

*In the opinion of Kutak Rock LLP, Bond Counsel, under existing laws, regulations, rulings and judicial decisions and assuming the accuracy of certain representations and continuing compliance with certain covenants, interest on the Series C Bonds is excludable from gross income for federal income tax purposes pursuant to Section 103 of the 1986 Code, except for interest on any Series C Bond for any period during which such Series C Bond is held by a "substantial user" of the facilities refinanced by the Series C Bonds or a "related person" within the meaning of the Code. Interest on the Series C Bonds is a specific preference item for purposes of the federal alternative minimum tax. For information regarding certain requirements for and exceptions to such exclusion, see "TAX MATTERS" herein. Under the Illinois Housing Development Act, in its present form, income from the Series C Bonds (as defined below) is exempt from all taxes of the State of Illinois or its political subdivisions, except for estate, transfer and inheritance taxes.*



**\$5,775,000**  
**ILLINOIS HOUSING DEVELOPMENT AUTHORITY**  
**HOUSING BONDS, 2013 SERIES C (AMT)**  
**(SUNRISE APARTMENTS)**

**Dated: Date of Delivery****Due: See inside cover**

The Housing Bonds, 2013 Series C (Sunrise Apartments) (the "Series C Bonds"), are issuable only in registered form. The Depository Trust Company ("DTC" or the "Depository"), New York, New York, will act as securities depository of the Series C Bonds and its nominee will be the registered owner of the Series C Bonds. For further details on ownership, payments, notices and other matters under the book-entry only system, see "The Series C Bonds – Book-Entry Only System" and "The Series C Bonds – Redemption – General Redemption Provisions."

The Series C Bonds are issued pursuant to a Trust Indenture dated as of March 1, 1999, as amended and a Series Supplemental Indenture for the Series C Bonds dated as of May 1, 2013 (the "Series C Supplemental Indenture") between the Authority and The Bank of New York Mellon Trust Company, N.A., Chicago, Illinois, as Trustee. Principal of and premium, if any, and interest on the Series C Bonds (payable as provided on the inside cover) will be paid by The Bank of New York Mellon Trust Company, N.A., Chicago, Illinois, as Master Paying Agent.

The Series C Bonds are issuable in fully registered form in denominations of \$5,000 or any integral multiple thereof. The Series C 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 January 1, 2014.

*The Series C Bonds are subject to redemption prior to maturity, including at par without premium, as described herein under the captions, "THE SERIES C BONDS – Redemption."*

Proceeds of the Series C Bonds will be used, together with certain other available moneys, to (a) refinance the Prior Bonds (as defined herein), and (b) pay capitalized interest and certain costs incurred in connection with the issuance of Series C Bonds. See "PLAN OF FINANCE" and "SOURCES AND USES OF FUNDS."

**The Series C 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 Series C Bonds) is pledged for payment of the principal and premium, if any, of and interest and Sinking Fund Installments on the Series C Bonds. The Series C 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 C Supplemental Indenture (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 Series C Bonds. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES C BONDS." The Authority has previously issued other Series of Bonds, and expects in the future to issue additional Series of Bonds, under the Indenture for which the Series C Bonds are parity obligations.

**The Series C 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 Series C Bonds. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES C BONDS."**

*The Series C Bonds are offered when, as and if issued and received by the Underwriter, subject to prior sale, withdrawal or modification of the offer without notice, and to the approval of legality by Kutak Rock LLP, Chicago, Illinois, Bond Counsel. Certain legal matters will be passed upon for the Authority by its General Counsel, Maureen G. Ohle, Esq., by its counsel, Schiff Hardin LLP, Chicago, Illinois, and by its special counsel, Holland & Knight LLP, Chicago, Illinois, and for the Underwriter by its counsel, Burke Burns & Pinelli, Ltd., Chicago, Illinois. See "Legal Matters." It is expected that the Series C Bonds will be available for delivery to DTC in New York, New York, on or about May 30, 2013.*

**Ramirez & Co., Inc.**

**\$5,775,000**  
**ILLINOIS HOUSING DEVELOPMENT AUTHORITY**  
**HOUSING BONDS, 2013 SERIES C (AMT)**  
**(SUNRISE APARTMENTS)**

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**MATURITY SCHEDULE**

Dated: Date of Delivery, expected to be May 30, 2013

\$450,000 1.75% Term Bonds due July 1, 2018, CUSIP<sup>1</sup> No. 45201 LVY8  
\$510,000 3.00% Term Bonds due July 1, 2023, CUSIP<sup>1</sup> No. 45201 LVZ5  
\$595,000 3.75% Term Bonds due July 1, 2028, CUSIP<sup>1</sup> No. 45201 LWA9  
\$735,000 4.00% Term Bonds due July 1, 2033, CUSIP<sup>1</sup> No. 45201 LWB7  
\$910,000 4.25% Term Bonds due July 1, 2038, CUSIP<sup>1</sup> No. 45201 LWC5  
\$1,150,000 4.50% Term Bonds due July 1, 2043, CUSIP<sup>1</sup> No. 45201 LWD3  
\$1,425,000 4.60% Term Bonds due July 1, 2048, CUSIP<sup>1</sup> No. 45201 LWE1

Price of all Series C Bonds 100%

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<sup>1</sup> The CUSIP number has been assigned by an organization not affiliated with the Authority and is included for the convenience of the owners of the Bonds. The Authority is not responsible for the selection or uses of the CUSIP number nor is any representation made as to its correctness on the Bonds. A CUSIP number may be changed after the issuance date. CUSIP® is a registered trademark of the American Bankers Association.

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 Underwriter of the Series C 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 Series C 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 SERIES C BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND THE RESOLUTIONS AND INDENTURES RELATING TO THE SERIES C 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 SERIES C BONDS IN ACCORDANCE WITH APPLICABLE PROVISIONS OF LAW OF THE STATES IN WHICH THE SERIES C BONDS HAVE BEEN REGISTERED OR QUALIFIED AND THE EXEMPTION FROM REGISTRATION OR QUALIFICATION IN OTHER STATES CANNOT BE REGARDED AS A RECOMMENDATION THEREOF.

THE UNDERWRITER HAS PROVIDED THE FOLLOWING SENTENCE FOR INCLUSION IN THIS OFFICIAL STATEMENT. THE UNDERWRITER HAS REVIEWED THE INFORMATION IN THIS OFFICIAL STATEMENT IN ACCORDANCE WITH, AND AS PART OF, ITS RESPONSIBILITIES TO INVESTORS UNDER THE FEDERAL SECURITIES LAWS AS APPLIED TO THE FACTS AND CIRCUMSTANCES OF THIS TRANSACTION, BUT THE UNDERWRITER DOES NOT GUARANTEE THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION. THE SERIES C 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 SERIES C BONDS, THE UNDERWRITER 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 UNDERWRITER MAY ENGAGE IN SECONDARY MARKET TRADING IN THE SERIES C BONDS, SUBJECT TO APPLICABLE SECURITY LAWS. THE UNDERWRITER, HOWEVER, IS NOT OBLIGATED TO REPURCHASE ANY OF THOSE BONDS AT THE REQUEST OF ANY OWNER THEREOF. FOR INFORMATION WITH RESPECT TO THE UNDERWRITER, SEE "UNDERWRITING."

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**OFFICIAL STATEMENT**  
**of**  
**ILLINOIS HOUSING DEVELOPMENT AUTHORITY**

**Relating to**

**\$5,775,000**  
**ILLINOIS HOUSING DEVELOPMENT AUTHORITY**  
**HOUSING BONDS, 2013 SERIES C (AMT)**  
**(SUNRISE 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 \$5,775,000 aggregate principal amount of its Housing Bonds, 2013 Series C (AMT) (Sunrise Apartments) (the “Series C Bonds”). The Series C 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 Series C Bonds are also being issued under the provisions of (i) a Trust Indenture dated as of March 1, 1999, as amended (the “Indenture”) between the Authority and The Bank of New York Mellon Trust Company, N.A., Chicago, Illinois (the “Trustee”), as trustee; (ii) a 2013 Series C Supplemental Indenture dated as of May 1, 2013 (the “2013 Series C Supplemental Indenture”); and (iii) the Resolution of the Authority adopted on April 19, 2013, as supplemented by the Determination of the Chairman (or Vice-Chairman) and Executive Director of the Authority with respect to the Series C Bonds (together, 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.”

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.”

Proceeds of the Series C Bonds will be used, together with certain other available moneys, to (a) refinance outstanding Housing Bonds, 2006 Series D (Sunrise Apartments) of the Authority (the “Prior Development Bonds”), and (b) pay capitalized interest and certain costs incurred in connection with the issuance of the Series C Bonds. For further information on the use of proceeds of the Series C Bonds, see “PLAN OF FINANCE” and “SOURCES AND USES OF FUNDS.”

Upon the discharge of the Prior Development Bonds, certain of the assets associated therewith will be transferred by the Authority to, and pledged by the Authority under, the Indenture as additional collateral for the Bonds (as defined in the following paragraph).

As of March 31, 2013, the Authority has issued \$611,640,000 aggregate original principal amount of bonds under the Indenture, of which \$356,940,000 aggregate principal amount was outstanding (the “Prior Bonds”). The Series C Bonds will be issued on a parity basis with the Prior Bonds. The Prior Bonds, the Series C Bonds and all other bonds hereafter issued under the Indenture are referred to herein as the “Bonds.” The Authority may issue additional Bonds (the “Additional Bonds”) under the Indenture that are on a parity with the Series C Bonds or that may be secured by security in addition to the security for the Series C Bonds, upon the terms and subject to the conditions provided in the Indenture. The Authority expects to issue an additional series of Bonds simultaneously with the Series C Bonds and such bonds will be on a parity with the Series C Bonds and all other Bonds issued under the Indenture. The Authority may also issue Additional Bonds that are “Subordinate Bonds” that have a claim for payment that is subordinate to the claim of the Series C Bonds and the Prior Bonds. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES C BONDS – Additional Bonds,” “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – Certain Definitions” and “PLAN OF FINANCE – General.”

As further described under the caption “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES C BONDS,” the Series C Bonds are general obligations of the Authority. The full faith and credit of the Authority (subject to the provisions of resolutions and indentures pledging particular moneys, assets or revenues to the payment of notes, bonds or other obligations other than the Series C Bonds) is pledged for payment of the principal and Redemption Price, if any, of and interest and Sinking Fund Installments on the Series C Bonds. The Series C 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 Series C Bonds. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES C BONDS.”

**The Series C 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 Series C Bonds. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES C 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 Series C Bonds will be used, together with certain other available moneys, to (a) make the New Loan (defined below) with respect to the Refinanced Development (defined below) in order to effect the refinancing of the mortgage loan underlying the Prior Development Bonds, as further described below, and (b) pay capitalized interest and certain costs incurred in connection with the issuance of Series C Bonds.

Simultaneously with the issuance of the Series C Bonds, the Authority expects to issue its Housing Bonds, 2013 Series B (Federally Taxable) (the “Series B Bonds”). The Series B Bonds will be issued pursuant to a supplement to the Indenture and will be issued, if issued, on a parity with the Series C Bonds and the other Bonds issued under the Indenture.

### *Sunrise Apartments Development*

Proceeds of the Prior Development Bonds were used to finance the acquisition and rehabilitation of a 120-unit apartment complex located in Mattoon, Illinois known as “Sunrise Apartments.” Of the 120 units, 12 units were reserved for residents of very low-income and the remaining 108 units were for residents of low-income. Each of the units is subject to the Section 8 subsidy program. Sunrise Apartments is currently owned by SunMattoon, L. P., an Illinois limited partnership. Sunrise Apartments is also referred to herein as the “Refinanced Development.” Sunrise Apartments was, prior to the issuance of the Series C Bonds, and will be, subsequent to the issuance of the Series C Bonds, a Financed Development under the Indenture.

### *New Loan*

A portion of the proceeds of the Series C Bonds will be used to make a new mortgage loan (the “New Loan”) relating to the Refinanced Development. The proceeds of the New Loan will be used to: (a) prepay the existing mortgage loan funded with the proceeds of a portion of the Prior Development Bonds (the “Refinanced Mortgage Loan”); and (b) provide additional financing for the Refinanced Development. The refinancing will result in the redemption and/or defeasance and discharge of all or a portion of the Prior Development Bonds through the prepayment of the Refinanced Mortgage Loan. The New Loan will have a principal amount of \$5,605,000 amortized over 35 years. The New Loan is not prepayable without the consent of the Authority, in whole or in part, until June 1, 2023. The Refinanced Mortgage Loan and the New Loan will be Loans pledged under the Indenture as collateral for the Bonds and the Refinanced Development will remain a Financed Development under the Indenture.

### *Assumptions*

The interest rates, maturities and the payment dates for the Series C Bonds were established by the Authority in order that payments expected to be received under the Loan associated with the Series C Bonds 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 Series C 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 Cash Flow Certificate accompanied by a Rating Certificate. Because all Bonds issued under the Indenture (other than Subordinate Bonds) will rank equally and ratably with the Series C Bonds with respect to the security afforded by the Indenture, availability of money for repayment of the Series C Bonds could be significantly affected by the issuance, application, and investment of proceeds of Additional Bonds.

The maturities and Sinking Fund Installments of the Series C Bonds were established based on the assumption that (a) there would be no Loan Prepayments, Acquired Bonds Redemption Receipts or Recovery Payments related to Sunrise Apartments or other Financed Developments, and (b) 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 Sunrise Apartments 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 SERIES C BONDS – Redemption – Special Redemption of the Series C Bonds," Loan Prepayments, Acquired Bonds Redemption Receipts, Recovery Payments, and surplus Revenues may be used to redeem Bonds of any Series, including the Series C Bonds.* Consequently, to the extent such amounts are so used to redeem Series C Bonds, the average life of an Series C 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 Series C Bonds are as follows:

### Sources

Series C Bonds Proceeds	\$5,775,000
Other Sources <sup>1</sup>	<u>309,011</u>
Total Sources	\$6,084,011

### Uses

Deposit to Program Fund to Make New Loan	\$5,775,000
Deposit to Reserve Fund	170,000
Deposit to Debt Service Account for Capitalized Interest	25,000
Costs of Issuance <sup>2</sup>	<u>114,011</u>
Total Uses	\$6,084,011

- 
1. Includes Authority contribution and transfer of amounts on deposit in reserves for Prior Development Bonds.
  2. Includes Underwriter's Fee (which fee includes reimbursement of certain expenses). 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 March 31, 2013, the Authority had debt outstanding in the amount of \$1,602,523,578 which consisted of general obligation debt, special limited obligation debt and conduit debt. The conduit debt, which is special limited obligation debt, accounts for \$367,971,034 of the total as of that same date.

### **Multi-Family Housing Experience**

The Authority has significant experience in the underwriting and servicing of multi-family mortgage loans. In its more than 45 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 March 31, 2013, were approximately \$877 million.

The Authority is an United States Federal Housing Administration (“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 March 31, 2013, the Authority’s Multi-Family Programs Department employed 32 people with a variety of skills in multi-family loan underwriting and construction management and its Asset Management Services Department employed 51 people in areas of asset management, market research, subsidy contract administration and other aspects of property management.

### **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 Chairperson from among the Members, and the Chairperson is considered to be a Member for purpose of concurrence. The Chairperson 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 omission which constitute gross negligence or malfeasance.

The Members of the Authority are:

<b><u>Member</u></b>	<b><u>Office</u></b>
Terry E. Newman	Chairman – Partner, Katten Muchin Rosenman LLP
Karen Davis	Vice Chair – Principal, Community Frameworks, LLC
Deborah H. Telman	Secretary – Division Counsel, Abbot Laboratories
Mary Kane	Treasurer – Senior Vice President, Stifel, Nicolaus & Company, Inc.
Cristina Castro	Member – Community Relations Specialist, Elgin Community College
Harlan Karp	Member – President, SouthBlock Group
William J. Malleris	Member – Developer (retired)
Melody Reynolds	Member – Owner, Captured by Melody (Photography Service)
Salvatore Tornatore	Member – Principal, Tornatore Law Office

## **Management**

The Authority employs a staff of approximately 269 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.

**Mary R. Kenney**, Executive Director, was appointed by the Authority’s Members in March 2011. Prior to this appointment, she served for over ten years as the Authority’s General Counsel and also acted as Assistant Executive Director. She is a long time, committed advocate of affordable housing having previously served the Authority in the late nineteen eighties as a Portfolio Administrator in the Authority’s Single Family department. Ms. Kenney left the Authority to attend the University of Wisconsin Law School, eventually earning her law degree from Loyola University of Chicago School of Law. In 1994, she joined the law firm of Johnson & Bell specializing in litigation. She also holds a Bachelor of Science degree in Finance from DePaul University, where she concentrated in real estate and graduated with honors.

**Bryan Zises**, Assistant Executive Director and Chief of Staff, returned to the Authority in May 2011. Mr. Zises oversees programmatic and personnel aspects of the Authority. He obtained a depth of affordable housing finance knowledge from his previous roles as Public Affairs Director at the Authority from 2003 to 2006, as well as Communications Director at the Chicago Housing Authority, one of the largest public housing authorities in the nation. Mr. Zises is a skilled public relations and communications specialist with more than twenty years’ experience in public finance, political campaigns, government and media production. He holds a Bachelor of Arts degree in Political Science from the University of Chicago and a Master of Fine Arts degree in Film with a focus on marketing, management and creative development from the University of Southern California.

**Hazim Taib**, Chief Financial Officer and Assistant Treasurer, has been with the Authority since 1998 and was named Chief Financial Officer and Assistant Treasurer in April 2011. He has also served as the Authority’s Deputy Chief Financial Officer and Director of Structured Finance. His current responsibilities include overseeing the Authority's assets and liabilities, designing and executing investment strategies, and managing its capital budget along with its

credit risk and rating. Mr. Taib has extensive experience in bond structuring, cash modeling, tax exempt issuances and managing the requirements of the credit rating agencies. Mr. Taib holds a Master of Business Administration degree with emphasis in Statistics, a Bachelor of Science degree in Finance from Indiana State University and a diploma in Public Administration from Universiti Teknologi Mara, Malaysia.

**Maureen G. Ohle**, General Counsel and Assistant Secretary, joined the Authority in November 2010 as Senior Counsel and was promoted to General Counsel in August 2011. Before joining the Authority, she worked in the real estate group at Sidley Austin LLP, practicing out of the firm's Chicago office. Prior to this, she worked for J.P. Morgan Chase Bank, N.A. in the commercial mortgage-backed securities group, having started her career at Sidley Austin's Washington, D.C. office from 2001 to 2007. Maureen holds a Bachelor of Arts degree in Political Studies from the University of Illinois-Springfield and a Juris Doctorate degree from The Catholic University of America Columbus School of Law.

**Michele Williams**, Controller joined the Authority in May 2010. Michele is a Certified Public Accountant with over fifteen years' experience in accounting, budgeting and tax preparation for small businesses, industry and not-for-profit companies. Prior to working full-time as an independent financial consultant, Ms. Williams worked for PricewaterhouseCoopers in the Tax Products Delivery department conducting tax savings studies. Ms. Williams has a Bachelor of Science degree in Accounting from the University of Illinois at Urbana-Champaign.

The offices of the Authority are located at 401 North Michigan Avenue, Suite 700, Chicago, Illinois 60611. The telephone number of the Authority is (312) 836-5200.

## **SECURITY AND SOURCES OF PAYMENT FOR THE SERIES C BONDS**

### **General**

The Series C Bonds are general obligations of the Authority. The full faith and credit of the Authority, subject to the provisions of resolutions or indentures pledging particular moneys, assets or revenues to the payment of notes, bonds or other obligations other than the Series C Bonds, is pledged for payment of the principal and Redemption Price, if any, of and interest and Sinking Fund Installments on the Series C Bonds.

Resolutions and indentures of the Authority which authorize the issuance of the Authority's outstanding bonds and notes (other than the Prior Bonds and the Series C 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 "AUTHORITY ANNUAL FINANCIAL STATEMENTS (AUDITED) – Note 8 Bonds and Notes Payable" included 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 (AUDITED)” included in APPENDIX A.

The Series C 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.

The Authority may issue Additional Bonds under the Indenture that are on a parity with the Series C Bonds and the Prior Bonds or that may be secured by security in addition to the security for the Series C Bonds and the Prior Bonds, upon the terms and subject to the conditions provided in the Indenture. The Authority may also issue Subordinate Bonds that have a claim for payment that is subordinate to the claim of the Series C Bonds and the Prior Bonds. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES C BONDS – Additional Bonds” and “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – Certain Definitions.”

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 or secured by the Trust Estate on a parity basis with the Prior Bonds and the Series C Bonds.

**The Series C 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, 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 Series C 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 and security interest 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 Series C 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 Series C 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 an amount equal to the sum of all amounts established Series Reserve Requirements in the Series Supplemental Indentures for all Series of Bonds Outstanding, other than Subordinate Bonds. 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.

A Reserve Requirement for the Series C Bonds will be established pursuant to the 2013 Series C Supplemental Indenture. The Reserve Requirement for the Series C Bonds is in an amount, from time to time, equal to the maximum principal and interest due on the Series C Bonds on any semi-annual interest payment date (beginning on and after July 1, 2014 and excluding the final interest payment date). The initial Reserve Requirement will be funded using transferred amounts from reserves related to the Prior Development Bonds. See “SOURCES AND USES OF FUNDS.”

For purposes of these calculations, principal due on any date includes principal payable at maturity and principal payable pursuant to Sinking Fund Installments. 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 subsidies pursuant to Section 8 (“Section 8”) of the United States Housing Act of 1937, as amended (the “1937 Housing Act”), and Section 236 (“Section 236”) of the National Housing Act of 1934, as amended (the “National Housing Act”), and the proceeds of any 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 the United States Department of Housing and Urban Development (“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 B for a description of and recent developments regarding the Section 8 program.

With respect to mortgage loans that are the subject of 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 C 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 Subordinate 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 shall 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 Series C 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 Authority may also issue Additional Bonds that are Subordinate Bonds that have a claim for payment that is subordinate to the claim of Bonds (including the Series C Bonds and the Prior Bonds) that are not Subordinate Bonds.

