,000</u>

NOTES TO FINANCIAL STATEMENTS—(CONTINUED)

For the Year Ended June 30, 2003

	<u>Maturity Dates</u>	<u>Interest Rate Range-%</u>	<u>Debt Class</u>	<u>Amount</u>	
				<u>June 30, 2002</u>	<u>June 30, 2003</u>
Multi-Family Program Bonds:					
Series 1	2005-2021	6.63-6.75	G.O.	\$45,715,000	\$45,715,000
Series 2 (Taxable)	2003-2005	7.85	G.O.	7,830,000	5,420,000
Series 3	2009-2023	6.05-6.20	G.O.	98,135,000	98,135,000
Series 4 (Taxable)	2003-2008	7.20-7.80	G.O.	29,910,000	26,190,000
Series 5	2007-2023	6.65-6.75	G.O.	74,725,000	74,725,000
Series 6 (Taxable)	2003-2006	8.02-8.28	G.O.	15,295,000	12,365,000
Series 7	2019-2029	6.25	S.L.O.	11,350,000	11,350,000
Series 8 (Taxable)	2003-2031	7.19-8.52	S.L.O.	<u>17,010,000</u>	<u>16,690,000</u>
				<u>\$299,970,000</u>	<u>\$290,590,000</u>
Housing Bonds:					
1999 Series A	2003-2031	3.88-5.25	G.O.	\$42,770,000	\$40,960,000
1999 Series B (1)			G.O.	4,305,000	-
1999 Series C	2003-2003	6.05	G.O.	<u>255,000</u>	<u>90,000</u>
				<u>\$47,330,000</u>	<u>\$41,050,000</u>
Housing Finance Bonds:					
1999 Series B	2003-2030	4.80-6.30	S.L.O.	\$5,575,000	\$5,495,000
2000 Series A	2003-2032	5.75-6.30	S.L.O.	<u>9,450,000</u>	<u>9,330,000</u>
				<u>\$15,025,000</u>	<u>\$14,825,000</u>
Multi-Family Variable Rate Demand Bonds:					
Series 1996A (Taxable) (1)	2026	6.28	S.L.O.	<u>\$8,135,000</u>	<u>\$8,135,000</u>
Multi-Family Housing Revenue Bonds:					
Series 1997(1)		5.75	G.O.	\$14,170,000	\$14,170,000
Series 2000 A (1)		5.50	S.L.O.	<u>43,185,000</u>	<u>42,385,000</u>
				<u>\$57,355,000</u>	<u>\$56,555,000</u>
(1) Interest rates on the bonds are determined weekly at a rate established by the Remarketing Agents on each Rate Determination Date. The Authority has agreements with liquidity providers to purchase any bonds tendered for purchase in accordance with the indentures with respect to which the Trustee does not, on the date any such tendered bonds are required to be purchased, have sufficient funds to make such purchase. Payment of the principal and interest on the bonds when due is insured by a financial guarantee insurance policy. The Authority has a general obligation to reimburse the insurer for any such payments made.					
Multifamily Housing Revenue Bonds:					
Marywood Apartment Homes, Series 2003	2005-2045	4.50-5.20	S.L.O.	-	<u>\$15,865,000</u>
Multifamily Bonds:					
Turnberry Village II Apartments	2005-2045	4.50-4.75	S.L.O.	-	<u>\$5,320,000</u>
Affordable Housing Program Trust Fund Bonds:					
Series 1994 A	2003-2021	8.13-8.64	S.L.O.	\$43,925,000	\$42,700,000
Series 1995 A	2003-2022	6.74-7.82	S.L.O.	<u>39,160,000</u>	<u>38,155,000</u>
				<u>83,085,000</u>	<u>80,855,000</u>
Total Mortgage Loan Program Fund				882,822,479	874,936,739
Less unamortized discount thereon				<u>16,350,048</u>	<u>16,010,838</u>
				<u>\$866,472,431</u>	<u>\$858,925,901</u>

NOTES TO FINANCIAL STATEMENTS—(CONTINUED)

For the Year Ended June 30, 2003

Single Family Program Fund

Bonds outstanding of the Single Family Program Fund are as follows:

	Maturity Dates	Interest Rate Range-%	Debt Class	Amount	
				June 30, 2002	June 30, 2003
Residential Mortgage Revenue Bonds:					
1983 Series A	2015	10.872	G.O.	\$1,319	\$1,467
1983 Series B	2015	10.746	G.O.	1,339	1,487
1984 Series B	2016	11.257	G.O.	1,130	1,260
1985 Series A	2017	10.75	G.O.	1,086	1,206
1987 Series A	2004-2007	6.90	G.O.	1,395,000	-
1987 Series B	2014	8.13	G.O.	100,000	100,000
1987 Series C	2014	7.50	G.O.	100,000	100,000
1987 Series D	2017	8.65	G.O.	100,000	100,000
1988 Series A and B	2003	7.50-7.70	G.O.	10,000	-
1988 Series C	2003	7.70	G.O.	5,000	5,000
1993 Series A and B	2003-2024	4.80-5.90	G.O.	<u>20,680,000</u>	<u>10,700,000</u>
				<u>\$22,394,874</u>	<u>\$11,010,420</u>

The cumulative accretion in value from the date of issuance of the capital appreciation bonds included in the above amounts is summarized as follows:

Series	Redemption Basis and Period	Original Issue Amount (1)	Accreted Value		Aggregate Value to be Redeemed
			June 30, 2002	June 30, 2003	
1983 Series A	Maturity 2/1/15	\$180	\$1,319	\$1,467	\$5,000
1983 Series B	Maturity 2/1/15	193	1,339	1,487	5,000
1984 Series B	Maturity 2/1/16	166	1,130	1,260	5,000
1985 Series A	Maturity 2/1/17	190	1,086	1,206	5,000

(1) Amounts reflect original issue amounts of capital appreciation bonds outstanding as of June 30, 2003.

	Maturity Dates	Interest Rate Range-%	Debt Class	Amount	
				June 30, 2002	June 30, 2003
Homeowner Mortgage Revenue Bonds:					
1994 Series A	2003-2025	5.50-6.45	S.L.O.	\$ 25,535,000	\$ 1,970,000
1994 Series B	2003-2025	6.10-7.05	S.L.O.	8,775,000	-
1994 Series C	2026	6.63	S.L.O.	1,420,000	-
1995 Series A	2003-2022	5.80-6.85	S.L.O.	12,710,000	3,435,000
1995 Series B	2003-2026	5.40- 6.63	S.L.O.	22,825,000	14,735,000
1995 Series C	2003-2018	4.75-6.20	S.L.O.	10,670,000	7,205,000
1995 Series D	2003-2027	5.20-6.63	S.L.O.	27,385,000	6,555,000
1995 Series E	2023-2028	6.17	S.L.O.	7,860,000	7,760,000
1996 Series A	2003-2027	4.90-6.15	S.L.O.	24,955,000	18,995,000
1996 Series B	2006-2028	6.30-6.45	S.L.O.	20,945,000	10,780,000
1996 Series C	2019-2028	5.63-6.30	S.L.O.	15,585,000	14,685,000
1996 Series E	2003-2027	4.80-6.13	S.L.O.	18,645,000	15,405,000
1996 Series E-3 (Taxable)	2019-2027	7.43	S.L.O.	45,000	-
1996 Series F	2003-2028	4.35-5.65	S.L.O.	24,760,000	20,950,000
1997 Series A	2003-2028	4.80-6.15	S.L.O.	28,025,000	24,310,000
1997 Series B (remarketed 4/30/98)	2003-2028	4.20-5.50	S.L.O.	25,405,000	19,920,000
1997 Series B (remarketed 6/29/98)	2003-2028	4.20-5.40	S.L.O.	26,560,000	23,460,000

NOTES TO FINANCIAL STATEMENTS—(CONTINUED)

For the Year Ended June 30, 2003

	<u>Maturity Dates</u>	<u>Interest Rate Range-%</u>	<u>Debt Class</u>	<u>Amount June 30, 2002</u>	<u>June 30, 2003</u>
1997 Series C	2003-2028	4.40-6.00	S.L.O.	32,265,000	25,285,000
1997 Series C-5 (Taxable)	2003-2029	6.72-7.74	S.L.O.	17,060,000	5,825,000
1997 Series D	2003-2028	4.35-5.65	S.L.O.	16,425,000	13,865,000
1997 Series D-3 (Taxable)	2006-2028	6.60	S.L.O.	2,980,000	2,395,000
1998 Series A (Taxable)	2003-2028	6.45-7.16	S.L.O.	17,735,000	9,085,000
1998 Series C (Taxable)	2003-2029	6.28-7.00	S.L.O.	16,025,000	12,465,000
1998 Series D (remarketed 10/7/98)	2003-2029	3.95-5.20	S.L.O.	27,275,000	23,545,000
1998 Series D (remarketed 12/17/98)	2003-2029	4.00-5.25	S.L.O.	15,975,000	13,550,000
1998 Series D (remarketed 4/29/99)	2003-2029	3.90-5.30	S.L.O.	41,365,000	32,070,000
1998 Series E (Taxable)	2003-2029	5.66-6.31	S.L.O.	17,680,000	16,440,000
1998 Series G	2003-2029	4.00-5.25	S.L.O.	27,210,000	22,495,000
1999 Series A	2003-2028	4.90-6.40	S.L.O.	22,580,000	17,630,000
1999 Series B	2003-2028	4.90-6.40	S.L.O.	13,715,000	10,725,000
1999 Series C (Taxable)	2003-2029	7.16	S.L.O.	4,870,000	-
1999 Series D	2003-2030	4.50-5.70	S.L.O.	35,180,000	29,310,000
1999 Series D-3 (Taxable)	2003-2030	6.70-7.76	S.L.O.	9,385,000	3,965,000
1999 Series E	2003-2028	5.20-6.64	S.L.O.	20,870,000	17,700,000
1999 Series F (Taxable)	2003-2030	8.25	S.L.O.	10,670,000	10,565,000
1999 Series G	2003-2031	4.70-6.05	S.L.O.	16,840,000	14,745,000
2000 Series B	2003-2032	4.65-5.95	S.L.O.	15,345,000	14,245,000
2000 Series C	2003-2031	5.00-6.38	S.L.O.	18,580,000	15,360,000
2000 Series C-4 (Taxable)	2003-2031	8.19	S.L.O.	5,395,000	4,485,000
2000 Series D	2003-2031	4.60-6.05	S.L.O.	42,290,000	37,345,000
2000 Series E	2003-2031	4.45-5.95	S.L.O.	28,465,000	26,480,000
2000 Series F (Taxable)	2003-2031	7.71	S.L.O.	4,935,000	-
2001 Series A	2003-2032	3.50-5.50	S.L.O.	40,630,000	36,985,000
2001 Series B (Taxable)	2003-2032	6.36	S.L.O.	4,970,000	4,390,000
2001 Series C	2003-2032	3.10-5.55	S.L.O.	46,940,000	41,975,000
2001 Series D (Taxable)	2003-2032	Variable	S.L.O.	8,000,000	7,855,000
2001 Series E	2003-2033	2.88-5.60	S.L.O.	55,545,000	50,580,000
2001 Series F (Taxable)	2003-2023	Variable	S.L.O.	10,000,000	10,000,000
2003 Series A	2004-2033	3.10-5.63	S.L.O.	40,000,000	39,885,000
2003 Series B (Taxable)	2004-2023	Variable	S.L.O.	10,000,000	10,000,000
2002 Series C	2004-2033	2.25-5.40	S.L.O.	-	49,975,000
				<u>999,305,000</u>	<u>821,385,000</u>
Plus unamortized premium thereon				<u>106,495</u>	<u>106,495</u>
				<u>\$999,411,495</u>	<u>\$821,491,495</u>
Homeowner Mortgage Revenue Notes:					
2003 Series A	2004	1.13-1.18	S.L.O.	-	<u>\$91,455,000</u>
Total Single Family Program Fund				1,021,699,874	923,850,420
Plus unamortized premium thereon				<u>106,495</u>	<u>106,495</u>
				<u>\$1,021,806,369</u>	<u>\$923,956,915</u>

NOTES TO FINANCIAL STATEMENTS—(CONTINUED)

For the Year Ended June 30, 2003

The following summarizes the debt activity for the Authority's proprietary funds for fiscal year 2003:

	<u>6/30/02</u>	<u>Issuance</u>	<u>Accretion</u>	<u>Retirement</u>	<u>06/30/03</u>
Housing Development Bond.....	\$ 82,300,000	-	-	(\$ 3,640,000)	\$78,660,000
Multi-Family Housing Bond.....	278,807,479	-	1,344,260	(7,590,000)	272,561,739
Fixed Rate Housing Bond.....	10,815,000	-	-	(295,000)	10,520,000
Multi-Family Program Bond.....	299,970,000	-	-	(9,380,000)	290,590,000
Housing Bond.....	47,330,000	-	-	(6,280,000)	41,050,000
Housing Finance Bond.....	15,025,000	19,055,000	-	(19,255,000)	14,825,000
Multi-Family Variable Rate Demand Bond.....	8,135,000	-	-	-	8,135,000
Multi-Family Housing Revenue Bond.....	57,355,000	-	-	(800,000)	56,555,000
Multifamily Housing Revenue Bond (Marywood).	-	15,865,000	-	-	15,865,000
Multifamily Bond (Turnberry II).....	-	5,320,000	-	-	5,320,000
Affordable Housing Program Trust Fund Bond	<u>83,085,000</u>	-	-	<u>(2,230,000)</u>	<u>80,855,000</u>
Total Mortgage Loan Program Fund.....	<u>882,822,479</u>	<u>40,240,000</u>	<u>1,344,260</u>	<u>(49,470,000)</u>	<u>874,936,739</u>
Residential Mortgage Revenue Bond.....	22,394,874	-	546	(11,385,000)	11,010,420
Homeowner Mortgage Revenue Bond.....	999,305,000	50,000,000	-	(227,920,000)	821,385,000
Homeowner Mortgage Revenue Note.....	-	91,455,000	-	-	91,455,000
Owner Occupied Revenue Bond	-	<u>104,030,000</u>	-	<u>(104,030,000)</u>	-
Total Single Family Program Fund.....	<u>1,021,699,874</u>	<u>245,485,000</u>	<u>546</u>	<u>(343,335,000)</u>	<u>923,850,420</u>
Total Proprietary Funds.....	<u>\$1,904,522,353</u>	<u>\$285,725,000</u>	<u>\$1,344,806</u>	<u>(\$392,805,000)</u>	<u>\$1,798,787,159</u>

Other Financings

From time to time the Authority has issued special limited obligations with a claim for repayment solely from payments received with respect to the mortgage loans. The bonds are not general obligations of the Authority, and they are not a debt of the State of Illinois; neither is liable to pay interest and principal on the bonds. Accordingly, the bonds are not included in the Authority's financial statements. The bonds do, however, apply toward the Authority's authorized debt limitation.

As of June 30, 2003, there were twenty-two series of such bonds or notes outstanding, with an aggregate principal amount payable of \$284,533,900.

Assets Restricted for Capital and Debt Service Reserves

Pursuant to the Act and various resolutions of the Authority, certain assets (principally investments) are maintained in capital and debt service reserve funds and may be used only for the payment of principal and interest on certain bonds. The reserve funds must be maintained at an amount at least equal to the following:

<u>Bonds</u>	<u>Requirement</u>
Housing Development Bonds	Maximum amount of principal and interest due in any succeeding year
Fixed Rate Housing Bonds	7.5% to 13.45%, as defined for each series, of the principal amounts of bonds outstanding provided that the debt service reserve funds for the 1978 Series B Bonds (none of which are outstanding) and subsequent series of bonds cannot be less than a specified percentage (100% except for the 1979 Series A and 1979 Series B Bonds, for which the percentage is 120%) of the maximum annual debt service on such bonds for the current or any succeeding year until July 1 of the year preceding the final maturity of the bonds of such series
Affordable Housing Program Trust Fund Bonds	
Multi-Family Housing Bonds	
Multi-Family Program Bonds	Maximum amounts of principal, sinking fund installments and interest due in the then current or any future bond year for all bonds then outstanding
Multi-Family Variable Rate Demand Bonds	Three months of adjusted debt service requirements
Multi-Family Housing Revenue Bonds	

NOTES TO FINANCIAL STATEMENTS—(CONTINUED)

For the Year Ended June 30, 2003

<u>Bonds</u>	<u>Requirement</u>
Housing Bonds	25% of the maximum annual principal and interest
Housing Finance Bonds	50% of the maximum annual principal and interest
Multifamily Housing Revenue Bonds (Marywood)	Six months of maximum annual interest
Homeowner Mortgage Revenue Bonds Residential Mortgage Revenue Bonds	The sum of all amounts established by each series resolution, but such amount cannot be less than 2% for the Homeowner Mortgage Revenue Bonds, and 4% for the Residential Mortgage Revenue Bonds, of the sum of (i) the outstanding principal balance or related mortgage loans and (ii) the amounts on deposit to the credit of series program accounts on the program fund

The amounts of such reserves, for measurement purposes against the various bond resolution reserve requirements, are valued at book value or par, or, if purchased at less than par, at their cost to the Authority. At June 30, 2003, these amounts, which were not less than the amounts required, are as follows:

Housing Development Bonds.....	\$8,660,515
Multi-Family Housing Bonds	47,233,262
Fixed Rate Housing Bonds	1,173,801
Multi-Family Program Bonds.....	30,339,224
Housing Bonds.....	211,298
Housing Finance Bonds.....	519,000
Multi-Family Variable Rate Demand Bonds.....	359,511
Multi-Family Housing Revenue Bonds.....	806,347
Multifamily Housing Revenue Bonds (.Marywood).....	405,465
Residential Mortgage Revenue Bonds.....	5,458,684
Homeowner Mortgage Revenue Bonds.....	<u>32,613,733</u>
	<u>\$127,780,840</u>

In addition to the above, the debt service reserve requirement of the Affordable Housing Program Trust Fund Bonds (\$8,848,236) at June 30, 2003, is satisfied through the Authority's holding of a surety bond.

Debt service on the Multifamily Bonds, Series 2003 (Turnberry Village II Apartments) is supported by the Authority's issuance of a participation certificate. The full and complete payment of all scheduled payments of principal and interest due under the participation certificate are unconditionally and irrevocably guaranteed pursuant to a surety bond.

Other Maturity Information

Bonds maturing on or after the following dates are redeemable at the option of the Authority at prescribed redemption prices greater than 100%, decreasing periodically, expressed as a percentage of the principal amount, as follows:

<u>Issue</u>	<u>Maturity On or after</u>	<u>Redemption Price</u>		
Housing Development Bonds:				
1993 Series A.....	July 1, 2004	102	to	100%
1999 Series A.....	Mar. 1, 2009	101	to	100
Multi-Family Housing Bonds:				
1991 Series A and C.....	July 1, 2003	101	to	100
1992 Series A.....	July 1, 2003	102	to	100
1993 Series A and C.....	July 1, 2003	102	to	100
1994 Series A and B.....	Jan. 1, 2005	102	to	100
1995 Series A.....	July 1, 2005	102	to	100
1999 Series A.....	Mar. 1, 2009	101	to	100

NOTES TO FINANCIAL STATEMENTS—(CONTINUED)

For the Year Ended June 30, 2003

<u>Issue</u>	<u>Maturity On or after</u>	<u>Redemption Price</u>		
			to	
Fixed Rate Housing Bonds, 1984 Series A and D.....	July 1, 2003	100.5	to	100
Multi-Family Program Bonds:				
Series 1.....	Mar. 1, 2003	102	to	100
Series 3.....	Sept. 1, 2003	102	to	100
Series 5.....	Sept. 1, 2004	102	to	100
Series 7.....	Mar. 1, 2006	102	to	100
Housing Bonds, 1999 A.....	Mar. 1, 2009	101	to	100
Residential Mortgage Revenue Bonds, 1993 Series A and B	Feb. 1, 2004	102	to	100
Homeowner Mortgage Revenue Bonds:				
1994 Series A	Aug. 1, 2004	102	to	100
1994 Series B and 1995 Series A.....	Feb. 1, 2005	102	to	100
1994 Series C.....	Aug. 1, 2005	102	to	100
1995 Series B.....	May 1, 2005	102	to	100
1995 Series C	Oct. 1, 2006	102	to	100
1995 Series D.....	Aug. 1, 2005	102	to	100
1995 Series E.....	Aug. 1, 2005	102	to	100
1995 Series E.....	Jan. 1, 2007	102	to	100
1996 Series A and B.....	Feb. 1, 2006	102	to	100
1996 Series C and E.....	Aug. 1, 2006	102	to	100
1997 Series A.....	Feb. 1, 2007	102	to	100
1997 Series B remarketed April 30, 1998.....	May 1, 2008	102	to	100
1997 Series B remarketed June 29, 1998.....	July 1, 2008	102	to	100
1997 Series C.....	Aug. 1, 2007	102	to	100
1997 Series D and 1996 Series F.....	Jan. 1, 2008	102	to	100
1998 Series A.....	April 1, 2008	101	to	100
1998 Series C.....	June 1, 2008	101	to	100
1998 Series D remarketed October 7, 1998 and				
1998 Series E.....	Oct. 1, 2008	101.5	to	100
1998 Series D remarketed December 17, 1998.....	Dec. 1, 2008	101.5	to	100
1998 Series D remarketed April 29, 1999.....	April 1, 2009	101.5	to	100
1998 Series G.....	Aug. 1, 2008	101	to	100
1999 Series A and B remarketed January 26, 2001.....	Jan. 1, 2010	101	to	100
Affordable Housing Program Trust Fund Bonds, Series 1994 A	Aug. 1, 2004	102	to	100

Debt service requirements (in \$ millions) through 2008 and in five-year increments thereafter to maturity for the Authority's proprietary funds are as follows:

<u>Year Ending</u>	<u>Mortgage Loan Program</u>		<u>Single Family Program</u>		<u>Total</u>	
	<u>Fund</u>	<u>Fund</u>	<u>Fund</u>	<u>Fund</u>	<u>Principal</u>	<u>Interest</u>
<u>June 30</u>	<u>Principal*</u>	<u>Interest</u>	<u>Principal*</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2004	28.3	53.8	110.6	46.6	138.9	100.4
2005	30.2	51.9	20.8	45.6	51.0	97.5
2006	31.8	49.8	23.9	44.6	55.7	94.4
2007	39.4	47.5	25.4	43.3	64.8	90.8
2008	39.3	45.0	25.5	42.0	64.8	87.0
Five Years Ending						
June 30						
2009-2013	216.5	185.9	136.5	189.4	353.0	375.3
2014-2018	232.4	114.3	158.4	147.4	390.8	261.7
2019-2023	146.0	53.8	112.2	110.0	258.2	163.8
2024-2028	88.8	17.4	198.7	69.2	287.5	86.6
2029-2033	15.4	5.3	115.5	14.6	130.9	19.9
2034-2038	4.1	2.6	1.7	0.1	5.8	2.7
2039-2043	5.3	1.4	-	-	5.3	1.4
2044-2048	2.2	0.2	-	-	2.2	0.2

* Includes capital appreciation bonds at their final redemption values.

NOTES TO FINANCIAL STATEMENTS—(CONTINUED)

For the Year Ended June 30, 2003

Derivatives

The Authority, as of June 30, 2003 has six active swap contracts, an interest rate cap, and a forward delivery swap. Details are shown in the following table.

<u>Associated Bond Issue</u>	<u>Notional Amounts</u>	<u>Effective Date</u>	<u>Fixed Rate Paid</u>	<u>Variable Rate Received</u>	<u>Fair Values ⁽³⁾</u>	<u>Swap Termination Date</u>	<u>Counterparty Credit Rating</u>
MVRDB*							
Series 1996A	\$5,135,000	12/98	6.41%	30 day nonfinancial CP	\$(981,850)	12/2008	A+/Aa3
Series 1996A	\$3,000,000	4/99	6.06%	30 day nonfinancial CP	\$(87,378)	12/2003	AA-/Aa3
MHRB**							
Series 2000A (Lakeshore Plaza) ⁽¹⁾	\$42,385,000	6/02	5.51%	Actual bond rate	\$(2,706,924)	7/2027	AAA/Aaa
HMRB***							
Series 2001 D	\$7,855,000	7/01	6.13%	1mo LIBOR +30bp	\$(1,011,724)	2/2010	AAA/Aaa
Series 2001F	\$10,000,000	1/02	6.615%	1mo LIBOR +40bp	\$(2,312,589)	8/2020	A+/Aa3
Series 2002B	\$10,000,000	5/02	6.145%	1mo LIBOR +41.5bp	\$(1,487,596)	2/2023	AAA/Aaa
INTEREST RATE CAP							
MHRB**							
Series 1997 (Camelot Development)	\$14,170,000	11/97	5.75%		\$(126,366)	12/2007	AA-/Aa3
FORWARD DELIVERY SWAP							
AHPTFB****							
Series 1994A ⁽²⁾	\$24,115,000	8/04	6.50%	1mo LIBOR	\$(4,071,090)	6/2026	A/A2

*Multi-Family Variable Rate Demand Bonds

**Multi-Family Housing Revenue Bonds

***Homeowner Mortgage Revenue Bonds

****Affordable Housing Program Trust Fund Bonds

⁽¹⁾ \$550,000 premium received 9-17-98. Par termination rights at Authority's option beginning 7/1/05.

⁽²⁾ Counterparty collateralizes negative market value.

⁽³⁾ Includes accrued interest.

To protect against the potential of rising interest rates, the Authority has entered into six pay-fixed, receive variable interest rate swap agreements, the objective of which is to achieve a synthetic fixed interest rate on the underlying bonds at a cost anticipated to be less than the amounts paid had the Authority issued fixed-rate debt. In addition, the Authority has entered into an interest rate cap agreement, the objective of which is to establish a maximum debt service which may be paid over the life of the underlying bonds, and a forward delivery swap agreement, which will create a synthetic fixed interest rate on bonds which the Authority intends to issue at a future date.

The terms, fair values, and credit ratings of the outstanding agreements as of June 30, 2003 are as shown in the above table. The notional amounts of the swaps match the principal amounts of the associated debt. The Authority's swap agreements contain scheduled reductions to outstanding notional amounts that are expected to approximately follow scheduled or anticipated reductions in the associated bonds payable category.

Because interest rates have declined since the implementation of the swap agreements, all currently active swaps had a negative fair value as of June 30, 2003. The negative fair values may be countered by reductions in total interest payments required under the variable-rate bonds, creating lower synthetic interest rates. Because the coupons on the Authority's variable rate bonds adjust to changing interest rates, the bonds do not have corresponding fair value changes.

NOTES TO FINANCIAL STATEMENTS—(CONTINUED)

For the Year Ended June 30, 2003

As of June 30, 2003, the Authority was not exposed to credit risk because of the negative fair values of the swaps. Should interest rates change and the fair values become positive, the Authority would be exposed to credit risk in the amount of the swaps fair value. Fair value is a factor only upon termination.

One swap agreement contains a collateral agreement, at 105%, as determined by a formula, with the counter-party. The remaining swaps do not have collateral agreements. Collateral is in the form of cash, U.S. government securities or Federal Agency debentures.

Basis risk on swaps occurs when the variable payment received is based on an index other than the index on the underlying bonds. The Authority believes its swap agreements have been structured to minimize or eliminate this risk.

The Authority or the counter-party may terminate any of the swap agreements if the other party fails to perform under the terms of the agreements. If a swap is insured, a termination event occurs if the insurer fails to meet its obligations under the agreement.

The Authority is not exposed to rollover risk on its swap agreements.

As of June 30, 2003, debt service requirements of the Authority's outstanding variable-rate debt and net swap payments, assuming current interest rates remain the same, for their term are as follows:

**Illinois Housing Development Authority
Swap Payments and Associated Debt**

Variable-Rate Bonds

<u>Fiscal Year(s) Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Interest Rate Swaps, Net</u>	<u>Total</u>
2004	\$2,525,000	\$910,497	\$3,425,642	\$6,861,139
2005	3,055,000	871,682	3,305,034	7,231,716
2006	3,085,000	827,494	3,167,584	7,080,078
2007	6,565,000	784,349	3,031,091	10,380,440
2008	7,550,000	705,595	2,865,856	11,121,451

**Five Year(s)
Ending June 30**

2013	9,145,000	2,741,306	10,935,063	22,821,369
2018	15,230,000	2,152,918	8,640,622	26,023,540
2023	15,735,000	983,018	4,473,248	21,191,266
2028	<u>11,385,000</u>	<u>277,782</u>	<u>1,333,344</u>	<u>12,996,126</u>
Total	<u>\$74,275,000</u>	<u>\$10,254,641</u>	<u>\$41,177,484</u>	<u>\$125,707,125</u>

As rates vary, variable-rate bond interest payments and net swap payments will vary.