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, among other things, 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 SERIES C BONDS.**

## **THE SERIES C BONDS**

### **General**

The Series C Bonds are issuable only in fully registered form without coupons in denominations of \$5,000 or any integral multiple thereof, initially registered in the name of Cede & Co., as nominee for The Depository Trust Company (“DTC”), which will act as securities depository for the Bonds. For a description of the method of payment of the principal, premium, if any, and interest on the Series C Bonds, and matters pertaining to transfers and exchanges while the Series C Bonds are in book-entry system, see “THE SERIES C BONDS – Book-Entry Only System.” For a description of matters pertaining to transfers and exchanges while the Series C Bonds are not in book-entry system, see “THE SERIES C BONDS – Registration, Transfer, Ownership and Exchange of Bonds.”

If the Series C Bonds are not in the book-entry system, the principal and Redemption Price of all Series C Bonds shall be payable only to the Owner or the Owner’s legal representative at the designated corporate trust office of the Trustee (or Master Paying Agent, if one is appointed and serving), and payment of the interest on each Series C Bond shall be made by the Trustee (or Master Paying Agent, if one is appointed and serving) to the Owner by check mailed to the Owner at the Owner’s address as it appears on the registration books or, if to the Owner’s designee, to the address of such designee. See “THE SERIES C BONDS – Redemption – *General Redemption Provisions – Series C Bonds Not held in Book-Entry Only System.*”

The Series C 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 January 1 and July 1 of each year, commencing on January 1, 2014.

Interest payable on the Series C Bonds on each interest payment date will be paid to the Owner appearing on the registration books of the Authority or to the designee of such Owner on

such date, by check mailed to the Owner at the Owner's address as it appears on such registration books or, if to the Owner's designee, to the address of such designee.

### **Registration, Transfer, Ownership and Exchange of Bonds**

The transfer of any Series C Bonds may be registered only upon the books kept for that purpose upon their surrender to the Trustee (or Master Paying Agent, if one is appointed and serving) together with an assignment duly executed by the registered Owner or the Owner's agent in such form as shall be satisfactory to the Trustee or Master Paying Agent. Upon any such registration of an Series C Bond transfer, the Authority shall execute and the Trustee or Master Paying Agent shall authenticate and deliver in exchange for such Series C Bond a new Series C Bond or Series C Bonds, registered in the name of the transferee, in any Authorized Denomination or Denominations, in an aggregate principal amount equal to the principal amount of such Series C Bond of same tenor and Series and having a maturity and bearing interest at the same rate.

In all cases in which Series C Bonds are exchanged or Series C Bonds are transferred by registration, the Authority shall execute and the Trustee or Master Paying Agent shall authenticate and deliver at the earliest practicable time Series C Bonds in accordance with the provisions of the Indenture. All Series C Bonds surrendered in any exchange or registration of transfer shall be cancelled by the Trustee or Master Paying Agent. The Authority or, at the direction of the Authority, the Trustee or Master Paying Agent may make a charge for the expense incurred in every such exchange or registration of transfer of Series C Bonds, including a charge sufficient to reimburse it for any tax or other governmental charge required to be paid with respect to such exchange or registration of transfer. Neither the Authority nor the Trustee or Master Paying Agent shall be required to make any such exchange or registration of transfer of Series C Bonds during the 15 days, or, in the case of any proposed redemption of Series C Bonds, immediately preceding the date of notice of that redemption, or after such Series C Bonds or any portion of such Series C Bonds shall have been selected for redemption.

The person in whose name any Series C Bond shall be registered shall be deemed and regarded as the Owner of such Series C Bond for all purposes. Payment of or on account of the principal of and interest on any Series C Bond of a Series shall be made only to its Owner or the Owner's legal representative. All such payments shall be valid and effective to satisfy and discharge the liability upon such Series C Bond, including interest on it, to the extent of the sum or sums so paid.

Subject to, and in accordance with, the provisions described above, Series C Bonds, upon their surrender at the designated corporate trust office of the applicable Trustee (or Master Paying Agent, if one is appointed and serving) together with an assignment duly executed by the Owner or that Owner's agent or legal representative in such form as shall be satisfactory to the Trustee (or Master Paying Agent, if one is appointed and serving), may, at the option of their Owner, be exchanged for an equal aggregate principal amount of Series C Bonds of like tenor and maturity, bearing interest at the same rate, of any Authorized Denomination.

## Redemption

### *Optional Redemption of Series C Bonds*

The Series C Bonds are subject to redemption at the option of the Authority, on any date on or after July 1, 2023, in whole or in part, in any order of maturity as determined by the Authority, and by lot within a maturity, from any money available for that purpose, at the Redemption Price of par plus accrued interest, if any, to the date fixed for redemption, without redemption premium.

### *Mandatory Sinking Fund Redemption of Series C Bonds*

The Series C Bonds maturing on July 1, 2018, shall be 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 their principal amount plus accrued interest to the date of redemption, without redemption premium:

<u>Redemption Date</u>	<u>Sinking Fund Installment</u>
January 1, 2014	\$45,000
July 1, 2014	45,000
January 1, 2015	45,000
July 1, 2015	45,000
January 1, 2016	45,000
July 1, 2016	45,000
January 1, 2017	45,000
July 1, 2017	45,000
January 1, 2018	45,000
July 1, 2018†	45,000

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† Final maturity

The Series C Bonds maturing on July 1, 2023, shall be 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 their principal amount plus accrued interest to the date of redemption, without redemption premium:

<u>Redemption Date</u>	<u>Sinking Fund Installment</u>
January 1, 2019	\$50,000
July 1, 2019	45,000
January 1, 2020	50,000
July 1, 2020	50,000
January 1, 2021	50,000
July 1, 2021	50,000
January 1, 2022	55,000
July 1, 2022	50,000
January 1, 2023	55,000
July 1, 2023†	55,000

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† Final maturity

The Series C Bonds maturing on July 1, 2028, shall be 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 their principal amount plus accrued interest to the date of redemption, without redemption premium:

<u>Redemption Date</u>	<u>Sinking Fund Installment</u>
January 1, 2024	\$55,000
July 1, 2024	55,000
January 1, 2025	60,000
July 1, 2025	55,000
January 1, 2026	60,000
July 1, 2026	60,000
January 1, 2027	60,000
July 1, 2027	60,000
January 1, 2028	65,000
July 1, 2028	65,000

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† Final maturity

The Series C Bonds maturing on July 1, 2033, shall be 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 their principal amount plus accrued interest to the date of redemption, without redemption premium:

<u>Redemption Date</u>	<u>Sinking Fund Installment</u>
January 1, 2029	\$70,000
July 1, 2029	65,000
January 1, 2030	70,000
July 1, 2030	70,000
January 1, 2031	75,000
July 1, 2031	75,000
January 1, 2032	75,000
July 1, 2032	75,000
January 1, 2033	80,000
July 1, 2033†	80,000

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† Final maturity

The Series C Bonds maturing on July 1, 2038, shall be 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 their principal amount plus accrued interest to the date of redemption, without redemption premium:

<u>Redemption Date</u>	<u>Sinking Fund Installment</u>
January 1, 2034	\$ 85,000
July 1, 2034	85,000
January 1, 2035	85,000
July 1, 2035	85,000
January 1, 2036	90,000
July 1, 2036	90,000
January 1, 2037	95,000
July 1, 2037	95,000
January 1, 2038	100,000
July 1, 2038†	100,000

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† Final maturity



The Series C Bonds maturing on July 1, 2043, shall be 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 their principal amount plus accrued interest to the date of redemption, without redemption premium:

<u>Redemption Date</u>	<u>Sinking Fund Installment</u>
January 1, 2039	\$105,000
July 1, 2039	105,000
January 1, 2040	110,000
July 1, 2040	110,000
January 1, 2041	115,000
July 1, 2041	115,000
January 1, 2042	120,000
July 1, 2042	120,000
January 1, 2043	125,000
July 1, 2043†	125,000

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† Final maturity

The Series C Bonds maturing on July 1, 2048, shall be 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 their principal amount plus accrued interest to the date of redemption, without redemption premium:

<u>Redemption Date</u>	<u>Sinking Fund Installment</u>
January 1, 2044	\$130,000
July 1, 2044	130,000
January 1, 2045	135,000
July 1, 2045	135,000
January 1, 2046	140,000
July 1, 2046	145,000
January 1, 2047	150,000
July 1, 2047	150,000
January 1, 2048	155,000
July 1, 2048†	155,000

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† Final maturity

The Sinking Fund Installment of Series C Bonds maturing on any date shall be reduced by the amount of the Series C Bonds of that maturity that have been redeemed, other than by Sinking Fund Installments (or by the purchase of Series C Bonds from money otherwise to be used for such a redemption not pursuant to Sinking Fund Installments), on or before the due date of the particular Sinking Fund Installments, as may be specified by the Authority. The total

credit against Sinking Fund Installments on the Series C Bonds will equal the principal amount of the Series C Bonds so redeemed or purchased. The Authority, at the time of giving notice to the Trustee of an election or direction to redeem Series C Bonds, shall 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 shall determine the amounts and dates of the various Sinking Fund Installments against which the principal amount of Series C Bonds will be credited in such manner that there shall 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 Series C Bonds remaining Outstanding.

### ***Special Redemption of the Series C Bonds***

The Series C 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; the 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 and may also include money 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;
- (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 Series C 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;
- (iii) moneys available from a reduction in the Reserve Requirement as a result of the redemption or repayment of any Series C Bonds;
- (iv) any money which the Trustee may pay to the Authority, upon filing of a Compliance Certificate or Cash Flow Certificate, as appropriate, under the Indenture;
- (v) any amounts remaining in the 2013 Series C Account of the Program Fund as of 90 days after the issue date of the Series C Bonds as a result of a failure to redeem, in whole or in part, the Prior Bonds to be refunded with proceeds of the Series C Bonds as described above under "PLAN OF FINANCE;" and
- (vi) any money provided by the Authority, if, in the opinion of nationally recognized bond counsel selected by the Authority, the redemption of the Series C Bonds, in whole or in part, is required to prevent interest on them from being included in the 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 Series C Bonds is or was included in gross income of their owners within the meaning of the applicable provisions of the Code (except for gross income on the Series C Bonds held by a “substantial user” or “related person” within the meaning of the applicable provisions 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 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 under the APPENDIX F – “FINANCED DEVELOPMENTS.” 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 Series C 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 March 31, 2013, Loans in the aggregate outstanding principal amount of \$78,066,952 were past their respective earliest optional prepayment dates, and, accordingly, may be prepaid at any time without the consent of the Authority. For more information regarding the Loans, see APPENDIX F – “FINANCED DEVELOPMENTS.” Any prepayments may result in the special redemption of the Series C 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 Series C 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 APPENDIX F – “FINANCED DEVELOPMENTS”) are less than the stated maturities of many of the Bonds, including the Series C Bonds. Accordingly, the assumptions upon which the maturity and Sinking Fund Installments of the Series C 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 SERIES C BONDS – Redemption – *Special Redemption of the Series C Bonds*,” Loan Prepayments, Acquired Bonds Redemption Receipts, Recovery Payments, and surplus Revenues may be used to redeem Series C Bonds. Consequently, to the extent such monies are so used to redeem Series C Bonds, the average life of a Series C Bond may be significantly shorter than its stated maturity.

### ***General Redemption Provisions***

*Series C Bonds Held in Book-Entry Only System.* As long as the Series C 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. Such 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 Series C 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 Series C Bonds.**

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

*Series C Bonds Not Held in Book-Entry Only System.* If the Series C 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 Series C 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

Series C 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 Series C Bonds then Outstanding are called for redemption, the series or subseries, the maturities and the distinctive numbers, if any, of such Series C Bonds to be redeemed and, in the case of Series C 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 Series C 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 Series C 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 Series C Bond is to be redeemed in part only, the notice of redemption which relates to such Series C Bond will state also that on or after the redemption date, upon surrender of such Series C Bond, a new Series C Bond of the same maturity and series, bearing interest at the same rate and in principal amount equal to the unredeemed portion of such Series C 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 Series C Bonds or portions of Series C Bonds to be redeemed, the Series C Bonds or portions of Series C Bonds so called for redemption will become and be due and payable at their Redemption Price, such Series C Bonds or portions of Series C Bonds will cease to be Outstanding, interest on the Series C Bonds or portions of Series C Bonds so called for redemption will cease to accrue, such Series C Bonds or portions of Series C Bonds will cease to be entitled to any benefit or security under the Indenture and the Owners of such Series C Bonds or portions of Series C Bonds will have no other rights except to receive payment of the Redemption Price and the accrued interest on such Series C Bonds to the date of redemption and, to the extent applicable, to receive Series C Bonds for any unredeemed portion of Series C Bonds.

If less than all of the Series C 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 Series C 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 Series C Bonds to be redeemed by lot or in such other manner as it in its discretion may determine. The portion of Series C Bonds of any Series (and subseries, if applicable) to be redeemed will be in the minimum Authorized Denomination, and in selecting Series C Bonds for redemption, the Trustee (or Master Paying Agent, if one is appointed and serving) will treat each Series C Bond as representing that number of Series C Bonds which is obtained by dividing the principal amount of such Series C Bond by such minimum Authorized Denomination.

If less than all of the Outstanding Series C 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 Series C 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 Series C 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 Series C Bonds for that selection to be made.

If part but not all of an Outstanding Series C Bond is selected for redemption, the Owner of such Series C Bond or the Owner's agent or legal representative will present and surrender such Series C 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 will execute and the Trustee (or Master Paying Agent, if one is appointed and serving) will authenticate and deliver to or upon the order of such Owner or his legal representative, without charge, a new Series C Bond for the unredeemed portion of the principal amount of the Series C Bond so surrendered. The new Series C Bond will be issued in any Authorized Denomination at the option of such Owner or the Owner's agent, will be of the same maturity and series, will bear interest at the same rate and will otherwise be of same tenor as the Series C 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 Series C 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 The Bank of New York Mellon Trust Company, N.A. 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 Series C Bonds will be performed by the Master Paying Agent.

The Bank of New York Mellon Trust Company, N.A., Chicago, Illinois, serves as Trustee under the Indenture.

The Indenture provides for the Trustee to perform certain duties with respect to the Series C 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 Series C Bonds will run solely to DTC or its nominee as the registered owner of the Series C Bonds, except in connection with certain notices of default and redemption.

### **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 Underwriter believe to be reliable, but neither the Authority nor the Underwriter take any responsibility for the accuracy or completeness thereof*

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Series C Bonds (for purposes of this section, the "Securities"). The Securities 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 Security certificate will be issued for each maturity of the Securities of each Series, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest securities 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 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("DTC Direct Participants") deposit with DTC. DTC also facilitates the post trade settlement among DTC Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book entry transfers and pledges between DTC Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. DTC Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a DTC Direct Participant, either directly or indirectly ("DTC Indirect Participants"). DTC has a Standard & Poor's rating of "AA+." The DTC rules applicable to its Participants are on

file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

Purchases of Bonds under the DTC system must be made by or through DTC 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 DTC 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 DTC Direct Participants or DTC 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 DTC Direct Participants and DTC Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by DTC 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 DTC Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The DTC Direct Participants and DTC Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers. So long as Cede & Co., as nominee for DTC, is the owner of the Bonds, the Authority shall treat Cede & Co. as the only owner of the Bonds for all purposes under the Indenture, including receipt of all principal of, premium, if any, and interest on the Bonds and receipt of notices.

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

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a DTC Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those DTC 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 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 DTC Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the Authority or the Trustee, on the 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 payments 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 DTC Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of DTC Direct Participant and DTC Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the Authority or the Trustee. The Authority may also determine that DTC is incapable of discharging its duties or that continuation of the book entry system is not in the best interests of the Beneficial Owners. In either situation, if the Authority fails to identify a successor securities depository, Bond certificates are required to be printed and delivered.

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

*None of the Trustee, the Master Paying Agent or the Authority has any responsibility or obligations to the DTC Direct Participants, the DTC Indirect Participants or the Beneficial Owners with respect to (a) the accuracy of any records maintained by DTC or any DTC Direct Participant or DTC Indirect Participant; (b) the payment by DTC of any amount due to any DTC Direct Participant or the payment by any DTC Direct Participant or DTC Indirect Participant of any amount due to any Beneficial Owner in respect of the principal of and premium, if any, and interest on the Bonds; (c) the delivery or timeliness of delivery by DTC of any notice to any DTC Direct Participant or the delivery or timeliness of delivery by any DTC Direct Participant or DTC Indirect Participant of any notice to any Beneficial Owner which is required or permitted under the terms of the Indenture to be given to owners of the Bonds; or (d) any consent given or other action taken by DTC, or its nominee, Cede & Co., as registered owner. The Beneficial Owners of the Bonds will rely on DTC Direct Participants and DTC Indirect Participants for timely payments and other notices and for otherwise making available to the Beneficial Owner the rights of a Bondholder. No assurances can be provided that, in the event of bankruptcy or insolvency of DTC, a DTC Direct Participant or a DTC Indirect Participant through which a Beneficial Owner holds beneficial interests in the Bonds, payments will be made by DTC, the DTC Direct Participant or a DTC Indirect Participant on a timely basis.*

## **FINANCED DEVELOPMENTS**

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. As of March 31, 2013, there are 82 Financed Developments financed under the Indenture. A schedule of the Financed Developments is set forth in APPENDIX F – FINANCED DEVELOPMENTS.” The New Loan described under “PLAN OF FINANCE,” will be pledged under the Indenture as a Loan, and the related development will continue to be a Financed Development under the Indenture.

## 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 from HUD under Section 8 of 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 (AUDITED) – Note 5 – Program Loans Receivable,” “– Note 8 – Bonds and Notes Payable,” “– Note 11 – Other Liabilities” and “– Note 15 – Subsequent Events” attached as APPENDIX A and for a description of the Section 8 Program, see APPENDIX B

***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.

***Multifamily Initiative Bonds.*** The Authority issued \$184,040,000 of its Multifamily Initiative Bonds in December 2009 as part of the U.S. Treasury Multifamily New Issue Bond Program. Bonds issued and converted to fixed rate long term bonds under this program were used to finance new mortgage loans for multi-family developments. The bonds issued under this program are not general obligations of the Authority and are not subject to the relevant provisions of Section 26.1 of the Act. As of May 31, 2012, the Authority converted and re-designated 100% of its Multifamily New Issue Bond Program allocation for new multi-family financings. The New Issue Bond Program terminated on December 31, 2012; as such, no additional bonds are expected to be issued under it in the future.

***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 an agreement under which Ambac and the Authority will share the risk of loss on the remaining principal balance. The Authority does not plan to make 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 (AUDITED) – Note 8 – 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 (AUDITED) – Note 5 – Program Loans Receivable,” “– Note 8 – Bonds and Notes Payable,” “– Note 11 – Other Liabilities” and “– Note 15 – 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.

***Stand Alone Financings.*** The Authority issues special limited obligation bonds from time to time to finance mortgage-backed securities backed by eligible borrowers for qualified dwellings. These bonds are not general obligations of the Authority or 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 The Bank of New York Trust Company, N.A.

“*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 then 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.

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

“*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) any 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. Liquidity Provider 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.

### **Pledge and Assignment of Additional Assets**

Upon written direction of the Authority to the Trustee, the Authority may deposit with the Trustee, from time to time and at any time, and subject to the pledge and lien of the Indenture, additional unencumbered assets of the Authority in the form of cash and/or mortgage loans. The Authority may also confirm any prior transfer of unencumbered assets of the Authority in the form of cash and/or mortgage loans as being subject to the provisions of the Indenture. All mortgage loans transferred to the Trustee as described in this paragraph, constitute “Loans” under the Indenture, and all proceeds of such Loans constitute “Revenues” under the Indenture.

Any cash so deposited will be held by the Trustee in a separate and segregated account of the Revenue Fund, entitled “Transferred Cash Component Account” and will, while so held, be available to the Authority for lending in accordance with the provisions of the Act. The Transferred Cash Component Account of the Revenue Fund is subject to the pledge, assignment, lien and security interest created by the Indenture. In addition to being available to the Authority for the purposes of making mortgage loans under the Act, the Authority may direct the Trustee, from time to time and at any time, to transfer all or any portion of the amount on deposit in the Transferred Cash Component Account to any other Fund or Account under the Indenture.

The amount on deposit to the credit of the “Transferred Cash Component Account” may also be applied by the Authority to the making of new mortgage loans, the acquisition of existing mortgage loans, the refunding of outstanding bonds of the Authority for the purpose of causing the transfer of existing mortgage loans and other assets (including related reserve funds and surplus cash equity) held as security for such bonds, and/or the payment of costs of issuing Bonds (and capitalized interest thereon) utilized by the Authority in effecting the foregoing purposes, all in accordance with the provisions of the Act. All mortgage loans originated from the amount on deposit in the Transferred Cash Component Account, as provided above, constitute “Loans” under the Indenture, and all proceeds of such Loans constitute “Revenues” under the Indenture.

“Assigned Loans” means Loans held under Section 12.10 of the Indenture (the “12.10 Loans”) the cash flow of which has been allocated to Bonds pursuant to a Supplemental Indenture, and “Unassigned Loans” means 12.10 Loans the cash flow of which has not been allocated to Bonds pursuant to a Supplemental Indenture. The Authority may assign Unassigned

Loans to specific series of Bonds, even though such Loans shall remain as collateral for all Bonds issued under the Indenture.

The Authority may issue Bonds to (i) securitize any Unassigned Loans (ii) reimburse the Transferred Cash Component Account for moneys expended in making or acquiring Loans, or (iii) increase the liquidity of the Transferred Cash Component Account.

### **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; and

*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 provide 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.

### **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 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.

## **TAX MATTERS**

### **Summary of Bond Counsel Opinion**

In the opinion of Kutak Rock LLP, Bond Counsel, under existing laws, regulations, rulings and judicial decisions and assuming the accuracy of certain representations and continuing compliance with certain covenants, interest on the Series C Bonds is excludable from



gross income for federal income tax purposes pursuant to Section 103 of the 1986 Code, except for interest on any Series C Bond for any period during which such Series C Bond is held by a “substantial user” of the facilities refinanced by the Series C Bonds or a “related person” within the meaning of the Code. Bond Counsel is further of the opinion that interest on the Series C Bonds is a specific preference item for purposes of the federal alternative minimum tax. The opinion described in the preceding sentence assumes the accuracy of certain representations and compliance by the Authority with covenants designed to satisfy the requirements of the Code that must be met subsequent to the issuance of the Series C Bonds. Failure to comply with such requirements could cause interest on the Series C Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Series C Bonds. The Authority has covenanted to comply with such requirements. Bond Counsel has expressed no opinion regarding other federal tax consequences arising with respect to the Series C Bonds.

The Series C Bonds are subject to requirements of the 1986 Code that the facilities financed with the proceeds of such Bonds must be used as “residential rental projects” for the “qualified project period.” In order to qualify as “residential rental projects” at least 20 percent of the residential units in the development must be occupied by individuals whose income is 50 percent or less of median gross income, or 40 percent of the residential units by individuals with incomes of 60 percent or less of median gross income. The Code requires that the income of individuals and area median gross income must be determined by the Secretary of the Treasury in a manner consistent with determinations of lower-income families and median gross income under Section 8 of the Housing Act. These income determinations are required to include adjustments for family size. The “qualified project period” is defined as that period of time beginning on the first day on which at least ten percent of the units in the project are occupied and ending on the latest of (a) the date which is 15 years after the date on which at least 50 percent of the units in the project that are provided with the proceeds of the issue are first occupied, (b) the first day on which no tax-exempt bond issue with respect to the project is outstanding, or (c) the date on which any assistance provided with respect to the project under Section 8 of the Housing Act terminates.

The accrual or receipt of interest on the Series C Bonds may otherwise affect the federal income tax liability of the owners of the Series C Bonds. The extent of these other tax consequences will depend upon such owner’s particular tax status and other items of income or deduction. Bond Counsel has expressed no opinion regarding any such consequences. Purchasers of the Series C Bonds, particularly purchasers that are corporations (including S corporations and foreign corporations operating branches in the United States), property or casualty insurance companies, banks, thrifts or other financial institutions, certain recipients of social security or railroad retirement benefits, taxpayers otherwise entitled to claim the earned income credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, should consult their tax advisors as to the tax consequences of purchasing or owning the Series C Bonds.

## **Backup Withholding**

As a result of the enactment of the Tax Increase Prevention and Reconciliation Act of 2005, interest on tax-exempt obligations such as the Series C Bonds is subject to information reporting in a manner similar to interest paid on taxable obligations. Backup withholding may be

imposed on payments made to any bondholder who fails to provide certain required information including an accurate taxpayer identification number to any person required to collect such information pursuant to Section 6049 of the Code. The new reporting requirement does not in and of itself affect or alter the excludability of interest on the Series C Bonds from gross income for federal income tax purposes or any other federal tax consequence of purchasing, holding or selling tax-exempt obligations.

### **Changes in Federal and State Tax Law**

From time to time, there are legislative proposals in the Congress and in the states that, if enacted, could alter or amend the federal and state tax matters referred to above or adversely affect the market value of the Series C Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether if enacted it would apply to bonds issued prior to enactment. In addition, regulatory actions are from time to time announced or proposed and litigation is threatened or commenced which, if implemented or concluded in a particular manner, could adversely affect the market value of the Series C Bonds. It cannot be predicted whether any such regulatory action will be implemented, how any particular litigation or judicial action will be resolved, or whether the Series C Bonds or the market value thereof would be impacted thereby. Purchasers of the Series C Bonds should consult their tax advisors regarding any pending or proposed legislation, regulatory initiatives or litigation. The opinions expressed by Bond Counsel are based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of issuance and delivery of the Series C Bonds and Bond Counsel has expressed no opinion as of any date subsequent thereto or with respect to any pending legislation, regulatory initiatives or litigation.

### **Illinois Taxes**

Under the Illinois Housing Development Act, in its present form, income from the Series C Bonds is exempt from all taxes of the State of Illinois or its political subdivisions, except for estate, transfer and inheritance taxes. The Series C Bonds and the income therefrom may be subject to taxation under the laws of the states other than the State of Illinois.

## **LEGAL MATTERS**

The approving opinion of Kutak Rock LLP, Chicago, Illinois, Bond Counsel, will be delivered with the Series C Bonds. The proposed form of that opinion is included in this Official Statement as APPENDIX E. Certain legal matters will be passed upon for the Authority by its General Counsel, Maureen G. Ohle, Esq., by its counsel, Schiff Hardin LLP, Chicago, Illinois, and by its special counsel, Holland & Knight, LLP, Chicago, Illinois, and for the Underwriter by its counsel, Burke Burns & Pinelli, 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 Series C Bonds or which in any way contests the validity of the Series C 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 Series C 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 Series C Bonds, of the Authority.

## **LEGALITY FOR INVESTMENT**

Under the Act, the Series C 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 Series C Bonds and may also contain limitations which permit purchases of the Series C Bonds only with specified percentages of their assets.

## **RATINGS**

The Series C Bonds have received long-term ratings of “AA” from Standard & Poor’s Rating Services, a division of The McGraw-Hill Companies, Inc. (“S&P”), and “Aa3” from Moody’s Investors Service, Inc. (“Moody’s”). Ratings assigned to the Series C 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 Series C 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 Series C Bonds.

## **UNDERWRITING**

The Series C Bonds are being purchased by Underwriter listed on the cover page of this Official Statement (the “Underwriter”) at a purchase price (expressed as a percentage of the aggregate initial principal amount of the Series C Bonds) of 100 percent pursuant to the terms of a purchase contract that the Underwriter expects to enter into with the Authority. The Underwriter will receive a fee of \$46,863.02 (which includes reimbursement of expenses and are being paid for by the Underwriter) in connection with the sale of the Series C Bonds, to be paid by the Authority. The Underwriter may offer and sell the Series C Bonds offered to the public to

certain dealers (including dealers depositing the Series C 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, 2012, included in APPENDIX A, have been audited by McGladrey LLP, independent auditors, to the extent and for the period indicated in their report, which is also included in APPENDIX A. McGladrey LLP has not been engaged to perform, and has not performed, since the date of its report included in APPENDIX A, any procedures on the financial statements addressed in that report. McGladrey LLP also has not performed any procedures relating to this Official Statement.

## **FINANCIAL MANAGEMENT POLICY**

The Authority's management of funds under its control is governed by the Act and the Authority's Financial 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 Financial Management Policy (the "Financial Management Policy"), contains the following stated objectives:

- Safety of principal. Preservation and safety of principal is the foremost objective of the Authority's investments. 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. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demand.
- 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 Financial Management Policy establishes guidelines for the use and management of all interest rate risk management agreements including, but not limited to, interest rate swaps, swaptions, caps, collars and floors (collectively, "Risk Management Agreements") executed in connection with debt obligations.

For additional information regarding the Authority's investments as of June 30, 2012, see "AUTHORITY ANNUAL FINANCIAL STATEMENTS (AUDITED) – Note 3 – Cash and Investments" attached as APPENDIX A.

## CONTINUING DISCLOSURE

*Undertaking.* The Authority undertakes to make all required filings and reports so that all requirements of Rule 15c2-12(b)(5) (the "Rule") of the United States Securities and Exchange Commission (the "SEC"), as amended from time to time, applicable to the Authority are met with respect to the Bonds. The Authority will enter into a Continuing Disclosure Undertaking to regulate its compliance with the Rule. The following information summarizes the obligations of the Authority under said Continuing Disclosure Undertaking.

*Annual Financial Information.* Each year the Authority will provide annual financial information concerning the Series C Bonds to the Municipal Securities Rulemaking Board ("MSRB") through its Electronic Municipal Market Access System ("EMMA") or through such other electronic format or system prescribed by the MSRB or the SEC for purposes of the Rule. The annual financial information will include the Authority's audited financial statements, prepared in accordance with generally accepted accounting principles as in effect from time to time and an update of the information contained in APPENDIX F to this Official Statement. The annual financial information will be provided as soon as possible after completion of the Authority's audited financial statements, beginning with the fiscal year ending June 30, 2013. Copies of the annual financial information will also be made available to any beneficial or registered owner of the Series C Bonds upon request.

The annual financial information may include any or all information by incorporating, by specific reference, other documents which have been provided to EMMA. If the incorporated information is in an Official Statement, it must be available from the MSRB. The annual financial information will include a notice of any change in the Authority's fiscal year.

*Reporting Significant Events.* Upon the occurrence of any of the following events with respect to the Series C Bonds, the Authority will report the event to EMMA in a timely manner and in any event within ten (10) business days of the occurrence of such event:

- (i) principal and interest payment delinquencies;
- (ii) non-payment related defaults, if material;
- (iii) unscheduled draws on debt service reserves reflecting financial difficulties;
- (iv) unscheduled draws on credit enhancements (if any are subsequently provided) reflecting financial difficulties;
- (v) substitution of credit or liquidity providers (if any such enhancement is subsequently provided) or their failure to perform;

- (vi) if applicable, adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;
- (vii) modifications to rights of Owners of the Bonds, if material;
- (viii) bond calls, if material, and tender offers;
- (ix) defeasances;
- (x) release, substitution, or sale of property securing repayment of the Bonds, if material;
- (xi) rating changes;
- (xii) bankruptcy, insolvency, receivership or similar event of the Authority;
- (xiii) the consummation of a merger, consolidation, or acquisition involving the Authority or the sale of all or substantially all of the assets of the Authority, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to such actions, other than pursuant to its terms, if material; and
- (xiv) the appointment of a successor or additional trustee or the change of the name of a trustee, if material.

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 and to EMMA of any failure to timely provide the annual financial information as provided in the continuing disclosure undertaking.

*Enforcement.* The agreements of the Authority in the Continuing Disclosure Undertaking are a contract between the Authority and the beneficial and registered owners from time to time of the Series C Bonds. Such agreements may be enforced by any beneficial or registered owner of the Series C Bonds. The sole remedy with respect to the Authority's compliance with its undertaking will be to require compliance. The Continuing Disclosure Undertaking is solely for the benefit of the beneficial or registered owners of the Series C Bonds from time to time, and will create no right in anyone else. The Trustee has no powers or duties under the Continuing Disclosure Undertaking. No violation by the Authority of any provision described in the Continuing Disclosure Undertaking will constitute any Event of Default or a default under the Indenture or under the Act.

*Termination.* The obligation of the Authority under the Continuing Disclosure Undertaking will end upon the Series C Bonds being paid or treated as paid as provided in the Indenture, except for the obligations to give notice under clauses (vi) or (viii) above under the caption "*Reporting Significant Events.*"

*Amendment.* The Authority may by resolution amend the Continuing Disclosure Undertaking at any time to the extent and in the manner allowed by the Rule, as amended from time to time, *provided* that the Authority's agreements under the Continuing Disclosure Undertaking, as amended, continue to comply with the Rule. Any amendment will be effective upon receipt by the Authority of an opinion to that effect delivered by counsel with significant federal securities law expertise as selected by the Authority. Any amendment must be described in the Authority's next annual financial information disclosure provided to EMMA and the Trustee.

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## 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 700, 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 Series C Bonds. The execution and distribution of this Official Statement have been duly authorized by the Authority.

## ILLINOIS HOUSING DEVELOPMENT AUTHORITY

/s/ Mary R. Kenney

Executive Director



## **APPENDIX A**

### **AUTHORITY ANNUAL FINANCIAL STATEMENTS (AUDITED)**

*The financial statements of the Authority as of and for the year ended June 30, 2012, included in this Appendix A, have been audited by McGladrey LLP, independent auditors, to the extent and for the period indicated in their report, which is also included in this Appendix A. McGladrey LLP has not been engaged to perform, and has not performed, since the date of its report included in this Appendix A, any procedures on the financial statements addressed in that report. McGladrey LLP also has not performed any procedures relating to this Official Statement.*

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

Financial Statements

June 30, 2012

(With Independent Auditors' Report Thereon)

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

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The single audit report will be issued under separate cover.

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

Agency Officials

Executive Director  
Assistant Executive Director/Chief of Staff  
Acting General Counsel  
General Counsel  
Chief Financial Officer  
Controller

Mary R. Kenney  
Bryan E. Zises  
Kristi S. Poskus  
Maureen G. Ohle  
Hazim Taib  
Michele Williams

10/15/2010 – 7/31/2011  
8/1/2011 – Current

Agency Officials are located at:

401 North Michigan Avenue, Suite 700  
Chicago, Illinois 60611



## Independent Auditor's Report

The Honorable William G. Holland, Auditor  
General of the State of Illinois, and the Members of the Board 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, each major fund, and the aggregate remaining fund information 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, 2012, which collectively comprise the Authority's basic financial statements as listed in the accompanying 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, each major fund, and the aggregate remaining fund information of the Authority as of June 30, 2012, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4-12, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The accompanying combining and individual fund schedules are presented for additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

*McGladrey LLP*

Chicago, Illinois  
December 13, 2012



## ILLINOIS HOUSING DEVELOPMENT AUTHORITY

(A Component Unit of the State of Illinois)

Management's Discussion and Analysis

June 30, 2012

(Unaudited)

This section of the Illinois Housing Development Authority's (the 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, 2012. Please read it in conjunction with the Authority's financial statements, which follow this section.

### Financial Highlights

- Net assets of the Authority increased \$120.5 million, to \$832.7 million as of June 30, 2012, from an increase in the Authority's business-type (\$22.1 million) and governmental (\$98.4 million) activities.
- The increase in net assets, after transfers, of the Authority's business-type activities increased \$0.2 million from the prior year primarily due to lower interest expense by \$3.2 million, and lower salaries and benefits by \$1.5 million, partially offset by higher service fees (\$3.5 million), higher investment income (\$11.3 million, primarily from higher investment yields on Mortgage Backed Securities ("MBS") and gains from the sale of MBS), a decline in interest earned on program loans (\$7.8 million), and increases in the estimated losses on program loans (\$16.7 million).
- Authority debt issuances during fiscal year 2012 totaled \$217 million. The Authority's debt outstanding (net of discounts and premiums) of \$1,511.4 million as of June 30, 2012 was \$57.1 million below the amount outstanding as of June 30, 2011.
- With the cost of borrowing remaining high due to weakness in the economy, the United States Department of the Treasury ("Treasury") initiated a program ("Treasury Program") whereby the Treasury through Fannie Mae and Freddie Mac will purchase bonds directly from Housing Finance Authorities and act as bondholders. In December 2009, the Authority participated in the Treasury Program by issuing \$184 million of Multifamily Initiative Bonds (the "Bonds") and \$200 million of Homeowner Mortgage Revenue Bonds ("HMRB") held in escrow until conversion to long term fixed rate bonds and will be used to fund loans within the Mortgage Loan Fund and Single Family Loan Fund, respectively. The Treasury Program also required the Authority to convert all funds in escrow before December 31, 2010. Any funds remaining in escrow on December 31, 2010 are subject to a mandatory tender. On September 1, 2010, the Treasury amended the program by extending it from December 31, 2010 to December 31, 2011. In December 2011, the Treasury extended the program again to December 31, 2012, providing the Authority the ability to convert three additional times (nine in aggregate) to long term fixed rate bonds. The Authority converted all Multifamily Initiative Bonds by June 30, 2012.
- Loan originations for the year totaled \$33.1 million and \$40.7 million in the Authority's governmental and business-type activities, respectively, compared to fiscal year 2011 loan originations of \$67.9 million and \$37.0 million, respectively. The Authority has continued to add whole loans to its Single Family Program Fund during fiscal year 2012 by investing in Government National Mortgage Association ("GNMA") certificates and Fannie Mae ("FNMA") Mortgage Backed Securities ("MBS") secured with Illinois whole loans, including the issuance of \$67.6 million in Housing Revenue Bonds under the Single Family Program.
- During fiscal year 2012 the Authority has continued to address foreclosure issues throughout the State of Illinois through continued implementation of the Hardest Hit Fund Program ("HHF"). The Authority approved and disbursed \$32.9 million in direct mortgage payment assistance that helped 2,813 households avoid foreclosure on their homes.
- During fiscal year 2012 the Authority met the program guidelines within the Federal ARRA Fund pursuant to Section 1602 and the Tax Credit Assistance Program ("TCAP") by awarding and disbursing grants or loans to sub-grantees for the development of low income housing.

## **ILLINOIS HOUSING DEVELOPMENT AUTHORITY**

(A Component Unit of the State of Illinois)

Management's Discussion and Analysis

June 30, 2012

(Unaudited)

### **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 government-wide financial statements that provide information about the Authority's overall financial position and operations. These statements, which are presented on the 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 seven governmental funds, for which activities are funded from State appropriation (grants), HUD and U.S. Treasury Programs, and which the Authority follows the modified accrual basis of accounting, and four proprietary funds, which operate similar to business activities and for which the Authority follows the accrual basis of accounting.
- The basic financial statements also include notes to the financial statements that explain some of the information in the government-wide and fund financial statements and provide 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.

The government-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.

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 seven governmental funds. The Authority is the administrator of these funds, the revenues of which are appropriated annually to the Illinois Department of Revenue except for revenues received directly from HUD and the U.S. Treasury 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 four enterprise funds, which activities are accounted for in a manner similar to businesses operating in the private 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. Funding from Illinois Housing Authority, LLC (the LLC) is primarily rental incomes collected by the property until such time as disposition occurs. The net assets of these funds represent accumulated earnings since their inception and are generally restricted for program purposes.

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### Financial Analysis of the Authority as a Whole

**Net Assets** – The combined net assets of the Authority increased by \$120.5 million or 16.9% from the June 30, 2011 amount. The following table shows a summary of changes from prior year amounts.

	<b>Net Assets</b>							
	(In millions of dollars)							
	<b>Governmental activities</b>		<b>Business-type activities</b>		<b>Total</b>		<b>Inc./(Dec.)</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>	<b>Amount</b>	<b>%</b>
<b>Current assets:</b>								
Cash and investments – unrestricted	\$ 142.3	\$ 62.7	\$ 341.6	\$ 277.1	\$ 483.9	\$ 339.8	\$ 144.1	42.4 %
Program loans receivable	8.1	7.1	41.5	44.6	49.6	51.7	(2.1)	(4.1)
Other current assets	(2.0)	(1.0)	10.6	8.4	8.6	7.4	1.2	16.2
<b>Total current assets</b>	<b>148.4</b>	<b>68.8</b>	<b>393.7</b>	<b>330.1</b>	<b>542.1</b>	<b>398.9</b>	<b>143.2</b>	<b>35.9</b>
Investments – restricted	-	-	575.1	673.4	575.1	673.4	(98.3)	(14.6)
Net program loans receivable	598.7	579.2	1,048.5	1,149.4	1,647.2	1,728.6	(81.4)	(4.7)
Capital assets, net	0.1	0.1	30.2	27.1	30.3	27.2	3.1	11.4
Other assets	0.1	0.8	130.3	30.3	130.4	31.1	99.3	319.3
<b>Total assets</b>	<b>747.3</b>	<b>648.9</b>	<b>2,177.8</b>	<b>2,210.3</b>	<b>2,925.1</b>	<b>2,859.2</b>	<b>65.9</b>	<b>2.3</b>
<b>Current liabilities:</b>								
Due to State of Illinois	20.5	24.0	-	-	20.5	24.0	(3.5)	(14.6)
Bonds and notes payable	-	-	243.2	352.2	243.2	352.2	(109.0)	(30.9)
Deposits held in escrow	-	-	174.9	170.2	174.9	170.2	4.7	2.8
Other current liabilities	37.5	32.5	42.3	45.0	79.8	77.5	2.3	3.0
<b>Total current liabilities</b>	<b>58.0</b>	<b>56.5</b>	<b>460.4</b>	<b>567.4</b>	<b>518.4</b>	<b>623.9</b>	<b>(105.5)</b>	<b>(16.9)</b>
<b>Noncurrent liabilities</b>								
Due to State of Illinois	302.4	303.9	-	-	302.4	303.9	(1.5)	(0.5)
Bonds and notes payable	-	-	1,268.2	1,216.3	1,268.2	1,216.3	51.9	4.3
Other liabilities	-	-	3.4	3.0	3.4	3.0	0.4	13.3
<b>Total noncurrent liabilities</b>	<b>302.4</b>	<b>303.9</b>	<b>1,271.6</b>	<b>1,219.3</b>	<b>1,574.0</b>	<b>1,523.2</b>	<b>50.8</b>	<b>3.3</b>
<b>Total liabilities</b>	<b>360.4</b>	<b>360.4</b>	<b>1,732.0</b>	<b>1,786.7</b>	<b>2,092.4</b>	<b>2,147.1</b>	<b>(54.7)</b>	<b>(2.5)</b>
<b>Net assets:</b>								
Invested in capital assets, net of related debt	0.1	-	(6.6)	(7.5)	(6.5)	(7.5)	1.0	(13.3)
Restricted	386.8	288.5	350.3	345.4	737.1	633.9	103.2	16.3
Unrestricted	-	-	102.1	85.8	102.1	85.8	16.3	19.0
<b>Total net assets</b>	<b>\$ 386.9</b>	<b>\$ 288.5</b>	<b>\$ 445.8</b>	<b>\$ 423.7</b>	<b>\$ 832.7</b>	<b>\$ 712.2</b>	<b>\$ 120.5</b>	<b>16.9 %</b>

### Governmental Activities

Net assets of the Authority's governmental activities increased \$98.4 million, or 34.1%, to \$386.9 million from increases in the Federal HOME program due to the conversion of grant revenues to program loans receivable and grant receipts in the Hardest Hit Fund ("HHF") program, Build Illinois Bond ("BIB") Program and Nonmajor Governmental Programs. No net assets of the Authority's other two governmental activities are recorded on the Authority's financial statements. The equity of the Illinois Affordable Housing Trust Fund (Housing Program) is recorded as due to the State of Illinois. All revenues of the Rental Housing Support Program are ultimately disbursed as grant or administrative expenses, and therefore no equity is recorded on the Authority's financial statements.

Total program loans receivable (current and non-current), increased by \$20.5 million, or 3.5%, to \$606.8 million primarily due to the Federal HOME program. Cash and investments increased by \$79.6 million, or 127% due primarily to increased HHF & BIB program revenues. State statute and federal regulations restrict the use of the governmental funds to program activities.

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Due to the State of Illinois (current and non-current) decreased \$5.0 million. This item reflects a liability for the State of Illinois' interest in the equity of the Housing Program as the Authority acts only as the administrator of the Housing Program and accounts for the interest in the equity to be that of the State of Illinois.