NOTE G—DEPOSITS HELD IN ESCROW

Deposits from developers, which are held in escrow in the Administrative Fund, may be used when necessary to pay principal and interest payments and fund construction cost overruns, change orders, tax and insurance payments and capital improvements (see Note E). In addition, on certain developments, letters of credit and assignments of syndication proceeds are held by the Authority for similar purposes and to fund potential operating deficits of the related developments. Investment income earned on deposited funds is credited to the respective developer's escrow accounts.

NOTES TO FINANCIAL STATEMENTS—(CONTINUED)

For the Year Ended June 30, 2003

NOTE H—LEASES

The Authority leases office facilities under a lease which extends through July 31, 2006, and which provides the Authority an option to extend the lease five years beyond that date and, during certain time periods, to lease additional office facilities.

The office lease provides for annual base rent of approximately \$787,000 for the fiscal year 2003 and escalates by approximately \$27,000 annually throughout the lease period, plus estimated payments totaling \$852,610 in fiscal year 2003 for the Authority's 7.488% share of ownership taxes and operating expenses, which also are subject to adjustment, based on the actual costs incurred by the lessor.

During fiscal year 2001, the Authority was assigned an interest in a sublease, which terminates on October 31, 2003, for additional office space. The cost of this space approximates \$64,600 annually.

For fiscal year 2003, total rent expense of the Authority was \$1,683,317.

NOTE I—OTHER LIABILITIES

Included in Other Liabilities at June 30, 2003 is \$10,972,110 in undisbursed Risk Sharing Loan proceeds and \$15,490,306 in undisbursed Ambac Loan proceeds.

The bonds issued by the Authority after 1980 are subject to a variety of Internal Revenue Service ("IRS") regulations which limit the amount of income which may be earned with non-mortgage investments to an amount not greater than the amount which would have been earned had the funds been invested at the yield on the bonds as defined by the IRS.

Excess earnings must be rebated annually, or every five years, depending on the date and type of bond issue. Included in Other Liabilities at June 30, 2003, is an estimated rebate liability of \$4,815,616.

The Authority is a defendant in various legal actions arising from normal business activities. Management believes, after consultation with legal counsel, that the ultimate liability, if any, resulting from these legal actions will not materially affect the Authority's financial position or results of operations.

The Authority carries commercial insurance for director's and officer's liability, general liability, workers' compensation, and automobile ownership and usage. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE J—RETIREMENT PLAN

The Authority provides a defined contribution retirement plan for the benefit of its employees. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Full time employees are eligible to participate in and are fully vested in the plan from the date of employment. All plan assets and investments are administered by a trustee, which maintains an individual account for each participant. The Authority contributes 6% of its employees' salaries and employees, at their option, may contribute up to 19% (within a maximum dollar limit) of their salaries to the plan. In addition, the Authority, under the provisions of the Economic Growth and Tax Relief Act of 2001, permits additional contributions each calendar year for those employees who attain age 50 (or higher) during the calendar year. The plan may be amended or terminated by the Authority at any time and for any reason in the future, but no such action can deprive employees of their vested interests.

The Authority's total payroll in fiscal year 2003 was \$10,493,305. The Authority's contributions were calculated using the base salary amount of \$10,350,367. The Authority contributed \$694,299 or 6% of the base salary amount, in fiscal year 2003. Employee contributions amounted to \$668,501 in fiscal year 2003, or 6.7 % of the base salary amount.

NOTES TO FINANCIAL STATEMENTS—(CONTINUED)

For the Year Ended June 30, 2003

NOTE K—COMMITMENTS

At June 30, 2003 unexpended bond proceeds held by the Authority in the form of cash and investments amounting to \$95,968,196 in the Homeowner Mortgage Revenue Bond accounts were identified for the purpose of purchasing various mortgage loans.

At June 30, 2003, the Authority had authorized commitments for loans and grants totaling \$24,036,226 and \$4,895,025 respectively, of the Illinois Affordable Housing Trust Fund.

Under the HOME Program, \$228.9 million and \$24.8 million for federal fiscal years 1992 through 2002 and 2003, respectively, have been allocated to the State, to be administered by the Authority, under the HOME Program provisions of the 1990 National Affordable Housing Act. In fiscal year 1994, the Authority was allocated \$10.2 million of additional HOME funds to be used for flood disaster relief. At June 30, 2003, the Authority had authorized commitments for loans and grants of \$17,439,862 and \$23,924,706 respectively for the HOME Program.

In accordance with an agreement entered into by the Authority and HUD at the time of delivery of the Authority's Multi-Family Housing Bonds, 1982 Series A, 1982 Series B and 1983 Series A, annual Section 8 contributions payable to HUD with respect to the developments financed by these bonds would be reduced to the extent of the debt service savings resulting from the early redemptions of these Bonds.

These redemptions were accomplished through the issuance of the Authority's Multi-Family Housing Bonds, 1991 Series A and B, 1992 Series A and B and 1993 Series A and B. Pursuant to federal legislation and a written agreement with the Authority, HUD has agreed to share a portion of such savings (the FAF Savings Program) with the Authority in order to create and maintain affordable housing opportunities for individuals of "very low income" (as such term is defined in the 1937 Housing Act) in the State. These savings, which are to be used solely for the purpose stated above, became available beginning in fiscal year 1992 for the 1991 Series A and B Bonds and in fiscal year 1994 for the 1993 Series A and B Bonds, and are recorded as other income of the Administrative Fund. At June 30, 2003, loans receivable under this program were approximately \$13.4 million.

NOTE L—CONTINGENCIES

HUD's Office of General Counsel (OGC) has expressed the opinion that certain language used in the form of Housing Assistance Payments (HAP) Contracts in use prior to February 1980, for State Agency projects with mortgages that were not insured by FHA, has the effect of terminating those HAP Contracts upon refinancing of the related project mortgages. While only expressed in the form of an internal memorandum, this opinion has been communicated by HUD to the public. The position expressed in the opinion has not been promulgated in any official form, nor has HUD taken any action to impose consequences that might arise from the opinion on projects that were previously refinanced. The Authority has determined that approximately 57 of the Section 8 projects, which it has financed, have been refinanced in a fashion that might cause a termination of the related HAP Contracts under such OGC opinion.

Were HUD to stop HAP payments to affected projects and/or attempt to recover previously made payments, such action could adversely affect project income, the Authority's revenues from those projects and, as a consequence thereof, the Authority's financial position. However, in Congressional testimony and in public discussions with industry participants, HUD officials have expressed the desire to prevent its position regarding the pre-1980 HAP form contract language from having an adverse impact upon the affected projects and State Agencies. In addition, HUD has offered to approve an amendment to the affected HAP contracts that would amend the language at issue to clarify that the term of the form HAP contract extends to the originally scheduled maturity date of the original HFA financing. Of the 57 Authority-financed projects that have refinanced, 34 of these projects have executed such amendments, and these amendments have been approved by HUD. Further, while it is not possible to predict with certainty the outcome of any litigation, the Authority has been advised by counsel that if HUD were to attempt to recover previously made payments under the HAP contracts related to these projects, HUD would be unlikely to prevail.

NOTES TO FINANCIAL STATEMENTS—(CONTINUED)

For the Year Ended June 30, 2003

NOTE M—CHANGE IN ACCOUNTING PRINCIPLES

During the year ended June 30, 2003, the Authority changed its fund structure for proprietary funds. Specifically, the Authority redefined the activities and programs that were reported within individual funds. The activities previously reported in the following funds were combined into the Mortgage Loan Program Fund and Single Family Program Fund. The effect of this change on fund balance as of June 30, 2002 was as follows:

	Fund Balance June 30, 2002, as previously reported	Adjustment	Fund Balance June 30, 2002, as restated
Multi-Family Housing Bonds Fund	\$ 50,016,535	(50,016,535)	—
Multi-Family Program Bonds Fund	9,976,637	(9,976,637)	—
Housing Development Bonds Fund	33,412,019	(33,412,019)	—
Fixed Rate Housing Bonds Fund	8,851,412	(8,851,412)	—
Housing Bonds Fund	348,121	(348,121)	—
Housing Finance Bonds Fund	170,016	(170,016)	—
Multi-Family Variable Rate Demand Bonds Fund	1,782,206	(1,782,206)	—
Multi-Family Housing Revenue Bonds Fund	4,891,330	(4,891,330)	—
Affordable Housing Program Trust Fund Bonds Fund	13,902,634	(13,902,634)	—
Mortgage Loan Program Fund	—	123,350,910	123,350,910
Total	<u>\$ 123,350,910</u>	<u>—</u>	<u>123,350,910</u>
Homeowner Mortgage Revenue Bonds Fund	\$ 8,902,975	(8,902,975)	—
Residential Mortgage Revenue Bonds Fund	35,767,958	(35,767,958)	—
Single Family Program Fund	—	44,670,933	44,670,933
Total	<u>\$ 44,670,933</u>	<u>—</u>	<u>44,670,933</u>

Additionally, during fiscal year 2003 the Authority adopted GASB Statement No. 40, “Deposit and Investment Risk Disclosures” and has applied the statement disclosure requirements in the financial statements.

NOTE N—SUBSEQUENT EVENTS

On September 30, 2003, the Authority issued its Homeowner Mortgage Revenue Bonds, 2003 Series B, in the aggregate principal amount of \$50,000,000, maturing in 2004 through 2034, at initial interest rates of 1.20% to 5.15%. These bonds are special limited obligations of the Authority.

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ILLINOIS HOUSING DEVELOPMENT AUTHORITY
(A Component Unit of the State of Illinois)

MORTGAGE LOAN PROGRAM FUND
COMBINING SCHEDULE OF NET ASSETS
As of June 30, 2003

	Multi-Family		Housing	Fixed Rate		Housing	Multi-Family	Multi-Family	Multi-Family	Affordable	Total	
	Housing	Multi-Family	Development	Housing	Housing				Variable Rate	Housing		Housing
<u>ASSETS</u>	Bonds	Program	Bonds	Bonds	Bonds	Bonds	Demand	Revenue	Revenue	Multifamily	Program	
		Bonds	Bonds	Bonds	Bonds	Bonds	Bonds	Bonds	(Marywood)	(Turnberry)	Trust Fund	
									Bonds	Bonds	Bonds	
Current assets:												
Cash and cash equivalents	\$ 53,683	844	88,034	62,520	298		543,089	899,336	171,707	194,406		2,013,917
Investment income receivable	1,515,941	1,027,501	399,171	29,581	778,946	21,620	9,633	5,549	15,620		56,989	3,860,551
Program loans receivable	7,751,000	8,851,000	3,771,000	281,000	334,000	200,000					3,232,000	24,420,000
Interest receivable on program loans	331,311	187,281	1,079,396	469,693	94,088	76,598	51,464	13,231	123,468		637,112	3,063,642
Due from other funds		6,873,583	3,767,348	668,189	813				13,260,994		9,663	24,580,590
Total current assets	9,651,935	16,940,209	9,104,949	1,510,983	1,208,145	298,218	604,186	14,179,110	310,795	204,069	3,926,101	57,938,700
Noncurrent assets:												
Investments - Restricted	93,318,201	50,954,348	34,223,311	8,984,926	32,485,797	1,097,783	2,088,990	6,074,928	10,197,711		12,707,597	252,133,592
Program loans receivable, net of current portion	222,689,728	242,957,625	77,595,877	9,650,970	8,646,616	14,067,955	8,085,809	9,796,400	7,397,134	5,320,000	83,274,934	689,483,048
Less allowance for estimated losses	(3,500,000)		(3,900,000)	(250,000)	(1,000,000)		(100,000)				(5,000,000)	(13,750,000)
Net program loans receivable	219,189,728	242,957,625	73,695,877	9,400,970	7,646,616	14,067,955	7,985,809	9,796,400	7,397,134	5,320,000	78,274,934	675,733,048
Unamortized bond issuance costs	6,205,229		588,310	161,018	708,091		121,773	1,172,628			1,400,731	10,357,780
Real estate held for sale (net)								29,881,739				29,881,739
Other	15,875	27,226			278,794			1,460,563			185,293	1,967,751
Total noncurrent assets	318,729,033	293,939,199	108,507,498	18,546,914	41,119,298	15,165,738	10,196,572	48,386,258	17,594,845	5,320,000	92,568,555	970,073,910
Total assets	\$ 328,380,968	310,879,408	117,612,447	20,057,897	42,327,443	15,463,956	10,800,758	62,565,368	17,905,640	5,524,069	96,494,656	1,028,012,610
LIABILITIES												
Current liabilities:												
Bonds and notes payable	\$ 8,635,000	10,135,000	3,820,000	320,000	1,980,000	205,000		800,000			2,395,000	28,290,000
Accrued interest payable	8,576,448	6,549,590	2,187,793	254,233	984,226	306,207	7,900	47,586	120,875	8,928	546,421	19,590,207
Accrued liabilities and other	7,007,623	2,003,600	85,079		7,483	86,723			1,897,855	194,406	203,060	11,485,829
Due to other funds	1,286,959	454,892	873,803	14,294		36,773	802,447	556,041			62,923	4,088,132
Total current liabilities	25,506,030	19,143,082	6,966,675	588,527	2,971,709	634,703	810,347	1,403,627	2,018,730	203,334	3,207,404	63,454,168
Noncurrent liabilities:												
Bonds and notes payable, net of current portion	248,037,019	280,455,000	74,718,882	10,200,000	39,070,000	14,620,000	8,135,000	55,755,000	15,865,000	5,320,000	78,460,000	830,635,901
Total liabilities	\$ 273,543,049	299,598,082	81,685,557	10,788,527	42,041,709	15,254,703	8,945,347	57,158,627	17,883,730	5,523,334	81,667,404	894,090,069
NET ASSETS												
Restricted for bond resolution purposes	\$ 54,837,919	11,281,326	35,926,890	9,269,370	285,734	209,253	1,855,411	5,406,741	21,910	735	14,827,252	133,922,541
Total net assets	\$ 54,837,919	11,281,326	35,926,890	9,269,370	285,734	209,253	1,855,411	5,406,741	21,910	735	14,827,252	133,922,541

See accompanying independent auditor's report.

ILLINOIS HOUSING DEVELOPMENT AUTHORITY
(A Component Unit of the State of Illinois)

MORTGAGE LOAN PROGRAM FUND
COMBINING SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
For the Year Ended June 30, 2003

	Multi-Family Housing Bonds	Multi-Family Program Bonds	Housing Development Bonds	Fixed Rate Housing Bonds	Housing Bonds	Housing Finance Bonds	Multi-Family Variable Rate Demand Bonds	Multi-Family Housing Revenue Bonds	Multi-Family Housing Revenue Bonds (Marywood)	Multifamily Bonds (Turnberry)	Affordable Housing Program Trust Fund Bonds	Total
Operating revenues:												
Interest and other investment income	\$ 2,781,951	2,895,155	882,550	204,635	1,413,225	175,061	58,594	217,494	19,317		795,819	9,443,801
Net increase (decrease) in fair value of investments...	1,819,952	214,175		206,844			7,492	(4,632)				2,243,831
Total investment income	4,601,903	3,109,330	882,550	411,479	1,413,225	175,061	66,086	212,862	19,317		795,819	11,687,632
Interest earned on program loans	19,472,534	18,187,165	6,124,200	713,683	503,865	903,874	624,530	186,306	123,468	9,663	2,929,810	49,779,098
Federal assistance programs	153,762		4,709,160	678,431	285,299							5,826,652
Other								2,918,080				2,918,080
Total operating revenues	24,228,199	21,296,495	11,715,910	1,803,593	2,202,389	1,078,935	690,616	3,317,248	142,785	9,663	3,725,629	70,211,462
Operating expenses:												
Interest expense	19,237,178	19,951,032	4,485,345	707,204	2,085,825	1,026,548	578,170	2,622,916	120,875	8,928	6,787,131	57,611,152
Federal assistance programs	153,762		4,709,160	678,431	285,299							5,826,652
Professional fees					3,000	3,000						6,000
Financing costs	15,875	40,774	6,534		538	10,150	39,241	178,921			213,880	505,913
Provision for estimated losses on program loans receivable											1,000,000	1,000,000
Total operating expenses	19,406,815	19,991,806	9,201,039	1,385,635	2,374,662	1,039,698	617,411	2,801,837	120,875	8,928	8,001,011	64,949,717
Operating income (loss)	4,821,384	1,304,689	2,514,871	417,958	(172,273)	39,237	73,205	515,411	21,910	735	(4,275,382)	5,261,745
Other:												
Transfers in					109,886						5,200,000	5,309,886
Change in net assets	4,821,384	1,304,689	2,514,871	417,958	(62,387)	39,237	73,205	515,411	21,910	735	924,618	10,571,631
Net assets at beginning of year	50,016,535	9,976,637	33,412,019	8,851,412	348,121	170,016	1,782,206	4,891,330			13,902,634	123,350,910
Net assets at end of year	\$ 54,837,919	11,281,326	35,926,890	9,269,370	285,734	209,253	1,855,411	5,406,741	21,910	735	14,827,252	133,922,541

See accompanying independent auditor's report.

ILLINOIS HOUSING DEVELOPMENT AUTHORITY
(A Component Unit of the State of Illinois)

MORTGAGE LOAN PROGRAM FUND
COMBINING SCHEDULE OF CASH FLOWS
For the Year Ended June 30, 2003

	Multi-Family Housing Bonds	Multi-Family Program Bonds	Housing Development Bonds	Fixed Rate Housing Bonds	Housing Bonds	Housing Finance Bonds	Multi-Family Variable Rate Demand Bonds	Multi-Family Housing Revenue Bonds	Multi-Family Housing Revenue Bonds (Marywood)	Multi-Family Bonds (Turnberry)	Affordable Housing Program Trust Fund Bonds	Total
Cash flows from operating activities:												
Cash received from interest, service fees, and principal on program loans	\$ 26,378,846	27,778,978	15,506,182	1,162,934	800,795	1,102,553	598,674	189,481			5,864,508	79,382,951
Cash payments for loaned amounts	(4,994,382)		(1,416,234)						(7,397,134)	(5,320,000)		(19,127,750)
Cash received from federal assistance programs	76,939		3,531,870	508,952	213,975							4,331,736
Cash payments for federal assistance programs	(76,939)		(3,531,870)	(508,952)	(213,975)							(4,331,736)
Interest on investments	3,801,922	2,888,491	910,718	205,213	1,624,694	174,420	58,596	129,778	3,697		785,447	10,582,976
Other	(16,395)	(40,774)	78,545		(738,847)	(1,219)		2,766,099	1,897,855	194,406	(429,677)	3,709,993
Net cash provided by (used in) operating activities	<u>25,169,991</u>	<u>30,626,695</u>	<u>15,079,211</u>	<u>1,368,147</u>	<u>1,686,642</u>	<u>1,275,754</u>	<u>657,270</u>	<u>3,085,358</u>	<u>(5,495,582)</u>	<u>(5,125,594)</u>	<u>6,220,278</u>	<u>74,548,170</u>
Cash flows from noncapital financing activities:												
Proceeds from sale of revenue bonds and notes						19,055,000			15,865,000	5,320,000		40,240,000
Principal paid on revenue bonds and notes	(7,590,000)	(9,380,000)	(3,640,000)	(295,000)	(6,280,000)	(19,255,000)		(800,000)			(2,230,000)	(49,470,000)
Interest paid on revenue bonds and notes	(17,410,913)	(20,189,918)	(4,489,823)	(773,394)	(2,109,212)	(1,045,771)	(129,197)	(789,188)			(6,679,310)	(53,616,726)
Transfers in					109,886						5,200,000	5,309,886
Other							(389,624)	(1,794,760)				(2,184,384)
Net cash provided by (used in) used in noncapital financing activities	<u>(25,000,913)</u>	<u>(29,569,918)</u>	<u>(8,129,823)</u>	<u>(1,068,394)</u>	<u>(8,279,326)</u>	<u>(1,245,771)</u>	<u>(518,821)</u>	<u>(3,383,948)</u>	<u>15,865,000</u>	<u>5,320,000</u>	<u>(3,709,310)</u>	<u>(59,721,224)</u>
Cash flows from investing activities:												
Purchase of investment securities	(100,905,746)	(28,173,918)	(60,728,022)	(21,740,774)	(16,185,444)	(96,582,884)	(3,394,011)	(17,991,819)	(10,197,711)		(11,502,318)	(367,402,647)
Proceeds from sales and maturities of investment securities	100,710,984	27,111,544	53,843,146	21,475,981	22,769,014	96,537,258	3,200,861	18,245,084			8,991,350	352,885,222
Net cash provided by (used in) investing activities	<u>(194,762)</u>	<u>(1,062,374)</u>	<u>(6,884,876)</u>	<u>(264,793)</u>	<u>6,583,570</u>	<u>(45,626)</u>	<u>(193,150)</u>	<u>253,265</u>	<u>(10,197,711)</u>		<u>(2,510,968)</u>	<u>(14,517,425)</u>
Net increase (decrease) in cash and cash equivalents	(25,684)	(5,597)	64,512	34,960	(9,114)	(15,643)	(54,701)	(45,325)	171,707	194,406		309,521
Cash and cash equivalents at beginning of year	79,367	6,441	23,522	27,560	9,412	15,643	597,790	944,661				1,704,396
Cash and cash equivalents at end of year	<u>\$ 53,683</u>	<u>844</u>	<u>88,034</u>	<u>62,520</u>	<u>298</u>	<u>543,089</u>	<u>899,336</u>	<u>171,707</u>	<u>194,406</u>			<u>2,013,917</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:												
Operating income (loss)	\$ 4,821,384	1,304,689	2,514,871	417,958	(172,273)	39,237	73,205	515,411	21,910	735	(4,275,382)	5,261,745
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:												
Interest expense	19,237,178	19,951,032	4,485,345	707,204	2,085,825	1,026,548	578,170	2,622,916	120,875	8,928	6,787,131	57,611,152
Depreciation and amortization								800,000				800,000
Provision for estimated losses on program loans receivable											1,000,000	1,000,000
Changes in assets and liabilities:												
Decrease (increase) in investment income receivable	(16,483)	(7,262)	28,168		31,336	(641)	(695)	(1,492)	(15,620)		(10,372)	6,939
Decrease (increase) in program loan and interest receivable	2,636,748	9,128,252	7,953,299	449,251	322,441	187,255	(40,857)	3,175	(7,520,602)	(5,320,000)	2,930,922	10,729,884
Increase (decrease) in due to/from other funds	(725,338)	463,561	12,449		(23,974)	20,249	54,242	178,921		(9,663)	(217,133)	(246,686)
Increase (decrease) in other liabilities	935,168		85,079		(556,713)	(12,538)		(61,316)	1,897,855	194,406		2,481,941
Decrease (increase) in other assets								(145,051)			5,112	(139,939)
Other	(1,718,666)	(213,577)		(206,266)		15,644	(6,795)	(827,206)				(2,956,866)
Total adjustments	<u>20,348,607</u>	<u>29,322,006</u>	<u>12,564,340</u>	<u>950,189</u>	<u>1,858,915</u>	<u>1,236,517</u>	<u>584,065</u>	<u>2,569,947</u>	<u>(5,517,492)</u>	<u>(5,126,329)</u>	<u>10,495,660</u>	<u>69,286,425</u>
Net cash provided by (used in) operating activities	<u>\$ 25,169,991</u>	<u>30,626,695</u>	<u>15,079,211</u>	<u>1,368,147</u>	<u>1,686,642</u>	<u>1,275,754</u>	<u>657,270</u>	<u>3,085,358</u>	<u>(5,495,582)</u>	<u>(5,125,594)</u>	<u>6,220,278</u>	<u>74,548,170</u>

See accompanying independent auditor's report.

ILLINOIS HOUSING DEVELOPMENT AUTHORITY
(A Component Unit of the State of Illinois)

SINGLE FAMILY PROGRAM FUND
COMBINING SCHEDULE OF NET ASSETS
As of June 30, 2003

<u>ASSETS</u>	<u>Homeowner Mortgage Revenue Bonds</u>	<u>Residential Mortgage Revenue Bonds</u>	<u>Total</u>
Current assets:			
Cash and cash equivalents	\$ 5,867,060	1,045,828	6,912,888
Investment income receivable	4,514,229	362,845	4,877,074
Program loans receivable	10,046,000	1,061,000	11,107,000
Interest receivable on program loans	2,902,571	165,184	3,067,755
Due from other funds	44,981	318,117	363,098
Total current assets	23,374,841	2,952,974	26,327,815
Noncurrent assets:			
Investments - Restricted	307,961,298	16,545,947	324,507,245
Program loans receivable, net of current portion	594,829,963	27,022,066	621,852,029
Unamortized bond issuance costs	12,504,966	195,555	12,700,521
Real estate held for sale (net)	1,184,586	90,824	1,275,410
Total noncurrent assets	916,480,813	43,854,392	960,335,205
Total assets	\$ 939,855,654	46,807,366	986,663,020
<u>LIABILITIES</u>			
Current liabilities:			
Bonds and notes payable	\$ 109,605,000	945,000	110,550,000
Accrued interest payable	19,278,419	252,120	19,530,539
Accrued liabilities and other	2,517,014	33,100	2,550,114
Due to other funds	1,762,106	44,981	1,807,087
Total current liabilities	133,162,539	1,275,201	134,437,740
Noncurrent liabilities:			
Bonds and notes payable, net of current portion	803,341,495	10,065,420	813,406,915
Total liabilities	\$ 936,504,034	11,340,621	947,844,655
<u>NET ASSETS</u>			
Restricted for bond resolution purposes	\$ 3,351,620	35,466,745	38,818,365
Total net assets	\$ 3,351,620	35,466,745	38,818,365

See accompanying independent auditor's report.

ILLINOIS HOUSING DEVELOPMENT AUTHORITY
(A Component Unit of the State of Illinois)

SINGLE FAMILY PROGRAM FUND
COMBINING SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
For the Year Ended June 30, 2003

	Homeowner Mortgage Revenue Bonds	Residential Mortgage Revenue Bonds	Total
Operating revenues:			
Interest and other investment income	\$ 10,330,099	996,830	11,326,929
Net increase in fair value of investments.....	573,919	293,821	867,740
Total investment income	10,904,018	1,290,651	12,194,669
Interest earned on program loans	41,482,591	1,849,658	43,332,249
Total operating revenues	<u>52,386,609</u>	<u>3,140,309</u>	<u>55,526,918</u>
Operating expenses:			
Interest expense	59,223,579	1,461,678	60,685,257
Salaries and benefits		10,664	10,664
Professional fees	48,000	18,000	66,000
Other general and administrative	155,297	63,591	218,888
Financing costs	478,324	22,113	500,437
Total operating expenses	<u>59,905,200</u>	<u>1,576,046</u>	<u>61,481,246</u>
Operating income (loss)	<u>(7,518,591)</u>	<u>1,564,263</u>	<u>(5,954,328)</u>
Other:			
Transfers in	1,967,418		1,967,418
Transfers out	(182)	(1,865,476)	(1,865,658)
Total other	<u>1,967,236</u>	<u>(1,865,476)</u>	<u>101,760</u>
Change in net assets	<u>(5,551,355)</u>	<u>(301,213)</u>	<u>(5,852,568)</u>
Net assets at beginning of year	<u>8,902,975</u>	<u>35,767,958</u>	<u>44,670,933</u>
Net assets at end of year	<u>\$ 3,351,620</u>	<u>35,466,745</u>	<u>38,818,365</u>

See accompanying independent auditor's report.