### **Business-type Activities**

Net assets of the Authority's business-type activities increased \$22.1 million, to \$445.8 million consisting of an increase in net assets before transfers and special items of \$10.6 million, the annual transfer of \$5.2 million from the Affordable Housing Trust Fund, and the \$6.3 special item relating to the transfer of foreclosed property to Illinois Housing Authority, LLC. Program loans receivable (current and non-current) decreased \$104.0 million, or 8.7%, to \$1,090 million primarily from decreases in the Authority's Single Family Program Fund (\$91.4 million), Mortgage Loan Program Funds (\$11.4 million) and the Administrative Fund (\$1.2 million). The decrease in program loans receivable in the Single Family Program was due to Illinois whole loans being packaged into GNMA certificates and FNMA MBS.

Cash and investments (current and noncurrent) decreased \$33.8 million, or 3.6% from decreases in the Mortgage Loan Programs (\$115.8 million) partially offset by increases in the Administrative Fund (\$36.0 million) due to gains from the sale of MBS and more investments in MBS resulting in higher investment income, increases in the Single Family Program Funds (\$4.2 million) and Illinois Housing Authority LLC (\$1.1 million).

Total bonds and notes payable (current and noncurrent) decreased \$57.1 million, or 3.6%, from decreases of \$45.1 million in the Mortgage Loan Program Fund and \$31.8 million in the Single Family Program Fund, partially offset by an increase in the Administrative Fund (\$19.8 million).

Deposits held in escrow increased \$4.7 million, or 2.7% due to additions in funding levels related to the implementation of programs within the Federal ARRA Fund and Treasury Program.

Restricted net assets of the Authority's business-type activities increased \$4.9 million, or 1.4%, of which \$2.5 million were from increases within the Authority's bond funds. Except for net assets invested in capital assets within the Mortgage Loan Program (\$6.8 million deficit) and the net assets (\$8.2 million deficit) of the Multifamily Housing Revenue Bonds (Marywood) and Multifamily Bonds (Turnberry), which are classified as unrestricted, all net assets of the Authority's bond funds 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.

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**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. Six programs, the Illinois Affordable Housing Trust Fund, the HOME Program, the Rental Housing Support Program, the ARRA Fund, the Hardest Hit Fund Program and the Build Illinois Bond Program are shown as major governmental activities while the non-major governmental activities include the Neighborhood Stabilization Program, the Foreclosure Prevention Program and the Community Development Block Grant Fund. The business-type activities consist of 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), the LLC which maintains and operates rental properties until such time as disposition occurs, 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, and FAF lending programs, both of which activities are recorded in the Authority's Administrative Fund.

A condensed summary of changes in net assets for the fiscal year ended June 30, 2012 is shown in the following table.

**Changes in Net Assets**

(In millions of dollars)

	<b>Governmental activities</b>		<b>Business-type activities</b>		<b>Total</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
Revenues:						
Program revenues:						
Charges for services	\$ 6.5	\$ 2.2	\$ 102.7	\$ 93.9	\$ 109.2	\$ 96.1
Operating/grant/federal revenues	269.6	302.9	143.0	141.9	412.6	444.8
General revenues:						
Investment income	-	-	4.9	0.2	4.9	0.2
Total revenues	<u>276.1</u>	<u>305.1</u>	<u>250.6</u>	<u>236.0</u>	<u>526.7</u>	<u>541.1</u>
Expenses:						
Direct	172.5	233.6	228.6	206.3	401.1	439.9
Administrative	-	-	11.4	13.0	11.4	13.0
Total expenses	<u>172.5</u>	<u>233.6</u>	<u>240.0</u>	<u>219.3</u>	<u>412.5</u>	<u>452.9</u>
Increase in net assets before transfers and special item	103.6	71.5	10.6	16.7	114.2	88.2
Special item	-	-	6.3	-	6.3	-
Transfers	(5.2)	(5.2)	5.2	5.2	-	-
Increase in net assets	<u>\$ 98.4</u>	<u>\$ 66.3</u>	<u>\$ 22.1</u>	<u>\$ 21.9</u>	<u>\$ 120.5</u>	<u>\$ 88.2</u>

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### **Governmental Activities**

Revenues of the Authority's governmental activities decreased \$29.1 million from the prior year primarily due to lower revenues in Federal ARRA Fund (\$160.0 million) and in Nonmajor Governmental Funds (\$2.7 million), offset by increases in the Federal HOME Program (\$8.7 million), Hardest Hit Fund (\$76.8 million), Build Illinois Bond (\$34.2 million), Illinois Affordable Housing Trust Fund (\$2.9 million) and Rental Housing Support Program (\$11.0 million).

Direct expenses of the Authority's governmental activities decreased \$61.1 million from the prior year, primarily due to decreases within the Federal ARRA Fund (\$118.3 million) and Nonmajor Governmental Funds (\$5.7 million) partially offset by increases in the Rental Housing Support Program (\$11.0 million), the Illinois Affordable Housing Trust Fund (\$2.9 million), the HOME Program (\$2.8 million), the Hardest Hit Fund Program (\$40.8 million) and Build Illinois Bond Program (\$5.3 million). 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 increased \$14.6 million from the prior year from an increase in charges for services (\$8.8 million), unrestricted investment income (\$4.7 million) and federal assistance (\$1.1 million). Charges for services consist of interest income on program loans (\$56.9 million), program investment income (\$12.4 million), servicing and development fees (\$15.4 million), other income (\$16.3 million) and rental incomes and vacancies (\$1.7 million). 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. Such income increased by \$6.6 million from the prior year due primarily to higher investment yields.

Direct expenses of the Authority's business-type activities, which consist primarily of interest expense (\$57 million) on Authority debt incurred to fund its various lending programs and the pass-through of federal assistance programs' funds (\$140.6 million), increased \$22.3 million from the prior year, due mainly to increased estimated losses on program loans receivable (\$17.5 million), increases in program grants (\$4.7 million) and higher federal assistance (\$1.1 million), partially offset by lower interest expense (\$3.2 million) and lower salaries and benefits (\$1.5 million).

The Authority's business-type activities also generated \$4.9 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 \$17.8 million (See the Statement of Activities) and thus provided most of the Authority's increase in net assets.

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### Proprietary Fund Results

Net assets of the Authority's proprietary funds increased from the June 30, 2011 amount by \$22.1 million, to \$445.8 million. The following table summarizes the statement of revenues, expenses, and changes in fund net assets of the Authority's proprietary funds for the fiscal years ended June 30, 2012 and 2011.

Changes in Net Assets/Proprietary Funds								
(In millions of dollars)								
	Administrative Fund		Mortgage Loan Program Fund		Single Family Program Fund		Illinois Housing Authority, LLC	
	2012	2011	2012	2011	2012	2011	2012	2011
<b>Operating revenues:</b>								
Interest earned on program loans	\$ 3.9	\$ 4.1	\$ 26.5	\$ 27.6	\$ 26.5	\$ 33.0	\$ -	\$ -
Investment income	4.9	0.2	1.5	0.8	10.9	5.0	-	-
Federal assistance programs	136.7	135.9	3.9	3.6	-	-	-	-
Service fees	14.0	10.5	-	-	-	-	-	-
Development fees	1.4	0.8	-	-	-	-	-	-
HUD savings	2.5	2.6	-	-	-	-	-	-
Rental income and vacancies	-	-	-	-	-	-	1.7	-
Other	10.7	7.1	5.5	4.8	-	-	0.1	-
<b>Total operating revenues</b>	<b>174.1</b>	<b>161.2</b>	<b>37.4</b>	<b>36.8</b>	<b>37.4</b>	<b>38.0</b>	<b>1.8</b>	<b>-</b>
<b>Operating expenses:</b>								
Interest expense	0.2	0.1	24.4	25.0	32.4	35.1	-	-
Federal assistance programs	136.7	135.9	3.9	3.6	-	-	-	-
Salaries and benefits	13.5	15.2	-	-	-	-	0.3	-
Professional fees	0.5	0.8	-	-	-	-	-	-
Other general and administrative	2.7	2.6	0.3	0.2	1.3	1.1	0.4	-
Financing costs	0.3	0.3	0.7	0.7	2.3	0.7	-	-
Program grants	1.6	-	1.3	0.2	2.2	-	-	-
Change in accrual for estimated losses on mortgage participation certificate program	0.6	-	-	-	-	-	-	-
Provision for (reversal) of estimated losses on real estate held for sale	-	-	-	-	(0.8)	0.8	-	-
Provision for (reversal) of estimated losses on program loans receivable	2.2	(0.5)	1.9	(3.4)	10.4	0.9	-	-
Operating expenses	-	-	-	-	-	-	0.4	-
Taxes and insurance	-	-	-	-	-	-	0.3	-
<b>Total operating expenses</b>	<b>158.3</b>	<b>154.4</b>	<b>32.5</b>	<b>26.3</b>	<b>47.8</b>	<b>38.6</b>	<b>1.4</b>	<b>-</b>
<b>Operating income (loss)</b>	<b>15.8</b>	<b>6.8</b>	<b>4.9</b>	<b>10.5</b>	<b>(10.4)</b>	<b>(0.6)</b>	<b>0.4</b>	<b>-</b>
<b>Special item</b>								
Transfers	(0.9)	(0.5)	(1.1)	5.2	0.9	0.5	6.3	-
<b>Change in net assets</b>	<b>14.9</b>	<b>6.3</b>	<b>10.1</b>	<b>15.7</b>	<b>(9.5)</b>	<b>(0.1)</b>	<b>6.7</b>	<b>-</b>
Net assets at beginning of year	127.2	120.9	202.9	187.2	93.6	93.7	-	-
Net assets at end of year	\$ 142.1	\$ 127.2	\$ 213.0	\$ 202.9	\$ 84.1	\$ 93.6	\$ 6.7	\$ -

Net assets of the Administrative Fund increased \$14.9 million, compared to the prior year increase of \$6.3 million. Administrative Fund operating income was \$15.8 million, an increase of \$9.0 million from the prior year, and net operating transfers (out) were \$0.9 million compared to net transfers (out) of \$0.5 million in the prior year. The fiscal year 2012 increase in operating earnings was primarily from increases in investment income (\$4.7 million), service fees (\$3.5 million), and other income (\$3.6 million), offset by increased provisions for estimated losses on program loans receivable (\$2.7 million).

Net assets of the Mortgage Loan Program Fund increased \$10.1 million, compared to a prior year increase of \$15.7 million, due to operating income of \$4.9 million and net transfers in and special item of \$5.2 million. Operating income was \$5.6 million below the prior year, primarily due to higher provisions (\$5.3 million) for estimated losses on program loans receivable. The net transfer in represents the annual

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transfer (in) of \$5.2 million from the Illinois Affordable Housing Trust Fund. The special item (\$6.3 million) for the foreclosed property was equally offset by a transfer to the LLC.

Net assets of the Single Family Program Fund decreased \$9.5 million, compared to a prior year decrease of \$0.1 million. The operating loss was \$9.8 million higher than the prior year operating loss due to a \$6.5 million decrease in interest earned on program loans, higher operating expenses (\$3.4 million) and higher provisions (\$9.5 million) for estimated losses on program loans receivable, partially offset by a \$5.9 million increase in investment income and lower interest expense of \$2.7 million.

### **Authority Debt**

Authority debt issuances during fiscal year 2012 (which includes issuances under the Treasury Program) totaled \$216.9 million (net of discounts and premiums), with the issuance of Multifamily Initiative Bonds (\$121.5 million) within the Mortgage Loan Program Fund, Housing Revenue Bonds (\$67.6 million) within the Single Family Program Fund and Federal Home Loan Bank Advances (\$27.7 million) within the Administrative Fund. Debt retirements within the Mortgage Loan, Single Family Program and Administrative Funds were \$167.8 million, \$99.4 million and \$7.9 million, respectively. Total bonds and notes payable decreased \$57.1 million. For additional information, see Note 8, Bonds and Notes Payable in the Notes to Financial Statements.

During fiscal year 2012, the Authority's Issuer Credit Ratings remained at A1 (Stable) by Moody's Investors Service, A+ (Positive) by Standard and Poor's and AA- (Stable) by Fitch Ratings.

On August 5, 2011, Standard and Poor's downgraded the United States of America long term rating from AAA to AA+. The downgrade only impacted the Multifamily Initiative Bonds (the "Bonds") by reducing the rating on the Bonds from AAA to AA+ as its assets are primarily backed by the full faith and credit of the United States of America. The Authority believes the downgrade will not impact its rating and other bond programs as the ratings are based on the strength of various assets class and not relying solely on federal guarantees.

### **Economic Factors**

The current state of the financial market continues to cause difficulty for the Authority to issue bonds to traditional buyers as it is not economically feasible.

As such, the Authority has been utilizing the Treasury Program initiated by U.S. Treasury in December 2009. During fiscal year 2012, the Authority has issued seven multifamily bonds under the Treasury Program through Multifamily Initiative Bonds totaling \$121.5 million.

The Authority also targeted MBS investors to fund its homeownership program by issuing a single family bond under the Single Family Program totaling \$67.6 million.

With investment yields of United States Government and Agency obligations continuing to remain at historically low levels, the Authority began investing and trading more in mortgage backed securities specifically in GNMA and FNMA MBS that provide higher investment yields and allow the Authority to pursue its mission in providing first mortgage loans and down payment assistance to first-time homebuyers.



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**Contacting the Authority's Financial Management**

This financial report is designed to provide the citizens of Illinois, our constituents and investors with a general overview of the Authority's finances and to demonstrate the Authority's financial accountability over its resources. If you have questions about this report or need additional financial information, contact the Controller at the Illinois Housing Development Authority, 401 North Michigan Ave, Suite 700, Chicago, IL 60611 or visit our website at: [www.ihda.org](http://www.ihda.org)

**ILLINOIS HOUSING DEVELOPMENT AUTHORITY**  
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Statement of Net Assets  
June 30, 2012

	<b>Governmental activities</b>	<b>Business-type activities</b>	<b>Total</b>
<b>Assets:</b>			
Current assets:			
Cash and cash equivalents	\$ 107,408,639	\$ 280,006,495	\$ 387,415,134
Funds held by State Treasurer	450,782	-	450,782
Investments	34,485,417	61,560,097	96,045,514
Investment income receivable	8,912	123,501	132,413
Investment income receivable – restricted	-	725,455	725,455
Program loans receivable	8,114,923	41,539,227	49,654,150
Grant receivable	3,304,673	-	3,304,673
Interest receivable on program loans	696,972	3,723,752	4,420,724
Internal balances	(6,056,159)	6,056,159	-
Tenant accounts receivable	-	2,866	2,866
Utility deposits	-	11,512	11,512
Total current assets	<u>148,414,159</u>	<u>393,749,064</u>	<u>542,163,223</u>
Noncurrent assets:			
Investments – restricted	-	575,082,700	575,082,700
Program loans receivable, net of current portion	631,206,588	1,084,623,928	1,715,830,516
Less allowance for estimated losses	<u>(32,532,233)</u>	<u>(36,127,276)</u>	<u>(68,659,509)</u>
Net program loans receivable	598,674,355	1,048,496,652	1,647,171,007
Unamortized bond issuance costs	-	11,647,988	11,647,988
Real estate held for sale, net	-	11,630,776	11,630,776
Due from Fannie Mae	-	84,177,143	84,177,143
Due from Freddie Mac	-	7,759,547	7,759,547
Land	-	2,600,000	2,600,000
Capital assets, net	116,047	30,232,242	30,348,289
Derivative instrument asset	-	107,270	107,270
Deferred outflow of resources	-	3,182,942	3,182,942
Other	93,434	9,188,143	9,281,577
Total noncurrent assets	<u>598,883,836</u>	<u>1,784,105,403</u>	<u>2,382,989,239</u>
Total assets	<u>747,297,995</u>	<u>2,177,854,467</u>	<u>2,925,152,462</u>
<b>Liabilities:</b>			
Current liabilities:			
Due to grantees	37,505,496	-	37,505,496
Due to State of Illinois	20,534,595	-	20,534,595
Bonds and notes payable	-	243,213,206	243,213,206
Accrued interest payable	-	22,174,902	22,174,902
Unearned revenue	-	11,391,564	11,391,564
Deposits held in escrow	-	174,905,975	174,905,975
Accrued liabilities and other	-	8,343,568	8,343,568
Accrued property taxes	-	415,000	415,000
Prepaid rent	-	2,283	2,283
Total current liabilities	<u>58,040,091</u>	<u>460,446,498</u>	<u>518,486,589</u>
Noncurrent liabilities:			
Due to State of Illinois	302,356,565	-	302,356,565
Bonds and notes payable, net of current portion	-	1,268,208,926	1,268,208,926
Derivative instrument liability	-	3,182,942	3,182,942
Deferred inflows of resources	-	107,270	107,270
Security deposits	-	84,513	84,513
Total noncurrent liabilities	<u>302,356,565</u>	<u>1,271,583,651</u>	<u>1,573,940,216</u>
Total liabilities	<u>360,396,656</u>	<u>1,732,030,149</u>	<u>2,092,426,805</u>
<b>Net assets:</b>			
Invested in capital assets, net of related debt	116,047	(6,580,031)	(6,463,984)
Restricted for bond resolution purposes	-	312,108,700	312,108,700
Restricted for loan and grant programs	386,785,292	38,214,187	424,999,479
Unrestricted	-	102,081,462	102,081,462
Total net assets	<u>\$ 386,901,339</u>	<u>\$ 445,824,318</u>	<u>\$ 832,725,657</u>

See accompanying notes to financial statements.

**ILLINOIS HOUSING DEVELOPMENT AUTHORITY**

(A Component Unit of the State of Illinois)

Statement of Activities

Year ended June 30, 2012

Functions/programs	Expenses	Program revenues		Net (expenses) revenues and changes in net assets		
		Charges for services and interest income	Operating grant/federal revenues	Governmental activities	Business-type activities	Total
Governmental activities:						
Illinois Affordable Housing Trust Program	\$ 7,425,265	\$ 1,567	\$ 12,623,698	\$ 5,200,000	\$ -	\$ 5,200,000
HOME Program	14,895,565	2,272,627	31,022,545	18,399,607	-	18,399,607
Rental Housing Support Program	21,008,165	35,017	20,973,148	-	-	-
ARRA Program	68,692,185	1,666	70,230,698	1,540,179	-	1,540,179
Hardest Hit Fund Program	41,785,639	3,274,018	85,000,000	46,488,379	-	46,488,379
Build Illinois Bond Program	5,259,787	858	34,220,000	28,961,071	-	28,961,071
Other Programs	13,417,736	919,745	15,469,985	2,971,994	-	2,971,994
Total governmental activities	<u>172,484,342</u>	<u>6,505,498</u>	<u>269,540,074</u>	<u>103,561,230</u>	<u>-</u>	<u>103,561,230</u>
Business-type activities:						
Administrative	11,394,375	3,207,650	-	-	(8,186,725)	(8,186,725)
Multi-Family Mortgage Loan Programs	35,072,247	52,822,287	-	-	17,750,040	17,750,040
Multi-Family Federal Assistance Programs	140,555,118	-	140,555,118	-	-	-
Single-Family Mortgage Loan Programs	50,626,662	37,709,988	-	-	(12,916,674)	(12,916,674)
Tax Credit Authorization and Monitoring	913,815	7,167,435	-	-	6,253,620	6,253,620
FAF Lending Program	-	57,173	2,448,547	-	2,505,720	2,505,720
Illinois Housing Authority LLC	1,367,403	1,731,064	-	-	363,661	363,661
Total business-type activities	<u>239,929,620</u>	<u>102,695,597</u>	<u>143,003,665</u>	<u>-</u>	<u>5,769,642</u>	<u>5,769,642</u>
Total Authority	<u>\$ 412,413,962</u>	<u>\$ 109,201,095</u>	<u>\$ 412,543,739</u>	<u>103,561,230</u>	<u>5,769,642</u>	<u>109,330,872</u>
General revenues:						
Unrestricted investment income				-	4,887,382	4,887,382
Special item - foreclosed property				-	6,307,176	6,307,176
Transfers				(5,200,000)	5,200,000	-
Total general revenues, special items and transfers				<u>(5,200,000)</u>	<u>16,394,558</u>	<u>11,194,558</u>
Change in net assets				98,361,230	22,164,200	120,525,430
Net assets at beginning of year				<u>288,540,109</u>	<u>423,660,118</u>	<u>712,200,227</u>
Net assets at end of year				<u>\$ 386,901,339</u>	<u>\$ 445,824,318</u>	<u>\$ 832,725,657</u>

See accompanying notes to financial statements.

**ILLINOIS HOUSING DEVELOPMENT AUTHORITY**

(A Component Unit of the State of Illinois)

Governmental Funds

Balance Sheet

June 30, 2012

	<b>Major Funds</b>			
	<b>Illinois Affordable Housing Trust Fund</b>	<b>HOME Program Fund</b>	<b>Rental Housing Support Program Fund</b>	<b>ARRA Fund</b>
<b>Assets:</b>				
<b>Current assets:</b>				
Cash	\$ 14,212,717	\$ -	\$ 3,011,279	\$ 5,237
Funds held by State Treasurer	-	450,782	-	-
Investments	-	-	34,485,417	-
Investment income receivable	-	-	8,800	-
Program loans receivable	5,846,171	2,131,667	-	137,085
Grant receivable	1,149,878	821,782	155,992	-
Interest receivable on program loans	475,707	219,732	-	1,533
Total current assets	<u>21,684,473</u>	<u>3,623,963</u>	<u>37,661,488</u>	<u>143,855</u>
<b>Noncurrent assets:</b>				
Program loans receivable, net of current portion	325,079,561	229,980,718	-	73,401,238
Less allowance for estimated losses	(22,722,996)	(7,993,642)	-	(443,060)
Net program loans receivable	<u>302,356,565</u>	<u>221,987,076</u>	-	<u>72,958,178</u>
Other	-	-	-	-
Total noncurrent assets	<u>302,356,565</u>	<u>221,987,076</u>	-	<u>72,958,178</u>
Total assets	<u><u>\$ 324,041,038</u></u>	<u><u>\$ 225,611,039</u></u>	<u><u>\$ 37,661,488</u></u>	<u><u>\$ 73,102,033</u></u>
<b>Liabilities and Fund Balances:</b>				
<b>Current liabilities:</b>				
Deferred revenue	\$ -	\$ 219,732	\$ -	\$ 1,533
Due to grantees	-	-	37,505,496	-
Due to other funds	1,149,878	821,782	155,992	-
Due to State of Illinois	20,534,595	-	-	-
Total current liabilities	<u>21,684,473</u>	<u>1,041,514</u>	<u>37,661,488</u>	<u>1,533</u>
<b>Noncurrent liabilities:</b>				
Due to State of Illinois	302,356,565	-	-	-
Total liabilities	<u>324,041,038</u>	<u>1,041,514</u>	<u>37,661,488</u>	<u>1,533</u>
<b>Fund balances:</b>				
Restricted	-	224,569,525	-	73,100,500
Total fund balances	<u>-</u>	<u>224,569,525</u>	<u>-</u>	<u>73,100,500</u>
Total liabilities and fund balances	<u><u>\$ 324,041,038</u></u>	<u><u>\$ 225,611,039</u></u>	<u><u>\$ 37,661,488</u></u>	<u><u>\$ 73,102,033</u></u>

Amounts reported for governmental activities in the statement of net assets are different due to:

Deferral of interest receivable on certain program loans receivable

Capital assets

Net assets of governmental activities

See accompanying notes to financial statements.

<b>Hardest Hit Fund</b>	<b>Build Illinois Bond Program Fund</b>	<b>Nonmajor Governmental Funds</b>	<b>Total</b>
\$ 58,204,942	\$ 28,961,070	\$ 3,013,394	\$ 107,408,639
-	-	-	450,782
-	-	-	34,485,417
112	-	-	8,912
-	-	-	8,114,923
-	-	1,177,021	3,304,673
-	-	-	696,972
<u>58,205,054</u>	<u>28,961,070</u>	<u>4,190,415</u>	<u>154,470,318</u>
2,745,071	-	-	631,206,588
(1,372,535)	-	-	(32,532,233)
<u>1,372,536</u>	<u>-</u>	<u>-</u>	<u>598,674,355</u>
93,434	-	-	93,434
<u>1,465,970</u>	<u>-</u>	<u>-</u>	<u>598,767,789</u>
<u>\$ 59,671,024</u>	<u>\$ 28,961,070</u>	<u>\$ 4,190,415</u>	<u>\$ 753,238,107</u>
\$ -	\$ -	\$ -	\$ 221,265
-	-	-	37,505,496
2,751,533	-	1,176,974	6,056,159
-	-	-	20,534,595
<u>2,751,533</u>	<u>-</u>	<u>1,176,974</u>	<u>64,317,515</u>
-	-	-	302,356,565
<u>2,751,533</u>	<u>-</u>	<u>1,176,974</u>	<u>366,674,080</u>
<u>56,919,491</u>	<u>28,961,070</u>	<u>3,013,441</u>	<u>386,564,027</u>
<u>56,919,491</u>	<u>28,961,070</u>	<u>3,013,441</u>	<u>386,564,027</u>
<u>\$ 59,671,024</u>	<u>\$ 28,961,070</u>	<u>\$ 4,190,415</u>	
			221,265
			<u>116,047</u>
			<u>\$ 386,901,339</u>

**ILLINOIS HOUSING DEVELOPMENT AUTHORITY**

(A Component Unit of the State of Illinois)

Governmental Funds

Statement of Revenues, Expenditures, and Changes in Fund Balances

Year ended June 30, 2012

	<b>Major Funds</b>			
	<b>Illinois Affordable Housing Trust Fund</b>	<b>HOME Program Fund</b>	<b>Rental Housing Support Program Fund</b>	<b>ARRA Fund</b>
<b>Revenues:</b>				
Grant from State of Illinois	\$ 12,623,698	\$ -	\$ 20,973,148	\$ -
Federal funds	-	31,022,545	-	70,230,698
Interest and investment income	1,567	2,238,805	35,017	1,666
Total revenues	<u>12,625,265</u>	<u>33,261,350</u>	<u>21,008,165</u>	<u>70,232,364</u>
<b>Expenditures:</b>				
Grants	5,223,614	11,871,780	20,490,767	68,701,839
General and administrative	2,200,084	2,769,427	517,398	-
Program income transferred to State of Illinois	1,567	-	-	-
Provision for (reversal of) estimated losses on program loans receivable	-	254,358	-	(9,654)
Total expenditures	<u>7,425,265</u>	<u>14,895,565</u>	<u>21,008,165</u>	<u>68,692,185</u>
Excess of revenues over expenditures	5,200,000	18,365,785	-	1,540,179
<b>Other financing uses:</b>				
Transfer out	<u>(5,200,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	-	18,365,785	-	1,540,179
Fund balances at beginning of year	<u>-</u>	<u>206,203,740</u>	<u>-</u>	<u>71,560,321</u>
Fund balances at end of year	<u>\$ -</u>	<u>\$ 224,569,525</u>	<u>\$ -</u>	<u>\$ 73,100,500</u>

Amounts reported for governmental activities in the statement of activities are different due to:

Deferral of interest receivable on certain program loans receivable

Capital outlay

Depreciation and amortization on capital assets

Change in net assets of governmental activities

See accompanying notes to financial statements.

<b>Hardest Hit Fund</b>	<b>Build Illinois Bond Program Fund</b>	<b>Nonmajor Governmental Funds</b>	<b>Total</b>
\$ -	\$ 34,220,000	\$ 3,970,629	\$ 71,787,475
85,000,000	-	11,499,356	197,752,599
3,274,018	857	919,746	6,471,676
<u>88,274,018</u>	<u>34,220,857</u>	<u>16,389,731</u>	<u>276,011,750</u>
32,886,987	5,259,787	11,432,389	155,867,163
7,593,553	-	1,985,347	15,065,809
-	-	-	1,567
1,372,535	-	-	1,617,239
<u>41,853,075</u>	<u>5,259,787</u>	<u>13,417,736</u>	<u>172,551,778</u>
46,420,943	28,961,070	2,971,995	103,459,972
-	-	-	(5,200,000)
46,420,943	28,961,070	2,971,995	98,259,972
10,498,548	-	41,446	
<u>\$ 56,919,491</u>	<u>\$ 28,961,070</u>	<u>\$ 3,013,441</u>	
			33,822
			99,440
			<u>(32,004)</u>
			<u>\$ 98,361,230</u>

**ILLINOIS HOUSING DEVELOPMENT AUTHORITY**

(A Component Unit of the State of Illinois)

Proprietary Funds

Statement of Net Assets

June 30, 2012

	Administrative Fund	Mortgage Loan Program Fund	Single Family Program Fund	Illinois Housing Authority, LLC	Total
<b>Assets:</b>					
Current assets:					
Cash and cash equivalents	\$ 213,482,952	\$ 49,958,079	\$ 15,498,457	\$ 1,067,007	\$ 280,006,495
Investments	61,560,097	-	-	-	61,560,097
Investment income receivable	123,501	-	-	-	123,501
Investment income receivable - restricted	156	165,134	560,165	-	725,455
Program loans receivable	1,485,222	26,383,148	13,670,857	-	41,539,227
Interest receivable on program loans	177,817	1,383,543	2,162,392	-	3,723,752
Due from other funds	10,909,663	14,332,551	351,293	-	25,593,507
Tenant accounts receivable	-	-	-	2,866	2,866
Utility deposits	-	-	-	11,512	11,512
Total current assets	<u>287,739,408</u>	<u>92,222,455</u>	<u>32,243,164</u>	<u>1,081,385</u>	<u>413,286,412</u>
Noncurrent assets:					
Investments – restricted	7,722,392	147,874,421	419,485,887	-	575,082,700
Program loans receivable, net of current portion	87,511,683	503,169,809	493,942,436	-	1,084,623,928
Less allowance for estimated losses	<u>(6,749,716)</u>	<u>(16,732,044)</u>	<u>(12,645,516)</u>	<u>-</u>	<u>(36,127,276)</u>
Net program loans receivable	80,761,967	486,437,765	481,296,920	-	1,048,496,652
Unamortized bond issuance costs	-	6,318,638	5,329,350	-	11,647,988
Real estate held for sale, net	-	108,461	11,522,315	-	11,630,776
Due from Fannie Mae	-	84,177,143	-	-	84,177,143
Due from Freddie Mac	-	7,759,547	-	-	7,759,547
Land	-	-	-	2,600,000	2,600,000
Capital assets, net	202,273	26,502,696	-	3,527,273	30,232,242
Derivative instrument asset	-	107,270	-	-	107,270
Deferred outflow of resources	-	-	3,182,942	-	3,182,942
Other	199,137	204,727	8,767,963	16,316	9,188,143
Total noncurrent assets	<u>88,885,769</u>	<u>759,490,668</u>	<u>929,585,377</u>	<u>6,143,589</u>	<u>1,784,105,403</u>
Total assets	<u>376,625,177</u>	<u>851,713,123</u>	<u>961,828,541</u>	<u>7,224,974</u>	<u>2,197,391,815</u>
<b>Liabilities:</b>					
Current liabilities:					
Bonds and notes payable	5,000,000	27,635,000	210,578,206	-	243,213,206
Accrued interest payable	25,282	10,204,278	11,945,342	-	22,174,902
Deferred revenue	11,084,460	307,104	-	-	11,391,564
Deposits held in escrow	174,905,975	-	-	-	174,905,975
Accrued liabilities and other	6,252,045	868,773	1,170,409	52,341	8,343,568
Due to other funds	14,683,844	4,413,856	439,648	-	19,537,348
Accrued property taxes	-	-	-	415,000	415,000
Prepaid rent	-	-	-	2,283	2,283
Total current liabilities	<u>211,951,606</u>	<u>43,429,011</u>	<u>224,133,605</u>	<u>469,624</u>	<u>479,983,846</u>
Noncurrent liabilities:					
Bonds and notes payable, net of current portion	22,670,000	595,166,303	650,372,623	-	1,268,208,926
Derivative instrument liability	-	-	3,182,942	-	3,182,942
Deferred inflows of resources	-	107,270	-	-	107,270
Security deposits	-	-	-	84,513	84,513
Total noncurrent liabilities	<u>22,670,000</u>	<u>595,273,573</u>	<u>653,555,565</u>	<u>84,513</u>	<u>1,271,583,651</u>
Total liabilities	<u>234,621,606</u>	<u>638,702,584</u>	<u>877,689,170</u>	<u>554,137</u>	<u>1,751,567,497</u>
<b>Net assets:</b>					
Invested in capital assets, net of related debt	202,273	(6,782,304)	-	-	(6,580,031)
Restricted for bond resolution purposes	-	227,969,329	84,139,371	-	312,108,700
Restricted for loan and grant programs	38,214,187	-	-	-	38,214,187
Unrestricted	103,587,111	(8,176,486)	-	6,670,837	102,081,462
Total net assets	<u>\$ 142,003,571</u>	<u>\$ 213,010,539</u>	<u>\$ 84,139,371</u>	<u>\$ 6,670,837</u>	<u>\$ 445,824,318</u>

See accompanying notes to financial statements.



**ILLINOIS HOUSING DEVELOPMENT AUTHORITY**

(A Component Unit of the State of Illinois)

Proprietary Funds

Statement of Revenues, Expenses, and Changes in Fund Net Assets

Year ended June 30, 2012

	Administrative Fund	Mortgage Loan Program Fund	Single Family Program Fund	Illinois Housing Authority, LLC	Total
Operating revenues:					
Interest and other investment income	\$ 4,572,635	\$ 975,130	\$ 4,818,872	\$ -	\$ 10,366,637
Net increase in fair value of investments	314,747	504,609	6,109,197	-	6,928,553
Total investment income	4,887,382	1,479,739	10,928,069	-	17,295,190
Interest earned on program loans	3,877,931	26,500,320	26,532,212	-	56,910,463
Federal assistance programs	136,700,053	3,855,065	-	-	140,555,118
Service fees	13,989,518	-	-	-	13,989,518
Development fees	1,340,750	-	-	-	1,340,750
HUD savings	2,505,720	-	-	-	2,505,720
Other	10,729,537	5,529,284	-	76,331	16,335,152
Rental income	-	-	-	2,036,324	2,036,324
Vacancies & adjustments	-	-	-	(381,591)	(381,591)
Total operating revenues	174,030,891	37,364,408	37,460,281	1,731,064	250,586,644
Operating expenses:					
Interest expense	156,276	24,364,148	32,458,927	-	56,979,351
Federal assistance programs	136,700,053	3,855,065	-	-	140,555,118
Salaries and benefits	13,511,041	-	-	279,009	13,790,050
Professional fees	513,693	-	-	-	513,693
Other general and administrative	2,723,810	269,826	1,251,738	238,980	4,484,354
Financing costs	306,553	753,339	2,293,476	-	3,353,368
Program grants	1,575,468	1,287,902	2,221,247	-	5,084,617
Change in accrual for estimated losses on mortgage participation certificate program	566,045	-	-	-	566,045
Reversal of estimated losses on real estate held for sale	-	-	(773,197)	-	(773,197)
Provision for estimated losses on program loans receivable	2,241,767	1,921,762	10,363,278	-	14,526,807
Advertising expenses	-	-	-	31,702	31,702
Operating expenses	-	-	-	104,315	104,315
Utilities	-	-	-	170,272	170,272
Maintenance expenses	-	-	-	121,380	121,380
Taxes and insurance	-	-	-	323,296	323,296
Depreciation	-	-	-	72,727	72,727
Miscellaneous	-	-	-	25,722	25,722
Total operating expenses	158,294,706	32,452,042	47,815,469	1,367,403	239,929,620
Operating income (loss)	15,736,185	4,912,366	(10,355,188)	363,661	10,657,024
Special item - foreclosed property	-	6,307,176	-	-	6,307,176
Transfers in	8,836	5,200,000	878,170	6,307,176	12,394,182
Transfers out	(878,170)	(6,307,176)	(8,836)	-	(7,194,182)
Total transfers and special item	(869,334)	5,200,000	869,334	6,307,176	11,507,176
Change in net assets	14,866,851	10,112,366	(9,485,854)	6,670,837	22,164,200
Net assets at beginning of year	127,136,720	202,898,173	93,625,225	-	423,660,118
Net assets at end of year	\$ 142,003,571	\$ 213,010,539	\$ 84,139,371	\$ 6,670,837	\$ 445,824,318

See accompanying notes to financial statements.

**ILLINOIS HOUSING DEVELOPMENT AUTHORITY**

(A Component Unit of the State of Illinois)

Proprietary Funds

Statement of Cash Flows

Year ended June 30, 2012

	Administrative Fund	Mortgage Loan Program Fund	Single Family Program Fund	Illinois Housing Authority, LLC	Total
Cash flows from operating activities:					
Receipts for program loans, interest and service fees	\$ 33,000,005	\$ 66,691,895	\$ 101,145,047	\$ -	\$ 200,836,947
Receipts for real estate held for sale	-	13,063	2,456,770	-	2,469,833
Receipts for rental operations	-	-	-	1,839,546	1,839,546
Payments for program loans	(7,870,154)	(29,972,822)	-	-	(37,842,976)
Receipts for federal assistance programs	136,700,053	3,855,065	-	-	140,555,118
Payments for federal assistance programs	(136,700,053)	(3,855,065)	-	-	(140,555,118)
Payments for credit enhancements	-	(91,936,690)	-	-	(91,936,690)
Payments for program grants	(1,575,468)	(1,287,902)	(2,221,247)	-	(5,084,617)
Payments to suppliers	(5,494,594)	(1,460,061)	(3,355,322)	-	(10,309,977)
Payments to employees	(13,363,878)	-	-	(279,009)	(13,642,887)
Payments for rental operations	-	-	-	(1,040,495)	(1,040,495)
Other receipts	10,729,537	5,528,076	-	-	16,257,613
Net cash provided by (used in) operating activities	<u>15,425,448</u>	<u>(52,424,441)</u>	<u>98,025,248</u>	<u>520,042</u>	<u>61,546,297</u>
Cash flows from noncapital financing activities:					
Proceeds from sale of revenue bonds and notes	27,670,000	121,550,000	67,809,245	-	217,029,245
Principal paid on revenue bonds and notes	(7,900,000)	(166,609,247)	(99,581,261)	-	(274,090,508)
Interest paid on revenue bonds and notes	(214,797)	(25,053,007)	(32,843,902)	-	(58,111,706)
Due to other funds	-	272,327	(267,408)	-	4,919
Due from other funds	(2,746,704)	-	-	-	(2,746,704)
Balance transfer to Illinois Housing Authority, LLC	-	-	-	546,965	546,965
Transfers in	8,836	5,200,000	878,170	-	6,087,006
Transfers out	(878,170)	-	(8,836)	-	(887,006)
Net cash provided by (used in) noncapital financing activities	<u>15,939,165</u>	<u>(64,639,927)</u>	<u>(64,013,992)</u>	<u>546,965</u>	<u>(112,167,789)</u>
Cash flows from capital financing and related activities:					
Acquisition of capital assets	(166,717)	(289,006)	-	-	(455,723)
Cash flows from investing activities:					
Purchase of investment securities	(246,426,924)	(739,134,938)	(2,863,973,472)	-	(3,849,535,334)
Proceeds from sales and maturities of investment securities	252,843,290	871,657,875	2,823,402,294	-	3,947,903,459
Interest received on investments	4,803,654	1,521,496	10,805,574	-	17,130,724
Net cash provided by (used in) investing activities	<u>11,220,020</u>	<u>134,044,433</u>	<u>(29,765,604)</u>	<u>-</u>	<u>115,498,849</u>
Net increase in cash and cash equivalents	42,417,916	16,691,059	4,245,652	1,067,007	64,421,634
Cash and cash equivalents at beginning of year	171,065,036	33,267,020	11,252,805	-	215,584,861
Cash and cash equivalents at end of year	<u>\$ 213,482,952</u>	<u>\$ 49,958,079</u>	<u>\$ 15,498,457</u>	<u>\$ 1,067,007</u>	<u>\$ 280,006,495</u>

(Continued)

**ILLINOIS HOUSING DEVELOPMENT AUTHORITY**

(A Component Unit of the State of Illinois)

Proprietary Funds

Statement of Cash Flows (Continued)

Year ended June 30, 2012

	Administrative Fund	Mortgage Loan Program Fund	Single Family Program Fund	Illinois Housing Authority, LLC	Total
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:					
Operating income (loss)	\$ 15,736,185	\$ 4,912,366	\$ (10,355,188)	\$ 363,661	\$ 10,657,024
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Investment income	(4,887,382)	(1,479,739)	(10,928,069)	-	(17,295,190)
Interest expense	156,276	24,364,148	32,458,927	-	56,979,351
Depreciation and amortization	39,542	800,000	-	72,727	912,269
Change in accrual for estimated losses on mortgage participation certificate program	566,045	-	-	-	566,045
Reversal of estimated losses on real estate held for sale	-	-	(773,197)	-	(773,197)
Provision for estimated losses on program loans receivable	2,241,767	1,921,762	10,363,278	-	14,526,807
Changes in assets and liabilities:					
Program loans receivable	(989,261)	9,347,404	78,383,735	-	86,741,878
Interest receivable on program loans	(41,889)	13,198	643,725	-	615,034
Other liabilities	2,251,366	(757,235)	789,187	32,753	2,316,071
Other assets	352,799	390,345	(2,557,150)	(16,316)	(1,830,322)
Tenants accounts receivable	-	-	-	63,609	63,609
Utility deposits	-	-	-	3,608	3,608
Due from Fannie Mae	-	(84,177,143)	-	-	(84,177,143)
Due from Freddie Mac	-	(7,759,547)	-	-	(7,759,547)
Total adjustments	<u>(310,737)</u>	<u>(57,336,807)</u>	<u>108,380,436</u>	<u>156,381</u>	<u>50,889,273</u>
Net cash provided by (used in) operating activities	<u>\$ 15,425,448</u>	<u>\$ (52,424,441)</u>	<u>\$ 98,025,248</u>	<u>\$ 520,042</u>	<u>\$ 61,546,297</u>
Noncash investing, capital and financing activities:					
Transfer of foreclosed assets	<u>\$ -</u>	<u>\$ 70,994</u>	<u>\$ 5,125,859</u>	<u>\$ -</u>	<u>\$ 5,196,853</u>
The fair value of investments increased	<u>\$ 374,130</u>	<u>\$ 971,111</u>	<u>\$ 4,115,335</u>	<u>\$ -</u>	<u>\$ 5,460,576</u>

See accompanying notes to financial statements.

## ILLINOIS HOUSING DEVELOPMENT AUTHORITY

(A Component Unit of the State of Illinois)

Notes to Financial Statements

June 30, 2012

### Note 1. 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, 2012, as shown on the Authority's financial statements consist of both general and special limited obligations of the Authority (see Note 8). 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 \$3.6 billion of general and special limited obligation bonds and notes outstanding, excluding those issued to refund outstanding bonds and notes. At June 30, 2012, amounts outstanding against this limitation were approximately \$1.9 billion.

The Illinois Housing Authority, LLC (the LLC) was organized on August 10, 2011 as a member managed limited liability company under the Illinois Limited Liability Company Act. The LLC was organized by, and is a component unit of, the Illinois Housing Development Authority (the Authority), a body politic and corporate of the State of Illinois. The sole member of the LLC is the Authority. To the extent provided by the Illinois Limited Liability Company Act, the Authority's liability is limited.

### Note 2. 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 of America 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:

- (a) 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
- (b) Fiscal dependency on the primary government.

For financial reporting purposes, the Authority is a component unit of the State of Illinois. The Authority has one component unit, the Illinois Housing Authority, LLC.

With the creation of the Illinois Housing Authority, LLC (the LLC), a separate legal entity of the Authority the criteria for reporting component units was considered. Under GAAP a component unit can be reported as a discretely presented or blended component unit of the primary government. In considering

## ILLINOIS HOUSING DEVELOPMENT AUTHORITY

(A Component Unit of the State of Illinois)

Notes to Financial Statements

June 30, 2012

the criteria of both presentations the Authority found the LLC to be a component unit of the Authority and should be reported as a blended component unit based on the following criteria defined as:

- (a) The primary government and a component unit share a common governing body. GAAP requires that the boards be “substantively the same” need not be identical and there is sufficient representation whereas the voting majority of the component unit’s board also functions as a voting majority of the primary government’s board.
- (b) There is an exclusive or almost exclusive benefit to the primary government if the component unit either (1) provides service entirely or almost entirely to the primary government; or (2) otherwise exclusively or almost exclusively benefits the primary government even though it does not provide services directly to it.