ILLINOIS HOUSING DEVELOPMENT AUTHORITY
(A Component Unit of the State of Illinois)

SINGLE FAMILY PROGRAM FUND
COMBINING SCHEDULE OF CASH FLOWS
For the Year Ended June 30, 2003

	Homeowner Mortgage Revenue Bonds	Residential Mortgage Revenue Bonds	Total
Cash flows from operating activities:			
Cash received from interest, service fees, and principal on program loans	\$ 326,935,199	14,996,369	341,931,568
Cash payments for loaned amounts	(115,180,213)		(115,180,213)
Cash payments for operating expense.....		(354,957)	(354,957)
Interest on investments	9,428,701	871,225	10,299,926
Other	(1,664,156)	43,243	(1,620,913)
Net cash provided by operating activities	219,519,531	15,555,880	235,075,411
Cash flows from noncapital financing activities:			
Proceeds from sale of revenue bonds and notes	245,485,000		245,485,000
Principal paid on revenue bonds and notes	(331,950,000)	(11,385,000)	(343,335,000)
Interest paid on revenue bonds and notes	(56,245,068)	(1,196,559)	(57,441,627)
Transfers in	1,967,418		1,967,418
Transfers out	(182)	(1,865,476)	(1,865,658)
Other	(1,884,976)		(1,884,976)
Net cash used in noncapital financing activities	(142,627,808)	(14,447,035)	(157,074,843)
Cash flows from investing activities:			
Purchase of investment securities	(755,800,194)	(39,146,005)	(794,946,199)
Proceeds from sales and maturities of investment securities	668,791,277	36,430,248	705,221,525
Net cash used in investing activities	(87,008,917)	(2,715,757)	(89,724,674)
Net decrease in cash and cash equivalents	(10,117,194)	(1,606,912)	(11,724,106)
Cash and cash equivalents at beginning of year	15,984,254	2,652,740	18,636,994
Cash and cash equivalents at end of year	\$ 5,867,060	1,045,828	6,912,888
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	\$ (7,518,591)	1,564,263	(5,954,328)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Interest expense	59,223,579	1,461,678	60,685,257
Changes in assets and liabilities:			
Increase in investment income receivable	(418,455)	(131,946)	(550,401)
Decrease in program loan and interest receivable	170,272,395	13,146,711	183,419,106
Increase (decrease) in due to/from other funds	681,620	(240,590)	441,030
Decrease in other liabilities	(1,619,784)		(1,619,784)
Decrease (increase) in other assets	(527,237)	43,244	(483,993)
Other	(573,996)	(287,480)	(861,476)
Total adjustments	227,038,122	13,991,617	241,029,739
Net cash provided by operating activities	\$ 219,519,531	15,555,880	235,075,411

See accompanying independent auditor's report.

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APPENDIX B

AUTHORITY INTERIM FINANCIAL STATEMENTS (UNAUDITED)

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ILLINOIS HOUSING DEVELOPMENT AUTHORITY
(A Component Unit of the State of Illinois)

STATEMENT OF NET ASSETS
As of December 31, 2003
(Unaudited)

<u>ASSETS</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Current Assets:			
Cash and cash equivalents	\$ 1,471,919	26,613,427	28,085,346
Funds held by State Treasurer	27,373,784		27,373,784
Investments	36,001,723	71,938,056	107,939,779
Investment income receivable		8,160,559	8,160,559
Program loans receivable	8,350,000	33,345,000	41,695,000
Interest receivable on program loans	163,601	8,691,579	8,855,180
Interfund accounts receivable (payable)	(1,742,892)	1,742,892	
Total current assets	71,618,135	150,491,513	222,109,648
Noncurrent assets:			
Investments - Restricted		755,068,608	755,068,608
Program loans receivable, net of current portion	280,437,937	1,203,623,002	1,484,060,939
Less allowance for estimated losses	(11,500,000)	(22,565,000)	(34,065,000)
Net program loans receivable	268,937,937	1,181,058,002	1,449,995,939
Unamortized bond issuance costs		20,601,048	20,601,048
Real estate held for sale (net)		30,841,773	30,841,773
Capital assets (net)		663,910	663,910
Other	682,642	10,573,460	11,256,102
Total noncurrent assets	269,620,579	1,998,806,801	2,268,427,380
Total assets	\$ 341,238,714	2,149,298,314	2,490,537,028
<u>LIABILITIES</u>			
Current liabilities:			
Bonds and notes payable	\$	132,930,000	132,930,000
Accrued interest payable		35,263,961	35,263,961
Deposits held in escrow		148,585,086	148,585,086
Accrued liabilities and other		31,380,923	31,380,923
Total current liabilities		348,159,970	348,159,970
Noncurrent liabilities:			
Bonds and notes payable, net of current portion		1,514,300,429	1,514,300,429
Total liabilities	\$	1,862,460,399	1,862,460,399
<u>NET ASSETS</u>			
Invested in capital assets (net)	\$	663,910	663,910
Restricted for bond resolution purposes		175,517,935	175,517,935
Restricted for loan and grant programs	109,525,791	22,264,741	131,790,532
Unrestricted	231,712,923	88,391,329	320,104,252
Total net assets	\$ 341,238,714	286,837,915	628,076,629

ILLINOIS HOUSING DEVELOPMENT AUTHORITY
(A Component Unit of the State of Illinois)

STATEMENT OF ACTIVITIES
For the Six Months Ended December 31, 2003
(Unaudited)

FUNCTIONS / PROGRAMS	Program Revenues			Net (Expenses) / Revenues and Changes in Net Assets		
	Expenses	Charges for Services and Interest Income	Operating Grant/Federal Revenues	Governmental Activities	Business-type Activities	Total
Governmental activities:						
Illinois Affordable Housing Trust Fund	\$ 3,574,593	853,432		(2,721,161)		(2,721,161)
HOME Program	3,574,616	504,523	12,333,346	9,263,253		9,263,253
Total governmental activities	7,149,209	1,357,955	12,333,346	6,542,092		6,542,092
Business-type activities:						
Administrative	6,052,282	23,393			(6,028,889)	(6,028,889)
Multi-Family Mortgage Loan Programs	28,871,037	34,953,597			6,082,560	6,082,560
Multi-Family Federal Assistance Programs	77,439,730		77,439,730			
Single-Family Mortgage Loan Programs	26,051,680	22,189,182		(3,862,498)		(3,862,498)
Tax Credit Authorization and Monitoring	312,172	1,020,485		708,313		708,313
Preservation	82,957	94,022			11,065	11,065
FAF Lending Program		54,361	597,786		652,147	652,147
Total business-type activities	138,809,858	58,335,040	78,037,516		(2,437,302)	(2,437,302)
Total Authority	145,959,067	59,692,995	90,370,862	6,542,092	(2,437,302)	4,104,790
				23,301,952		23,301,952
					419,669	419,669
				(5,000,000)		(5,000,000)
				(5,200,000)	5,200,000	
Total general revenues and transfers			13,101,952	5,619,669	18,721,621	
Change in net assets			19,644,044	3,182,367	22,826,411	
Net assets at beginning of period.....			321,594,670	283,655,548	605,250,218	
Net assets at ending of period.....			\$ 341,238,714	286,837,915	628,076,629	

ILLINOIS HOUSING DEVELOPMENT AUTHORITY
(A Component Unit of the State of Illinois)

GOVERNMENTAL FUNDS
BALANCE SHEET
As of December 31, 2003
(Unaudited)

<u>ASSETS</u>	Illinois Affordable Housing Trust Fund	HOME Program Fund	Total
Current assets:			
Cash	\$ 1,471,919		1,471,919
Funds held by State Treasurer	27,081,681	292,103	27,373,784
Investments	36,001,723		36,001,723
Program loans receivable	7,110,000	1,240,000	8,350,000
Interest receivable on program loans	95,302	68,299	163,601
Total current assets	71,760,625	1,600,402	73,361,027
Noncurrent assets:			
Program loans receivable, net of current portion	168,512,548	111,925,389	280,437,937
Less allowance for estimated losses	(7,500,000)	(4,000,000)	(11,500,000)
Net program loans receivable	161,012,548	107,925,389	268,937,937
Other		682,642	682,642
Total noncurrent assets	161,012,548	108,608,031	269,620,579
Total assets	\$ 232,773,173	110,208,433	342,981,606
<u>LIABILITIES AND FUND BALANCES</u>			
Current Liabilities:			
Deferred revenue	\$ 95,302	68,299	163,601
Due to other funds	1,060,250	682,642	1,742,892
Total current liabilities	1,155,552	750,941	1,906,493
Fund balances:			
Reserved for loans receivable	161,012,548	107,925,389	268,937,937
Unreserved	70,605,073	1,532,103	72,137,176
Total fund balances	231,617,621	109,457,492	341,075,113
Total liabilities and fund balances	\$ 232,773,173	110,208,433	
Amounts reported for governmental activities in the statement of net assets are different due to interest receivable on program loans			163,601
Net assets of governmental activities			\$ 341,238,714

ILLINOIS HOUSING DEVELOPMENT AUTHORITY
(A Component Unit of the State of Illinois)

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
For the Six Months Ended December 31, 2003
(Unaudited)

	Illinois Affordable Housing Trust Fund	HOME Program Fund	Total
	Trust Fund	Program Fund	Total
Revenues:			
Real estate transfer taxes.....	\$ 23,301,952		23,301,952
Federal HOME funds.....		12,333,346	12,333,346
Interest and investment income.....	809,991	498,141	1,308,132
Application fees.....	18,885		18,885
Total revenues.....	24,130,828	12,831,487	36,962,315
Expenditures:			
Grants.....	2,468,973	2,892,370	5,361,343
General and administrative.....	1,105,620	682,246	1,787,866
Total expenditures.....	3,574,593	3,574,616	7,149,209
Excess of revenues over expenditures.....	20,556,235	9,256,871	29,813,106
Other financing uses:			
Transfer to State of Illinois General Revenue Fund....	(5,000,000)		(5,000,000)
Transfer out.....	(5,200,000)		(5,200,000)
Net change in fund balances.....	10,356,235	9,256,871	19,613,106
Fund balances at beginning of period.....	221,261,386	100,200,621	
Fund balances at end of period.....	\$ 231,617,621	109,457,492	

Amounts reported for governmental activities in the statement of activities
are different due to interest on program loans receivable 30,938
Change in net assets of governmental activities \$ 19,644,044

ILLINOIS HOUSING DEVELOPMENT AUTHORITY
(A Component Unit of the State of Illinois)

PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
As of December 31, 2003
(Unaudited)

<u>ASSETS</u>	Administrative Fund	Mortgage Loan Program Fund	Single Family Program Fund	Total
Current assets:				
Cash and cash equivalents	\$ 13,797,668	6,404,089	6,411,670	26,613,427
Investments	71,938,056			71,938,056
Investment income receivable	236,101	2,862,925	5,061,533	8,160,559
Program loans receivable	295,000	24,800,000	8,250,000	33,345,000
Interest receivable on program loans	723,510	3,228,615	4,739,454	8,691,579
Due from other funds	7,580,183	23,674,644	23,580,236	54,835,063
Total current assets	<u>94,570,518</u>	<u>60,970,273</u>	<u>48,042,893</u>	<u>203,583,684</u>
Noncurrent assets:				
Investments - Restricted	154,950,802	311,468,463	288,649,343	755,068,608
Program loans receivable, net of current portion	61,463,325	616,023,706	526,135,971	1,203,623,002
Less allowance for estimated losses	(8,815,000)	(13,750,000)		(22,565,000)
Net program loans receivable	<u>52,648,325</u>	<u>602,273,706</u>	<u>526,135,971</u>	<u>1,181,058,002</u>
Unamortized bond issuance costs		10,698,193	9,902,855	20,601,048
Real estate held for sale (net)		29,872,060	969,713	30,841,773
Capital assets (net)	663,910			663,910
Other	8,744,106	1,829,354		10,573,460
Total noncurrent assets	<u>217,007,143</u>	<u>956,141,776</u>	<u>825,657,882</u>	<u>1,998,806,801</u>
Total assets	<u>\$ 311,577,661</u>	<u>1,017,112,049</u>	<u>873,700,775</u>	<u>2,202,390,485</u>
<u>LIABILITIES</u>				
Current liabilities:				
Bonds and notes payable	\$	25,725,000	107,205,000	132,930,000
Accrued interest payable		18,802,554	16,461,407	35,263,961
Deposits held in escrow	148,585,086			148,585,086
Accrued liabilities and other	16,222,905	13,270,441	1,887,577	31,380,923
Due to other funds	35,449,690	3,820,471	13,822,010	53,092,171
Total current liabilities	<u>200,257,681</u>	<u>61,618,466</u>	<u>139,375,994</u>	<u>401,252,141</u>
Noncurrent liabilities:				
Bonds and notes payable, net of current portion		816,288,219	698,012,210	1,514,300,429
Total liabilities	<u>\$ 200,257,681</u>	<u>877,906,685</u>	<u>837,388,204</u>	<u>1,915,552,570</u>
<u>NET ASSETS</u>				
Invested in capital assets (net)	\$ 663,910			663,910
Restricted for bond resolution purposes		139,205,364	36,312,571	175,517,935
Restricted for loan and grant programs	22,264,741			22,264,741
Unrestricted	88,391,329			88,391,329
Total net assets	<u>\$ 111,319,980</u>	<u>139,205,364</u>	<u>36,312,571</u>	<u>286,837,915</u>

ILLINOIS HOUSING DEVELOPMENT AUTHORITY
(A Component Unit of the State of Illinois)

PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
For the Six Months Ended December 31, 2003
(Unaudited)

	Administrative Fund	Mortgage Loan Program Fund	Single Family Program Fund	Total
Operating revenues:				
Interest and other investment income	\$ 730,748	5,683,917	6,340,878	12,755,543
Net decrease in fair value of investments.....	(311,079)	(2,186,144)	(816,324)	(3,313,547)
Total investment income	419,669	3,497,773	5,524,554	9,441,996
Interest earned on program loans	2,459,500	23,304,518	16,253,412	42,017,430
Federal assistance programs	74,798,988	2,640,742		77,439,730
Service fees	4,487,679			4,487,679
Development fees	294,780			294,780
HUD savings	652,147			652,147
Other	1,175,400	1,283,063		2,458,463
Total operating revenues	84,288,163	30,726,096	21,777,966	136,792,225
Operating expenses:				
Interest expense		27,520,629	24,930,919	52,451,548
Federal assistance programs	74,798,988	2,640,742		77,439,730
Salaries and benefits	5,161,505			5,161,505
Professional fees	1,150,842			1,150,842
Other general and administrative	1,615,389		62,756	1,678,145
Financing costs	209,247	481,902	236,939	928,088
Total operating expenses	82,935,971	30,643,273	25,230,614	138,809,858
Operating income (loss)	1,352,192	82,823	(3,452,648)	(2,017,633)
Other:				
Transfers in	200	155,663,773	1,877,689	157,541,662
Transfers out	(947,054)	(150,463,773)	(930,835)	(152,341,662)
Total other	(946,854)	5,200,000	946,854	5,200,000
Change in net assets	405,338	5,282,823	(2,505,794)	3,182,367
Net assets at beginning of period	110,914,642	133,922,541	38,818,365	283,655,548
Net assets at end of period	\$ 111,319,980	139,205,364	36,312,571	286,837,915

ILLINOIS HOUSING DEVELOPMENT AUTHORITY
(A Component Unit of the State of Illinois)

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
For the Six Months Ended December 31, 2003
(Unaudited)

	Administrative Fund	Mortgage Loan Program Fund	Single Family Program Fund	Total
Cash flows from operating activities:				
Cash received from interest, service fees, and principal on program loans.....	21,284,964	205,908,019	135,729,775	362,922,758
Cash payments for loaned amounts.....	(45,621,547)	(110,958,131)	(33,140,973)	(189,720,651)
Cash received from federal assistance programs.....	74,798,988	2,640,742		77,439,730
Cash payments for federal assistance programs.....	(75,115,367)	(2,640,742)		(77,756,109)
Cash payments for operating expenses.....	(10,434,985)			(10,434,985)
Interest on investments.....	1,716,499	6,681,543	6,156,419	14,554,461
Other.....	(4,533,689)	2,854,989	(2,109,105)	(3,787,805)
Net cash provided by (used in) operating activities.....	<u>(37,905,137)</u>	<u>104,486,420</u>	<u>106,636,116</u>	<u>173,217,399</u>
Cash flows from noncapital financing activities:				
Proceeds from sale of revenue bonds and notes.....		82,420,000	50,000,000	132,420,000
Principal paid on revenue bonds and notes.....		(99,946,434)	(168,740,000)	(268,686,434)
Interest paid on revenue bonds and notes.....		(28,300,472)	(24,142,376)	(52,442,848)
Transfers in.....	200	155,663,773	1,877,689	157,541,662
Transfers out.....	(947,054)	(150,463,773)	(930,835)	(152,341,662)
Other.....		2,051,673	(243,390)	1,808,283
Net cash used in noncapital financing activities.....	<u>(946,854)</u>	<u>(38,575,233)</u>	<u>(142,178,912)</u>	<u>(181,700,999)</u>
Cash flows from investing activities:				
Purchase of investment securities.....	(319,462,573)	(315,058,243)	(226,723,186)	(861,244,002)
Proceeds from sales and maturities of investment securities.....	344,597,810	253,537,228	261,764,764	859,899,802
Developer escrow and other interest.....	845,079			845,079
Net cash provided by (used in) investing activities.....	<u>25,980,316</u>	<u>(61,521,015)</u>	<u>35,041,578</u>	<u>(499,121)</u>
Net increase (decrease) in cash and cash equivalents.....	(12,871,675)	4,390,172	(501,218)	(8,982,721)
Cash and cash equivalents at beginning of period.....	26,669,343	2,013,917	6,912,888	35,596,148
Cash and cash equivalents at end of period.....	<u>13,797,668</u>	<u>6,404,089</u>	<u>6,411,670</u>	<u>26,613,427</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income (loss).....	1,352,192	82,823	(3,452,648)	(2,017,633)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Interest expense.....		27,520,629	24,930,919	52,451,548
Depreciation and amortization.....	148,803	400,000		548,803
Changes in assets and liabilities:				
Decrease (increase) in investment income receivable.....	140,672	997,626	(184,459)	953,839
Decrease (increase) in program loan and interest receivable.....	(31,416,258)	72,914,369	96,901,359	138,399,470
Increase (decrease) in due to/from other funds.....	10,212,609	638,285	(11,202,215)	(351,321)
Increase (decrease) in other liabilities.....	(15,616,970)	1,784,612	(662,537)	(14,494,895)
Decrease (increase) in other assets.....	(440,549)	148,076	305,697	13,224
Other.....	(2,285,636)			(2,285,636)
Total adjustments.....	<u>(39,257,329)</u>	<u>104,403,597</u>	<u>110,088,764</u>	<u>175,235,032</u>
Net cash provided by (used in) operating activities.....	<u>(37,905,137)</u>	<u>104,486,420</u>	<u>106,636,116</u>	<u>173,217,399</u>

ILLINOIS HOUSING DEVELOPMENT AUTHORITY
(A Component Unit of the State of Illinois)

MORTGAGE LOAN PROGRAM FUND
COMBINING SCHEDULE OF NET ASSETS

As of December 31, 2003
(Unaudited)

	Multi-Family		Housing	Fixed Rate	Housing			Multi-Family	Multi-Family	Housing	Affordable		Total
	Housing	Multi-Family	Development	Housing	Housing	Finance	Variable Rate	Housing	Revenue	Multifamily	Housing	Program	
<u>ASSETS</u>	Bonds	Bonds	Bonds	Bonds	Bonds	Bonds	Bonds	Bonds	Bonds	(Marywood)	(Turnberry)	Bonds	
Current assets:													
Cash and cash equivalents	\$ 745,849	1,871,513	17,352	27,066	355,863	93,932	602,402	2,184,215	173,413	149,098	183,386		6,404,089
Investment income receivable	1,295,730	1,042,169	358,846	715	19,798	21,194	9,681	5,594	30,871		78,327		2,862,925
Program loans receivable	7,810,000	8,945,000			4,520,000	210,000					3,315,000		24,800,000
Interest receivable on program loans	352,068	179,089			1,373,351	67,209	47,071	13,440	532,597	13,380	650,410		3,228,615
Due from other funds	791,920	5,069,433	3,767,348	709,796	65,490			13,260,994		9,663			23,674,644
Total current assets	10,995,567	17,107,204	4,143,546	737,577	6,334,502	392,335	659,154	15,464,243	736,881	172,141	4,227,123		60,970,273
Noncurrent assets:													
Investments - Restricted	95,673,415	71,861,357	52,043,775	14,336,989	44,576,331	1,011,493	2,088,646	4,037,734	9,169,280	53,901	16,615,542		311,468,463
Program loans receivable, net of current portion	193,021,609	185,897,546			110,116,299	13,960,343	8,085,809	9,796,400	8,216,120	5,320,000	81,609,580		616,023,706
Less allowance for estimated losses	(3,500,000)				(5,150,000)		(100,000)				(5,000,000)		(13,750,000)
Net program loans receivable	189,521,609	185,897,546			104,966,299	13,960,343	7,985,809	9,796,400	8,216,120	5,320,000	76,609,580		602,273,706
Unamortized bond issuance costs	5,839,069		495,316	148,875	1,841,724		121,773	1,164,082			1,087,354		10,698,193
Real estate held for sale (net)								29,872,060					29,872,060
Other					185,864			1,550,897			92,593		1,829,354
Total noncurrent assets	291,034,093	257,758,903	52,539,091	14,485,864	151,570,218	14,971,836	10,196,228	46,421,173	17,385,400	5,373,901	94,405,069		956,141,776
Total assets	\$ 302,029,660	274,866,107	56,682,637	15,223,441	157,904,720	15,364,171	10,855,382	61,885,416	18,122,281	5,546,042	98,632,192		1,017,112,049
LIABILITIES													
Current liabilities:													
Bonds and notes payable	\$ 9,295,000	9,615,000	1,040,000	340,000	2,020,000	215,000		800,000			2,400,000		25,725,000
Accrued interest payable	7,678,842	5,752,920	2,924,816	246,500	943,703	304,324	8,126	54,001	268,611	82,413	538,298		18,802,554
Accrued liabilities and other	6,969,028	2,003,600	88,579		1,891,978	86,723			1,897,855	129,618	203,060		13,270,441
Due to other funds	369,926	638,594	1,166,525	14,294	118,349	23,131	829,348	654,579			5,725		3,820,471
Total current liabilities	24,312,796	18,010,114	5,219,920	600,794	4,974,030	629,178	837,474	1,508,580	2,166,466	212,031	3,147,083		61,618,466
Noncurrent liabilities:													
Bonds and notes payable, net of current portion	219,803,969	244,745,000	48,209,250	9,860,000	117,720,000	14,510,000	8,135,000	54,955,000	15,865,000	5,320,000	77,165,000		816,288,219
Total liabilities	\$ 244,116,765	262,755,114	53,429,170	10,460,794	122,694,030	15,139,178	8,972,474	56,463,580	18,031,466	5,532,031	80,312,083		877,906,685
NET ASSETS													
Restricted for bond resolution purposes	\$ 57,912,895	12,110,993	3,253,467	4,762,647	35,210,690	224,993	1,882,908	5,421,836	90,815	14,011	18,320,109		139,205,364
Total net assets	\$ 57,912,895	12,110,993	3,253,467	4,762,647	35,210,690	224,993	1,882,908	5,421,836	90,815	14,011	18,320,109		139,205,364

ILLINOIS HOUSING DEVELOPMENT AUTHORITY
(A Component Unit of the State of Illinois)

MORTGAGE LOAN PROGRAM FUND
COMBINING SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
For the Six Months Ended December 31, 2003
(Unaudited)

	Multi-Family Housing Bonds	Multi-Family Program Bonds	Housing Development Bonds	Fixed Rate Housing Bonds	Housing Bonds	Housing Finance Bonds	Multi-Family Variable Rate Demand Bonds	Multi-Family Housing Revenue Bonds	Multifamily Housing Revenue Bonds (Marywood)	Multifamily Bonds (Turnberry)	Affordable Housing Program Trust Fund Bonds	Total
Operating revenues:												
Interest and other investment income.....	\$ 1,627,644	1,840,086	403,001	410,639	782,682	29,772	25,113	47,780	62,693	120	454,387	5,683,917
Net decrease in fair value of investments..	(1,272,137)	(408,763)		(479,890)			(11,904)	(13,450)				(2,186,144)
Total investment income (loss).....	355,507	1,431,323	403,001	(69,251)	782,682	29,772	13,209	34,330	62,693	120	454,387	3,497,773
Interest earned on program loans.....	9,092,682	7,883,762	2,430,491	398,289	603,233	447,589	300,643	71,611	409,129	136,775	1,530,314	23,304,518
Federal assistance programs.....	76,797		2,138,970	282,325	142,650							2,640,742
Other.....								1,283,063				1,283,063
Total operating revenues.....	9,524,986	9,315,085	4,972,462	611,363	1,528,565	477,361	313,852	1,389,004	471,822	136,895	1,984,701	30,726,096
Operating expenses:												
Interest expense.....	7,984,284	8,596,806	3,448,508	385,759	998,951	457,428	263,204	1,275,371	402,917	123,619	3,583,782	27,520,629
Federal assistance programs.....	76,797		2,138,970	282,325	142,650							2,640,742
Financing costs.....	46,526	47,432	35,651		118,349	4,193	23,151	98,538			108,062	481,902
Total operating expenses.....	8,107,607	8,644,238	5,623,129	668,084	1,259,950	461,621	286,355	1,373,909	402,917	123,619	3,691,844	30,643,273
Operating income (loss).....	1,417,379	670,847	(650,667)	(56,721)	268,615	15,740	27,497	15,095	68,905	13,276	(1,707,143)	82,823
Other:												
Transfers in.....	9,176,593	158,820	43,037,645	5,530,658	92,560,057						5,200,000	155,663,773
Transfers out.....	(7,518,996)		(75,060,401)	(9,980,660)	(57,903,716)							(150,463,773)
Total other.....	1,657,597	158,820	(32,022,756)	(4,450,002)	34,656,341						5,200,000	5,200,000
Change in net assets.....	3,074,976	829,667	(32,673,423)	(4,506,723)	34,924,956	15,740	27,497	15,095	68,905	13,276	3,492,857	5,282,823
Net assets at beginning of period.....	54,837,919	11,281,326	35,926,890	9,269,370	285,734	209,253	1,855,411	5,406,741	21,910	735	14,827,252	133,922,541
Net assets at end of period.....	\$ 57,912,895	12,110,993	3,253,467	4,762,647	35,210,690	224,993	1,882,908	5,421,836	90,815	14,011	18,320,109	139,205,364

ILLINOIS HOUSING DEVELOPMENT AUTHORITY
(A Component Unit of the State of Illinois)

MORTGAGE LOAN PROGRAM FUND
COMBINING SCHEDULE OF CASH FLOWS
For the Six Months Ended December 31, 2003
(Unaudited)

	Multi-Family Housing Bonds	Multi-Family Program Bonds	Housing Development Bonds	Fixed Rate Housing Bonds	Housing Bonds	Housing Finance Bonds	Multi-Family Variable Rate Demand Bonds	Multi-Family Housing Revenue Bonds	Multi-Family Housing Revenue Bonds (Marywood)	Multi-Family Bonds (Turnberry)	Affordable Housing Program Trust Fund Bonds	Total
Cash flows from operating activities:												
Cash received from interest, service fees, and principal on program loans	\$ 37,001,526	64,837,704	85,175,116	10,799,952	3,807,432	545,851	312,536	71,402		123,395	3,233,105	205,908,019
Cash payments for loaned amounts					(110,139,145)				(818,986)			(110,958,131)
Cash received from federal assistance programs	76,797		2,138,970	282,325	142,650							2,640,742
Cash payments for federal assistance programs	(76,797)		(2,138,970)	(282,325)	(142,650)							(2,640,742)
Interest on investments	1,847,855	1,825,418	443,326	439,505	1,541,830	30,198	25,065	47,735	47,442	120	433,049	6,681,543
Other	(1,370,818)	1,579,212	(37,781)	(521,497)	1,912,748	(9,096)	(15,654)	1,588,958		(64,788)	(206,295)	2,854,989
Net cash provided by (used in) operating activities	<u>37,478,563</u>	<u>68,242,334</u>	<u>85,580,661</u>	<u>10,717,960</u>	<u>(102,877,135)</u>	<u>566,953</u>	<u>321,947</u>	<u>1,708,095</u>	<u>(771,544)</u>	<u>58,727</u>	<u>3,459,859</u>	<u>104,486,420</u>
Cash flows from noncapital financing activities:												
Proceeds from sale of revenue bonds and notes					82,420,000							82,420,000
Principal paid on revenue bonds and notes	(28,181,434)	(36,230,000)	(29,295,000)	(320,000)	(3,730,000)	(100,000)		(800,000)			(1,290,000)	(99,946,434)
Interest paid on revenue bonds and notes	(9,562,125)	(9,881,726)	(2,645,537)	(381,350)	(1,016,620)	(459,311)	(46,153)	(723,807)	(255,181)	(50,134)	(3,278,528)	(28,300,472)
Transfers in	9,176,593	158,820	43,037,645	5,530,658	92,560,057						5,200,000	155,663,773
Transfers out	(7,518,996)		(75,060,401)	(9,980,660)	(57,903,716)							(150,463,773)
Other	2,926,916	897,013	(3,867,586)	229,891	2,993,513		(204,921)	(923,153)				2,051,673
Net cash provided by (used in) used in noncapital financing activities	<u>(33,159,046)</u>	<u>(45,055,893)</u>	<u>(67,830,879)</u>	<u>(4,921,461)</u>	<u>115,323,234</u>	<u>(559,311)</u>	<u>(251,074)</u>	<u>(2,446,960)</u>	<u>(255,181)</u>	<u>(50,134)</u>	<u>631,472</u>	<u>(38,575,233)</u>
Cash flows from investing activities:												
Purchase of investment securities	(62,236,156)	(86,098,402)	(68,155,897)	(22,504,166)	(59,830,459)	(434,366)	(11,560)	(5,593,933)	(1,923,370)	(53,901)	(8,216,033)	(315,058,243)
Proceeds from sales and maturities of investment securities	58,608,805	64,782,630	50,335,433	16,672,213	47,739,925	520,656		7,617,677	2,951,801		4,308,088	253,537,228
Net cash provided by (used in) investing activities	<u>(3,627,351)</u>	<u>(21,315,772)</u>	<u>(17,820,464)</u>	<u>(5,831,953)</u>	<u>(12,090,534)</u>	<u>86,290</u>	<u>(11,560)</u>	<u>2,023,744</u>	<u>1,028,431</u>		<u>(3,907,945)</u>	<u>(61,521,015)</u>
Net increase (decrease) in cash and cash equivalents	692,166	1,870,669	(70,682)	(35,454)	355,565	93,932	59,313	1,284,879	1,706	(45,308)	183,386	4,390,172
Cash and cash equivalents at beginning of period	53,683	844	88,034	62,520	298		543,089	899,336	171,707	194,406		2,013,917
Cash and cash equivalents at end of period	<u>\$ 745,849</u>	<u>1,871,513</u>	<u>17,352</u>	<u>27,066</u>	<u>355,863</u>	<u>93,932</u>	<u>602,402</u>	<u>2,184,215</u>	<u>173,413</u>	<u>149,098</u>	<u>183,386</u>	<u>6,404,089</u>
Reconciliation of operating income (loss) to net cash provided by												
(used in) operating activities:												
Operating income (loss)	\$ 1,417,379	670,847	(650,667)	(56,721)	268,615	15,740	27,497	15,095	68,905	13,276	(1,707,143)	82,823
Adjustments to reconcile operating income (loss) to net cash provided by												
(used in) operating activities:												
Interest expense	7,984,284	8,596,806	3,448,508	385,759	998,951	457,428	263,204	1,275,371	402,917	123,619	3,583,782	27,520,629
Depreciation and amortization								400,000				400,000
Changes in assets and liabilities:												
Decrease (increase) in investment income receivable	220,211	(14,668)	40,325	28,866	759,148	426	(48)	(45)	(15,251)		(21,338)	997,626
Decrease (increase) in program loan and interest receivable	29,588,362	56,974,271	82,446,273	10,401,663	(106,934,946)	107,001	4,393	(209)	(1,228,115)	(13,380)	1,569,056	72,914,369
Increase (decrease) in due to/from other funds	(1,708,953)	1,987,852	292,722	(41,607)	53,672	(13,642)	26,901	98,538			(57,198)	638,285
Increase (decrease) in other liabilities	(38,595)		3,500		1,884,495					(64,788)		1,784,612
Decrease (increase) in other assets	15,875	27,226			92,930			(80,655)			92,700	148,076
Total adjustments	36,061,184	67,571,487	86,231,328	10,774,681	(103,145,750)	551,213	294,450	1,693,000	(840,449)	45,451	5,167,002	104,403,597
Net cash provided by (used in) operating activities	<u>\$ 37,478,563</u>	<u>68,242,334</u>	<u>85,580,661</u>	<u>10,717,960</u>	<u>(102,877,135)</u>	<u>566,953</u>	<u>321,947</u>	<u>1,708,095</u>	<u>(771,544)</u>	<u>58,727</u>	<u>3,459,859</u>	<u>104,486,420</u>

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ILLINOIS HOUSING DEVELOPMENT AUTHORITY
(A Component Unit of the State of Illinois)

SINGLE FAMILY PROGRAM FUND
COMBINING SCHEDULE OF NET ASSETS

As of December 31, 2003

(Unaudited)

<u>ASSETS</u>	<u>Homeowner Mortgage Revenue Bonds</u>	<u>Residential Mortgage Revenue Bonds</u>	<u>Total</u>
Current assets:			
Cash and cash equivalents	\$ 5,525,135	886,535	6,411,670
Investment income receivable	4,923,757	137,776	5,061,533
Program loans receivable	8,250,000		8,250,000
Interest receivable on program loans	4,739,454		4,739,454
Due from other funds		23,580,236	23,580,236
Total current assets	23,438,346	24,604,547	48,042,893
Noncurrent assets:			
Investments - Restricted	278,076,949	10,572,394	288,649,343
Program loans receivable, net of current portion	526,135,971		526,135,971
Unamortized bond issuance costs	9,899,870	2,985	9,902,855
Real estate held for sale (net)	969,713		969,713
Total noncurrent assets	815,082,503	10,575,379	825,657,882
Total assets	\$ 838,520,849	35,179,926	873,700,775
<u>LIABILITIES</u>			
Current liabilities:			
Bonds and notes payable	\$ 107,205,000		107,205,000
Accrued interest payable	16,451,292	10,115	16,461,407
Accrued liabilities and other	1,854,477	33,100	1,887,577
Due to other funds	13,815,906	6,104	13,822,010
Total current liabilities	139,326,675	49,319	139,375,994
Noncurrent liabilities:			
Bonds and notes payable, net of current portion	697,706,495	305,715	698,012,210
Total liabilities	\$ 837,033,170	355,034	837,388,204
<u>NET ASSETS</u>			
Restricted for bond resolution purposes	\$ 1,487,679	34,824,892	36,312,571
Total net assets	\$ 1,487,679	34,824,892	36,312,571

ILLINOIS HOUSING DEVELOPMENT AUTHORITY
(A Component Unit of the State of Illinois)

SINGLE FAMILY PROGRAM FUND
COMBINING SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
For the Six Months Ended December 31, 2003
(Unaudited)

	Homeowner Mortgage Revenue Bonds	Residential Mortgage Revenue Bonds	Total
Operating revenues:			
Interest and other investment income	\$ 5,831,196	509,682	6,340,878
Net decrease in fair value of investments.....	(334,970)	(481,654)	(816,624)
Total investment income	5,496,226	28,028	5,524,254
Interest earned on program loans	15,630,804	622,608	16,253,412
Total operating revenues	<u>21,127,030</u>	<u>650,636</u>	<u>21,777,666</u>
Operating expenses:			
Interest expense	24,575,369	355,550	24,930,919
Other general and administrative	56,765	5,991	62,756
Financing costs	236,826	113	236,939
Total operating expenses	<u>24,868,960</u>	<u>361,654</u>	<u>25,230,614</u>
Operating income (loss)	(3,741,930)	288,982	(3,452,948)
Other:			
Transfers in	1,877,689		1,877,689
Transfers out		(930,835)	(930,835)
Total other	<u>1,877,689</u>	<u>(930,835)</u>	<u>946,854</u>
Change in net assets	(1,863,941)	(641,853)	(2,505,794)
Net assets at beginning of period	3,351,620	35,466,745	38,818,365
Net assets at end of period.....	<u>\$ 1,487,679</u>	<u>34,824,892</u>	<u>36,312,571</u>

ILLINOIS HOUSING DEVELOPMENT AUTHORITY
(A Component Unit of the State of Illinois)

SINGLE FAMILY PROGRAM FUND
COMBINING SCHEDULE OF CASH FLOWS
For the Six Months Ended December 31, 2003
(Unaudited)

	Homeowner Mortgage Revenue Bonds	Residential Mortgage Revenue Bonds	Total
Cash flows from operating activities:			
Cash received from interest, service fees, and principal on program loans.... \$	130,154,497	5,575,278	135,729,775
Cash payments for loaned amounts.....	(33,140,973)		(33,140,973)
Cash payments for operating expenses.....			
Interest on investments	5,421,668	734,751	6,156,419
Other.....	(1,706,755)	(402,350)	(2,109,105)
Net cash provided by operating activities.....	100,728,437	5,907,679	106,636,116
Cash flows from noncapital financing activities:			
Proceeds from sale of revenue bonds and notes.....	50,000,000		50,000,000
Principal paid on revenue bonds and notes.....	(158,035,000)	(10,705,000)	(168,740,000)
Interest paid on revenue bonds and notes.....	(23,737,687)	(404,689)	(24,142,376)
Transfers in.....	1,877,689		1,877,689
Transfers out.....		(930,835)	(930,835)
Other.....	(725,043)	481,653	(243,390)
Net cash used in noncapital financing activities.....	(130,620,041)	(11,558,871)	(142,178,912)
Cash flows from investing activities:			
Purchase of investment securities.....	(207,933,470)	(18,789,716)	(226,723,186)
Proceeds from sales and maturities of investment securities.....	237,483,149	24,281,615	261,764,764
Net cash provided by investing activities.....	29,549,679	5,491,899	35,041,578
Net decrease in cash and cash equivalents.....	(341,925)	(159,293)	(501,218)
Cash and cash equivalents at beginning of period.....	5,867,060	1,045,828	6,912,888
Cash and cash equivalents at end of period.....	5,525,135	886,535	6,411,670
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss).....	(3,741,630)	288,982	(3,452,648)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Interest expense.....	24,575,369	355,550	24,930,919
Changes in assets and liabilities:			
Decrease (increase) in investment income receivable.....	(409,528)	225,069	(184,459)
Decrease in program loan and interest receivable.....	68,653,109	28,248,250	96,901,359
Increase (decrease) in due to/from other funds.....	12,098,781	(23,300,996)	(11,202,215)
Decrease in other liabilities.....	(662,537)		(662,537)
Decrease in other assets.....	214,873	90,824	305,697
Total adjustments.....	104,470,067	5,618,697	110,088,764
Net cash provided by operating activities.....	100,728,437	5,907,679	106,636,116

ILLINOIS HOUSING DEVELOPMENT AUTHORITY
(A Component Unit of the State of Illinois)
DEBT ACTIVITY
For the Six Months Ended December 31, 2003
(Unaudited)

The following summarizes the debt activity for the Authority's proprietary funds for six months ended December 31, 2003.

<u>Funds</u>	<u>06/30/03</u>	<u>Issuance</u>	<u>Accretion</u>	<u>Retirement</u>	<u>12/31/03</u>
Housing Development Bond	\$78,660,000			(29,295,000)	\$49,365,000
Multi-Family Housing Bond	272,561,739		435,024	(28,181,434)	244,815,329
Fixed Rate Housing Bond	10,520,000			(320,000)	10,200,000
Multi-Family Program Bond	290,590,000			(36,230,000)	254,360,000
Housing Bond	41,050,000	82,420,000		(3,730,000)	119,740,000
Housing Finance Bond	14,825,000			(100,000)	14,725,000
Multi-Family Variable Rate Demand Bond	8,135,000				8,135,000
Multi-Family Housing Revenue Bond	56,555,000			(800,000)	55,755,000
Multi-Family Housing Revenue Bond (Marywood)	15,865,000				15,865,000
Multifamily Bond (Turnberry II)	5,320,000				5,320,000
Affordable Housing Program Trust Fund Bond	80,855,000			(1,290,000)	79,565,000
Total Mortgage Loan Program Funds	874,936,739	82,420,000	435,024	(99,946,434)	857,845,329
Residential Mortgage Revenue Bond	11,010,420		295	(10,705,000)	305,715
Homeowner Mortgage Revenue Bond	821,385,000	50,000,000		(158,035,000)	713,350,000
Homeowner Mortgage Revenue Note	91,455,000				91,455,000
Total Single Family Program Funds	923,850,420	50,000,000	295	(168,740,000)	805,110,715
Total Proprietary Funds	\$1,798,787,159	\$132,420,000	\$435,319	(\$268,686,434)	\$1,662,956,044
Less unamortized discount thereon	15,904,343		(178,728)		15,725,615
Net Bonds Outstanding	<u>\$1,782,882,816</u>				<u>\$1,647,230,429</u>

APPENDIX C

DESCRIPTION OF FEDERAL SECTION 236 INTEREST RATE REDUCTION PROGRAM AND SECTION 8 SUBSIDY PROGRAM

Federal Section 236 Interest Rate Reduction Program

The mortgage loans (the “Section 236 Mortgage Loans”) for some of the Financed Developments (the “Section 236 Developments”) are subject to the multi-family interest reduction subsidy program administered by HUD pursuant to Section 236 of the National Housing Act. The following is a brief description of the Section 236 Program, and is qualified in its entirety by reference to the National Housing Act and the regulations thereunder.

Section 236 of the National Housing Act provides for interest reduction payments to mortgage holders (“Section 236 Payments”) with respect to mortgages on rental housing projects designed for families of lower income (as determined by HUD) containing five or more dwelling units. No such payment may exceed the difference between the monthly payment for principal, interest, and mortgage insurance premium which the project owner as mortgagor is obligated to pay under the mortgage (or, if only a portion of the units in a project are subsidized, the allocable portion of the mortgage) and the monthly payment for principal and interest which such mortgagor would be obligated to pay if the mortgage were to bear interest at the rate of one percent per annum. For each dwelling unit in a project there must be established, with the approval of HUD (i) a basic rental charge, determined on the basis of operating the project with payments of principal and interest due under a mortgage bearing interest at the rate of one percent per annum and (ii) a fair market rental charge, determined on the basis of operating the project with payments of principal, interest, and any mortgage insurance premium which the mortgagor is obligated to pay under the mortgage covering the project. The rental for each dwelling unit must be at such basic rental charge or such greater amount, not exceeding (a) such fair market rental charge, or (b) the actual rent paid for a comparable unit in comparable unassisted housing in the market area in which such housing is located, up to 30 percent of the tenant’s income. Tenants whose income increases above the levels established by HUD after initial occupancy are permitted to remain at increased rentals, however, such excess rental charges must be paid by the Owner to HUD in some cases, as discussed below.

An additional “deep subsidy” entitled “Rental Assistance Payments” (“RAP”) was introduced by HUD in 1975 under Section 236(f)(2) of the National Housing Act. The RAP program is designed to assist tenants in Section 236 projects who cannot afford to pay basic rent. The owner of an eligible Section 236 rental project may receive RAP payments from HUD on a specified percentage of dwelling units in the project. Such payments may be made in an amount equal to the difference between the basic rental of a dwelling unit and 30 percent of an eligible tenant’s monthly income. Tenant eligibility for Rental Assistance Payments is based only on income, which must be less than the applicable HUD designated income limit for the area. RAP payments are limited by contract authority on an individual project basis. Each such contract may or may not be sufficient to fully accommodate increased rents. Tenants in Section 236 Developments may also receive subsidies under the Section 8 subsidy program.

Certain Terms of the Section 236 Contracts

The interest reduction payment agreements with HUD (the “Section 236 Contracts”) provide for the payment of the Section 236 Payments for a period of not more than 50 years from the date of the initial Section 236 Payments with respect to the applicable Section 236 development. Generally, the expiration dates of the Section 236 Contracts for the Section 236 Mortgage Loans relating to the Section 236 Developments financed directly or indirectly by the Offered Bonds are approximately coterminous with the maturity of the underlying mortgages.

Reduction and Termination of Section 236 Payments

Each Section 236 Mortgage provides that the mortgagor must maintain hazard insurance on the Section 236 project with such coverage and in such amounts as are satisfactory to the Authority and such that in the event of any damage to the Section 236 project all insurance proceeds are payable to the Authority. In addition, the Authority has responsibility for determining appropriate coverage amounts for insurance policies and application of proceeds thereof. In the event any dwelling unit is destroyed or rendered uninhabitable by reason of fire or any other insured risk, the Authority has the right to determine if the proceeds of insurance will be used as a prepayment under the Section 236 Mortgage or to assure that the Section 236 project is restored or rehabilitated through application of such insurance proceeds. In the event the Authority determines that such restoration or rehabilitation is not appropriate, HUD payments may be reduced to the extent applicable to such dwelling unit.

Foreclosure. Pursuant to the Section 236 Contracts, HUD will not terminate Section 236 Payments thereunder upon the institution by the Authority of a foreclosure proceeding (or other proceeding in lieu of foreclosure) if a foreclosure proceeding is instituted by the Authority subject to the continuing lien of the mortgage and the project is acquired by a purchaser eligible to be an owner under Section 236.

Acquisition by Ineligible Owner. HUD may terminate Section 236 Payments with respect to any project if the project is acquired by any owner who is not an eligible mortgagor under Section 236. Each owner has covenanted in the HUD Contract not to sell, convey, or transfer such project except to a mortgagor which is eligible under Section 236 and approved by the Authority.

Certain Mortgagor Covenants. Each mortgagor covenanted in its Section 236 Contract to limit admission to the subsidized dwelling units of a project to those families whose incomes do not exceed the lower of the Authority’s limits or the applicable limits prescribed by the Secretary. The Secretary has the authority to suspend or terminate Section 236 Payments at any time upon default by the Mortgagor under any of the covenants contained in the Section 236 Contracts or upon any other default by the mortgagors or the Authority in the terms and conditions of the Section 236 Contracts.

Forbearance and Deferment of Mortgage Repayments. Under the Section 236 Contracts, the Authority has covenanted not to agree to the forbearance or deferment of any payment due under a mortgage without the prior written approval of HUD.

Prepayment of Section 236 Mortgages

Generally, as a matter of federal law, Section 236 Mortgage Loans permit prepayment after 20 years from the date of occupancy. Beginning in 1987, federal legislation imposed significant restrictions on such prepayments; however, current law permits prepayment, subject to compliance with certain tenant notice and protection requirements and, where applicable, approval of the mortgagee. Notwithstanding the changes in federal policy toward prepayment, prepayment of the Section 236 Mortgage Loans is subject to certain restrictions imposed by the Authority. See “Mortgage Loans – Mortgage Prepayments.”

Set-Off Rights of the United States

Under federal law, the United States Government may have the right to set off liabilities of the Authority to the United States against the amounts payable under Section 236 Contracts.

Calculation of Excess Rental Charges

Each owner is required to remit monthly to HUD all “excess rental charges” collected by the owner. Prior to April, 1996, “excess rental charges” subject to this requirement were collected on an aggregate basis; that is, excess rental charges were determined as the amount of rent collected in excess of the sum of the basic rents for all occupied units. This method allowed an owner to deduct collection losses in calculating the amount of excess rental charges to be submitted.

Section 236 has been amended to require that, beginning in 1996, “excess rental charges” are to be calculated on a “unit-by-unit” basis (i.e., the sum of all “excess rental charges” collected, without reduction for collection losses on other units). However, under legislation first enacted in 1999, developments that are assisted under Section 236 are permitted to retain some or all of such excess income if authorized to do so by HUD. Otherwise, such payments must be remitted to HUD. The Authority’s cash flow analysis assumes that the “unit-by-unit” rule will be applied.

Decoupling Program

Congress passed legislation in 1999 (the “1999 Act”) that permits owners of Section 236 developments to refinance their mortgages (if such mortgages are otherwise eligible for prepayment) while retaining the Section 236 subsidy. HUD program guidelines implementing this legislation describe this as “decoupling” the subsidy from the original mortgage loan. Among other things, in order to benefit from the decoupling program, the development owner must agree to enforce the income restrictions applicable to tenants in the development for a period ending five years beyond the term of the IRP assistance. Under the program, HUD enters into a new IRP Contract with the development owner and the mortgagee pursuant to which the subsidy is continued and the new financing is approved. HUD exercises considerable discretion in implementing the program. IRP Contracts executed pursuant to the decoupling program may have terms different from those described herein for the program generally.

Section 8 Subsidy Program

Some of the Financed Developments (the “Section 8 Developments”) are the subject of housing assistance payments on behalf of eligible tenants under the Section 8 Housing Assistance Program for new construction and substantial or moderate rehabilitation (the “Section 8 Program”). The following is a summary of such programs; it does not purport to be comprehensive or definitive, and it is qualified in its entirety by the statutes, regulations and agreements referred to in this summary.

Section 8 of the United States Housing Act of 1937, as amended (the “1937 Housing Act”), provides for the payment by the United States Department of Housing and Urban Development (“HUD”) of a federal rental subsidy for the benefit of low income families (defined generally as families whose income does not exceed 80 percent of the median income for the area as determined by HUD) and very-low income families (defined generally as families whose income does not exceed 50 percent of the median income for the area as determined by HUD). Subsidy payments are made to or for the account of the owner of dwelling units occupied by low income and very-low income families. Provision is made under the 1937 Housing Act and HUD regulations thereunder for administration of the Section 8 Programs through state housing finance agencies, including the Authority. Under this arrangement, the state housing finance agency agrees to pay the subsidy to or for the account of the owner and concurrently contracts with HUD for payment of the subsidy by HUD to the state housing finance agency. With respect to the new construction or substantial rehabilitation program, the regulations permit the state agency to exercise a high degree of program responsibility for developments without federal mortgage insurance, such as selection of the developer, approval of design and construction quality, site selection, and determination of economic feasibility and marketability, subject to audit and review by HUD to assure compliance with federal requirements and objectives.

Eligible Tenants. An eligible tenant for a Section 8-assigned unit is a family or an individual whose income, determined in accordance with HUD schedules and criteria, does not exceed the income limits prescribed by HUD for the area in which the development is located. Under existing HUD regulations, the income limit is generally fifty percent (50%) of the area’s median income, with further adjustment for the size of the tenant’s family and regional economic conditions; although tenants in up to twenty five percent (25%) of units (fifteen (15%) for developments with HAP contracts dated after October 1, 1981) may have incomes up to eighty percent (80%) of the area’s median income, as adjusted by HUD. Recent legislation also requires that not less than 40% of the dwelling units that become available for occupancy in any fiscal year shall be available for leasing only by families whose annual income does not exceed 30% of area median income (as determined by HUD and adjusted for family size) at the time of admission.

Subsidy Contracts. Under the Section 8 Programs, three principal contracts are executed. The Authority enters into an Agreement to Enter Into Housing Assistance Payments Contract (“AHAP”) with the developer or owner of the development to be constructed or rehabilitated. The AHAP is approved by HUD, except that HUD approval is not required under the Section 8 Program for moderate rehabilitation. Subject to certain conditions, the AHAP commits the owner and HUD to enter into a HAP Contract upon completion and acceptance of the development, providing for payment by the state housing finance agency of housing assistance

payments to or for the account of the owner. At the same time that the AHAP is executed, or prior to the execution of the AHAP for the moderate rehabilitation program, the state housing finance agency and HUD execute an ACC which provides for the payment to the Authority by HUD of the subsidy which the Authority is to pay to or for the account of the owner under the proposed HAP Contract. ACCs under the moderate rehabilitation program do not relate to a specific development. The HAP Contract must be submitted to HUD for approval and its effective date may not precede submission to HUD of certification as to completion of the development, except that HUD approval of the HAP Contract is not required under the moderate rehabilitation program. The HAP Contract may be executed with respect to separate stages of a development completed at different times.

Certain Terms of the Subsidy Contracts. A development financed by bonds or notes of the Authority during its construction is not eligible to receive Section 8 subsidy payments with respect to eligible dwelling units until a certification of completion has been furnished. The HAP Contracts provide for the payment of the Section 8 subsidy for a period of not more than 40 years or, in the case of most developments that are the subject of more recently executed HAP Contracts, 30 years and as short a period as 20 years from the date of the initial HAP Contract with respect to the applicable portion of the development. In the case of the Section 8 Program for moderate rehabilitation, the HAP Contracts provide for the payment of the Section 8 subsidy for a period of not more than 15 years from the date of the initial HAP Contracts.

Initial Amount of Subsidy. In connection with any Section 8 Developments, Section 8 subsidies are based upon the Contract Rents applicable to subsidized dwelling units.

The amount of the subsidy payable to the account of the owner under a HAP Contract is the applicable Contract Rent less the payment, if any, required to be made to the owner by the tenant as determined by HUD. The tenant payment is generally equal to 30 percent of family income. Thus, the total rental income from Section 8 housing units payable to or for the account of the owner is equal to the Contract Rent, part being paid by the tenants directly to the owner and the remainder being paid by HUD to the owner in the form of housing assistance payments. The proportion of the Contract Rent actually paid by HUD and that actually paid by tenants will vary depending upon tenant income.

Limitations on Subsidy-Vacancies. Generally, the Section 8 subsidy is payable with respect to the assisted dwelling unit only when it is occupied by a low income or very-low income family. However, the law and the regulations provide for the payment of the subsidy under certain limited circumstances when the dwelling is not occupied.

A subsidy amounting to 80% of the Contract Rent is payable for a vacancy period of sixty days (a) during the rent-up period following completion of the development or a stage of the development, and (b) upon occurrence of a vacancy in an assisted dwelling unit after it is initially rented, subject in each case to compliance by the owner with certain conditions relating primarily to a diligent effort to rent the subsidized unit. Such payments may continue for an additional 12-month period in an amount equal to the debt service attributable to the unit contingent upon, among other things, the additional conditions that the unit is in decent, safe and sanitary condition during the vacancy period, that the owner has taken and continues to take all feasible action to fill the vacancy, that the development is not providing the owner thereof with

revenues at least equal to the costs incurred by such owner, that the amount of the payments requested is not in excess of that portion of the deficiency which is attributable to the vacant unit for the period of the vacancy and that there is a reasonable prospect that the development can achieve financial soundness within a reasonable time.

Adjustments of Contract Rents. The statute and applicable regulations contain various provisions for review and readjustment of the amount of the Contract Rents upward or downward, subject to the limitations that in no case shall the adjustment lower the Contract Rent below that effective on the date of the HAP Contract and that no adjustment shall result in a material difference between the rents charged for subsidized and comparable non-subsidized dwelling units, as further described below.

Each HAP Contract provides for certain adjustments in Contract Rents. At least annually, HUD publishes an Annual Adjustment Factor (“Annual Adjustment Factor” or “AAF”), which is intended to reflect changes in the fair market rent established in the housing area for similar types and sizes of dwelling units; interim revisions may be made where market conditions warrant. Upon request from an owner to the Authority, the AAF is applied on the anniversary date of the HAP Contract to Contract Rents, *provided* that no adjustment may result in a material difference between the rents charged for subsidized and comparable non-subsidized dwelling units except to the extent that the differences existed with respect to the Contract Rents set forth at the time of the HAP Contract execution or cost certification where applicable. (The difference that existed between the Contract Rent for a unit at HAP Contract execution and the rent on comparable unassisted units is generally referred to by HUD as the “initial difference” in Contract Rents.) In addition, provision is made in the regulations for special additional adjustments to reflect increases in actual and necessary expenses of owning and maintaining the subsidized units that have resulted from substantial general increases in real property taxes, assessments, utility rates and utilities not covered by regulated rates, if the owner demonstrates that the automatic annual adjustments have not provided adequate compensation. Under current law (Section 8(c)(2)(C) of the U.S. Housing Act), “[t]he Secretary may not reduce the Contract Rents in effect on or after April 15, 1987, for newly constructed, substantially rehabilitated, or moderately rehabilitated projects assisted under the section . . . unless the project has been refinanced in a manner that reduces the periodic payments of the owner.”

Notwithstanding the foregoing, if the Contract Rents for a development exceed the applicable HUD fair market rents (“FMR’s”) (plus any initial difference), then Contract Rents cannot be increased beyond comparable market rents (plus the initial difference) as determined by independent appraisals of at least three comparable local developments submitted by the Borrower. In addition, the AAFs for Section 8 units which experienced no turnover in tenants since their preceding HAP Contract anniversary date will be one percentage point less than the AAFs that would otherwise apply.

There can be no assurance that increases in Contract Rents, if any, will result in revenues sufficient to compensate for increased operating expenses of the Section 8 Developments.