The LLC does issue its own separate, stand-alone report. A copy of that report can be provided by contacting the Authority’s Controller at 401 North Michigan Ave, Suite 700, Chicago, IL 60611 or visit our website at: [www.ihda.org](http://www.ihda.org)

### **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-counting 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 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 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 and non-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 (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 annually to the Illinois

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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.

As the administrator of the Housing Program, the Authority considers the interest in equity of the Housing Program to be that of the State of Illinois and the Authority records a liability to the State of Illinois for their equity share. Additionally, the Authority records amounts received to administer the Housing Program as grant revenue.

#### *HOME Program Fund*

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 Illinois 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.

#### *Rental Housing Support Program Fund*

The Authority is designated administrator of the Rental Housing Support Program (Support Program). The program is funded by a surcharge for the recording of any real estate-related document. The funds are appropriated to the Illinois Department of Revenue by the General Assembly. The Authority awards funds to local administering agencies, which will contract with local landlords to make rental units affordable to households who earn less than 30% of the area median income.

As the administrator of the Support Program, the Authority initially records amounts received as revenue and a due to grantee liability is recorded. As funds are disbursed from the program, the Authority reduces the liability.

#### *ARRA Fund*

The Authority is designated program administrator for Section 1602 of the American Recovery and Reinvestment Act of 2009 ("ARRA") for grants appropriated to the State of Illinois by the United States Department of the Treasury to finance construction or acquisition and rehabilitation of qualified low-income building for low-income housing in lieu of low-income housing tax credits. In addition, HUD makes awards to the Authority under the Tax Credit Assistance Program ("TCAP") to facilitate the development of projects that received or will receive funding in order to be completed and placed in service in accordance with the requirements of Section 42 of the Internal Revenue Code of 1986 and the regulations promulgated there under. These awards are then allocated to sub-grantees and the Authority will be responsible for the monitoring and reporting of the use of these funds.

#### *Hardest Hit Fund*

The Authority is designated program administrator for the Hardest Hit Fund ("HHF") for grants appropriated to the State of Illinois by the United States Department of the Treasury ("Treasury") as authorized by the Emergency Economic Stabilization Act of 2008 (Public Law 110-343), as amended, as the same may be amended from time to time ("EESA"). The funds can be used to assist unemployed or substantially underemployed homeowners with interim mortgage payment assistance that will allow them to pursue sustainable income and homeownership through new

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employment or job training efforts without the immediate threat of default or foreclosure. Approved grants are paid directly to mortgage loan servicers and the Authority is responsible for compliance monitoring and reporting of these funds.

#### *Build Illinois Bond Program Fund*

The Authority's Build Illinois Bond Program ("BIBP") is funded by bond proceeds, allocated for affordable housing, from the Build Illinois Bond Fund. BIBP funds are appropriated to the Illinois Department of Revenue by the General Assembly. Under this program, the Authority makes affordable housing grants, loans and investments for low-income families, individuals, senior citizens and persons with disabilities, and at-risk displaced veterans.

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 5), 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 13).

The Administrative Fund net assets that are classified as restricted by contractual agreement for loan and grant programs 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 Bonds, Multifamily Initiative Bonds, Multi-family Housing Revenue Bonds (Marywood), Multi-family Bonds (Turnberry II) 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 Program 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 Bonds, Housing Revenue Bonds and Residential 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 affordable-rate mortgage loans involves federal restrictions on expenses chargeable to the program. Unless described otherwise in the indenture, any expenses incurred in the program in excess of such maximum amounts are absorbed by the Administrative Fund.

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*Illinois Housing Authority, LLC*

The Illinois Housing Authority, LLC (the LLC) maintains, improves and disposes of multi-family properties acquired through foreclosure or deed-in-lieu of foreclosure. Tenant rental receipts and other operating expenses of the property are reported by the LLC until such time as disposition occurs.

**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 federal and state grant revenue. 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. Major and non-major individual governmental funds and proprietary funds are reported as separate columns in the fund financial statements.

The accounting policies and financial reporting practices of the Illinois Housing Development Authority (the Authority), a component unit of the State of Illinois, conform to generally accepted accounting principles (GAAP), as promulgated in pronouncements of the Governmental Accounting Standards Board (GASB). Additionally, in the government-wide and proprietary fund financial statements, the Authority applies the pronouncements of the Financial Accounting Standards Board (FASB) issued before December 1, 1989, which are not in conflict with GASB pronouncements. As permitted by GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Authority has elected to not apply FASB pronouncements issued after November 30, 1989.

**Fund Balances**

In the fund financial statements, governmental funds report fund balances in the following categories:

**Nonspendable** – This consists of amounts that cannot be spent because they are either a) not in spendable form or b) legally or contractually required to be maintained intact.

**Restricted** – This consists of amounts that are restricted to specific purposes, that is, when constraints placed on the use of resources are either: a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or b) imposed by law through constitutional provisions or enabling legislation.



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**Committed** – This consists of amounts constrained by limitations that the Authority imposes upon itself through resolution by its board of directors. The commitment amount will be binding unless removed or amended in the same manner.

**Assigned** – This consists of net amounts that are constrained by the Authority's intent to be used for specific purposes, but that are neither restricted nor committed.

**Unassigned** – This consists of residual deficit fund balances.

In instances where restricted, committed and assigned fund balances are available for use, the Authority's policy is to use restricted resources first, followed by committed resources, then assigned resources, as needed.

### Net Assets

In the government-wide and proprietary fund financial statements, net assets is displayed in the following components:

**Invested in Capital Assets, net of related debt** – This consists of capital assets, net of accumulated depreciation and related debt.

**Restricted** – This consists of net assets that are legally restricted by outside parties or by law through constitutional provisions or enabling legislation.

All net assets of the governmental activities column of the government-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 5 for schedules of aging for the loans made under these programs.)

The use of assets of each of the proprietary fund 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. When both restricted and unrestricted resources are available for use, generally it is the Authority's policy to use restricted resources first, then unrestricted resources when they are needed.

**Unrestricted** – This consists of net assets that do not meet the criteria of the two preceding categories.

Designations of net assets represent tentative plans by the Authority for financial resource utilization in a future period as documented in the minutes or budgeting process for a succeeding year. Such plans are subject to change from original authorizations and may never result in expenditures.

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A portion of the Authority's Administrative Fund unrestricted net assets as of June 30, 2012 are designated as follows:

Downpayment Assistance Program	\$ 5,000,000
To pay expenses for planned technology enhancements	5,000,000
To pay possible losses arising in the Multi-Family Bond Program attributable, but not limited to, delinquencies or defaults on uninsured or unsubsidized loans	15,000,000
Provide funds to purchase homeownership mortgage loans and/or mortgage-backed securities under the Homeownership Mortgage Loan Program which will eventually be purchased with proceeds from future issuance of Authority debt or sold in the secondary market	45,000,000
Provide funds and reserves to support the Mortgage Participation Certificate Program, including the purchase of loans within the Program	<u>30,000,000</u>
	<u>\$ 100,000,000</u>

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

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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, expenses, and expenditures during the reporting period. Actual results could differ from the estimates.

**Risks and Uncertainties**

The Authority invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term. Such changes could materially affect the amounts reported in the balance sheet and the statement of net assets.

The allowances for estimated losses are reported based on certain assumptions pertaining to the Authority's periodic review and evaluation of the loan portfolio, which is subject to change. Due to uncertainties inherent in the estimations and assumptions process, it is at least reasonably possible that changes in these estimates and assumptions in the near term would be material to the financial statements.

**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 with original maturity dates of three months or less to be cash equivalents.

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**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. Fair value is determined by reference to public market prices and quotations from a securities pricing service.

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 in the Administrative Fund consist of investments in furniture, fixtures, and equipment; computer hardware; computer software; and leasehold improvements and are defined by the Authority as assets with an initial, individual cost of \$5,000 or more. Depreciation and amortization is on a straight-line basis over a period of five to ten years, depending upon the nature of the asset. Leasehold improvements are amortized over the term of the lease. Depreciation and amortization expenses for fiscal year 2012 were \$39,542. Capital assets in the Mortgage Loan Program Fund represent the net carrying value of Lakeshore Plaza (ML-181), which the Authority acquired by deed in lieu of foreclosure on April 27, 1990. 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, 2012, the net carrying value of ML-181 was \$26,502,696 which is net of accumulated depreciation of \$15,011,000. Depreciation expense for fiscal year 2012 was \$800,000. The Authority will continue to own and operate ML-181 until the sale or other disposition of the development occurs. Capital assets for governmental activities totaling \$149,440 are used in the Hardest Hit Fund program. Depreciation and amortization for these items are recorded on a straight-line basis over three years and amounted to \$32,004 during fiscal year 2012. Capital assets within the LLC consist of building at \$3,527,273, net of accumulated depreciation, and land at \$2,600,000. Accumulated depreciation of the building is \$72,727 and was calculated on a straight line basis from the date of the acquisition by the LLC to May 15, 2012, which is the date that the LLC contracted to put the development up for sale.

**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 is recorded at the lesser of unpaid principal balance plus accrued interest on the loans as of the date the loans become real estate owned, plus subsequent expenses incurred less any insurance or other loan related payments received or fair market value less costs to sell. Since a substantial majority of all

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such loans are covered by pool insurance, based on the Authority's past experience, it is anticipated that the Authority will recover a majority of the unpaid principal balances of the loans through proceeds arising from the sale of such property and certain insurance proceeds.

**Bond Discount, Issuance Costs and Deferred Amounts on Refunding**

Discounts on bonds are deferred and amortized using a method approximating the effective 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 effective interest method. When these costs exceed the designated amounts per the bond agreements, the excess amortized bond issuance costs are expensed to the Administrative Fund. Deferred amounts on refunding are amortized over the shorter of the life of the old or new debt as a component of interest expense.

**Operations**

Development fee and financing fee income are deferred and amortized over the contractual life of the loan as a yield adjustment using a method approximating the effective 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 8), 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, HOME Program, Rental Housing Support Program, Hardest Hit Fund and Nonmajor Governmental Funds is absorbed by these programs. Similarly, other related special assistance programs and resolutions of various bond programs allow for these program accounts to absorb a certain level of operating expenses. Expenses 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

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maximum time limit, for one half of accumulated sick leave earned. The Authority has no other post-employment benefits (OPEB).

The following is the activity for the compensated absences recorded as accrued liabilities and other:

Balance June 30, 2011	Additions	Retirements	Balance June 30, 2012	Due Within One Year
\$ 545,880	\$ 1,573,360	\$ (1,426,197)	\$ 693,043	\$ 693,043

These amounts are recorded as accrued liabilities and other and liquidated from the Administrative Fund.

**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 multi-family and developer loan portfolios 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 coverage, and such other factors as it deems necessary. The estimated losses of the single family loan portfolio are based upon a periodic review and evaluation of the whole loan portfolio, excluding real estate owned properties and considers such factors as delinquencies, interest costs, holding costs, sales proceeds, and mortgage insurance recoveries for estimating losses. The estimated losses of the Hardest Hit Fund are based upon non-recoverable fees and the ability to resell the acquired mortgage loan portfolio.

**New and Pending Accounting Pronouncements**

GASB Statement No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34*, will be effective for the Authority beginning with its year ending June 30, 2013. The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements.

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, will be effective for the Authority beginning with its year ending June 30, 2013. The objective of this Statement is to incorporate into the GASB’s authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

1. Financial Accounting Standards Board (FASB) Statements and Interpretations
2. Accounting Principles Board Opinions

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3. Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure

Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*, was established to improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position. It alleviates uncertainty about reporting those financial statement elements by providing guidance where none previously existed. The Authority is required to implement this Statement for the year ending June 30, 2013.

Statement No. 65, *Items Previously Reported as Assets and Liabilities* establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term deferred in financial statement presentations. The Authority is required to implement this Statement for the year ending June 30, 2014.

Statement No. 66, *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62* was established to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This Statement amends Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, by removing the provision that limits fund-based reporting of an entity's risk financing activities to the general fund and the internal service fund type. This Statement also amends Statement 62 by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. The Authority is required to implement this Statement for the year ending June 30, 2014.

Statement No. 68, *Accounting and Financial Reporting for Pensions* requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. This statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information (RSI). The Authority is required to implement this Statement for the year ending June 30, 2015.

Management has not determined the impact of the pending pronouncements not yet adopted on its financial statements.

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**Note 3. Cash and Investments**

The Authority's Financial Management Policy (the Policy) contains the following stated objectives:

- *Safety of principal* – Preservation and safety of principal is the foremost objective of the Authority's investments. Each investment transaction shall seek to ensure that capital losses within the investment portfolio are avoided, whether they are from securities defaults or erosion of market value.
- *Liquidity* – The investments portfolio shall remain sufficiently flexible to enable the Authority to meet all operating requirements which may be reasonably anticipated in any fund. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demand.
- *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.

**Interest Rate Risk**

Interest rate risk is the risk that the fair value of investments will decrease as a result of an increase in interest rates. The Authority's policy does not limit the maturity of investments as a means of managing its exposure to fair value losses arising from an increasing rate environment.

All of the LLC's deposits are in commercial checking and bank money market accounts which are not subject to maturity and therefore do not have interest rate risk.

As of June 30, 2012, the Authority had the following cash equivalents held in investments:

Investment	Carrying amount	Investment maturities (in days)			
		Less than 7	Less than 30	Less than 60	Less than 90
Sweep Accounts-Repurchase Agreement	\$ 20,454,050	\$ 20,454,050	\$ -	\$ -	\$ -
Sweep Accounts-Money Market Fund	259,395,048	259,395,048	-	-	-
	<u>\$ 279,849,098</u>	<u>\$ 279,849,098</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Repurchase agreements and money market funds are collateralized by obligations of the United States Government or its agencies, or direct investments of such obligations overnight and funds are available the next day.

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As of June 30, 2012, the Authority had the following investments:

Investment	Carrying Amount	Investment maturities (in years)			
		Less than 1	1 - 5	6 - 10	More than 10
Demand repurchase agreements	\$ 6,497,261	\$ -	\$ -	\$ 300,000	\$ 6,197,261
Federal Home Loan Bank Bonds	16,078,735	14,580,172	1,498,563	-	-
Federal Farm Credit Bank Bonds	1,376,198	-	1,376,198	-	-
Federal Home Loan Mortgage Corp.	4,950,058	-	3,298,845	-	1,651,213
Federal National Mortgage Assn. Benchmark Notes	3,058,903	-	1,271,710	-	1,787,193
Federal National Mortgage Assn. Discount Notes	60,550,666	60,550,666	-	-	-
Federal Home Loan Bank Discount Notes	127,871,152	127,871,152	-	-	-
Federal Home Loan Mortgage Corp. Discount Notes	68,634,910	68,634,910	-	-	-
Government National Mortgage Association	107,826,735	-	-	-	107,826,735
Federal National Mortgage Assn.	23,004,558	-	-	-	23,004,558
United States Treasury Strips	1,224,206	-	-	-	1,224,206
United States Treasury Bonds	8,098,223	-	-	8,098,223	-
United States Treasury Notes	54,707,509	5,235,666	49,471,843	-	-
United States Treasury Bill	187,249,100	187,249,100	-	-	-
	<u>\$ 671,128,214</u>	<u>\$ 464,121,666</u>	<u>\$ 56,917,159</u>	<u>\$ 8,398,223</u>	<u>\$ 141,691,166</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% 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.

**Credit Risk**

Credit risk is the risk the Authority will not recover its investments due to the inability of the counterparty to fulfill its obligation. 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. All funds are held outside of the State Treasury in various banks and financial institutions, except for a portion of funds for the HOME program.

The Authority's investments in United States Government and Agency Obligations are rated Aaa by Moody's and/or AA+ by Standard & Poors.

The counterparties to the demand repurchase agreements and 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.



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The counterparties, carrying amount of the repurchase agreements, and ratings as of June 30, 2012 are listed below.

<u>Counterparty</u>	<u>Rating S&amp;P / Moody's</u>	<u>Carrying Value</u>
Morgan Guaranty Trust Company	A+ (STABLE) /Aa3	\$ 300,000
Morgan Stanley & Co., Inc.	A- (NEGATIVE) /Baa1	1,248,116
Trinity Plus Funding Co.	AA+ (STABLE) /Aa2	1,341,150
Westdeutsche Landesbank (1)	NR (STABLE) /A3	3,607,994
Total Investments		<u>\$ 6,497,260</u>
Bank of America	A- (NEGATIVE) /Baa2	<u>\$ 20,454,050</u>
Total Cash and Cash Equivalents		<u>\$ 20,454,050</u>

(1) Rating is in accordance with a grandfathering arrangement agreed to by the EU Commission and the German authorities.

**Custodial Credit Risk**

The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Authority will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Authority will not be able to recover the value of investment or collateral securities that are in the possession of an outside party.

The Authority's cash and cash equivalents at June 30, 2012, consisted of sweep accounts, held in the Authority's name, with the funds in these accounts invested in money market funds that invest in U.S. Treasury securities, or were held in accounts that were either FDIC insured or collateralized with U.S. government obligations. The Authority's investments at June 30, 2012 were held in the Authority's name in separate Authority custodial accounts. Collateral is pledged in the Authority's name and consists of U.S. Treasury obligations.

**Concentration of Credit Risk**

Concentration of credit risk is the risk of loss attributed to the magnitude of investment in any one single issuer. The Authority's policy does not limit the amounts the Authority may invest in any one issuer. The Authority is considered to have a concentration of credit risk if its investments in any one single issuer (other than securities explicitly guaranteed by the U.S. government) are greater than 5% of total investments. Investments which comprise more than 5% of the Authority's investments as of June 30, 2012 are as follows:

<u>Investment</u>	<u>Fair Value</u>
Federal Home Loan Bank	\$ 143,949,887
Federal National Mortgage Association	86,614,127
Federal Home Loan Mortgage Corporation	73,584,968

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The LLC maintains a commercial checking and money market account at one bank. Accounts at this financial institution are insured by the Federal Deposit Insurance Corporation. During fiscal year 2012 the LLC had a cash balance in excess of insured limits. At June 30, 2012, the LLC had \$823,000 in uninsured cash. The LLC has not experienced any losses on this account, and monitors the credit worthiness of the financial institution with which it conducts business. The Authority believes that the LLC is not exposed to any significant credit risk with respect to its cash balances.

**Note 4. 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 generally paid or received within the subsequent fiscal year.

Interfund accounts receivable (payable) balances at June 30, 2012 consisted of the following:

Receivable To	Payable From								Total
	Affordable Housing Trust Fund	Home Program	Rental Housing Support	Hardest Hit Fund	Nonmajor Governmental Funds	Administrative	Mortgage Loan Program	Single Family Program	
Administrative	\$1,149,878	\$821,782	\$155,992	\$2,751,533	\$1,176,974	\$ -	\$4,413,856	\$439,648	\$10,909,663
Mortgage Loan Program	-	-	-	-	-	14,332,551	-	-	14,332,551
Single Family Program	-	-	-	-	-	351,293	-	-	351,293
	<u>\$1,149,878</u>	<u>\$821,782</u>	<u>\$155,992</u>	<u>\$2,751,533</u>	<u>\$1,176,974</u>	<u>\$14,683,844</u>	<u>\$4,413,856</u>	<u>\$439,648</u>	<u>\$25,593,507</u>

The interfund accounts receivable (payable) between the Mortgage Loan Program Fund and the Administrative Fund primarily consist 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 the real estate investment, ML-181, to these accounts, partially reversed by a \$5.4 million fiscal year 2006 transfer to the Administrative Fund, plus interfund accounts receivables related to mortgage assistance provided to two previously distressed loans, Innsbruck Apartments (\$4.4 million) and Larkin Village (\$2.8 million). The Authority intends to reverse the remaining amounts of the transfers upon the disposition of the properties. Interfund accounts payable from governmental funds represent reimbursements due to the Authority for a portion of operating expenses incurred to administer certain governmental programs. Other interfund accounts receivable to the Administrative Fund mainly consist of reimbursements for certain costs incurred in administering programs.

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.

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**Transfers**

Transfers for the year ended June 30, 2012 consisted of the following:

	<b>Transfers Out</b>				<b>Total</b>
	<b>Illinois Affordable Housing Trust</b>	<b>Administrative</b>	<b>Single Family Program</b>	<b>Mortgage Loan Program Fund</b>	
<b>Transfer in</b>					
Administrative	\$ -	\$ -	\$ 8,836	\$ -	\$ 8,836
Mortgage Loan Program	5,200,000	-	-	-	5,200,000
Single Family Program	-	878,170	-	-	878,170
Illinois Housing Authority, LLC	-	-	-	6,307,176	6,307,176
	<u>\$ 5,200,000</u>	<u>\$ 878,170</u>	<u>\$ 8,836</u>	<u>\$ 6,307,176</u>	<u>\$ 12,394,182</u>

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, 2012 totaled \$5,200,000. The \$878,170 transfer from the Administrative Fund to the Single Family Program Fund was to pay issuance and other costs of Housing Revenue Bonds.

There was a transfer of \$6,307,176 to the LLC during the year ended June 30, 2012 to account for the transfer of property from the Mortgage Loan Program Fund to the LLC.

**Note 5. Program Loans Receivable**

The Authority has loans throughout the State, of which approximately two-thirds are in the Chicago metropolitan area. The following summarizes the Program Loans Receivable activity for the Authority for the year ended June 30, 2012:

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	Net program loans receivable June 30, 2011	Loan disbursements	Loan repayments	Change in loan loss provision	Change in net deferred fees	Net program loans receivable June 30, 2012
(Dollars in thousands)						
Governmental Funds:						
Illinois Affordable Housing Trust Fund	\$ 308,926	\$ 8,020	\$ (9,070)	\$ 327	\$ -	\$ 308,203
HOME Program Fund	205,838	20,802	(2,267)	(254)	-	224,119
ARRA Program	71,560	1,529	(4)	10	-	73,095
Hardest Hit Fund	-	2,745	-	(1,372)	-	1,373
<b>Total Governmental Funds</b>	<b>\$ 586,324</b>	<b>\$ 33,096</b>	<b>\$ (11,341)</b>	<b>\$ (1,289)</b>	<b>\$ -</b>	<b>\$ 606,790</b>
Proprietary Funds:						
Administrative Fund	\$ 83,500	\$ 7,870	\$ (6,577)	\$ (2,242)	\$ (304)	\$ 82,247
Mortgage Loan Program Fund						
Housing Bonds	438,975	1,080	(29,914)	430	158	410,729
Multifamily Initiative Bonds	31,383	28,893	(9,510)	(5)	-	50,761
Multifamily Housing Revenue Bonds (Marywood)	10,933	-	-	(2,606)	-	8,327
Multifamily Bonds (Turnberry)	4,715	-	(67)	251	-	4,899
Affordable Housing Program						
Trust Fund Bonds	38,142	2,849	(2,893)	7	-	38,105
Total Mortgage Loan Program Fund	524,148	32,822	(42,384)	(1,923)	158	512,821
Single Family Program Fund	586,384	-	(80,044)	(10,363)	(1,009)	494,968
<b>Total Proprietary Funds</b>	<b>\$ 1,194,032</b>	<b>\$ 40,692</b>	<b>\$ (129,005)</b>	<b>\$ (14,528)</b>	<b>\$ (1,155)</b>	<b>\$ 1,090,036</b>

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 9 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 Housing 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 a portion of loans within its Housing Bond accounts, 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.

At June 30, 2012, 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 \$905,500 and \$960,569, 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

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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 account 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.

The Authority has a second mortgage agreement relating to a \$3.8 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 within the Mortgage Loan Program. 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 or upon sale of the development.

The Authority's policy for converting mortgage loans, except for loans financed under the Single Family Mortgage Loan Program, to non-accrual status is to discontinue the accrual of interest when a loan becomes 90 days past due. In addition, the Authority does not accrue interest income on loans in which payments are to be made from residual receipts of the development. Payments on such loans are recognized only as received. For loans receivable within the Single Family Mortgage Loan Program, the Authority accrues interest income on all loans unless they become Real Estate Owned properties, at which time the accrual is suspended.

As of June 30, 2012, the accrual of interest and service fee income was suspended on approximately \$2.1 million of mortgage loans in the Mortgage Loan Program Fund and such income was recognized only as received. Interest and service fee income due but not accrued was approximately \$458,000 in the Mortgage Loan Program Fund and \$136,000 in the Administrative Fund. In addition, the Authority does not accrue interest income on approximately \$13.3 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 \$296,000.

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

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the Administrative Fund. At June 30, 2012, loans receivable under this program were approximately \$853,000.

In June 1994, the Authority entered into a Risk Sharing Agreement (Agreement) with HUD that permitted the Authority to participate in HUD's 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% of the loss, as elected by the Authority, in the event of a foreclosure. The Authority will bear the remainder of the risk. The program's service and insurance fee incomes are recorded in the Administrative Fund.

The Authority, as of June 30, 2012, has entered into fifty-three Risk Sharing Loans totaling \$309,446,699 and elected that HUD assume 10% to 90% of the loss with respect to those loans. Eleven of these loans totaling \$67,412,699 were financed through the issuance of the Authority's Housing Bonds, twelve loans totaling \$79,620,000 were financed through the issuance of the Authority's Multifamily Initiative Bonds and one loan in the amount of \$15,460,000 was financed through the issuance of the Authority's Multi-Family Housing Revenue Bonds (Marywood). The remaining twenty-nine loans totaling \$146,954,000 are not included in the Authority's financial statements as the Authority sold 100% participation interests in the loans to outside parties.

Marywood Apartments Homes, L.P., the borrower for the Marywood Apartment Homes development, has defaulted under the loans made by the Authority, which include the Risk Sharing Loan within the Authority's Multi-Family Housing Revenue Bonds (Marywood) and loans within the Administrative Fund and Housing Bond Fund Accounts. The Authority has filed a foreclosure action and a claim with HUD for payment of the Risk Share Insurance. HUD has paid to the Authority during fiscal year 2009 the Risk Share Insurance and the Authority has taken the proceeds of the insurance and redeemed the Authority's Multi-Family Housing Revenue Bonds (Marywood). The Risk Share Insurance regulations required the Authority to issue to HUD a debenture, which bears interest at an annual rate of 5% and matures in five years, in the amount of \$14,884,996, which is the amount of the proceeds of the Risk Share Insurance provided by HUD.

Under the terms of the Risk Share insurance in respect to the above development, HUD will bear 50% of the loss on the Risk Sharing loan. The Authority has reviewed the program loans receivable pertaining to the Marywood Apartment Homes development, for the purpose of determining ultimate collectability, and believes that the allowances for estimated losses at June 30, 2012 in the accompanying financial statements are adequate to cover estimated losses of the loans.

At June 30, 2012 for loans financed under the Risk Sharing Program where the Authority sold 100% participation interests in the loans to outside parties, 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.

As of June 30, 2012, for mortgage loans insured with Ambac Assurance Corporation (Ambac Loans) on multi-family housing developments under the Authority's Mortgage Participation Certificate Program, the Authority has entered into eight Ambac Loans totaling \$32,392,200. Except for one loan in the amount of \$5,320,000 financed through the issuance of the Authority's Multifamily Bonds (Turnberry), these loans are not included in the Authority's financial statements as the Authority sold 100% participation interests in the loans to outside parties. 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. The

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agreement allows (or provides) the Authority to share its risk with Ambac on the aggregate loan portfolio after the satisfaction of certain requirements and thresholds.

At June 30, 2012, for loans financed under the Mortgage Participation Certificate Program where the Authority sold 100% participation interests in the loans to outside parties, 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 the mortgage loans funded by the Homeowner Mortgage Revenue Bonds, a substantial majority of all delinquent mortgage loans receivable at June 30, 2012, 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 0% 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 5.75%, 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, 2012 are as follows:

Interest rate %	Principal due by June 30				
	2013	2014 - 2018	2019 - 2028	After 2028	Total
	(Dollars in thousands)				
0 – 0.99	\$ 2,031	\$ 9,123	\$ 43,422	\$ 97,054	\$ 151,630
1 – 1.99	3,138	16,197	58,295	81,122	158,752
2 – 3.99	551	2,758	6,691	6,733	16,733
4 – 5.75	126	661	1,904	1,119	3,810
	<u>\$ 5,846</u>	<u>\$ 28,739</u>	<u>\$ 110,312</u>	<u>\$ 186,028</u>	<u>\$ 330,925</u>

Loans are made through the HOME Program in order to provide decent and affordable housing, particularly housing for low- and very low-income Americans. Interest rates on these loans are set at below market rates and have ranged from 0% to 6.50%, with most rates set at 2.0% or below. The approximate aging of the receivables of the HOME program as of June 30, 2012 are as follows:

Interest rate %	Principal due by June 30				
	2013	2014 - 2018	2019 - 2028	After 2028	Total
	(Dollars in thousands)				
0 – 0.99	\$ 270	\$ 3,826	\$ 27,321	\$ 30,391	\$ 61,808
1 – 1.99	1,336	15,384	63,866	73,488	154,074
2 – 3.99	365	2,038	3,627	4,278	10,308
4 – 6.50	160	1,015	3,842	905	5,922
	<u>\$ 2,131</u>	<u>\$ 22,263</u>	<u>\$ 98,656</u>	<u>\$ 109,062</u>	<u>\$ 232,112</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, 2012 in the accompanying financial

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statements are adequate to cover estimated losses of the various funds. The following summarizes the changes in the allowance for estimated losses on program loans receivable during the year ended June 30, 2012:

	<b>Allowance for estimated losses June 30, 2011</b>	<b>Provision for estimated losses</b>	<b>Write-offs of uncollectible losses, net of recoveries</b>	<b>Allowance for estimated losses June 30, 2012</b>
	(Dollars in thousands)			
Illinois Affordable Housing Trust Fund	\$ 23,050	\$ 1,774	\$ (2,101)	\$ 22,723
HOME Program Fund	7,739	255	-	7,994
ARRA Fund	453	(10)	-	443
Hardest Hit Fund	-	1,372	-	1,372
<b>Total governmental funds</b>	<b>\$ 31,242</b>	<b>\$ 3,391</b>	<b>\$ (2,101)</b>	<b>\$ 32,532</b>
Administrative Fund	\$ 4,508	\$ 2,242	\$ -	\$ 6,750
Mortgage Loan Program Fund	14,810	1,922	-	16,732
Single Family Program Fund	2,282	10,363	-	12,645
<b>Total proprietary funds</b>	<b>\$ 21,600</b>	<b>\$ 14,527</b>	<b>\$ -</b>	<b>\$ 36,127</b>

State statute requires that all uncollected receivables due that exceed \$1,000 be submitted to the Attorney General to be certified as uncollectible before the Authority can delete such receivables from its records. As of June 30, 2012, the Authority has requested thirty-six such certifications totaling \$7,429,160, all for loans within the Illinois Affordable Housing Trust Fund. Additional certification requests are anticipated to be filed as loss amounts are determined following the conclusion of foreclosure or other loss mitigation activities. The Authority has established provisions for estimated losses against such loans requested and to be requested for such certifications in amounts equal to the outstanding principal balances of the loans.

Scheduled receipts of principal on proprietary fund program loans receivable in the five years subsequent to June 30, 2012 and thereafter are as follows (dollars in thousands):

2013	\$ 41,539
2014	78,466
2015	39,845
2016	36,925
2017	70,178
After 2018	859,210
	<b>\$ 1,126,163</b>

Amounts recorded as due from the Federal National Mortgage Association ("FNMA") and the Federal Home Loan Mortgage Corporation ("FHLMC") in the Mortgage Loan Program represent the disbursed bond proceeds and accrued interest on certain bond issues which are secured by credit enhancements provided by FNMA and FHLMC. Under these obligations, the bond trustee may draw funds from FNMA and FHLMC when needed and in amounts sufficient to make timely payments of principal and interest on the bond issues when due and payable.



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**Note 6. Real Estate Held for Sale**

An analysis of other real estate owned is as follows:

	Mortgage Loan Program	Single Family Program	Total
Balance at 6/30/11	\$ 50,530	\$ 8,080,029	\$ 8,130,559
Transfers of loans	70,994	5,125,859	5,196,853
Adjustment to realizable value	-	773,197	773,197
Proceeds received	(13,063)	(2,456,770)	(2,469,833)
Balance at 6/30/12	<u>\$ 108,461</u>	<u>\$ 11,522,315</u>	<u>\$ 11,630,776</u>

**Note 7. Capital Assets**

Capital asset activity for the year ended June 30, 2012 for governmental activities was as follows:

	Balance June 30, 2011	Additions	Deletions	Balance June 30, 2012
<b><u>Cost</u></b>				
Capital Assets Being Depreciated:				
Furniture and Equipment	\$ 50,000	\$ 99,440	\$ -	\$ 149,440
Total Capital Assets Being Depreciated	<u>50,000</u>	<u>99,440</u>	<u>-</u>	<u>149,440</u>
<b><u>Accumulated Depreciation</u></b>				
Furniture and Equipment	1,389	32,004	-	33,393
Total Accumulated Depreciation	<u>1,389</u>	<u>32,004</u>	<u>-</u>	<u>33,393</u>
<b><u>Capital Assets, Net of Depreciation</u></b>	<u>\$ 48,611</u>	<u>\$ 67,436</u>	<u>\$ -</u>	<u>\$ 116,047</u>

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Capital asset activity for the year ended June 30, 2012 for business-type activities was as follows:

	Balance June 30, 2011	Additions	Deletions	Balance June 30, 2012
<b><u>Cost</u></b>				
<u>Illinois Housing Authority, LLC</u>				
Land	\$ -	\$ 2,600,000	\$ -	\$ 2,600,000
<b><u>Capital Assets Being Depreciated</u></b>				
<u>Administrative Fund</u>				
Furniture and Equipment	1,677,630	166,717	5,330	1,839,017
<u>Mortgage Loan Program Fund</u>				
Real Estate	41,224,690	289,006	-	41,513,696
<u>Illinois Housing Authority, LLC</u>				
Building	-	3,600,000	-	3,600,000
Total Capital Assets Being Depreciated	42,902,320	4,055,723	5,330	46,952,713
Total Capital Assets	42,902,320	6,655,723	5,330	49,552,713
<b><u>Accumulated Depreciation</u></b>				
<u>Administrative Fund</u>				
Furniture and Equipment	1,602,532	39,542	5,330	1,636,744
<u>Mortgage Loan Program Fund</u>				
Real Estate	14,211,000	800,000	-	15,011,000
<u>Illinois Housing Authority, LLC</u>				
Building	-	72,727	-	72,727
Total Accumulated Depreciation	15,813,532	912,269	5,330	16,720,471
<b><u>Capital Assets, Net of Depreciation</u></b>	<b>\$ 27,088,788</b>	<b>\$ 5,743,454</b>	<b>\$ -</b>	<b>\$ 32,832,242</b>

**Note 8. Bonds and Notes Payable**

Bonds and notes outstanding are general obligations (G.O.) of the Authority with the exception of Homeowner Mortgage Revenue Bonds, Housing Revenue Bonds, Multifamily Initiative Bonds, Affordable Housing Program Trust Fund Bonds and Multi-family Bonds (Turnberry), which are special limited obligations (S.L.O.) of the Authority. Certain bonds are payable from pledged property as defined in their respective general resolutions. Housing Revenue Bonds are payable from pledged mortgage-backed securities. Certain issues of Multifamily Initiative Bonds are credit enhanced by Fannie Mae and Freddie Mac. 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.

The Authority has pledged future mortgage loan revenues, net of specified operating expenses, to repay the outstanding \$1.1 billion (principal) in S.L.O. Bonds as noted in the following schedules for the Mortgage Loan Program and Single Family Program Funds. The total principal and interest remaining to be paid on the S.L.O. Bonds is \$1.7 billion. For bonds payable from pledged property, interest paid for the current year was \$37.2 million, and total related mortgage loan principal and interest received were \$105.8 million and \$32.0 million, respectively.

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Bonds and notes outstanding at June 30, 2012 are as follows. The June 30, 2011 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	
				2012	2011
Housing Bonds:					
1999 Series A	2013-2031	4.75-5.25 %	G.O.	\$ 4,750,000	\$ 7,880,000
2003 Series A	2013-2046	4.00-5.05	G.O.	17,775,000	18,255,000
2003 Series B	2013-2041	3.55-5.05	G.O.	33,925,000	36,595,000
2003 Series C	2013-2035	4.00-4.95	G.O.	4,190,000	4,490,000
2004 Series A	2013-2040	2.90-4.70	G.O.	17,325,000	18,445,000
2004 Series B(1)	2013-2035	Variable	G.O.	4,600,000	5,450,000
2004 Series C	2013-2045	4.30-5.45	G.O.	9,895,000	10,385,000
2005 Series A	2013-2036	3.45-4.60	G.O.	18,305,000	19,405,000
2005 Series B (Taxable)	2013	4.95-5.02	G.O.	-	140,000
2005 Series C	2015-2042	4.38-5.00	G.O.	10,075,000	10,210,000
2005 Series D	2013-2048	4.88	G.O.	6,325,000	6,385,000
2005 Series E	2013-2036	3.65-4.80	G.O.	24,375,000	24,760,000
2005 Series F (Taxable)	2013-2029	4.95-5.84	G.O.	13,235,000	14,120,000
2006 Series A	2013-2039	4.20-5.05	G.O.	7,655,000	7,790,000
2006 Series B	2013-2047	4.75-5.00	G.O.	12,965,000	13,130,000
2006 Series D	2013-2042	4.85-5.00	G.O.	5,920,000	5,985,000
2006 Series E	2013-2042	4.10-4.95	G.O.	7,720,000	7,820,000
2006 Series F	2013-2047	4.10-5.00	G.O.	3,595,000	3,680,000
2006 Series G	2013-2037	3.95-4.85	G.O.	33,360,000	40,400,000
2006 Series H (Taxable)	2013-2029	5.31-6.06	G.O.	8,605,000	9,195,000
2006 Series I	2013-2049	4.70-4.85	G.O.	7,045,000	7,100,000
2006 Series J	2013-2049	4.50-5.00	G.O.	3,385,000	3,415,000
2006 Series K	2013-2024	3.95-4.60	G.O.	2,435,000	2,685,000
2006 Series M	2013-2048	3.75-4.50	G.O.	11,985,000	12,110,000
2007 Series A	2013-2048	3.90-5.55	G.O.	4,700,000	5,100,000
2007 Series C	2013-2045	3.90-5.38	G.O.	9,395,000	9,490,000
2007 Series D	2013-2043	3.75-5.05	G.O.	20,615,000	31,470,000
2007 Series E (Taxable)	2013-2033	5.66-6.54	G.O.	7,785,000	8,190,000
2007 Series F	2013-2044	4.70-5.35	G.O.	6,560,000	6,635,000
2007 Series G	2013-2044	4.70-5.35	G.O.	5,460,000	5,525,000
2008 Series A(1)	2027	Variable	G.O.	13,090,000	13,450,000
2008 Series B(1)	2013-2028	Variable	G.O.	33,285,000	34,585,000
2008 Series C(1)	2042	Variable	G.O.	5,270,000	5,350,000
				<u>375,605,000</u>	<u>409,625,000</u>
Less unamortized discount thereon				129,073	132,444
Less deferred loss on refunding				5,074,700	6,413,184
Plus deferred gain on refunding				630,080	766,182
Total Housing Bonds				<u>371,031,307</u>	<u>403,845,554</u>

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	Maturity dates	Interest rate range %	Debt class	Amount	
				June 30	
				2012	2011
Multifamily Initiative Bonds <sup>(2)</sup> :					
Series 2009A	2013	Variable %	S.L.O.	\$ -	\$ 121,550,000
Series 2009B	2013-2051	3.50	S.L.O.	30,730,000	34,670,000
Series 2009C	2013-2051	3.01	S.L.O.	22,430,000	27,860,000
Series 2009D	2013-2041	3.48	S.L.O.	59,500,000	-
Series 2009E	2013-2042	2.32	S.L.O.	7,700,000	-
Series 2009F	2013-2041	2.32	S.L.O.	5,770,000	-
Series 2009G	2013-2041	2.32	S.L.O.	8,640,000	-
Series 2009H	2013-2041	2.32	S.L.O.	11,230,000	-
Series 2009I	2015-2051	2.32	S.L.O.	9,570,000	-
Series 2009J	2014-2043	1.47	S.L.O.	19,090,000	-
Total Multifamily Initiative Bonds				<u>174,660,000</u>	<u>184,080,000</u>
Multifamily Housing Revenue Bonds:					
Marywood Apartment Homes					
HUD Riskshare Debenture	2014	5.00	G.O	<u>14,884,996</u>	<u>14,884,996</u>
Multifamily Bonds:					
Turnberry Village II Apartments	2013-2045	4.50-4.75	S.L.O.	<u>4,935,000</u>	<u>4,995,000</u>
Affordable Housing Program					
Trust Fund Bonds:					
Series 2004	2013-2026	5.50-6.21	S.L.O.	33,420,000	34,910,000
Series 2005 A	2013-2027	5.60-6.35	S.L.O.	<u>23,870,000</u>	<u>25,145,000</u>
Total Affordable Housing Program Trust Fund Bonds				<u>57,290,000</u>	<u>60,055,000</u>
Total Mortgage Loan Program Fund				<u>\$ 622,801,303</u>	<u>\$ 667,860,550</u>

- (1) In accordance with the indenture, interest rates on the bonds are determined weekly and are paid monthly at a rate established by the Remarketing Agents on each Rate Determination Date. The variable rates paid on the subject bonds ranged from .18 to .23% at June 30, 2012. Pursuant to the liquidity agreements, the bonds are subject for purchase by liquidity providers (Liquidity Providers) in the event of a tender by bondholders (Bank Bonds). Subject to other provisions within the liquidity agreements, the Bank Bonds will bear interest at a rate specified within the agreements and continue to be subject for remarketing by Remarketing Agents. In the event the Remarketing Agents are unable to remarket the Bank Bonds over a certain period of time, the Bank Bonds are subject to a put whereby the Authority is required to purchase and redeem the Bank Bonds over a period stated within the agreements. The Authority has a take-out agreement with the liquidity providers to convert the bonds to an installment loan payable over a three-to-five year period. The interest rate that is to be paid during the liquidity and the put periods is 1 Month LIBOR plus 50 basis points for the Housing Bonds 2004 Series B, and the higher of 7.5%, Prime Rate or Adjusted One Month LIBOR rate for the Housing Bonds 2008 A, B and C. The liquidity agreements for Housing Bonds 2004 Series B and Housing Bonds 2008 A, B and C will expire on March 31, 2014 and April 30, 2014, respectively. The bonds and Bank Bonds are general obligations of the Authority and the timely payment of principal and interest on the bonds and Bank Bonds are subject to the credit enhancement agreements with credit enhancement providers (Enhancement Providers). The Authority has a general obligation to reimburse the Liquidity Providers and Enhancement Providers for any such payments made.
- (2) In December 2009, the Authority participated in the Treasury Program by issuing \$184 million of Multifamily Initiative bonds held in escrow to be converted to long-term fixed rate and used to fund and finance multifamily developments within the Mortgage Loan Program Fund. The Treasury Program provided the Authority the ability to convert the proceeds from the Bonds held in escrow and required the Authority to convert all funds held in escrow before December 31, 2012. The Authority has converted all \$184 million in proceeds under this program to long-term fixed rate bonds.

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**Single Family Program Fund**

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

	<u>Maturity dates</u>	<u>Interest rate range %</u>	<u>Debt class</u>	<u>Amount</u>	
				<u>June 30</u>	
				<u>2012</u>	<u>2011</u>
Residential Mortgage Revenue Bonds:					
1983 Series A	2015	10.872 %	G.O.	\$ 3,803	\$ 3,421
1983 Series B	2015	10.746	G.O.	3,815	3,436
1984 Series B	2016	11.257	G.O.	3,377	3,027
1985 Series A	2017	10.75	G.O.	3,094	2,786
1987 Series B	2015	8.13	G.O.	100,000	100,000
1987 Series C	2014	7.50	G.O.	100,000	100,000
1987 Series D	2018	8.65	G.O.	100,000	100,000
Total Residential Mortgage Revenue Bonds				<u>\$ 314,089</u>	<u>\$ 312,670</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:

<u>Series</u>	<u>Redemption basis and period</u>	<u>Original issue amount (1)</u>	<u>Accreted value</u>		<u>Aggregate value to be redeemed</u>
			<u>June 30</u>		
			<u>2012</u>	<u>2011</u>	
1983 Series A	Maturity 2/1/15	\$ 180	\$ 3,803	\$ 3,421	\$ 5,000
1983 Series B	Maturity 2/1/15	193	3,815	3,436	5,000
1984 Series B	Maturity 2/1/16	166	3,377	3,027	5,000
1985 Series A	Maturity 2/1/17	190	3,094	2,786	5,000

(1) Amounts reflect original issue amounts of capital appreciation bonds outstanding as of June 30, 2012.