Reduction of Number of Subsidized Dwelling Units. Failure to make available for occupancy by eligible families the total number of units for which assistance is committed under the HAP Contract may result in a reduction in the number of subsidized dwelling units in a

development. To ensure that the number of subsidized units will not be reduced, the owner must (i) conduct marketing in accordance with Section 8 regulations; (ii) make a good faith effort to lease the units to eligible families; and (iii) accept any eligible family except for reasons acceptable to the Authority. The Authority may require owners of Section 8 Developments to maintain the full amount of subsidized units, but has not covenanted with the holders of Bonds to do so.

Funding of Increases in Subsidy. Funds for the payment of increased subsidies which may result from the adjustments described in the second paragraph under “Adjustment of Contract Rents” above are to be obtained in two ways. Provision is made in the 1937 Housing Act for the payment by HUD into a project account in respect of each subsidized development of the amount by which the Contract Rents in effect from time to time exceed the actual subsidy paid by HUD (this amount is, in effect, the equivalent of the amount of rent paid by the tenants). The amount of increases in the subsidy payable by reason of increases in the Contract Rent resulting from the adjustments described in such paragraph will initially be drawn from this account. The regulations provide that when the HUD-approved estimate of required annual subsidy payments exceeds the maximum annual ACC commitment then in effect and would cause the amount in such reserve account to be less than 40 percent of such maximum annual ACC commitment, HUD shall take such additional steps authorized by subdivision (c)(6) of Section 8 (quoted below) as may be necessary to obtain funds to assure that payment will be adequate to cover increases in Contract Rents and decreases in tenant rents. Subdivision (c)(6) of Section 8 provides:

“The Secretary [of HUD] shall take such steps as may be necessary, including the making of contracts for assistance payments in amounts in excess of the amounts required at the time of the initial renting of dwelling units, the reservation of annual contributions authority for the purpose of amending housing assistance contracts, or the allocation of a portion of new authorizations for the purpose of amending housing assistance contracts, to assure that assistance payments are increased on a timely basis to cover increases in maximum monthly rents or decreases in family incomes.”

Pledge of Subsidy. The regulations permit an owner to pledge the federal subsidy payments as security for the mortgage loan for the development. Prior to any disbursement of a mortgage loan for a development which is to be subsidized under Section 8, the Authority requires the owner of the development to enter into an agreement to pledge such federal subsidy payments as security for the mortgage loan on the development.

Foreclosure. The regulations provided that in the event of foreclosure, or assignment or sale of the Section 8 Development in lieu of foreclosure, or in the event of an assignment or sale approved by HUD (which approval shall not be unreasonably delayed or withheld), subsidy payments will continue in accordance with the HAP Contract.

Under each ACC, annual contributions are paid monthly into a special account maintained by the Authority for the receipt of Section 8 payments. To the extent such subsidy payments are sufficient, the Authority retains an amount up to the current payment due from the owner on the mortgage loan and any amounts necessary to fund the reserves required to be

maintained by the owner with respect to the development, and disburses any remainder to the owner.

Compliance with Subsidy Contracts. The AHAP, the ACC and the HAP Contract contain numerous agreements on the part of HUD and the owner, including the obligation to maintain the development as decent, safe and sanitary housing and compliance with a number of additional requirements (such as nondiscrimination, equal employment opportunity, relocation, pollution control and labor standards) as to which noncompliance by either the Authority or the owner, or both, might endanger the payment of the federal subsidy. Reference is made to the complete texts of these agreements, the forms of which are available for inspection at the offices of the Authority.

Prior to any disbursement of a mortgage loan for a development which is to be subsidized under Section 8, the Authority enters into a regulatory arrangement with the owner requiring the owner to take or refrain from taking action as necessary to maintain eligibility for Section 8 subsidies for assisted dwelling units in the development during the term of the mortgage loan.

The regulations which apply to moderate rehabilitation under Section 8 differ, in certain respects, from those for new construction and substantial rehabilitation. Among such differences, the moderate rehabilitation regulations provide that: (1) Fair Market Rent is determined by a different HUD schedule; (2) the initial Contract Rent may exceed Fair Market Rent by a maximum of 20 percent, but only when justified by increased costs during rehabilitation; (3) the HAP Contract must be for a term of not more than 15 years; (4) the ACC is entered into between HUD and the Authority for the overall dollar amount and number of units and does not relate to specific developments; (5) contracts between the owners and the Authority are not subject to HUD approval; (6) only the owner may pledge subsidy payments as security; and (7) with respect to vacancy, the owner may receive a housing assistance payment in the amount of 80 percent of the Contract Rent for a vacancy period not exceeding one month following the month in which the unit is first vacated.

Expiring HAP Contracts and Recent Legislation

In recent years there have been numerous proposals and pronouncements from Members of Congress and HUD Officials which address the future of HUD and the various programs operating pursuant to Section 8 of the 1937 Housing Act. The primary focus of these proposals and pronouncements have been developments that have FHA-insured mortgages with terms ranging from 30 to 40 years and which have Section 8 HAP Contracts with substantially shorter terms. Efforts to address this subject are often referred to, generally and without specific import, as “Portfolio Reengineering” or “Mark-to-Market.”

After a series of interim legislative acts and demonstration programs, HUD’s Fiscal Year 1998 Appropriations Act, Pub. L. 105-65, was signed into law by the President on October 27, 1997. This legislation includes within it the “Multifamily Assisted Housing Reform and Affordability Act of 1997 (the “1997 Act”), which was further amended by the 1999 Act. The 1997 Act implements a new “Mark-to-Market” program, beginning in fiscal year 1999, pursuant to which many FHA-insured Section 8 developments with expiring HAP Contracts and above-market rents will be eligible for restructuring plans, and, upon restructuring, may receive

continuing Section 8 assistance. These restructuring plans may include refinancing and/or partial prepayment of mortgage debt, intended to permit the reduction of Section 8 rent levels to those of comparable market rate properties or to the minimum level necessary to support proper operations and maintenance.

The 1997 Act provides, however, that no restructuring or renewal of HAP Contracts will occur if the owner of a project has engaged in material adverse financial or managerial actions with respect to that project or other federally assisted projects, or if the poor condition of the project cannot be remedied in a cost effective manner. In addition, the 1999 Act provided for a new program for preservation of Section 8 developments (including Section 236 developments that have project based HAP Contracts) that allows increases in Section 8 rent levels for certain developments that have below market rents, to market or near market rate levels (the “Mark-up-to Market Program”).

The restructuring (or expiration and renewal of HAP Contracts) is designed also to result in a change from “project-based” to “tenant-based” Section 8 payments in many cases. In the former circumstance, the Section 8 HAP Contract is associated with a particular development and the units therein, and when a tenant moves from the development, the successor tenant, assuming that he or she is within the applicable income limits, will receive the benefit of the Section 8 payments. With “tenant-based” assistance, the Section 8 subsidy is associated with a particular tenant, and when that tenant moves from the development, the successor tenant will not receive the benefit of Section 8 payments.

The 1997 Act contains distinct mortgage restructuring and HAP Contract renewal and contract rent determination standards for Section 8 developments for which the primary financing or mortgage insurance was provided by a state or local government, or a unit or instrumentality of such government. Upon the request of the owner of such a development, HUD is currently required to renew an expiring HAP Contract (absent certain actions or omissions of an owner or affiliate and subject to certain verifications). Under current HUD policy, renewals are expected to be made for an initial term of from one to five years, with initial rents at the lesser of: (1) existing rents adjusted by an Operating Costs Adjustment Factor (“OCAF”) established by HUD, (2) a budget-based rent determined by HUD, or (3) in the case of certain “moderate rehabilitation” Section 8 HAP Contracts, the lesser of (x) existing rents, adjusted by an operating cost factor determined by HUD, (y) existing fair market rents (less any amounts retained for tenant purchased utilities), or (z) comparable market rents for the market area. Under current law, future rent adjustments will be determined using an OCAF or a budget-based adjustment. While it is anticipated that any such adjustment will be structured so as to take due account of debt service requirements, there can be no assurance that rent adjustments will provide for contract rents adequate to pay principal and interest on Bonds. More generally, there can be no assurance that future policies or funding levels will continue to make renewals and rent adjustments available on the same terms as are currently anticipated.

Under the amendments effected by the 1999 Act, Section 8 developments with FHA-insured mortgages for which the primary financing was provided by a unit of state or local government, such as the Authority, are subject to the Mark-to-Market program unless implementation of a mortgage restructuring plan would be in conflict with applicable law or agreements governing such financing. To the extent any such state and local government

financed Section 8 developments with FHA-insured mortgages are determined not to qualify for the Mark-to-Market program, such developments would be treated in the same manner as other Section 8 developments, as discussed above, that do not have FHA-insured mortgages. To the extent any such Section 8 developments are determined to be eligible for the Mark-to-Market program, all or a portion of the debt for such developments may be prepaid as part of a restructuring agreement.

Contract rents under the 1997 Act may be significantly lower than the current Section 8 contract rents in Section 8 developments, and the corresponding reduction in Section 8 Housing Assistance Payments for such developments could materially adversely affect the ability of the owners of such developments to pay debt service on the mortgage loans. Any termination or expiration of HAP Contracts, without renewal or replacement with other project-based assistance (whether due to enactment of additional legislation, material adverse financial or managerial actions by a mortgagor, poor condition of the project or other causes) could also have a material adverse impact on the ability of the related Section 8 developments to generate revenues sufficient to pay debt service on the mortgage loans. In such an instance, a default under the FHA-insured mortgage would result in a claim for payment of mortgage insurance benefits. See “Appendix C – Description of FHA Mortgage Insurance Program.”

While the 1997 Act generally allows owners to renew project-based HAP Contracts (absent certain material adverse conduct or conditions), owners are not required to renew HAP Contracts beyond their initial expiration – or the expiration of a renewal term. Upon an election not to renew a HAP Contract owners are required to provide certain notices and transitional tenant protections.

Substantially all of the Section 8 Developments do not have FHA-insured mortgages and have HAP Contracts which are generally coterminous with their mortgages. Accordingly, those Section 8 Developments will not be subject to having their mortgages restructured under the 1997 Act. Three of the Section 8 Developments have FHA-insured mortgages and HAP Contracts which expire before the maturity of the related mortgages. These developments may be subject to restructuring. In such event, the FHA-insured mortgages may be subject to prepayment in whole or in part and to refinancing, each of which events could lead to a partial redemption of the Offered Bonds. It is the policy of the Authority to encourage and facilitate the retention of these Section 8 Developments as affordable housing, and the Authority undertakes no obligation to the holders of the Offered Bonds to take or refrain from taking any action with respect to the Section 8 Developments, such as refinancing, in order to reduce the likelihood or amount of any such partial redemption.

HUD’s Office of General Counsel (OGC) has expressed the opinion that certain language used in the form of HAP Contract in use prior to February 1980, for State Agency projects with mortgages that were not insured by FHA, has the effect of terminating those HAP Contracts upon refinancing of the related project mortgages. While only expressed in the form of an internal memorandum, this opinion has been communicated by HUD to the public. The position expressed in the opinion has not been promulgated in any official form, nor has HUD taken any action to impose consequences that might arise from the opinion on projects that were previously refinanced. The Authority has determined that approximately 57 of the Section 8 Developments

which it has financed have been refinanced in a fashion that might cause a termination of the related HAP Contracts under such OGC opinion.

Were HUD to stop HAP payments to affected projects and/or attempt to recover previously made payments, such action could adversely affect project income, the Authority's revenues from those projects and, as a consequence thereof, the Authority's financial position. However, in Congressional testimony and in public discussions with industry participants, HUD officials have expressed the desire to prevent its position regarding the pre-1980 HAP form contract language from having an adverse impact upon the affected projects and State Agencies. In addition, HUD has offered to approve an amendment to the affected HAP contracts that would amend the language at issue to clarify that the term of the form HAP contract extends to the originally scheduled maturity date of the original HFA financing. Of the 57 Authority-financed projects that have refinanced, 38 of these projects have executed such amendments, and these amendments have been acknowledged by HUD. In addition, one of the 57 projects has executed a Mark Up to Market contract for the term that would have been remaining under its original HAP contract. Further, while it is not possible to predict with certainty the outcome of any litigation, the Authority has been advised by counsel that if HUD were to attempt to recover previously made payments under the HAP contracts related to these projects, HUD would be unlikely to prevail.

Information regarding the HAP Contracts for certain of the Section 8 Developments may be found under "FINANCED DEVELOPMENTS – Description of Financed Developments."

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APPENDIX D

DESCRIPTION OF FHA MORTGAGE INSURANCE PROGRAM

The following is a brief description of the multi-family mortgage insurance program administered by HUD, acting through FHA, pursuant to Section 221(d)(4) of Title II of the National Housing Act of 1934, as amended (the “National Housing Act”). The description does not purport to be comprehensive or definitive, and is qualified in its entirety by reference to the National Housing Act and the regulations thereunder. FHA insurance benefits under the program are available only if the mortgagee of record is an FHA-approved mortgagee. The Authority is an FHA-approved mortgagee. The Authority has covenanted in the series resolutions pursuant to which FHA-insured developments were financed to take all action reasonably necessary to maintain FHA mortgage insurance (and to refrain from taking any action inconsistent with maintaining FHA mortgage insurance) including, if necessary, paying the insurance premiums and providing all notices of default to FHA. The Authority has also covenanted in the series resolutions pursuant to which FHA-insured developments were financed that, upon becoming eligible to receive FHA mortgage insurance benefits, the Authority will promptly elect to assign and will assign the Mortgage to FHA, or in the event the Authority receives title to such a Development, to convey title as soon as practical in settlement of its claim for mortgage insurance, and will request a cash settlement for its claim. The Authority has also covenanted in the series resolutions pursuant to which FHA-insured developments were financed that, in enforcing its rights with respect to FHA-insured Mortgage Loans, it will ask to receive or preserve for later claims the maximum amount of FHA mortgage insurance proceeds and will carry out its duties under the Resolution, to the extent possible, consistent with HUD regulations. Similarly, the series resolutions pursuant to which FHA-insured developments were financed prohibit Resolution amendments which conflict with HUD regulations and direct that the Resolution be construed to the extent possible to avoid such conflict.

FHA Insurance Processing

Applications for insurance commitments under the FHA insurance program may undergo several processing stages. Initial FHA project evaluation typically results in the issuance of feasibility letters for rehabilitation and site and market analyses and/or conditional commitment letters for new construction. These letters set forth basic project characteristics including unit composition, estimated revenue and expenses, total replacement cost, mortgage amount, and estimated equity and working capital required for closing. These letters serve as requests for firm commitment applications based on initial project underwriting. They do not preclude adjustments deemed necessary by FHA or the sponsor prior to issuance of a firm commitment. The mortgagee must receive a firm commitment from FHA for insurance of advances prior to receiving FHA insurance at the time of initial endorsement. Issuance of the firm commitment evidences FHA’s approval of the application for mortgage insurance for the proposed development and establishes the terms and conditions upon which the mortgage loan will be insured. FHA’s multi-family mortgage insurance program provides for either insured advances or insurance upon completion of the project.

HUD Regulations require that the mortgagee pay an annual mortgage insurance premium to FHA in an amount equal to 1/2 of 1 percent of the outstanding principal balance of the

mortgage loan. Mortgage insurance premiums are collected by the mortgagee on a monthly basis and remitted to FHA annually. FHA imposes a late charge on the mortgagee in the event it fails to pay the mortgage insurance premium in a timely manner, which charge may not be imposed on the owner. Failure to pay the premium may result in a loss of insurance.

After receipt of the firm commitment, the owner proceeds to initial closing of the mortgage loan. At the initial closing the owner executes a standard form of FHA mortgage note evidencing the mortgage loan and an FHA standard form of mortgage securing the mortgage note. Concurrently with the execution of the mortgage and mortgage note, FHA initially endorses the mortgage note for mortgage insurance and funds are advanced to provide for initial fees and expenses, including land acquisition costs, title costs, design architect, attorney, inspection and other related fees and expenses. The firm commitment requires that initial endorsement take place within a stated time period which may be extended with approval from FHA.

Construction and Rent-Up

Construction of the development is required to proceed in accordance with the FHA standard form of Building Loan Agreement. See “The Mortgage Loan Documents – *Building Loan Agreement*” in this Appendix. During construction, a licensed inspecting architect hired by the owner and an FHA inspector make periodic inspections to ensure on-site conformity with FHA-approved plans and specifications. Under the Building Loan Agreement, funds are disbursed on a percentage of completion basis with periodic requisitions for advance of funds. Prior to any disbursement, certain conditions must be satisfied, including the completion of certain inspections of the construction, the submission and approval of certain documentation of construction work progress and compliance with the approved plans and specifications and the provision of updated title evidence satisfactory to the mortgagee and FHA and others. Each advance will be insured by FHA upon disbursement in accordance with FHA regulations. Disbursements of advances continue for only so long as the owner is not in default under the mortgage and otherwise complies with the requirements for disbursements.

Construction Changes. Changes in the plans and specifications originally approved by FHA at initial endorsement must be approved in writing by the owner, the owner’s architect, FHA and the mortgagee (as well as the bonding company providing the contractor’s payment and performance bond where such bonds are required and the scope of the change warrants prior approval). In the event of a change order which will result in net increases in construction costs, the mortgagee is required to collect the amount of such expected increase from the owner prior to disbursement of the next advance unless FHA waives the requirement. Such funds may be disbursed to the owner and contractor as the additional work contemplated by the change order progresses and is approved by FHA.

Cost-Certification. Prior to final closing and final endorsement, the owner and the contractor must submit cost-certifications prepared by independent public accountants for FHA approval. After reviewing such certified cost, FHA determines the amount of the “maximum insurable mortgage.” In the event that the maximum insurable mortgage amount is less than the amount of the mortgage note at initial endorsement, the mortgage note will be reduced. In the event that the maximum insurable mortgage is in excess of the amount of the note at initial

endorsement, the mortgage note may under certain circumstances be increased with the consent of the mortgagee and FHA.

Development Rent-Up. As the construction of a development nears completion, the owner begins to market those units which are available for occupancy. In certain developments, it may be possible to rent some of the units which have been completed prior to the completion of the entire development.

FHA regulations require a certificate of occupancy from appropriate local governing bodies and a multi-peril liability insurance policy from the owner prior to the occupancy of any unit in a development.

Final Endorsement for Insurance. Final endorsement of the mortgage note occurs only after cost-certification is completed. Increases in the maximum insurable amount of the mortgage loan approved by FHA and the mortgagee are funded at this time. Amounts remaining to be advanced under the mortgage will be disbursed, contingent upon FHA approval, upon the receipt of acceptable title insurance endorsements and the fulfillment of certain other obligations of the owner. FHA and the mortgagee review the final closing documents and the mortgage note is finally endorsed upon a determination by the mortgagee and FHA that all requirements for final endorsement have been satisfied.

The Mortgage Loan Documents

The FHA-insured Mortgage Loans financed with the proceeds of Outstanding Bonds were made pursuant to certain standard form FHA documents which are hereinafter generally described.

Building Loan Agreement. The standard form FHA Building Loan Agreement which is entered into between a development owner and a mortgagee requires, among other things, that a development be completed in accordance with plans and specifications approved by FHA and the mortgagee, that any changes in the drawings and specifications, and any changes by way of altering or adding to the work contemplated or orders for extra work must be approved by the architect and any changes which will result in a net construction cost increase, or will change the design concept, or will result in a net cumulative construction cost decrease, may be effected only with the prior written approval of the mortgagee and FHA, that under such conditions as either the mortgagee or FHA may establish, advances for construction are to be made only for work completed and accepted by FHA, together with the value of materials and equipment not incorporated in the work but delivered to and suitably stored at the project site, subject to a 10 percent hold back until a final inspection report indicates “substantial” completion of the development, and that all advances are subject to prior approval of the mortgagee and FHA.

Assurance of Completion. Pursuant to FHA regulations, the Authority as mortgagee will require the mortgagor and general contractor for each development to execute a standard form FHA construction contract. Under the contract, the general contractor agrees to complete construction of the development in accordance with plans and specifications approved by FHA.

In order to assure completion of construction, the general contractor is required to provide either a payment and performance bond in an amount approved by FHA and the

Authority or to enter into a completion assurance agreement with the Authority secured by a deposit of cash or an unconditional, irrevocable letter of credit in favor of the Authority.

Regulatory Agreement. The owner of a development, or, if the owner is a land trust, the owner and the beneficiary of the land trust, enters into a Regulatory Agreement with FHA which sets forth certain of the owner's obligations in connection with the management and operation of a development.

Pursuant to the Regulatory Agreement, the owner must establish a reserve fund for replacements. The reserve fund for replacements will be funded by monthly payments by the owner in the amount established by FHA. Moneys in such fund may be disbursed, with prior FHA approval, to effect replacement of structural elements or mechanical equipment of the development or for any other purpose.

Except in the case of Projects that have rents regulated pursuant to a project based Section 8 contract, the owner may make dwelling units and services of the development available at charges as from time to time may be mutually agreed upon between the owner and the tenants. Dwelling units may not be rented for a period of less than 30 days.

The owner may not make, receive or retain any distribution of assets or income from the development, except from "Surplus Cash." "Surplus Cash" is defined in the HUD regulations as cash remaining at the end of any semiannual or annual fiscal period after the payment of: (1) all sums due under the mortgage and the mortgage note; (2) all amounts required to be deposited in the reserve fund for replacements; and (3) all obligations of the development other than the mortgage (unless otherwise provided for). Surplus Cash does not include amounts held in special funds required to be maintained for the development or tenant security deposits.

In the event the owner violates any provisions of the Regulatory Agreement and fails to cure the default within 30 days after the mailing of notice from FHA, or such longer period as FHA may determine, the Agreement provides that FHA may declare a default. In the event of a default under the Regulatory Agreement, the Agreement provides that FHA may notify the mortgagee of the default and request the mortgagee to declare a default under the mortgage and mortgage note. The mortgagee is not a party to the Regulatory Agreement and, therefore, may not directly declare the owner in default thereunder.

Mortgage Note. The standard form FHA mortgage note is a nonrecourse obligation, since the maker is not personally liable for the payment of the principal of and interest thereon. Each mortgage note will be in a face amount approved by FHA and will be endorsed for insurance by FHA at the initial closing of the mortgage loan.

Each mortgage note for a development insured under Section 221 (d)(4) of the National Housing Act will provide that prepayment of the principal amount of the Mortgage Loan may be made only with the approval of the Authority and FHA upon giving the Authority at least 30 days written notice. Each mortgage note for a Development financed by the Authority under Section 221 (d)(4) with proceeds of the Bonds will provide that, except for a refunding required by HUD, no prepayment may be made by the mortgagor prior to the date on which the series of Bonds financing the Mortgage Loan are subject to redemption at the option of the Authority,

and, in the event that any prepayment of principal is made, the mortgagor must pay to the Authority a premium on the date of such prepayment in an amount equal to (1) the premium to be paid on the Bonds to be redeemed, and (2) such other fees and charges which are reasonable, as determined by FHA, and which are related to the Authority's cost of redeeming the series of Bonds sold to finance the Mortgage Loan. The remaining principal amount, if any, will be reamortized over the remaining portion of the original mortgage term in monthly payments in an amount approved by the Authority, FHA and the Trustee.

Mortgage. In order to secure the payment of the debt evidenced by the mortgage note, the owner of each development will grant, for the benefit of the payee under the mortgage note, a security interest on the project site, together with all buildings, improvements and fixtures to be constructed on the site and all articles of personal property of the owner located on the site (collectively, the "mortgaged property") and, in addition, will assign to the mortgagee all rents, profits and income to be derived from the mortgaged property. Until final payment of the indebtedness, each owner agrees not to encumber the mortgaged property in any way without the consent of the mortgagee and FHA.

In addition to the monthly payments due under the mortgage note, the mortgage obligates the owner to deposit with the mortgagee in escrow on the first day of each month sums sufficient to provide the mortgagee with funds to pay the next annual mortgage insurance premium and to pay the estimated fire and property insurance premiums, taxes and assessments, if any, with respect to the mortgaged property. The standard FHA documents described above have been modified with the consent of FHA to add certain requirements of the Authority. In addition, the Authority expects to enter into its own regulatory agreements with the mortgagor regulating the rents, distributions, use, occupancy, management and operations of the Developments.

Collection of Insurance Benefits

The mortgagee is required to notify FHA within 60 days after the date of an event of default by the owner under the mortgage note or mortgage which continues for 30 days. Unless extended by FHA, applicable FHA regulations further require that the mortgagee must, within 75 days of the date of the event of default under the mortgage, make an election either to (1) assign the mortgage to FHA, or (2) acquire and convey the property to FHA. If there occurs an event of default during the term a prepayment premium is payable under the mortgage note or during the period when no prepayments are permitted under the mortgage note the mortgagee is required to request from HUD a three-month extension of the deadline for filing a notice of its intention to file an insurance claim and its election to assign the mortgage. If HUD grants an extension the mortgagee is required to assist the mortgagor in arranging a refinancing to cure the default and avert an insurance claim. HUD makes its determination whether to grant the three-month extension of the election notice filing deadline based on its analysis of the project's financial condition and its assessment of the feasibility of arranging a successful refinancing.

Upon the assignment of a defaulted mortgage to FHA, FHA will reimburse the mortgagee an amount equal to the unpaid principal balance of the mortgage loan at the date of default (less one percent), plus interest at the debenture interest rate from the date of default through the date of payment of such benefits, less one percent of the outstanding principal balance of the mortgage as of the date of default from the amount of insurance benefits paid to the mortgagee.

FHA also deducts: (1) certain interest losses; (2) any cash, letter of credit or securities held by the mortgagee or its agents or to which it is entitled including deposits made for the account of the mortgagee and which have not been applied in reduction of the principal amount of the mortgage loan indebtedness; (3) any amounts received by the mortgagee after the date of default with respect to such development; and (4) certain other deductions which may be made from insurance benefits paid by FHA.

Under the FHA insurance contract with the mortgagee, FHA agrees to pay interest to the mortgagee from the date of default at the “debenture” rate of interest which is in effect on the date FHA issues its firm commitment or the date of initial endorsement, whichever rate is higher until the date insurance benefits are paid. Payment of insurance benefits will be made in cash unless the mortgagee requests that insurance benefits be paid in debentures. The Authority has covenanted in the series resolutions pursuant to which FHA-insured developments were financed to request payment in cash.

In the case of a monetary default, the date of default is deemed to be the date on which payment originally should have been received. Since interest is paid one month in arrears in FHA mortgage transactions, the mortgagee will not, in the event of a claim for insurance benefits, be reimbursed for interest which had accrued in the previous month and was due and payable on the date of default. FHA will reimburse the mortgagee only for interest at the debenture interest rate commencing on the date of default.

Upon a default by the mortgagor which entitles the mortgagee to assign the mortgage to FHA, the mortgagee must notify FHA of the default and of the mortgagee’s intention to assign the mortgage to FHA. Upon receipt of this notification and election, FHA reviews the documentation to determine whether the mortgagee is entitled to assign the mortgage and to receive insurance benefits under the mortgage insurance contract. Prior to actual assignment of the loan to FHA and receipt of insurance benefits, the mortgagee must also satisfy certain legal requirements including submission of a title policy showing that no liens or encumbrances (except for encumbrances approved by FHA) are superior to the mortgage lien.

The mortgagee is required to submit all required documentation within 45 days from the date the mortgage is assigned to FHA, unless the time is extended by FHA. The documentation required to be supplied to FHA includes credit instruments and other assurances, warrants or bonds requested by FHA. If the election is not made or the documents are not delivered within the 45 days allowed, FHA will not pay the mortgagee interest on sums outstanding from the date the election should have been made or the date the required documents should have been submitted to FHA, whichever is applicable, to the date when the insurance claim is finally paid unless FHA has agreed to extend the period with interest.

The ability of the mortgagee to realize benefits of insurance in the event of a nonmonetary default resulting from the failure of a mortgagor to comply with the occupancy, rental and use requirements under applicable Federal tax laws and regulations thereunder has not been conclusively determined, and the mortgagee may have to exercise other remedies, the effectiveness of which may depend on the discretion of a court, to enforce such requirements so as to prevent the interest on obligations issued to finance such developments from becoming subject to Federal income taxes.

Partial Settlement Upon Assignment. FHA may pay a portion of an insurance claim prior to the delivery of required documents, including the mortgage note and the mortgage. If the claim is made in connection with a mortgage loan which has not yet been finally endorsed, FHA may pay 70 percent of the outstanding principal balance of the loan within 30 days of the filing of an assignment of the mortgage loan to FHA, provided that the pertinent data is submitted to FHA in a timely manner. In the case of a mortgage loan which has been finally endorsed, FHA may, but is not obligated to, pay 90 percent of the outstanding principal balance within 30 days of the filing of an assignment of the mortgage loan to FHA provided the pertinent data is submitted to FHA in a timely manner. Any remaining balances are paid to the mortgagee after FHA has received and audited final financial data. Legal clearance is also required before final payment is made and all necessary documents, including but not limited to, the mortgage note, mortgage, applicable assignments and the title policy, are required to be delivered to FHA in acceptable form.

Deposits Held by Mortgagee. The mortgagee is responsible for all deposits under its control, and FHA deducts from any insurance claim the amount of cash held by the mortgagee on behalf of the owner. Where deposits are held by the mortgagee in the form of a letter of credit, it is the mortgagee's responsibility to convert the letter of credit to cash in the event the funds are necessary. For insurance purposes, FHA views a letter of credit held in lieu of a cash deposit as the equivalent of cash. FHA does not review or approve letters of credit. The Authority requires letters of credit to be unconditional and irrevocable.

The mortgagee is responsible for all funds in its custody and must therefore obtain approvals from FHA and others, when required, prior to release of any funds which may be in its possession. Failure properly to protect such funds may result in a deduction from the FHA insurance claim in an amount equal to the funds FHA asserts should properly have been held as a deposit.

Warranties Upon Assignments. In the event of an assignment of a mortgage, FHA requires the mortgagee to warrant that (1) no act or omission of the mortgagee has impaired the validity and priority of the mortgage; (2) the mortgage is prior to all mechanics' and materialmen's liens filed of record subsequent to the recording of the mortgage, regardless of whether such liens attached prior to the recording date; (3) the mortgage is prior to all liens and encumbrances which may have attached or defects which may have arisen subsequent to the recording of the mortgage except such liens or other matters as may be approved by FHA; (4) the amount stated in the instrument of assignment is actually due under the mortgage and there are no offsets or counterclaims against such amount; and (5) the mortgagee has a good right to assign the mortgage. In assigning its security interest in chattels, including materials, located on the premises covered by the mortgage or its security interest in building components stored either on-site or off-site at the time of the assignment, the mortgagee is required to warrant that (a) no act or omission of the mortgagee has impaired the validity or priority of the lien created by the chattel security instruments; (b) the mortgagee has a good right to assign the security instruments; and (c) the chattel security instruments are a first lien on the items covered by the instruments except for such other liens or encumbrances as may be approved by FHA.

Title Insurance Policy (Mechanics' and Other Liens). The mortgagee will be required to furnish FHA with a title policy which names FHA as the insured party and which assures FHA

that the mortgage loan to be assigned constitutes a first lien on the mortgaged premises, subject only to such exceptions as are previously approved by FHA. The mortgagee will be required to remove any intervening liens and to obtain an updated endorsement within the 45-day period during which documents are required to be submitted. FHA will deduct the amount of any liens which have priority over the mortgage lien from the mortgagee's FHA insurance claim.

Tax liens against the property which have priority over the lien of the mortgage must be paid by the mortgagee. Although the mortgagee will be reimbursed for funds it advances to pay real estate taxes on the mortgaged property, failure to pay taxes when due may result in a penalty which will not be reimbursed by FHA in connection with the insurance claim.

Inspections and Hazard Insurance Policy. The mortgagee is required to inspect the mortgaged property at least annually and to advise FHA of its recommendations for actions necessary to protect or maintain the property and to maintain adequate hazard insurance coverage. Failure to maintain adequate coverage is grounds for termination of the FHA insurance contract, unless FHA has been notified in a timely manner of the unavailability of coverage. Losses occurring as a result of a failure properly to insure the mortgaged property will be deducted from the mortgage insurance claim.

Transfer of the Mortgage. In certain circumstances the mortgagee is permitted to transfer some or all of its interest in the mortgage. The transfer, pledge or assignment of a mortgage in a manner which is not in compliance with FHA requirements is grounds for termination of the FHA insurance. Prior to final endorsement, the mortgage note may be assigned only to another FHA-approved mortgagee with the approval of FHA. Subsequent to final endorsement, the mortgage loan may be assigned to another FHA-approved mortgagee after notice to FHA on a prescribed form.

Losses on Advances Other than Mortgage Proceeds. Although the mortgagee will be reimbursed for advances properly made for taxes, insurance premiums and preservation of the property, such reimbursement may not fully compensate the mortgagee for the making of such advances, since the mortgagee will be paid only the rate of debenture interest on such advances from the date of default.

Reimbursement for Maintaining the Mortgaged Property. FHA will reimburse the mortgagee for funds advanced to maintain or preserve the mortgaged property, if the approval of FHA is received prior to the time such funds are advanced.

Funding of Reserves. The funding of a replacement reserve for each development that is the subject of FHA mortgage insurance remains fixed at the initial year level, which is 0.6 percent of the construction cost of a newly constructed development and 0.4 percent of the mortgage loan amount for a rehabilitation development. Withdrawals from the replacement reserves of developments subject to FHA mortgage insurance are subject to FHA approval. An additional working capital reserve of two percent of the mortgage loan amount is required and is released at final endorsement. Draws against the additional working capital reserve can be made only with FHA consent. The reserve is an offset against FHA mortgage insurance benefits in the event of a claim.

HUD Override of Prepayment Prohibition and Penalties. Pursuant to Mortgagee Letter 87-9, dated February 20, 1987 (“Mortgagee Letter 87-9”), prepayment prohibitions and penalties may be included by the mortgage only if the following conditions are satisfied: (1) the mortgage note includes an override provision permitting prepayments of the mortgage loan to be made in whole or in part without penalty prior to the date on which the mortgage note is otherwise permitted to be prepaid with a penalty of 1 percent or less upon HUD’s determination that a prepayment will avoid a mortgage insurance claim and therefore be in the best interest of the Federal government; and (2) the mortgagee certifies that, in the event a default occurs prior to the date on which the mortgage note is otherwise permitted to be prepaid with a penalty of 1 percent or less, it will (a) request a three-month extension of the deadline for the filing of an FHA mortgage insurance claim and election to assign the mortgage note to HUD; (b) during the period of extension as approved by HUD, assist the mortgagor in arranging a refinancing to cure the default and avert an insurance claim; (c) report to HUD at least monthly on arrangements relating to the refinancing of the project; (d) cooperate with HUD in taking reasonable steps in accordance with prudent business practices to avoid an insurance claim; and (e) require successors and assigns to the mortgagee’s interest in the mortgage loan to be bound by these conditions. The Authority has agreed to be bound by these requirements in connection with mortgage loans originated after the release of Mortgagee Letter 87-9.

Mortgagee Letter 87-9 further states that HUD would consider exercising the override provision described above only if:

- (1) the mortgagor has defaulted and HUD has received notice of such default;
- (2) HUD determines that the project has been experiencing a net income deficiency, which has not been caused solely by management inadequacy or lack of owner interest, and which is of such a magnitude that the mortgagor is currently unable to make required debt service payments, pay all project operating expenses and fund all required HUD reserves;
- (3) HUD finds there is a reasonable likelihood that the mortgagor can arrange to refinance the defaulted loan at a lower interest rate or otherwise reduce the debt service payments through partial prepayment; and
- (4) HUD determines that refinancing the defaulted loan at a lower rate or partial prepayment is necessary to restore the project to a financially viable condition and to avoid an insurance claim.

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APPENDIX E

FORM OF OPINION OF BOND COUNSEL

[Date]

Illinois Housing Development Authority
401 North Michigan Avenue, Suite 900
Chicago, Illinois 60611

LaSalle Bank, National Association,
as Trustee
135 South LaSalle Street, Suite 1960
Chicago, Illinois 60603

We have examined a certified copy of the record of proceedings of the Illinois Housing Development Authority (the “**Authority**”), together with various accompanying certificates pertaining to the issuance by the Authority of \$25,000,000 aggregate principal amount of its Housing Bonds, 2004 Series A (AMT) (Campbell Terrace Apartments) (the “**2004 Series A Bonds**”), and \$10,000,000 aggregate principal amount of its Housing Bonds, 2004 Series B (Variable Rate - AMT) (Southern Hills/Orlando Apartments) (the “**2004 Series B Bonds**” and, together with the 2004 Series A Bonds, the “**Bonds**”) including the authorization, execution and delivery of the 2004 Series A Supplemental Indenture (the “**2004 Series A Supplemental Indenture**”) and the 2004 Series B Supplemental Indenture (the “**2004 Series B Supplemental Indenture**”), each dated as of March 1, 2004, between the Authority and LaSalle Bank, National Association (successor trustee to The First National Bank of Chicago), as Trustee (the “**Trustee**”). The 2004 Series A Supplemental Indenture and the 2004 Series B Supplemental Indenture are each issued pursuant to, and supplement, the Trust Indenture, dated as of March 1, 1999, from the Authority to the Trustee (as so supplemented, the “**Trust Indenture**”). We have also examined copies, certified by the Authority, of its authorizing resolutions with respect to the Trust Indenture, the Bonds and the respective Series Supplemental Indentures, and certified copies of the proceedings of the Members of the Authority for the meetings at which such resolutions were adopted.

The 2004 Series A Bonds are being issued to finance a mortgage loan the proceeds of which will be used, together with other available funds, to acquire and rehabilitate the Campbell Terrace Apartments located in Chicago, Illinois, to make a deposit to the Reserve Fund [or pay the cost of a Cash Equivalent for the Reserve Fund], and to pay costs of issuance of the 2004 Series A Bonds. The 2004 Series B Bonds are being issued to finance a mortgage loan the proceeds of which will be used, together with other available funds, to acquire and rehabilitate the Southern Hills Apartments and the Orlando Apartments both located in Decatur, Illinois (together with the Campbell Terrace Apartments, the “**Developments**”), to make a

deposit to the Reserve Fund [or pay the cost of a Cash Equivalent for the Reserve Fund], and to pay costs of issuance of the 2004 Series B Bonds.

The Internal Revenue Code of 1986, as amended (the “**Code**”), establishes certain continuing requirements which must be met in order that interest on the Bonds not be included in gross income for federal income tax purposes. These include requirements as to the use and investment of proceeds of the Bonds, the payment of certain amounts to the United States and the use and occupancy of the Developments. In the Trust Indenture, the Authority has made various covenants with respect to these requirements and the Authority has included various covenants with respect to these requirements relating to the Developments financed by the Bonds in documents related to the respective mortgage loans for those Developments. Failure to comply with certain of such covenants could cause interest on the Bonds to be included in gross income for federal income tax purposes, retroactively to the date of issuance of the Bonds.

Based upon this examination, we are of the opinion that:

1. The Authority is a legally existing body politic and corporate of the State of Illinois.

2. Under the Illinois Housing Development Act, as amended to the date of this opinion (the “**Act**”), the Authority has the right and power to adopt the Trust Indenture, the 2004 Series A Supplemental Indenture and the 2004 Series B Supplemental Indenture. The Trust Indenture, the 2004 Series A Supplemental Indenture and the 2004 Series B Supplemental Indenture have each been duly authorized, executed and delivered by the Authority, are in full force and effect and are valid and binding upon the Authority and enforceable in accordance with its terms.

3. The Bonds are secured by a valid pledge of Revenues (as defined in the Indenture) and all other monies and investments in all Funds and Accounts established by the Trustee, all as to the extent provided in the Resolution. The Bonds will be on a parity with certain outstanding bonds and any additional bonds (other than Subordinate Bonds, as defined in the Trust Indenture, to which the Bonds are superior) issued in the future under the Trust Indenture with respect to such pledge of Revenues and of moneys in the Funds and Accounts under the Trust Indenture.

4. The Bonds are valid and legally binding direct and general obligations of the Authority as provided in the Resolution, enforceable in accordance with their terms and the terms of the Trust Indenture and the applicable Series Supplemental Indenture and entitled to the benefits of the Trust Indenture, the applicable Series Supplemental Indenture and the Act. The full faith and credit of the Authority (subject to the provisions of resolutions or indentures pledging particular moneys, assets or revenues of the Authority to the payment of notes, bonds or other obligations of the Authority other than the Bonds) is validly pledged for the payment of the principal of and premium, if any, and interest on the Bonds.

5. Under existing law, interest on the Bonds is not includible in the gross income of their owners for federal income tax purposes, if there is continuing compliance by the Authority and the owners of the Developments with their respective covenants described above.

No opinion is expressed, however, as to the exclusion from gross income for federal income tax purposes of interest on any Bond for any period during which such Bond is held by a person who is a “substantial user” of any Development financed with the proceeds of such Bond or any person considered to be related to such person within the meaning of Section 147(a) of the Code. Interest on the Bonds will be treated as a preference item for purposes of computing the federal alternative minimum tax for individuals and corporations. Ownership of the Bonds may result in other federal tax consequences to certain taxpayers, and we express no opinion regarding any such collateral consequences arising with respect to the Bonds.

6. The Authority has no taxing power. The Bonds are not a debt of the State of Illinois and the State of Illinois is not liable on the Bonds. The Bonds are not subject to Section 26.1 of the Act.

7. Under the Act, interest on the Bonds is exempt from Illinois income taxes.

The rights of the owners of the Bonds and the enforceability of the Bonds, the Trust Indenture, the 2004 Series A Supplemental Indenture and the 2004 Series B Supplemental Indenture may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors’ rights. Enforcement of provisions of the Bonds, the Trust Indenture, the 2004 Series A Supplemental Indenture or the 2004 Series B Supplemental Indenture by an equitable or similar remedy is subject to general principles of law or equity governing such a remedy, including the exercise of judicial discretion whether to grant any particular form of relief.

This opinion is based upon facts known or certified to us and laws in effect on its date and speaks as of that date. We have not undertaken any obligation to revise or supplement this opinion to reflect any facts or circumstances that may come to our attention after the date of this opinion or any changes in law that may occur after that date.

Respectfully submitted,

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APPENDIX F

SUMMARY OF CONTINUING DISCLOSURE COVENANT

1. The Authority shall make all required filings and reports so that all requirements of Rule 15c2-12(b)(5) of the United States Securities and Exchange Commission, as amended from time to time, are met with respect to the Offered Bonds.

2. Each year the Authority shall provide annual financial information concerning the Offered Bonds to each nationally recognized municipal securities information repository and to any entity designated by the State of Illinois as a state information depository for purposes of Rule 15c2-12(b)(5). A copy of the annual financial information shall also be provided to the Trustee. The annual financial information shall be so provided within 180 days after the end of the Authority's fiscal year, beginning with the fiscal year ending June 30, 2004. Copies of the annual financial information shall also be made available to any beneficial or registered owner of Offered Bonds upon request. The annual financial information shall include the Authority's audited financial statements, prepared in accordance with accounting principles generally accepted in the United States of America as in effect from time to time. The annual financial information shall also include the financial and operating information of the type set forth in the final Official Statement for the Offered Bonds, including the following information:

- (a) Information concerning the Financed Developments set forth under the caption "FINANCED DEVELOPMENTS – Description of Financed Developments."
- (b) Information regarding the principal amount, interest rate, optional prepayment date and maturity for the Loans.
- (c) Information regarding the principal amount, interest rate, maturity and redemption provisions for Acquired Bonds, if any.
- (d) Information concerning amounts on deposit in the Reserve Fund in respect of Bonds issued under the Indenture.

The annual financial information may include any or all information by incorporating, by specific reference, other documents which have been provided to each of those national information repositories and the state information depository, if any. If the incorporated information is in an Official Statement, it must be available from the Municipal Securities Rulemaking Board. The annual financial information shall include a notice of any change in the Authority's fiscal year.

3. Upon the occurrence of any of the following events with respect to the Offered Bonds, if material, the Authority shall report the event in a timely manner to the state information depository, if any, and either to each of the national information repositories described above or to the Municipal Securities Rulemaking Board:

- i. principal and interest payment delinquencies;
- ii. non-payment related defaults;

- iii. unscheduled draws on debt service reserves reflecting financial difficulties;
- iv. unscheduled draws on credit enhancements reflecting financial difficulties;
- v. substitution of credit or liquidity providers or their failure to perform;
- vi. adverse tax opinions or events affecting tax-exempt status;
- vii. modifications to rights of Owners of the Offered Bonds;
- viii. non-scheduled redemptions;
- ix. defeasances;
- x. release, substitution, or sale of property securing repayment of the Offered Bonds; and
- xi. rating changes.

The Authority will give a copy of each such report to the Trustee. The Authority will give notice in a timely manner to the Trustee, to the state information depository, if any, and either to each of the national information repositories or to the Municipal Securities Rulemaking Board of any failure timely to provide the annual financial information as provided in this Summary.

4. The undertaking of the Authority described in this summary is a contract between the Authority and the beneficial and registered owners from time to time of the Offered Bonds. It may be enforced by any beneficial or registered owner of Offered Bonds. The sole remedy with respect to the Authority's compliance with its undertaking described in this summary shall be to require compliance. The undertaking described in this summary shall be solely for the benefit of the beneficial or registered owners of the Offered Bonds from time to time, and shall create no right in anyone else. The Trustee shall have no powers or duties with respect to the undertaking described in this summary. No violation by the Authority of any provision described in this summary shall constitute any Event of Default or a default under the Indenture or under the Act.

5. The obligation of the Authority described in this summary shall end upon the Offered Bonds being paid or treated as paid as provided in the Indenture, except for the obligations to give notice under 3(vi) and 3(viii) above.

6. The Authority may by resolution amend the undertakings described in this summary at any time to the extent and in the manner allowed by Rule 15c2-12(b)(5), as amended from time to time, if the Authority's undertaking described in this summary, as amended, shall continue to comply with the Rule, the amendment to be effective upon receipt by the Authority of an opinion of bond counsel, selected by it with significant federal securities law expertise, to that effect. Any such amendment shall be described in the next annual financial information.

APPENDIX G
FORM OF MUNICIPAL BOND INSURANCE POLICY AND DEBT SERVICE
RESERVE INSURANCE POLICY

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**FINANCIAL
SECURITY
ASSURANCE®**

MUNICIPAL BOND INSURANCE POLICY

ISSUER:

BONDS: \$ in aggregate principal amount of

Policy No.: -N

Effective Date:

Premium: \$

FINANCIAL SECURITY ASSURANCE INC. ("Financial Security") for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of Financial Security, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which Financial Security shall have received Notice of Nonpayment, Financial Security will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by Financial Security, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in Financial Security. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by Financial Security is incomplete, it shall be deemed not to have been received by Financial Security for purposes of the preceding sentence and Financial Security shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, Financial Security shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by Financial Security hereunder. Payment by Financial Security to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of Financial Security under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless Financial Security shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the

United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to Financial Security which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

Financial Security may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to Financial Security pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to Financial Security and shall not be deemed received until received by both and (b) all payments required to be made by Financial Security under this Policy may be made directly by Financial Security or by the Insurer's Fiscal Agent on behalf of Financial Security. The Insurer's Fiscal Agent is the agent of Financial Security only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of Financial Security to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, Financial Security agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to Financial Security to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of Financial Security, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, FINANCIAL SECURITY ASSURANCE INC. has caused this Policy to be executed on its behalf by its Authorized Officer.

[Countersignature]

FINANCIAL SECURITY ASSURANCE INC.

By _____

By _____
Authorized Officer

A subsidiary of Financial Security Assurance Holdings Ltd.
350 Park Avenue, New York, N.Y. 10022-6022

(212) 826-0100

Form 500NY (5/90)



**FINANCIAL
SECURITY
ASSURANCE®**

**MUNICIPAL BOND DEBT SERVICE
RESERVE INSURANCE POLICY**

ISSUER:

Policy No.: -R

BONDS:

Effective Date:

Premium:

Termination Date:

FINANCIAL SECURITY ASSURANCE INC. ("Financial Security"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") as set forth in the documentation (the "Bond Document") providing for the issuance of and securing the Bonds, for the benefit of the Owners, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

Financial Security will make payment as provided in this Policy to the Trustee or Paying Agent on the later of the Business Day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which Financial Security shall have received Notice of Nonpayment, in a form reasonably satisfactory to it. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by Financial Security is incomplete, it shall be deemed not to have been received by Financial Security for purposes of the preceding sentence and Financial Security shall promptly so advise the Trustee, Paying Agent or Issuer, as appropriate, who may submit an amended Notice of Nonpayment. Payment by Financial Security to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of Financial Security under this Policy. Upon such payment, Financial Security shall become entitled to reimbursement of the amount so paid (together with interest and expenses) pursuant to the

The amount available under this Policy for payment shall not exceed the Policy Limit. The amount available at any particular time to be paid to the Trustee or Paying Agent under the terms of this Policy shall automatically be reduced by any payment under this Policy. However, after such payment, the amount available under this Policy shall be reinstated in full or in part, but only up to the Policy Limit, to the extent of the reimbursement of such payment (exclusive of interest and expenses) to Financial Security by or on behalf of the Issuer. Within three Business Days of such reimbursement, Financial Security shall provide the Trustee, the Paying Agent and the Issuer with notice of the reimbursement and reinstatement.

Payment under this Policy shall not be available with respect to (a) any Nonpayment that occurs prior to the Effective Date or after the Termination Date of this Policy or (b) Bonds that are not outstanding under the Bond Document. If the amount payable under this Policy is also payable under another insurance policy or surety bond insuring the Bonds, payment first shall be made under this Policy to the extent of the amount available under this Policy up to the Policy Limit. In no event shall Financial Security incur duplicate liability for the same amounts owing with respect to the Bonds that are covered under this Policy and any other insurance policy or surety bond that Financial Security has issued.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York are, or the Insurer's Fiscal Agent is, authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless Financial Security shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Insurance Agreement" means the Insurance

Agreement dated as of the effective date hereof in respect of this Policy, as the same may be amended or supplemented from time to time. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer that has been recovered from such Owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from the Issuer, the Trustee or the Paying Agent to Financial Security which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment of principal or interest thereunder, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds. "Policy Limit" shall be the dollar amount of the debt service reserve fund required to be maintained for the Bonds by the Bond Document from time to time (the "Debt Service Reserve Requirement"), but in no event shall the Policy Limit exceed \$[21]. The Policy Limit shall automatically and irrevocably be reduced from time to time by the amount of each reduction in the Debt Service Reserve Requirement, as provided in the Bond Document.

Financial Security may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to Financial Security pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to Financial Security and shall not be deemed received until received by both and (b) all payments required to be made by Financial Security under this Policy may be made directly by Financial Security or by the Insurer's Fiscal Agent on behalf of Financial Security. The Insurer's Fiscal Agent is the agent of Financial Security only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of Financial Security to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, Financial Security agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud) whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to Financial Security to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of Financial Security, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be cancelled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, FINANCIAL SECURITY ASSURANCE INC. has caused this Policy to be executed on its behalf by its Authorized Officer.

[Countersignature]

FINANCIAL SECURITY ASSURANCE INC.

By _____

By _____
Authorized Officer

A subsidiary of Financial Security Assurance Holdings Ltd.
350 Park Avenue, New York, N.Y. 10022-6022

(212) 826-0100

Form 501 NY (6/90)

APPENDIX H

THE VARIABLE RATE BONDS

This Official Statement is not intended to describe the terms of any Variable Rate Bond after its conversion to a Long-Term Mode.

The Variable Rate Bonds will be dated the date of their delivery and will mature on the maturity date set forth on the inside cover page of this Official Statement.

The Variable Rate Bonds will be issued in authorized denominations of (a) \$100,000 principal amount or any integral multiple of \$5,000 in excess thereof during any Daily Rate Period or Weekly Rate Period, or (b) \$100,000 principal amount or any integral multiple of \$1,000 in excess thereof during any Flexible Rate Period.

The principal and Redemption Price of the Variable Rate Bonds will be payable at the designated corporate trust office of the Trustee (or Master Paying Agent, if one is appointed and serving). As long as the Variable Rate Bonds are held in the book-entry system, interest on the Variable Rate Bonds will be paid by the Master Paying Agent on the Interest Payment Dates by wire transfer of immediately available funds to an account specified by the Owner in a writing delivered to the Master Paying Agent. The Variable Rate Bonds initially will be registered in the name of Cede & Co., as registered owner and nominee of DTC, which will act as securities depository for the Variable Rate Bonds. Purchasers of the Variable Rate Bonds will not receive a physical delivery of the bond certificates representing their beneficial ownership interests. See the caption "BOOK-ENTRY ONLY SYSTEM" in the Official Statement.

With respect to any Mode, the Variable Rate Bonds will bear interest from and including the last Interest Payment Date up to, but not including, the next Interest Payment Date. Interest will be computed, in the case of any Interest Period other than a Long-Term Interest Period, on the basis of a 365- or 366-day year, as appropriate, for the actual number of days elapsed.

For any Daily Rate Period or Weekly Rate Period, interest on the Variable Rate Bonds will be payable on the first Business Day of each month, including the maturity date of the Variable Rate Bonds and any Mode Change Date other than a change between a Daily Mode and a Weekly Mode. For any Flexible Rate Period, interest on the Variable Rate Bonds will be payable on each Mandatory Purchase Date, each Mode Change Date and the Maturity Date of the Variable Rate Bonds. With respect to each Mode, the Interest Accrual Period will commence on (and include) the last Interest Payment Date to which interest has been paid (or if no interest has been paid in such Mode, from the date of original authentication and delivery of the Variable Rate Bonds or the Mode Change Date, as the case may be) to and including, the Interest Payment Date on which interest is to be paid. If, at the time of authentication of any Variable Rate Bond, interest is in default or overdue on the Variable Rate Bonds, such Variable Rate Bond shall bear interest from the date to which interest has previously been paid in full or made available for payment in full on outstanding Variable Rate Bonds.

The term of the Variable Rate Bonds will be divided into consecutive Interest Rate Periods during each of which the Variable Rate Bonds shall bear interest at a Daily Rate, a Weekly Rate, a Flexible Rate, a Term Rate or a Fixed Rate. At any time, all Variable Rate

Bonds must bear interest at a Daily Rate, a Weekly Rate, a Flexible Rate, a Term Rate or a Fixed Rate. Variable Rate Bonds shall not bear interest at a rate higher than the Maximum Rate (as defined herein). The first Interest Rate Period for the Variable Rate Bonds shall commence on the date of issuance of the Variable Rate Bonds and will be a Weekly Rate Period. Upon the date of issuance of the Variable Rate Bonds, the initial Weekly Rate borne by the Variable Rate Bonds will be determined by the Remarketing Agent in the manner provided in the Indenture.

In the absence of manifest error, the determination of the interest rate and Interest Periods of Variable Rate Bonds by the Remarketing Agent shall be conclusive and binding upon the Authority, the Trustee, the Master Paying Agent, the Remarketing Agent, the Tender Agent, the Credit Provider, the Liquidity Provider and the holders of the Variable Rate Bonds, except that interest rate borne by Purchased Bonds shall be determined in accordance with the Initial Liquidity Facility.

Interest Periods

Weekly Rate Period

Determination of Weekly Rate. During each Weekly Rate Period, the Variable Rate Bonds shall bear interest at the Weekly Rate, which shall be determined by the Remarketing Agent by 4:00 p.m., New York City time, on Wednesday of each week during such Weekly Rate Period, or if such day shall not be a Business Day, then on the next preceding Business Day. The first Weekly Rate determined for each Weekly Rate Period shall be the Mode Change Date or date of initial issuance of the Variable Rate Bonds, as applicable, to and including the Wednesday of the following week and the last Weekly Rate Period which shall be from and including the Thursday of the week prior to the Mode Change Date to the day next succeeding the Mode Change Date.

The Weekly Rate shall be the rate of interest per annum determined by the Remarketing Agent on and as of the applicable Rate Determination Date to be the minimum rate which, if in the opinion of the Remarketing Agent under then-current market conditions, would result in the sale of such Variable Rate Bonds in the Weekly Rate Period on such Rate Determination Date at a price equal to the principal amount thereof plus interest, if any, accrued through the Rate Determination Date during the then current Interest Accrual Period. If the: (i) Remarketing Agent fails to establish a Weekly Rate for any Weekly Rate Period, (ii) method by which the Remarketing Agent determines the Weekly Rate is held to be unenforceable by a court of law, or (iii) Remarketing Agent suspends its remarketing effort pursuant to the Remarketing Agreement, then the Weekly Rate for such week will be the Alternate Rate in effect on the first day of the Interest Period.

Adjustment to Weekly Rate. The Remarketing Agent will establish the Weekly Rate by 4:00 p.m. on each Rate Determination Date. The Weekly Rate shall be in effect during the applicable Weekly Rate Period.

Notice of Adjustment to Weekly Rate. The Remarketing Agent shall make the Weekly Rate Available after 5:00 p.m. on the Rate Determination Date by telephone or Electronic Means to any Beneficial Owner or Notice Party requesting such rate.

Change in Mode to the Weekly Mode. At any time, the Authority may elect, subject to the conditions set forth below under the caption “Effecting a Mode Change,” to change the Mode of the Variable Rate Bonds to the Weekly Mode from another Mode. Notice of the proposed change in Mode will be given by the Tender Agent to the Owners of Variable Rate Bonds not less than 15 days prior to the Mode Change Date. The notice must state: (1) that the Variable Rate Bonds will be changed to operate in the Weekly Mode and the Mode Change Date; (2) except in the case of a change from the Daily Mode to the Weekly Mode, that the Variable Rate Bonds will be subject to mandatory tender for purchase on the Mode Change Date and the Purchase Price of the Variable Rate Bonds; and (3) if the book-entry only system is no longer in effect, information with respect to required delivery of the Variable Rate Bond certificates and payment of Purchase Price.

Daily Rate Period

Determination of Daily Rate. During each Daily Rate Period, the Variable Rate Bonds shall bear interest at the Daily Rate, which shall be determined by the Remarketing Agent by 10:00 a.m., New York City time, on each Business Day during such Daily Rate Period. The Daily Rate shall be the rate of interest per annum determined by the Remarketing Agent on and as of the applicable Rate Determination Date to be the minimum rate which, in the opinion of the Remarketing Agent under then-current market conditions, would result in the sale of such Variable Rate Bonds in the Daily Rate Period on such Rate Determination Date at a price equal to the principal amount thereof plus interest, if any, accrued through the Rate Determination Date during the then current Interest Accrual Period. If the: (i) Remarketing Agent fails to establish a Daily Rate for any Daily Rate Period; (ii) method by which the Remarketing Agent determines the Daily Rate is held to be unenforceable by a court of law; or (iii) Remarketing Agent suspends its remarketing effort pursuant to the Remarketing Agreement, then the Daily Rate for such day shall be the Alternate Rate in effect on the first day of the Interest Period.

Adjustment to Daily Rate. The Remarketing Agent shall establish the Daily Rate by 10:00 a.m. on each Rate Determination Date. The Daily Rate for any day during the Daily Mode which is not a Business Day shall be the Daily Rate established on the immediately preceding Rate Determination Date.

Notice of Adjustment to Daily Rate. The Remarketing Agent shall make the Daily Rate available after 10:30 a.m. on each Rate Determination Date by telephone or Electronic Means to any Beneficial Owner or Notice Party requesting such rate.

Change in Mode to the Daily Mode. At any time, the Authority may elect, subject to the conditions set forth below under the caption “Effecting a Mode Change,” to change the Mode of the Variable Rate Bonds to the Daily Mode from another Mode. Notice of the proposed change in Mode will be given by the Tender Agent to the Owners of Variable Rate Bonds not less than 15 days prior to the Mode Change Date. The notice must state: (1) that the Variable Rate Bonds will be changed to operate in the Daily Mode and Mode Change Date; (2) except in the case of a change from Weekly Mode to the Daily Mode, that the Variable Rate Bonds will be subject to mandatory tender for purchase on the Mode Change Date and the Purchase Price of the Variable Rate Bonds; and (3) if the book-entry only system is no longer in effect, information

with respect to required delivery of the Variable Rate Bond certificates and payment of Purchase Price.

Flexible Rate Period

Determination of Interest Period and Flexible Rate

During each Flexible Rate Period, each Variable Rate Bond shall bear interest during each Interest Period for such Variable Rate Bond at the Flexible Rate for such Variable Rate Bond. The Interest Period and the Flexible Rate for each Variable Rate Bond need not be the same for any two Variable Rate Bonds, even if determined on the same date. Each of such Interest Period and Flexible Rate for each Variable Rate Bond shall be determined by the Remarketing Agent no later than 1:00 p.m., New York City time, on the Rate Determination Date. Each Interest Period for each Variable Rate Bond shall be a period of not less than one day nor more than 270 days, ending on a day preceding a Business Day or the Maturity Date, determined by the Remarketing Agent to be the period which would result in the Remarketing Agent being able to remarket such Variable Rate Bond at par in the secondary market at the lowest average interest cost for all Flexible Rate Bonds; provided, that if the Remarketing Agent has received notice from the Authority that the Variable Rate Bonds are to be changed from the Flexible Mode to any other Mode, the Remarketing Agent must select Interest Periods which do not extend beyond the resulting applicable Mandatory Purchase Date of the Variable Rate Bonds. Any Variable Rate Bond operating in the Flexible Mode that is not remarketed by the Remarketing Agent shall have an Interest Period commencing on the first day following the last day of the current Interest Period to the next Business Day and thereafter will commence on each Business Day and extend to the next Business Day.

The Flexible Rate for any Variable Rate Bond will be the rate of interest per annum determined by the Remarketing Agent on and as of the applicable Rate Determination Date to be the minimum interest rate which, in the opinion of the Remarketing Agent under then-existing market conditions, would result in the sale of such Variable Rate Bond on the date and at the time determined at a price equal to that which would result in the Remarketing Agent being able to remarket such Variable Rate Bond at par in the secondary market at the lowest average interest cost for all Flexible Rate Bonds. If the: (i) Remarketing Agent fails to determine the Interest Period for Variable Rate Bonds in the Flexible Mode or to establish a Flexible Rate for an Interest Period, (ii) method by which the Remarketing Agent determines the Flexible Rate is held to be unenforceable by a court of law or (iii) Remarketing Agent suspends its remarketing effort pursuant to the Remarketing Agreement, then the next Interest Period shall be from the first day following the last day of the current Interest Period to the next succeeding Business Day and thereafter shall commence on each Business Day and extend to the next succeeding Business Day and the Flexible Rate for such Interest Period shall be the Alternate Rate in effect on the first day of each respective Interest Period.

Except while the Variable Rate Bonds are registered in a book-entry system, in order to receive payment of the Purchase Price, the Owner of any Variable Rate Bond in the Flexible Mode must present such Variable Rate Bonds to the Tender Agent by 12:00 noon on the Rate Determination Date, in which case, the Master Paying Agent shall pay the Purchase Price to such Owner by 3:00 p.m. on the same day.

Adjustment to Interest Period and Flexible Rate. By 1:00 p.m. on each Rate Determination Date, the Remarketing Agent, with respect to each Variable Rate Bond in the Flexible Mode which is subject to adjustment on such date, shall determine the Flexible Rate for the Interest Period then selected for such Variable Rate Bond and shall give notice by Electronic Means to the Master Paying Agent, the Authority and the Obligor, of the Interest Period, the Purchase Date and the Flexible Rate.

Notice of Adjustment to Interest Period and Flexible Rate. The Remarketing Agent shall make the Flexible Rate and Interest Period available after 2:00 p.m. on each Rate Determination Date by telephone or Electronic Means to any Beneficial Owner or Notice Party requesting such information.

Change in Mode to a Flexible Mode. At any time, the Authority may elect, subject to the conditions set forth below under the caption "Effecting a Mode Change," to change the Mode of the Variable Rate Bonds to the Flexible Mode from another Mode. Notice of the proposed change in Mode will be given by the Tender Agent to the Owners of Variable Rate Bonds not less than 15 days prior to the Mode Change Date. The notice must state: (1) that the Variable Rate Bonds will be changed to operate in the Flexible Rate Mode and the Mode Change Date; (2) that the Variable Rate Bonds to be converted will be subject to mandatory tender for purchase on the Mode Change Date and the Purchase Price of such Variable Rate Bonds; and (3) if the book-entry only system is no longer in effect, information with respect to required delivery of the Variable Rate Bond certificates and payment of Purchase Price.

Effecting a Mode Change

At any time, the Authority may elect, subject to the conditions set forth below, to change the Mode of the Variable Rate Bonds from the one Mode to another Mode. To effect a Mode change, the following applies:

Notice. No later than a Business Day which is at least 30 days (or such shorter time as may be agreed to by the Authority, the Trustee, the Tender Agent and the Remarketing Agent) preceding the proposed Mode Change Date, the Authority must give written notice to the Notice Parties of its intention to effect a change in the Mode from the Mode then prevailing (the "Current Mode") to another Mode (the "New Mode") specified in such written notice.

Notice of the proposed change in Mode will be given by the Tender Agent to the Owners of Variable Rate Bonds not less than 15 days prior to the Mode Change Date. The notice must state: (1) the Mode to which Variable Rate Bonds will be converted and the Mode Change Date; (2) except in the case of a change from the Daily Mode to the Weekly Mode or from the Weekly Mode to the Daily Mode, that the Variable Rate Bonds will be subject to mandatory tender for purchase on the Mode Change Date and the Purchase Price of the Variable Rate Bonds; and (3) if the book-entry only system is no longer in effect, information with respect to required delivery of the Variable Rate Bond certificates and payment of Purchase Price.

Interest Rate. The New Mode will commence on the Mode Change Date and the interest rate(s) (together, in the case of a change to the Flexible Mode, with the Interest Period(s)) will be

determined by the Remarketing Agent in accordance with the provisions described above for the New Mode.

Mode Change Date. The Mode Change Date will be: (a) in the case of a change from the Flexible Mode, the next Mandatory Purchase Date for all of the Flexible Rate Bonds; or (b) in the case of a change from the Daily Mode or Weekly Mode, any Business Day. The Variable Rate Bonds will be purchased on the Mode Change Date at a Purchase Price equal to 100% of the principal amount thereof, provided that if such Variable Rate Bonds are to be purchased on an Interest Payment Date other than the last Interest Payment Date and would otherwise be subject to optional redemption on such Mode Change Date at a Redemption Price of more than 100% of the principal amount thereof, such Variable Rate Bonds will be purchased at a Purchase Price equal to such Redemption Price.

If the Variable Rate Bonds to be converted are in the Flexible Mode, no Interest Period set after delivery of the notice of the intention to effect a change in Mode may extend beyond the proposed Mode Change Date.

Deliveries to be Made at Mode Change Date. The following items must be delivered to the Trustee, the Master Paying Agent and the Remarketing Agent on or prior to the Mode Change Date:

- (a) in the case of a change from a Short-Term Mode to a Long-Term Mode or from a Long-Term Mode to a Short-Term Mode, a Favorable Opinion of Bond Counsel addressed to the Notice Parties to the effect that the Mode change is permissible under the Act, the Indenture and the applicable Series Supplemental Indenture and will not adversely affect the exclusion of interest on the Variable Rate Bonds from gross income for purposes of federal income taxation (subject to the inclusion of any exceptions contained in the opinion delivered upon original issuance of the Variable Rate Bonds);
- (b) if there is to be an Alternate Liquidity Facility or Alternate Credit Enhancement delivered in connection with such change, the items described in the Official Statement to which this Appendix H is attached under the caption, “THE OFFERED BONDS – Alternate Liquidity Facility; Alternate Credit Enhancement;” and
- (c) a Rating Confirmation Notice, or if the Mode Change Date is a Mandatory Purchase Date, a notice from the Rating Agencies of the rating(s) to be assigned the Variable Rate Bonds on such Mode Change Date.

Failure to Satisfy Conditions to Effect a Mode Change. In the event the conditions described above for a particular Mode change have not been satisfied by the applicable Mode Change Date, then the New Mode will not take effect (although any mandatory tender must be made on such date if notice has been sent to the Owners stating that such Variable Rate Bonds would be subject to mandatory purchase on such date). If the failed change in Mode was from the Flexible Mode, the Variable Rate Bonds will remain in the Flexible Mode with interest rates and interest periods to be established by the Remarketing Agent on the failed Mode Change Date in the manner described above. If the failed change in Mode was from the Daily Mode, the

Variable Rate Bonds will remain in the Daily Mode, and if the failed change in Mode was from the Weekly Mode, the Variable Rate Bonds will remain in the Weekly Mode, in each case with interest rates established by the Remarketing Agent on and as of the failed Mode Change Date in the manner described above.

Rescission of Election to Change Mode. The Authority may rescind any election to change a Mode as described above prior to the Mode Change Date by giving written notice to the Notice Parties prior to the Mode Change Date. If the Tender Agent receives notice of the rescission prior to the time the Tender Agent has given notice to the holders of the Variable Rate Bonds, then the notice of change in Mode will be of no force and effect. If the Tender Agent receives notice from the Authority of rescission of a Mode change after the Tender Agent has given notice thereof to the holder of the Variable Rate Bonds, and if the proposed Mode Change Date would have been a Mandatory Purchase Date, such date will continue to be a Mandatory Purchase Date. If the proposed change in Mode was from the Flexible Mode, the Variable Rate Bonds will remain in the Flexible Mode with interest rates and interest periods to be established by the Remarketing Agent on the proposed Mode Change Date in the manner described above. If the proposed change in Mode was from the Daily Mode, the Variable Rate Bonds will remain in the Daily Mode, and if the proposed change in Mode was from the Weekly Mode, the Variable Rate Bonds will remain in the Weekly Mode, in each case, on and as of the proposed Mode Change Date. If the Remarketing Agent is unable to determine the interest rate (or, in the case of Variable Rate Bonds in the Flexible Mode, the Interest Period) on the proposed Mode Change Date, then the provisions relating to the Alternate Rate described above will apply.

Purchased Bonds

Purchased Bonds will bear interest at the rate or rates, and shall be payable and subject to redemption in such amounts and in such manner, as provided in the Initial Liquidity Facility.

Purchase of Bonds

Described below are the circumstances under which the Variable Rate Bonds are subject to optional and mandatory tender for purchase.

During a Daily Rate Period. During any Daily Rate Period when a book-entry system is in effect, a Beneficial Owner (through its direct Participant in DTC) may tender its interest in a Variable Rate Bond on any Business Day at a purchase price equal to the principal amount thereof plus accrued interest, if any, from the immediately preceding Interest Payment Date to the Purchase Date, payable in immediately available funds, upon delivery to the Tender Agent at its principal office for delivery of notices of a written notice which states the principal amount of such Variable Rate Bond and the date on which the same shall be purchased, which date shall be the date of the delivery of such notice to the Tender Agent, together with applicable payment instructions and an irrevocable demand for such purchase. Any notice delivered to the Tender Agent after 11:00 a.m., New York City time, shall be deemed to have been received on the next succeeding Business Day.

For so long as the Variable Rate Bonds are in the book-entry system, there is no requirement of physical delivery to or by the Tender Agent, Remarketing Agent or Trustee. If

the Variable Rate Bonds are no longer in the book-entry system, the Variable Rate Bonds must be delivered by Beneficial Owners no later than 12:00 noon, New York City time, on the Purchase Date at the office of the Tender Agent. Variable Rate Bonds tendered for purchase will be purchased by 3:00 p.m. on the Purchase Date.

During a Weekly Rate Period. During any Weekly Rate Period when a book-entry system is in effect, a Beneficial Owner (through its direct Participant in DTC) may tender its interest in a Variable Rate Bond on any Business Day at a purchase price equal to the principal amount thereof plus accrued interest, if any, from the immediately preceding Interest Payment Date to the Purchase Date, payable in immediately available funds, upon delivery to the Tender Agent at its principal office for delivery of notices of a written notice which states the principal amount of such Variable Rate Bond and the date on which the same shall be purchased, which date shall be a Business Day seven days prior to the date of the delivery of such notice to the Tender Agent. Any notice delivered to the Tender Agent after 5:00 p.m., New York City time, shall be deemed to have been received on the next succeeding Business Day.

For so long as the Variable Rate Bonds are in the book-entry system, there is no requirement of physical delivery to or by the Tender Agent, Remarketing Agent or Trustee. If the Variable Rate Bonds are no longer in the book-entry system, the Variable Rate Bonds must be delivered by Beneficial Owners no later than 12:00 noon, New York City time, on the Purchase Date at the office of the Tender Agent. Variable Rate Bonds tendered for purchase will be purchased by 3:00 p.m. on the Purchase Date.

Mandatory Tender for Purchase On Day Next Succeeding the Last Day of Each Flexible Rate Period. On the Business Day next succeeding the last day of each Flexible Rate Period for a Variable Rate Bond, unless such day is the Maturity Date or a Mode Change Date (other than a change in Mode between the Daily Mode and Weekly Mode), such Variable Rate Bond shall be purchased from its holder at a purchase price equal to the principal amount thereof plus accrued interest, if any, from the immediately preceding Interest Payment Date to the Purchase Date, payable in immediately available funds. The purchase price of any Variable Rate Bond so purchased shall be payable only upon surrender of such Variable Rate Bond. While the any Variable Rate Bond is in the book-entry system, there is no requirement of physical delivery of the Variable Rate Bond, rather the transfer will be effected by a book-entry credit to the account of the Tender Agent. At any time the Variable Rate Bonds are no longer in the book-entry system, the Variable Rate Bond must be delivered (with all necessary endorsements) to the office of the Tender Agent by 12:00 noon, New York City time.

Mandatory Tender for Purchase on a Mode Change Date. The Variable Rate Bonds shall be subject to mandatory tender for purchase on any Mode Change Date (except a change in Mode between the Daily Mode and the Weekly Mode) at a purchase price equal to the principal amount thereof plus accrued interest, if any, from the immediately preceding Interest Payment Date to the Purchase Date, payable in immediately available funds. The Tender Agent will give notice of such mandatory tender for purchase at least fifteen days prior to the Mode Change Date.

Mandatory Tender for Purchase Upon Termination, Expiration, or Replacement of the Initial Liquidity Facility. If the Tender Agent shall give holders of the Variable Rate

Bonds payable from the Initial Liquidity Facility (or if a book-entry system is in effect, DTC) notice that the Variable Rate Bonds shall, on the date specified in such notice, cease to be payable from the Initial Liquidity Facility as a result of (i) the expiration of the term of the Initial Liquidity Facility (other than a termination as a result of a Termination Event), or (ii) the Initial Liquidity Facility being replaced with the effect that the Variable Rate Bonds are no longer payable from the Initial Liquidity Facility, or (iii) the Initial Liquidity Provider notifying the Authority of the occurrence of a Termination Event (as described under the caption “LIQUIDITY FACILITY FOR THE VARIABLE RATE BONDS – Liquidity Facility Events of Default” in Appendix I) and that the Initial Liquidity Provider is suspending or terminating the Initial Liquidity Facility in accordance with its terms; then each Variable Rate Bond shall be subject to mandatory tender for purchase on: (a) in the case of clause (i), the fifth Business Day prior to the applicable event, (b) in the case of clause (ii), on the Substitution Date, and (c) in the case of clause (iii), a Business Day that is no less than three nor more than five days after the Trustee’s receipt of notice of the occurrence of the Termination Event. No mandatory tender for purchase shall occur as a result of such Initial Liquidity Facility being reduced or modified in connection with Variable Rate Bonds being redeemed. See the caption “LIQUIDITY FACILITY FOR THE VARIABLE RATE BONDS – Liquidity Facility Events of Default” in Appendix I. The purchase price for such Variable Rate Bonds shall be equal to the principal amount thereof plus accrued interest, if any, from the immediately preceding Interest Payment Date to the Purchase Date, payable in immediately available funds.

Notice of Mandatory Tender for Purchase. In connection with any mandatory tender for purchase of Variable Rate Bonds pursuant to the provisions of the Indenture described in the immediately preceding three paragraphs, the Tender Agent shall give notice of a mandatory tender for purchase, except in the case of a mandatory tender for purchase described under “Mandatory Tender for Purchase On Day Next Succeeding the Last Day of Each Flexible Rate Period,” for which no notice need be given. Such notice shall state: (i) the Mandatory Purchase Date, (ii) the Purchase Price, (iii) the numbers of the Variable Rate Bonds to be purchased if less than all of the Variable Rate Bonds owned by such Owner are to be purchased, and (iv) that interest on the Variable Rate Bonds subject to mandatory purchase will cease to accrue from and after the Mandatory Purchase Date. *The failure to mail such notice with respect to any Variable Rate Bond will not affect the validity of the mandatory purchase of any Variable Rate Bond with respect to which notice was mailed. Any notice mailed will be conclusively presumed to have been given, wither or not actually received by the Owner or Beneficial Owner.*

Subject to the provisions of the Indenture relating to Variable Rate Bonds held in a book-entry system, for payment of the purchase price of any Variable Rate Bond required to be purchased pursuant an optional or mandatory tender for purchase described herein, on the date specified, such Variable Rate Bond must be delivered, at or prior to 12:00 noon, New York City time, on the date specified in such notice, to the Tender Agent at its office, accompanied by an instrument of transfer thereof. In the event any Variable Rate Bond is delivered after 12:00 noon, New York City time, on such date, payment of the purchase price of the Variable Rate Bond need not be made until the Business Day following the date of delivery of the Variable Rate Bond, but the Variable Rate Bond shall nonetheless be deemed to have been purchased on the date specified in such notice and no interest shall accrue thereon after such date.

Irrevocable Notice Deemed to be Tender of Bond; Undelivered Bonds. The giving of notice of tender by an owner of a Variable Rate Bond shall constitute the irrevocable tender for purchase of each such Variable Rate Bond with respect to which such notice shall have been given, regardless of whether such Variable Rate Bond is delivered to the Tender Agent for purchase on the relevant purchase date. The Tender Agent may refuse to accept delivery of any Variable Rate Bonds for which a proper instrument of transfer has not been provided; such refusal, however, shall not affect the validity of the purchase of such Variable Rate Bond as herein described.

If any holder of a Variable Rate Bond who shall have given notice of tender of purchase, if a book-entry system is not in effect, shall fail to deliver the Variable Rate Bond to the Tender Agent at the place and on the applicable date and at the time specified, or shall fail to deliver the Variable Rate Bond properly endorsed, or if a book-entry system is in effect, shall fail to cause its beneficial ownership to be transferred to the Tender Agent on the records of DTC, and moneys sufficient to pay the purchase price thereof are on deposit with the Master Paying Agent for such purpose, the Variable Rate Bond shall constitute an “Undelivered Bond.” If funds in the amount of the purchase price of the Undelivered Bonds are available for payment to the holder thereof on the date and at the time specified, from and after the date and time of that required delivery, (1) each Undelivered Bond shall be deemed to be purchased and shall no longer be deemed to be outstanding under the Indenture, (2) interest shall no longer accrue thereon, and (3) funds in the amount of the purchase price of each such Undelivered Bond shall be held by the Master Paying Agent for the benefit of the holder thereof (*provided* that the holder shall have no right to any investment proceeds derived from such funds), to be paid on delivery (and proper endorsement) of the Undelivered Bond to the Tender Agent at its principal office for delivery of Variable Rate Bonds. *Any funds which are held by the Master Paying Agent and remain unclaimed by the former Owner of an Undelivered Bond not presented for purchase for a period of six years after delivery of such funds to the Master Paying Agent, will, to the extent permitted by law, upon request in writing by the Authority and the furnishing of security or indemnity to the Master Paying Agent’s satisfaction, be paid to the Authority free of any trust or lien and thereafter the former Owner of the Undelivered Bond will look only to the Authority.*

Payment of the purchase price for tendered Variable Rate Bonds is expected to be made from (i) proceeds of remarketing of such Variable Rate Bonds and (ii) amounts available under the Initial Liquidity Facility (or any Alternate Liquidity Facility). *Neither the Authority nor the Bond Insurer guaranty or insure payment of the purchase price of any tendered Variable Rate Bond.*

Redemption Prior to Maturity

In addition to other circumstances under which the Offered Bonds are subject to redemption, the Variable Rate Bonds shall be subject to redemption prior to maturity as follows:

Optional Redemption of Bonds

During a Daily Rate Period or a Weekly Rate Period. During a Daily Rate Period or Weekly Rate Period, the Variable Rate Bonds are subject to optional redemption, in whole or in

part, on any date, at a redemption price equal to the principal amount thereof, plus accrued interest, if any, from the end of the preceding Interest Accrual Period to the Redemption Date.

During a Flexible Rate Period. During a Flexible Rate Period, the Variable Rate Bonds are subject to option redemption, in whole or in part, on their respective Mandatory Purchase Dates at a redemption price equal to the principal amount thereof.

Special Redemption in Any Mode. In addition to the optional redemption provisions described above, the Variable Rate Bonds are subject to special redemption. See the caption in the Official Statement to which this Appendix H is attached entitled, “THE OFFERED BONDS – Special Redemption of the Offered Bonds.”

Special Provisions of the Loan Agreement. The Loan Agreement by and between the Authority and the Obligor requires the Obligor to make prepayments of principal amounts under the Loan at such times and in such amounts as set forth in the table below. The Authority may, at its discretion, use these prepayments to redeem Variable Rate Bonds pursuant to the optional redemption provisions described above or redeem Bonds of any Series. The Loan Agreement (including the provision thereof relating to the redemption of the Variable Rate Bonds) may be amended at any time with the consent of the Authority and the Obligor.

<u>Prepayment Date</u>	<u>Principal Amount</u>	<u>Prepayment Date</u>	<u>Principal Amount</u>	<u>Prepayment Date</u>	<u>Principal Amount</u>
January 1, 2005	\$405,000	January 1, 2015	\$55,000	January 1, 2025	\$105,000
July 1, 2005	290,000	July 1, 2015	55,000	July 1, 2025	105,000
January 1, 2006	300,000	January 1, 2016	60,000	January 1, 2026	110,000
July 1, 2006	310,000	July 1, 2016	60,000	July 1, 2026	115,000
January 1, 2007	320,000	January 1, 2017	65,000	January 1, 2027	120,000
July 1, 2007	325,000	July 1, 2017	65,000	July 1, 2027	120,000
January 1, 2008	340,000	January 1, 2018	65,000	January 1, 2028	125,000
July 1, 2008	350,000	July 1, 2018	70,000	July 1, 2028	130,000
January 1, 2009	360,000	January 1, 2019	70,000	January 1, 2029	135,000
July 1, 2009	370,000	July 1, 2019	75,000	July 1, 2029	135,000
January 1, 2010	380,000	January 1, 2020	75,000	January 1, 2030	140,000
July 1, 2010	395,000	July 1, 2020	80,000	July 1, 2030	145,000
January 1, 2011	405,000	January 1, 2021	80,000	January 1, 2031	150,000
July 1, 2011	420,000	July 1, 2021	85,000	July 1, 2031	155,000
January 1, 2012	430,000	January 1, 2022	85,000	January 1, 2032	160,000
July 1, 2012	50,000	July 1, 2022	90,000	July 1, 2032	165,000
January 1, 2013	50,000	January 1, 2023	90,000	January 1, 2033	170,000
July 1, 2013	50,000	July 1, 2023	95,000	July 1, 2033	175,000
January 1, 2014	50,000	January 1, 2024	100,000	January 1, 2034	180,000
July 1, 2014	55,000	July 1, 2024	100,000	July 1, 2034	185,000

Definitions

The following are definitions in summary form of certain terms contained in the Indenture with respect to the Variable Rate Bonds.

“**Alternate Credit Enhancement**” or “**Alternate Liquidity Facility**” shall mean a letter of credit, insurance policy, line of credit, surety bond, standby purchase agreement or other security or liquidity instrument, as the case may be, issued in accordance with the terms hereof as a replacement or substitute for any Credit Enhancement or Liquidity Facility, as applicable, then in effect.

“**Alternate Rate**” shall mean, on any Rate Determination Date, for any Mode, a rate per annum equal to (a) the BMA Municipal Swap Index of Municipal Market Data, formerly the PSA Municipal Swap Index (as such term is defined in the 1992 ISDA U.S. Municipal Counterparty Definitions) (the “**BMA Rate**”) most recently available as of the date of determination, or (b) if such index is no longer available, or if the BMA Rate is no longer published, the Kenny Index (as such term is defined in the 1992 ISDA U.S. Municipal Counterparty Definitions), or if neither the BMA Rate nor the Kenny Index is published, the index determined to equal 110% of the prevailing rate determined by the Remarketing Agent for tax-exempt state and local government bonds meeting criteria determined in good faith by the Remarketing Agent to be comparable under the circumstances to the criteria used by the Bond Market Association to determine the BMA Rate just prior to when the Bond Market Association stopped publishing the BMA Rate. The Tender Agent shall make the determinations required by this determination, upon notification from the Authority, if there is no Remarketing Agent, if the Remarketing Agent fails to make any such determination or if the Remarketing Agent has suspended its remarketing efforts in accordance with the Remarketing Agreement.

“**Authorized Denominations**” shall mean (i) with respect to Variable Rate Bonds in a Daily Mode or Weekly Mode, \$100,000 and any integral multiple of \$5,000 in excess of that amount and (ii) with respect to Variable Rate Bonds in a Flexible Mode, \$100,000 and any integral multiple of \$1,000 in excess of that amount.

“**Beneficial Owner**” shall mean, so long as the Variable Rate Bonds are held in the book-entry system, any person who acquires a beneficial ownership interest in a Variable Rate Bond held by the Securities Depository. If at any time the Variable Rate Bonds are not held in the book-entry system, the term “Beneficial Owner” shall mean “Owner.”

“**Bond Counsel Opinion**” shall mean an opinion of a lawyer or firm of lawyers nationally recognized as bond counsel, selected by the Authority.

“**Business Day**” shall mean any business day other than (i) a Saturday or Sunday or (ii) a day on which the Trustee, the Master Paying Agent or the Remarketing Agent are required or authorized to be closed or (iii) a day on which the office of the Credit Provider or Liquidity Provider at which it will pay draws or advances are required or authorized to be closed or (iv) a day on which The New York Stock Exchange is closed.

“**Credit Enhancement**” shall mean a letter of credit, insurance policy, surety bond, line of credit or other instrument then in effect which secures or guarantees the payment of principal of and interest on the Variable Rate Bonds.

“**Credit Provider**” shall mean any bank, insurance company, pension fund or other financial institution which provides a Credit Enhancement or Alternate Credit Enhancement for the Variable Rate Bonds.

“**Daily Mode**” shall mean the Mode during which the Variable Rate Bonds bear interest at the Daily Rate.

“**Daily Rate**” shall mean the per annum interest rate on any Variable Rate Bond in the Daily Mode determined as described above.

“**Daily Rate Period**” shall mean the period during which a Variable Rate Bond in the Daily Mode bears a Daily Rate, which shall be from the Business Day upon which a Daily Rate is set to but not including the next succeeding Business Day.

“**Electronic Means**” shall mean telecopy, facsimile transmission, e-mail transmission or other similar electronic means of communication providing evidence of transmission, including a telephonic communication confirmed by any other method set forth in this definition.

“**Favorable Opinion of Bond Counsel**” shall mean, with respect to any action the occurrence of which requires such an opinion, an unqualified Bond Counsel Opinion, which shall be rendered by Bond Counsel, to the effect that such action is permitted under the Act, the Indenture and the 2004 Series B Supplemental Indenture and will not adversely affect the exclusion of interest on the Variable Rate Bonds from gross income for purposes of Federal income taxation (subject to the inclusion of any exceptions contained in the opinion delivered upon original issuance of the Variable Rate Bonds).

“**Fixed Rate**” shall mean the per annum interest rate on any Variable Rate Bond in the Fixed Rate Mode as determined by the Remarketing Agent pursuant to the 2004 Series B Supplemental Indenture.

“**Fixed Rate Mode**” shall mean the Mode during which the Variable Rate Bonds bear interest at the Fixed Rate.

“**Fixed Rate Period**” shall mean for the Variable Rate Bonds in the Fixed Rate Mode, the period from the Mode Change Date upon which the Variable Rate Bonds were converted to the Fixed Rate Mode to but not including the Maturity Date for the Variable Rate Bonds.

“**Flexible Mode**” shall mean the Mode during which the Variable Rate Bonds bear interest at the Flexible Rate.

“**Flexible Rate**” shall mean the per annum interest rate on a Variable Rate Bond in the Flexible Mode determined for such Variable Rate Bond as described above. The Variable Rate Bonds in the Flexible Mode may bear interest at different Flexible Rates.

“Flexible Rate Bond” shall mean a Variable Rate Bond in the Flexible Mode.

“Flexible Rate Period” shall mean the period of from one to 270 calendar days (which period must end on a day preceding a Business Day) during which a Flexible Rate Bond bears interest at a Flexible Rate, as established by the Remarketing Agent as described above. The Variable Rate Bonds in the Flexible Mode may be in different Flexible Rate Periods.

“Initial Liquidity Facility” shall mean the Standby Bond Purchase Agreement by and among the Trustee, the Authority and the Initial Liquidity Provider.

“Initial Liquidity Provider” shall mean the Federal Home Loan Bank of Chicago and its successors and assigns, as the provider of the Initial Liquidity Facility for the Variable Rate Bonds.

“Interest Accrual Period” shall mean the period during which a Variable Rate Bond accrues interest payable on the next Interest Payment Date applicable thereto. With respect to any Mode, each Interest Accrual Period will commence on (and include) the last Interest Payment Date to which interest has been paid (or, if no interest has been paid in such Mode, from the date of original authentication and delivery of the Variable Rate Bonds, or the Mode Change Date, as the case may be) to, but not including, the Interest Payment Date on which interest is to be paid. If, at the time of authentication of any Variable Rate Bond, interest is in default or overdue on the Variable Rate Bonds, such Variable Rate Bond will bear interest from the date to which interest has previously been paid in full or made available for payment in full on Outstanding Variable Rate Bonds.

“Interest Payment Date” shall mean each date on which interest is to be paid and is: (i) with respect to the Variable Rate Bonds in the Flexible Mode, each Mandatory Purchase Date applicable thereto; (ii) with respect to the Variable Rate Bonds in the Daily Mode or Weekly Mode, the first Business Day of each month; and (iii) (without duplication as to any Interest Payment Date listed above) any Mode Change Date, other than a change between a Daily Mode and a Weekly Mode, and each Maturity Date; and (v) with respect to any Purchased Bonds, the day set forth in the Initial Liquidity Facility.

“Interest Period” shall mean, for the Variable Rate Bonds in a particular Mode, the period of time that the Variable Rate Bonds bear interest at the rate (per annum) which becomes effective at the beginning of such period, and includes a Flexible Rate Period, a Daily Rate Period and a Weekly Rate Period.

“Liquidity Facility” shall mean any letter of credit, line of credit, standby purchase agreement or other instrument then in effect which provides for the payment of the Purchase Price of Variable Rate Bonds upon the tender thereof in the event remarketing proceeds are insufficient therefor. Initially, the Liquidity Facility shall be the Initial Liquidity Facility.

“Liquidity Provider” shall mean any bank, insurance company, pension fund or other financial institution which provides a Liquidity Facility or Alternate Liquidity Facility for the Variable Rate Bonds. Initially, the Liquidity Provider shall be the Initial Liquidity Provider.

“Long-Term Interest Period” shall mean a Term Rate Period or a Fixed Rate Period.

“Long-Term Mode” shall mean a Term Rate Mode or a Fixed Rate Mode.

“Mandatory Purchase Date” shall mean: (i) with respect to a Flexible Rate Bond, on the first Business Day following the last day of each Flexible Rate Period with respect to the Variable Rate Bond, (ii) any Mode Change Date (except a change in Mode between the Daily Mode and the Weekly Mode), (iii) the date upon which an Alternate Liquidity Facility is substituted for the Initial Liquidity Facility then in effect (a “Substitution Date”), (iv) the fifth Business Day prior to the date the Initial Liquidity Facility expires (an “Expiration Date”) (other than as a result of a Termination Event), and (v) the date which is a Business Day that is no less than three nor more than five days after the Trustee’s receipt of notice from the Initial Liquidity Provider indicating the occurrence of a Termination Event under the Initial Liquidity Facility.

“Master Paying Agent” means J.P. Morgan Trust Company, N.A., Chicago, Illinois, and any successor master paying agent or agents appointed in accordance with the Indenture.

“Maturity Date” shall mean one of the dates set forth in the 2004 Series B Supplemental Indenture on which Variable Rate Bonds are expressed to mature and, if established upon a change to the Fixed Rate Mode, any Serial Maturity Date.

“Maximum Rate” shall mean, (A) with respect to all Variable Rate Bonds other than Purchased Bonds the lesser of (i) 12 percent, or (ii) the maximum interest rate permitted by applicable law, and (B) with respect to Purchased Bonds, the lesser of (i) 25 percent, or (ii) the maximum interest rate permitted by applicable law. Currently under applicable law, there is no maximum interest rate limitation.

“Mode” shall mean, as the context may require, the Flexible Mode, the Daily Mode, the Weekly Mode, the Term Rate Mode or the Fixed Rate Mode.

“Mode Change Date” shall mean with respect to the Variable Rate Bonds in a particular Mode, the day on which another Mode for the Variable Rate Bonds begins.

“Notice Parties” shall mean the Authority, Trustee, Tender Agent, Remarketing Agent, Master Paying Agent, Credit Provider, Liquidity Provider and Obligor.

“Obligor” shall mean Decatur Properties of Illinois, L.P., a limited partnership of the State of Delaware.

“Purchase Date” shall mean (i) for a Variable Rate Bond in the Daily Mode or the Weekly Mode, any Business Day selected by the Beneficial Owner of said Variable Rate Bond pursuant to the provisions described above under the captions “Purchase of Bonds – During a Daily Rate Period” and “Purchase of Bonds - During a Weekly Rate Period,” and (ii) any Mandatory Purchase Date.

“Purchase Price” shall mean an amount equal to the principal amount of any Variable Rate Bonds purchased on any Purchase Date, plus accrued interest to the Purchase Date.

“Purchased Bond” shall mean any Variable Rate Bond purchased by or on behalf of, and/or held for the account of the Initial Liquidity Provider.

“Rate Determination Date” shall mean any date on which the interest rate on Variable Rate Bonds is determined, which, (i) in the case of the Flexible Mode, shall be the first day of an Interest Period; (ii) in the case of the Daily Mode, shall be each Business Day commencing with the first day (which must be a Business Day) the Variable Rate Bonds become subject to the Daily Mode; or (iii) in the case of the initial conversion to the Weekly Mode, shall be no later than the Business Day prior to the Mode Change Date, and thereafter, shall be each Wednesday or, if Wednesday is not a Business Day, then the Business Day next preceding such Wednesday.

“Rating Agency” means any nationally recognized rating agency maintaining a rating of any Variable Rate Bonds pursuant to a request for a rating by the Authority.

“Rating Confirmation Notice” shall mean a notice from the applicable Rating Agency or Rating Agencies confirming that the rating on the Variable Rate Bonds will not be lowered or withdrawn (other than a withdrawal of a short-term rating upon a change to a Long-Term Interest Period) as a result of the action proposed to be taken.

“Record Date” shall mean the last Business Day before an Interest Payment Date.

“Redemption Date” shall mean the date fixed for redemption of Variable Rate Bonds subject to redemption in any notice of redemption given in accordance with the terms of the Indenture and the 2004 Series B Supplemental Indenture.

“Reimbursement Agreement” shall mean any reimbursement agreement, credit agreement, line of credit agreement, standby purchase agreement or other agreement, by and between the Credit Provider or Liquidity Provider, as applicable, the Obligor and/or the Authority.

“Serial Maturity Date” shall mean the date on which the Serial Bonds mature when in the Fixed Rate Mode.

“Serial Bonds” shall mean the Variable Rate Bonds maturing on the Serial Maturity Date.

“Short-Term Mode” shall mean the Daily Mode, the Weekly Mode or the Flexible Mode.

“Substitution Date” shall mean the date upon which an Alternate Credit Enhancement or Alternate Liquidity Facility is substituted for the Credit Enhancement or Liquidity Facility then in effect.

“Tender Agent” shall mean the commercial bank, trust company or other entity which may from time to time be appointed to serve as Tender Agent as provided in the 2004 Series B Supplemental Indenture. Until such time as an alternate Tender Agent is appointed, the Tender Agent shall be the Trustee.

“Termination Event” shall have the meaning given to such term under the caption, “LIQUIDITY FACILITY FOR THE VARIABLE RATE BONDS - Liquidity Facility Events of Default” in Appendix I.

“**Term Rate**” shall mean the per annum interest rate for the Variable Rate Bonds in the Term Rate Mode determined as by the Remarketing Agent pursuant to the 2004 Series B Supplemental Indenture.

“**Term Rate Mode**” shall mean the Mode during which the Variable Rate Bonds bear interest at the Term Rate.

“**Term Rate Period**” shall mean the period from (and including) the Mode Change Date to (but excluding) the last day of the first period that the Variable Rate Bonds shall be in the Term Rate Mode as established by the Authority for the Variable Rate Bonds pursuant to the 2004 Series B Supplemental Indenture and, thereafter, the period from (and including) the beginning date of each successive Interest Rate Period selected for the Variable Rate Bonds by the Authority pursuant to 2004 Series B Supplemental Indenture while it is in the Term Rate Mode to (but excluding) the commencement date of the next succeeding Interest Period, including another Term Rate Period. Except as otherwise provided in the 2004 Series B Supplemental Indenture, an Interest Period for the Variable Rate Bonds in the Term Rate Mode must be at least 180 days in length.

“**Weekly Mode**” shall mean the Mode during which the Variable Rate Bonds bear interest at the Weekly Rate.

“**Weekly Rate**” shall mean the per annum interest rate on the Variable Rate Bonds in the Weekly Mode determined as described above.

“**Weekly Rate Period**” shall mean the period during which a Variable Rate Bond in the Weekly Mode bears a Weekly Rate, which will be the period commencing on Thursday of each week to and including Wednesday of the following week, except the first Weekly Rate Period which will be from the Mode Change Date or date of initial issuance of the Variable Rate Bonds, as applicable, to and including the Wednesday of the following week and the last Weekly Rate Period which will be from and including the Thursday of the week prior to the Mode Change Date to the day next succeeding the Mode Change Date.

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APPENDIX I

LIQUIDITY FACILITY FOR THE VARIABLE RATE BONDS

Initial Liquidity Facility

The Authority, the Trustee and the Federal Home Loan Bank of Chicago (the “Initial Liquidity Provider”) intend to enter into a Standby Bond Purchase Agreement dated as of March 31, 2004 (the “Initial Liquidity Facility”) with respect to the Variable Rate Bonds. The following summary is qualified in its entirety by reference to the Initial Liquidity Facility as set forth in the Standby Bond Purchase Agreement, a copy of such Standby Bond Purchase Agreement is available from the Trustee. ***Any Variable Rate Bond that is converted to a Long-Term Mode will no longer have the benefit of the Initial Liquidity Facility except for those Variable Rate Bonds operating in a Term Rate Mode having a Term Rate Period of 364 days or less.***

Subject to the terms of the Initial Liquidity Facility, and provided that no Bond Insurer Event of Default (as hereinafter defined), which would result in a termination or suspension of the Initial Liquidity Provider’s obligations to purchase Variable Rate Bonds under the Initial Liquidity Facility, has occurred, the Initial Liquidity Provider agrees, at the request from time to time of the Trustee on behalf of the Authority, to purchase, during the “Initial Liquidity Commitment Period” (as such term is defined herein), any Variable Rate Bonds tendered for purchase in accordance with the Indenture with respect to which the Trustee does not, on the date any such tendered Variable Rate Bonds are required to be purchased pursuant to the Indenture, have sufficient funds from, among other sources, the remarketing of such tendered Variable Rate Bonds, to make such purchase.

The “Available Commitment” (as defined in the Initial Liquidity Facility) initially means \$10,111,781 (\$10,000,000 being the “Available Principal Commitment” and \$111,781 being the “Available Interest Commitment”) which is calculated based on 34 days of interest at an assumed rate of 12% per annum, subject to reduction for the principal amount of Variable Rate Bonds previously purchased by the Initial Liquidity Provider and not resold as well as any Variable Rate Bonds which are redeemed by the Authority and increased (but not above the amount of the Available Commitment) for the principal amount of Variable Rate Bonds which are held for the account of the Initial Liquidity Provider and remarketed. As a result, the Available Commitment will, during the Initial Liquidity Commitment Period, always equal at least 100% of the principal amount of Variable Rate Bonds outstanding, plus 34 days of accrued interest at an assumed rate of 12% per annum, less the principal amount of any Variable Rate Bonds held for the account of the Initial Liquidity Provider from time to time.

The obligation of the Initial Liquidity Provider to purchase any Variable Rate Bond on a Purchase Date is subject to: (i) receipt by the Initial Liquidity Provider of a notice from the Trustee that funds are needed for the purchase of Variable Rate Bonds which have been tendered and for which remarketing proceeds are not available (a “Notice of Bank Purchase,” as provided for in the Initial Liquidity Facility), and (ii) the condition that no Bond Insurer Event of Default (as defined below) (other than a Bond Insurer Event of Default described in clause (f) below) shall have occurred and be continuing.

Each of the following constitutes a “Bond Insurer Event of Default” under the Initial Liquidity Facility:

(a) the occurrence and continuance of one or more of the following events: (i) the issuance of an order of rehabilitation, liquidation or dissolution of the Bond Insurer; (ii) the commencement by the Bond Insurer of a voluntary case or other proceeding seeking liquidation, reorganization or other relief with respect to itself or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect including, without limitation, the appointment of a trustee, receiver, liquidator, custodian or other similar official for itself or any substantial part of its property; (iii) the commencement against the Bond Insurer of any involuntary case or other proceeding seeking any relief referred to in the preceding clause (ii) and such case or proceeding shall not have been dismissed within 90 days following the commencement thereof; (iv) the making by the Bond Insurer of an assignment of the benefit of creditors; (v) the failure of the Bond Insurer to generally pay its debts (provided that “debts” in this clause shall not include any obligation of the Bond Insurer under any insurance policy or surety bond) as they become due; or (vi) the initiation by the Bond Insurer of any actions to authorize any of the foregoing;

(b) the Bond Insurer shall fail, wholly or partially to make a payment when due of principal or interest to the Trustee as required under the Policy;

(c) the Bond Insurer shall, in writing, claim that the Policy, with respect to the payment of principal of or interest on the Bonds, is not valid and binding on the Bond Insurer, and repudiate the obligations of the Bond Insurer under the Policy, with respect to payment of principal of and interest on the Bonds, or the Bond Insurer shall initiate any legal proceedings to seek an adjudication that the Policy, with respect to the payment of principal of or interest on the Bonds, is not valid and binding on the Bond Insurer;

(d) any governmental authority with jurisdiction to rule on the validity of the Policy shall announce, find or rule that the Policy or any provision thereof regarding the obligation of the Bond Insurer to make a payment with respect to the Bonds is not valid and binding on the Bond Insurer;

(e) the Policy is cancelled or terminated for any reason without the consent of the Initial Liquidity Provider; or

(f) the occurrence of a Bond Insurer Downgrade Event.

“Initial Liquidity Commitment Period” means the period from March 31, 2004 to and including the earliest of: (i) the close of business March 31, 2014 or such extended date as may be agreed upon by the Initial Liquidity Provider pursuant to the Initial Liquidity Facility (the “Expiration Date”); (ii) the close of business on the date on which all Variable Rate Bonds have been converted to a Long-Term Mode except for those Variable Rate Bonds operating in a Term Rate Mode having a Term Rate Period of 364 days or less; (iii) the date on which the Available Commitment has been (A) reduced to zero by reason of a redemption, repayment or other payment of all of the principal amount of Variable Rate Bonds so that such Bonds cease to be outstanding, or (B) terminated in its entirety or by reason of the issuance by the Initial Liquidity Provider of a Notice of Termination Date; or (iv) the close of business on the date on which an

Alternate Liquidity Facility is delivered by the Authority to the Trustee and becomes effective (the “Substitution Date”).

Variable Rate Bonds purchased by and held for the account of the Initial Liquidity Provider are referred to in the Initial Liquidity Facility as “Purchased Bonds.” Purchased Bonds bear interest from their date of purchase at a rate equal to the “LIBOR Rate” (as defined in the Initial Liquidity Facility) plus one-half of one percent (0.50%). Following a Bond Insurer Event of Default, from the date of such Bond Insurer Event of Default until such date as such Purchased Bonds are redeemed and fully paid, Purchased Bonds will bear interest at the LIBOR Rate plus two and one-half percent (2.50%).

The Authority has agreed to pay certain fees to the Initial Liquidity Provider for its services as Initial Liquidity Provider. Failure to pay these fees, when due, will constitute a Liquidity Facility Event of Default as discussed below under “Liquidity Facility Events of Default.” The Initial Liquidity Provider is permitted to increase these fees under certain circumstances which are set forth in the Initial Liquidity Facility; upon such increase, the Authority may either pay such increased fees or terminate the Initial Liquidity Facility.

The Authority may, with the consent of the Bond Insurer (and, upon the occurrence of either of the events described in clause (ii) below, shall at the direction of the Bond Insurer) terminate the Initial Liquidity Facility upon (i) not less than 45 Business Days’ prior written notice to the Initial Liquidity Provider of such termination or (ii) written notice to the Initial Liquidity Provider that the rating on senior unsecured short-term obligations issued by the Initial Liquidity Provider shall have been withdrawn, suspended or reduced to a category below “A-1” by S&P or below “P-1” by Moody's, or the default by the Initial Liquidity Provider in honoring its payment obligations under the Initial Liquidity Facility or the Initial Liquidity Provider seeking recovery of certain amounts described in the Initial Liquidity Facility. Any such termination is conditioned upon (1) the payment to the Initial Liquidity Provider of all fees, expenses, and other amounts payable under the Initial Liquidity Facility, and (2) the payment to the Initial Liquidity Provider of all principal and accrued interest owing on any Purchased Bonds.

Any Purchased Bond that has not been remarketed within 60 days following the Purchase Date with respect thereto will become an “Amortizing Purchased Bond.” Each Amortizing Purchased Bond will mature on the date that is five (5) years from the date on which such bond became an Amortizing Purchased Bond (the “Purchased Bond Maturity Date”). The Authority will make a scheduled repayment of the outstanding principal amount of each Amortizing Purchased Bond on each semi-annual payment date with respect thereto in an amount equal to one-tenth (1/10th) of the aggregate principal amount of all Amortizing Principal Bonds scheduled for repayment on such semi-annual payment date, plus all accrued and unpaid interest upon such Amortizing Purchased Bonds.

Purchased Bonds will at all times be deemed outstanding for all purposes, and the Initial Liquidity Provider, as beneficial owner of such Purchased Bonds, will have all of the rights of any Bondowner of Bonds, except as such rights may be modified by the Initial Liquidity Facility (for example, as set forth above, Purchased Bonds bear interest at a rate which is or may be different than the rate on other Outstanding Bonds). Under certain circumstances this may

enable the Initial Liquidity Provider to exercise control over certain enforcement proceedings (see “Liquidity Facility Events of Default.”)

The aggregate principal amount of Variable Rate Bonds or portions thereof purchased for the account of the Initial Liquidity Provider will be in Authorized Denominations and will not exceed the Available Principal Commitment on such date. The aggregate amount of Purchase Price comprising interest on any Purchase Date will not exceed the lesser of (i) the Available Interest Commitment, and (ii) the actual amount of interest accrued on the Variable Rate Bonds so purchased.

The Authority’s obligation to reimburse the Initial Liquidity Provider for amounts paid under the Initial Liquidity Facility and for other obligations of the Authority under the Initial Liquidity Facility will be the general obligation of the Authority.

Liquidity Facility Events of Default

Under certain circumstances described below, the obligation of the Initial Liquidity Provider to purchase the Variable Rate Bonds tendered by the owners thereof or subject to mandatory tender may be terminated or suspended, and in such event, sufficient funds may not be available to purchase such tendered Variable Rate Bonds. The Authority is not obligated to purchase Variable Rate Bonds and the policies of the Bond Insurer do not insure payment of the purchase price of the tendered Variable Rate Bonds under such conditions.

In the case of the occurrence of (i) an Event of Default under the Initial Liquidity Facility specified in item 2 below, or (ii) a Bond Insurer Downgrade Event (as defined below) (each a “Termination Event”), the Initial Liquidity Provider’s obligation to purchase Variable Rate Bonds under the Initial Liquidity Facility will terminate on the 30th day (or if such day is not a Business Day, the next following Business Day) after such written notice of such Termination Event and termination of the Initial Liquidity Facility (“Notice of Termination Date”) is received by the Authority, and thereafter the Initial Liquidity Provider will be under no obligation to purchase Variable Rate Bonds. As used in the Initial Liquidity Facility, a “Bond Insurer Downgrade Event” means there is not in effect for an uninterrupted period of 90 days at least two of the following in respect of the Bond Insurer: in the case of Fitch, a financial strength rating of “AA-” (or its equivalent) or higher; in the case of Moody’s, a financial strength rating of “Aa3” (or its equivalent) or higher; and in the case of S&P, a financial strength rating of “AA-” (or its equivalent) or higher.

The Liquidity Facility Events of Default under the Initial Liquidity Facility include:

1. The Authority shall default in the payment when due of any principal of or interest on any Variable Rate Bond, whether or not a Purchased Bond, or the Authority shall default in the payment of any increased costs described in the Initial Liquidity Facility.
2. The Authority shall fail to pay any commitment fee described under the Initial Liquidity Facility within a specified time period.
3. Any representation or warranty of the Authority made or deemed to be made in the Initial Liquidity Facility or in any other documents relating to the Bonds or any Related

Document or any other writing or certificate furnished by or on behalf of the Authority to the Initial Liquidity Provider for the purposes of or in connection with the Initial Liquidity Facility or any such other related document is or shall be incorrect when made in any material respect.

4. The Authority shall amend, modify, terminate or grant, or permit the amendment, modification, termination or grant of; any waiver under, or consent to, or permit or suffer to occur any action or omission which results in, or is equivalent to, an amendment, modification, or grant of a waiver under any document related to the Bonds without the prior written consent of the Initial Liquidity Provider, except the amendments relating to the issuance from time to time of additional bonds under the Indenture or other amendments which do not negatively affect the terms of the Variable Rate Bonds or the obligations of the Initial Liquidity Provider under the Initial Liquidity Facility.

5. The Authority shall default in the due performance or observance of any covenant or agreement contained in the Initial Liquidity Facility or in any other Related Document (defined therein), and such default shall continue unremedied for a period of 30 days after notice thereof shall have been given to the Authority by the Initial Liquidity Provider.

6. A default shall occur in the payment when due (subject to any applicable grace period), whether by acceleration or otherwise, of any indebtedness of the Authority (other than the Variable Rate Bonds) having a principal amount, individually or in the aggregate, in excess of \$5,000,000, or a default shall occur in the performance or observance of any obligation or condition with respect to such indebtedness if the effect of such default is to accelerate the maturity of any such indebtedness or such default shall continue unremedied for any applicable period of time to permit or cause such indebtedness to become due and payable prior to its expressed maturity.

7. Any judgment or order for the payment of money in excess of \$1,000,000 shall be rendered against the Authority and such judgment or order shall remain unstayed, unsatisfied, or bonded for more than 30 days or enforcement proceedings shall have been commenced by a creditor upon such judgment or order.

8. The Authority shall (i) become insolvent or generally fail to pay or admit in writing its inability or unwillingness to pay, debts as they become due; (ii) apply for, consent to, or acquiesce in, the appointment of a trustee, receiver, or other custodian for the Authority or any property of any thereof, or make a general assignment for the benefit of creditors; (iii) in the absence of such application, consent, or acquiescence, permit or suffer to exist the appointment of a trustee, receiver, or other custodian for the Authority, which appointment shall not be discharged within 60 days; (iv) permit or suffer to exist the commencement of any bankruptcy, reorganization, debt arrangement or other case or proceeding under any bankruptcy or insolvency law, or any dissolution, winding up or liquidation proceeding, in respect of the Authority, and, if any such case or proceeding is not commenced by the Authority, such case or proceeding shall be consented to or acquiesced in by the Authority or shall result in the entry of an order for relief or shall remain for 60 days undismissed; or (v) take any action authorizing, or in furtherance of, any of the foregoing.

9. The Variable Rate Bonds shall be rated lower than “A–” by S&P or “A3” by Moody’s, or the Variable Rate Bonds shall become unrated.

10. The Authority shall repudiate any of its obligations with respect to the Variable Rate Bonds or under any of the Related Documents, or any agency or official having authority over the Authority shall repudiate any such obligations of the Authority.

Upon the occurrence of a Liquidity Facility Event of Default, the Initial Liquidity Provider will have all remedies that the Initial Liquidity Provider is entitled to pursue under the Initial Liquidity Facility, the Indenture, the 2004 Series B Supplemental Indenture or any other document related thereto, or otherwise pursuant to law or equity including, without limitation, specific performance; provided, however, other than upon the occurrence of a Termination Event, the Initial Liquidity Provider agrees to purchase Bonds on the terms and conditions of the Initial Liquidity Facility, notwithstanding the occurrence of a Liquidity Facility Event of Default.

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