	<u>Maturity dates</u>	<u>Interest rate range %</u>	<u>Debt class</u>	<u>Amount</u>	
				<u>June 30</u>	
				<u>2012</u>	<u>2011</u>
Housing Revenue Bonds:					
Series 2011-1A	2013-2041	3.285 %	S.L.O.	\$ 16,957,604	\$ -
Series 2011-1B	2013-2041	3.285	S.L.O.	40,568,963	-
Series 2011-1C	2013-2041	3.285	S.L.O.	7,500,000	-
				65,026,567	-
Plus unamortized premium thereon				1,078,452	
Less unamortized discount thereon				963,750	
Total Housing Revenue Bonds				<u>\$ 65,141,269</u>	<u>\$ -</u>

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	Maturity dates	Interest rate range %	Debt class	Amount	
				June 30	
				2012	2011
Homeowner Mortgage					
Revenue Bonds:					
1998 Series A (Taxable)	2013-2016	6.45-6.52	S.L.O.	\$ 1,120,000	\$ 1,390,000
1998 Series D (remarketed 10/7/98)	2013-2018	5.00	S.L.O.	4,530,000	4,925,000
1998 Series D (remarketed 12/17/98)	2013-2018	5.05	S.L.O.	2,585,000	2,790,000
1998 Series D (remarketed 4/29/99)	2013-2018	5.10	S.L.O.	4,880,000	5,300,000
1998 Series G	2013-2030	5.00-5.25	S.L.O.	-	10,500,000
2001 Series A	2013-2019	4.70-5.35	S.L.O.	-	7,145,000
2001 Series C	2013-2018	4.55-5.10	S.L.O.	4,705,000	5,760,000
2001 Series E	2013-2018	5.00-5.20	S.L.O.	-	5,680,000
2001 Series F (Taxable) (1)	2016-2021	Variable	S.L.O.	10,000,000	10,000,000
2002 Series B (Taxable) (2)	2013-2023	Variable	S.L.O.	4,295,000	4,655,000
2002 Series C	2013-2032	4.00-5.30	S.L.O.	29,555,000	30,775,000
2003 Series B	2013-2034	3.90-5.15	S.L.O.	23,000,000	25,775,000
2004 Series A	2013-2035	3.15-4.75	S.L.O.	17,950,000	20,585,000
2004 Series A-3 (3)	2026-2035	Variable	S.L.O.	10,675,000	10,675,000
2004 Series C	2013-2035	4.15-5.35	S.L.O.	43,530,000	47,975,000
2004 Series C-3 (3)	2025-2035	Variable	S.L.O.	16,000,000	16,000,000
2005 Series A	2013-2036	3.50-5.00	S.L.O.	26,650,000	31,560,000
2005 Series A-3 (3)	2025-2036	Variable	S.L.O.	20,000,000	20,000,000
2005 Series C	2013-2036	3.55-5.25	S.L.O.	63,715,000	71,850,000
2006 Series A	2013-2037	3.80-5.00	S.L.O.	52,345,000	61,580,000
2006 Series C	2013-2038	4.05-5.15	S.L.O.	87,920,000	101,380,000
2007 Series A	2013-2038	4.00-4.90	S.L.O.	52,625,000	57,970,000
2007 Series D	2013-2039	4.25-5.35	S.L.O.	47,690,000	54,015,000
2007 Series H (remarketed 1/30/08)	2013-2039	3.25-5.20	S.L.O.	46,585,000	51,070,000
2008 Series A	2013-2039	3.15-5.20	S.L.O.	5,695,000	6,845,000
2009 Series B (4)	2013	Variable	S.L.O.	179,000,000	179,000,000
2009 Series B-1 (4)	2028-2042	3.70	S.L.O.	18,510,000	21,000,000
2011 Series A	2013-2019	1.60-4.30	S.L.O.	8,710,000	11,000,000
2011 Series B	2013-2029	1.20-5.00	S.L.O.	12,170,000	14,000,000
				<u>794,440,000</u>	<u>891,200,000</u>
Plus unamortized premium thereon				1,055,471	1,210,175
Total Homeowner Mortgage Revenue Bonds				<u>795,495,471</u>	<u>892,410,175</u>
Total Single Family Program Fund				<u>\$ 860,950,829</u>	<u>\$ 892,722,845</u>

(1) In accordance with the indenture, interest rates on the bonds are determined and paid monthly based upon an index of one month LIBOR rate plus 0.40% for 2001 Series F. The variable rates paid on the subject bonds was .63875% at June 30, 2012. The Authority has entered into pay-fixed, receive variable, interest rate

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swap agreements in connection with these bonds, the objective of which is to establish a maximum debt service which may be paid over the life of the underlying bonds.

(2) In accordance with the indenture, interest rates on the bonds are determined and paid semi-annually based upon an index of one month LIBOR rate plus 0.415%. The variable rates paid on the subject bonds was .6538% at June 30, 2012.

(3) In accordance with the indenture, interest rates on the bonds are determined weekly and are paid monthly at a rate established by the Remarketing Agents on each Rate Determination Date. The variable rates paid on the subject bonds ranged from .18% to .23 % at June 30, 2012. Pursuant to the liquidity agreements, the bonds are subject for purchase by liquidity providers (Liquidity Providers) in the event of a tender by bondholders (Bank Bonds). Subject to other provisions within the liquidity agreements, the Bank Bonds will bear interest at a rate specified within the agreements and continue to be subject for remarketing by Remarketing Agents. In the event the Remarketing agents are unable to remarket the Bank Bonds over a certain period of time, the Bank Bonds are subject to a put whereby the Authority is required to purchase and redeem the Bank Bonds over a period stated within the agreements. The Authority has a take-out agreement with the liquidity providers to convert the bonds to an installment loan payable over a three-to-five year period. The interest rate that is to be paid during the liquidity and the put periods is 1 Month LIBOR plus 50 basis points for the Homeowner Mortgage Revenue Bonds (HMRB) 2004 Subseries A-3, and 3 Month LIBOR plus 150 basis points for the HMRB 2004 Subseries C-3 and the HMRB 2005 Subseries A-3. The liquidity agreements for HMRB 2004 Subseries A-3, HMRB 2004 Subseries C-will expire on March 16, 2014, July 13, 2015, respectively. The current liquidity agreement for HMRB 2005 Subseries A-3 expires on March 10, 2013 and will be renewed.

The Bank Bonds are general obligations of the Authority and the timely payment of principal and interest on some bonds are subject to the credit enhancement agreements with credit enhancement providers (Enhancement Providers). The Authority has a general obligation to reimburse the Liquidity Providers and Enhancement Providers for any such payments made.

(4) In December 2009, the Authority participated in the Treasury Program by issuing \$200 million of Homeowner Mortgage Revenue bonds held in escrow to be converted to long-term fixed rate and used to fund and finance single family loans within the Single Family Program Fund. The Treasury Program provided the Authority the ability to convert, up to three times, the proceeds from the Bonds held in escrow. It also required the Authority to convert all funds held in escrow before December 31, 2010. On September 1, 2010, Treasury amended the Treasury Program by extending it from December 31, 2010 to December 31, 2011 and subsequently extended the program to December 31, 2012. The amended Treasury Program also provides the Authority the ability to convert three additional times (or six in aggregate) to long-term fixed rate bonds and also allows for a lower rate to be paid on the roll out of the long-term fixed rate bonds. Any funds remaining in escrow on December 31, 2012 are subject to a mandatory tender.

**Administrative Fund**

Outstanding debt of the Administrative Fund is as follows:

	Maturity date	Interest rate	Debt class	Amount	
				June 30	
				2012	2011
Term loans	2012	1.79-5.45%	Loan	\$ -	\$ 7,900,000
Federal Home Loan Bank Advances:					
	2012	0.15%	Loan	5,000,000	-
	2022	2.31%	Loan	7,000,000	-
	2022	2.32%	Loan	15,670,000	-
Total Administrative Fund				<u>\$ 27,670,000</u>	<u>\$ 7,900,000</u>

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The following summarizes the debt activity for the Authority's proprietary funds for the year ended June 30, 2012:

	<u>June 30, 2011</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2012</u>	<u>Amount due within one year</u>
Administrative Fund	\$ 7,900,000	\$ 27,670,000	\$ (7,900,000)	\$ 27,670,000	\$ 5,000,000
Mortgage Loan Program Fund:					
Housing Bonds	409,625,000	-	(34,020,000)	375,605,000	16,085,000
Discount on Housing Bonds	(132,444)	-	3,371	(129,073)	-
Deferred loss on refunding					
Housing Bonds	(6,413,184)	-	1,338,484	(5,074,700)	-
Deferred gain on refunding					
Housing Bonds	766,182	-	(136,102)	630,080	-
Multifamily Initiative Bonds	184,080,000	121,550,000	(130,970,000)	174,660,000	8,530,000
Multifamily Housing Revenue					
Bonds (Marywood)	14,884,996	-	-	14,884,996	-
Multifamily Bonds (Turnberry II)	4,995,000	-	(60,000)	4,935,000	70,000
Affordable Housing Program					
Trust Fund Bonds	60,055,000	-	(2,765,000)	57,290,000	2,950,000
Total Mortgage	<u>667,860,550</u>	<u>121,550,000</u>	<u>(166,609,247)</u>	<u>622,801,303</u>	<u>27,635,000</u>
Loan Program Fund					
Single Family Program Fund:					
Residential Mortgage					
Revenue Bonds	312,670	1,419	-	314,089	-
Homeowner Mortgage					
Revenue Bonds	891,200,000	-	(96,760,000)	794,440,000	209,525,000
Premium on Homeowner Mortgage					
Revenue Bonds	1,210,175	-	(154,704)	1,055,471	-
Housing Revenue Bonds	-	67,638,829	(2,612,262)	65,026,567	1,053,206
Premium on Housing Revenue Bonds	-	1,143,997	(65,545)	1,078,452	-
Discount on Housing Revenue Bonds	-	(975,000)	11,250	(963,750)	-
Total Single Family	<u>892,722,845</u>	<u>67,809,245</u>	<u>(99,581,261)</u>	<u>860,950,829</u>	<u>210,578,206</u>
Program Fund					
Total Proprietary Funds	<u>\$ 1,568,483,395</u>	<u>\$ 217,029,245</u>	<u>\$ (274,090,508)</u>	<u>\$ 1,511,422,132</u>	<u>\$ 243,213,206</u>

**Debt Covenant Compliance**

The Authority covenants in its various bond indentures to provide audited financial statements to the trustees named by the bond indentures within 120 days following the end of its fiscal year. The delivery of the audited financial statements with respect to the fiscal year ended on June 30, 2012 was delayed by approximately 46 days for non-financial purposes. The delay does not result in any adverse consequences to the Authority under the bond indentures.

**Defeased Debt**

The Authority has defeased debt by placing the proceeds of new bonds and other amounts in an irrevocable trust to provide for all future debt service payments of the old bonds. At June 30, 2012, the following outstanding bonds are considered defeased.



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<u>Issue</u>	<u>Amount</u>
Insured Mortgage Housing Development Bonds, 1976 Series A	\$ 2,290,000
Multi-Family Housing Bonds, 1981 Series A	22,040,000
	<u>\$ 24,330,000</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 and the related mortgage loans 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, 2012, there were forty series of such bonds or notes outstanding, with an aggregate principal amount payable of \$377,607,815.

***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>
Affordable Housing Program Trust Fund 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.
Housing Bonds	The amount established by each series resolution, currently six months of maximum principal and interest payments.
Multifamily Initiative Bonds	The maximum amount of principal and interest due on any interest payment date excluding the final interest payment date.
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 of related mortgage loans and (ii) the amount on deposit to the credit of series program accounts of 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

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Authority. At June 30, 2012, these amounts, which were not less than the amounts required, are as follows:

Housing Bonds	\$ 18,155,165
Multifamily Initiative Bonds	1,998,520
Homeowner Mortgage Revenue Bonds	<u>19,724,274</u>
	<u>\$ 39,877,959</u>

In addition to the above, the debt service reserve requirements of the following bond issues are satisfied by surety arrangements.

<u>Issue</u>	<u>Valuation</u>
Housing Bonds, 2003 Series C	\$ 260,000
Housing Bonds, 2004 Series B	500,000
Multifamily Bonds, Series 2003 (Tumberry II)	Not Applicable
Affordable Housing Program Trust Fund Bonds, Series 2004 and 2005A	6,499,659

Debt service requirements (dollars in millions) through 2017 and in five-year increments thereafter to maturity for the Authority's proprietary funds are as follows:

	<u>Administrative Fund</u>		<u>Mortgage Loan Program Fund</u>		<u>Single Family Program Fund</u>		<u>Total</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal*</u>	<u>Interest</u>	<u>Principal*</u>	<u>Interest</u>
Year ending June 30:								
2013	\$ 5.0	\$ 0.5	\$ 27.6	\$ 25.1	\$ 210.6	\$ 29.1	\$ 243.2	\$ 54.7
2014	-	0.5	36.5	24.4	20.6	28.8	57.1	53.7
2015	-	0.5	22.5	22.8	22.7	28.2	45.2	51.5
2016	-	0.5	22.8	21.8	24.1	27.5	46.9	49.8
2017	-	0.5	20.5	20.9	26.1	26.6	46.6	48.0
Five years ending June 30:								
2018-2022	7.0	2.5	97.8	91.4	111.4	115.6	216.2	209.5
2023-2027	15.7	0.1	103.8	71.1	113.4	87.9	232.9	159.1
2028-2032	-	-	76.4	53.6	140.3	60.9	216.7	114.5
2033-2037	-	-	86.4	36.7	147.4	26.7	233.8	63.4
2038-2042	-	-	93.0	19.3	43.2	2.8	136.2	22.1
2043-2047	-	-	32.1	4.6	-	-	32.1	4.6
2048-2052	-	-	8.1	0.6	-	-	8.1	0.6
	<u>\$ 27.7</u>	<u>\$ 5.1</u>	<u>\$ 627.5</u>	<u>\$ 392.3</u>	<u>\$ 859.8</u>	<u>\$ 434.1</u>	<u>\$ 1,515.0</u>	<u>\$ 831.5</u>

\*Includes capital appreciation bonds at their final redemption values.

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## Notes to Financial Statements

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**Derivatives**

The incurring of obligations by the Authority involves a variety of interest rate payments and other risks, for which a variety of financial instruments are available to offset, hedge, or reduce these payments and risks. It is the policy of the Authority to utilize Risk Management Agreements to better manage its assets and liabilities. The Authority may execute Risk Management Agreements if the transaction can be expected to result in at least one of, but not limited to, the following:

- a) The reduction of exposure to changes in interest rates on a particular financial transaction;
- b) A lower net cost of borrowing with respect to the Authority's debt;
- c) The management of variable interest rate exposure consistent with prudent debt practices;
- d) The achievement of more flexibility meeting overall financial and programmatic objectives that cannot be achieved in conventional markets.

The Authority, as of June 30, 2012 has one active swap contract, three active interest rate caps and one forward (pending) interest rate cap. Details are shown in the following tables.

Business-type activities	Changes in Fair Value		Fair Value at June 30, 2012		Notional
	Classification	Amount	Classification	Amount	
Cash flow hedges:					
Pay-fixed interest rate swap:					
Series 2001 F	Deferred outflow	\$ (599,295)	Debt*	\$ (3,182,942)	\$ 10,000,000
Rate caps	Deferred inflow	(320,337)	Debt**	107,270	64,735,000

\* The fair value is classified as derivative instrument liability

\*\* The fair value is classified as derivative instrument asset

The fair value of the interest rate swap was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swaps.

The fair value of the interest rate swap and rate caps were estimated using data provided by the counterparties.

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<b>Associated bond issue</b>	<b>Notional amounts</b>	<b>Effective date</b>	<b>Fixed rate paid (3)</b>	<b>Variable rate received</b>	<b>Fair values(1)</b>	<b>Termination date</b>	<b>Counter-party credit rating(2)</b>
Active Swap contract:							
HMRB*:							
Series 2001 F	\$ 10,000,000	01/2002	6.615	%1 mo LIBOR +40bp	\$ (3,182,942)	08/2020	A-/Baa2
Active Interest Rate Caps:							
HB**:							
Series 2008 A	13,090,000	01/2008	5.75	N/A	0	12/2012	A+/Aa3
Series 2008 A (4)	13,090,000	01/2013	5.75	N/A	27,800	12/2017	AA-/Aa1
Series 2008 B	33,285,000	07/2011	5.50	N/A	20,916	06/2016	A/A2
Series 2008 C	5,270,000	06/2006	4.75	N/A	58,554	06/2021	A/A3

\*Homeowner Mortgage Revenue Bonds

\*\*Housing Bonds

(1) includes accrued interest.

(2) Standard & Poors/Moody's

(3) Represents rate for swap and cap rate for interest rate caps.

(4) Series 2008 A cap was entered into with a trade date of 2/15/12 and an effective date of 1/2/2013. The fair value of the cap is shown as of 6/30/12.

To protect against the potential of rising interest rates, the Authority has entered into one pay-fixed, receive variable, interest rate swap agreement, 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 four interest rate cap agreements, the objective of which is to establish a maximum debt service which may be paid over the life of the underlying bonds.

The terms, fair values, and credit ratings of the outstanding agreements as of June 30, 2012 are shown in the above table. The notional amount of the swap and caps match the principal amount of the associated debt.

The Authority's swap and cap agreements contains scheduled reductions to outstanding notional amounts that are expected to approximately follow scheduled or an anticipated reduction in the associated bonds payable category.

Because interest rates have declined since the implementation of the swap agreement, it had negative fair value as of June 30, 2012. The negative fair value 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.

As of June 30, 2012, the Authority was not exposed to credit risk for the swap that had negative fair value. As interest rates change and the fair value becomes positive, the Authority is exposed to credit risk in the amount of the swap's or cap's fair value. The Authority is exposed to credit risk on the caps with positive fair value (2008 A, 2008 B, and 2008 C). The aggregate fair value of hedging derivative instruments with positive fair value at June 30, 2012 was \$107,270. This represents the maximum loss that would be recognized at the reporting date if all counterparties failed to perform as contracted. Fair value is a factor only upon termination.

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

The Authority or the counter-party may terminate the swap agreement if the other party fails to perform under the terms of the agreement. 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 agreement. The Authority is exposed to rollover risk on hedging derivative instruments that are hedges of debt that mature or may be terminated prior to the maturity of the hedged debt. When these hedging derivative instruments terminate, the Authority will be re-exposed to the risks being hedged by the hedging derivative instrument. The Authority is exposed to rollover risk on the caps which have termination dates that occur prior to the final maturity of the related bonds.

As of June 30, 2012, 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:

<b>Illinois Housing Development Authority</b>				
<b>Derivative Payments and Associated Debt</b>				
	<b>Variable-rate bonds</b>		<b>Interest rate</b>	
	<b>Principal</b>	<b>Interest</b>	<b>swap, net</b>	<b>Total</b>
Year ending June 30:				
2013	\$ 1,845,000	\$ 175,323	\$ 597,625	\$ 2,617,948
2014	1,950,000	171,633	597,625	2,719,258
2015	2,060,000	167,753	597,625	2,825,378
2016	3,070,000	163,759	597,625	3,831,384
2017	4,290,000	149,981	507,981	4,947,962
Five years ending June 30:				
2022	19,935,000	497,300	836,675	21,268,975
2027	24,260,000	267,809	-	24,527,809
2032	5,415,000	57,459	-	5,472,459
2037	2,060,000	26,479	-	2,086,479
2042	1,360,000	8,200	-	1,368,200
Total	<u>\$ 66,245,000</u>	<u>\$ 1,685,696</u>	<u>\$ 3,735,156</u>	<u>\$ 71,665,852</u>

As rates vary, variable-rate bond interest payments and net swap payments will vary.

**Note 9. 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 5). 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.

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**Note 10. Leases**

The Authority leases office facilities at two locations, 401 N. Michigan Ave. (401 facility) and 122 S. Michigan Ave. (122 facility) in Chicago, Illinois.

The lease for the 401 facility extends through July 31, 2016 and provides the Authority two successive five-year options to extend the lease beyond that date and, during certain time periods, to lease additional office facilities. The office lease provides for annual base rent of approximately \$895,000 for fiscal year 2012, plus approximately \$898,000 for the Authority's 7.16% share of ownership taxes and operating expenses, which also are subject to adjustment, based on the actual costs incurred by the lessor. Under this lease, total rent expense for fiscal year 2012 was \$1,625,054.

The 122 facility is leased through July 31, 2016 under a space utilization agreement with another Illinois agency. Total rent expense under this agreement for fiscal year 2012 was \$321,241.

The future minimum lease commitments of the two leases in the five years subsequent to June 30, 2012 are as follows:

<u>Year</u>	<u>401 Facility</u>	<u>122 Facility</u>
2013	\$ 921,835	\$ 330,634
2014	948,236	342,657
2015	974,636	353,928
2016	1,001,036	364,073
2017	83,603	31,279
	<u>\$ 3,929,346</u>	<u>\$ 1,422,571</u>

**Note 11. Other Liabilities**

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, 2012, is an estimated rebate liability of \$252,688.

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. Insurance coverage has not changed significantly since the prior year.

**Note 12. 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

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June 30, 2012

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 2012 was \$15,800,716. The Authority's contributions were calculated using the base salary amount of \$15,340,000. The Authority contributed \$920,400 or 6% of the base salary amount, in fiscal year 2012. Employee contributions amounted to \$948,236 in fiscal year 2012, or approximately 6.2% of the base salary amount.

**Note 13. Commitments**

At June 30, 2012, unexpended funds held by the Authority in the form of cash and investments amounting to \$29,423,047 in the Multifamily Initiative Bond accounts were identified for the purpose of constructing and rehabbing properties. At June 30, 2012, bond proceeds held by the Authority in the form of cash and investments amounting to \$179,000,000 in the Homeowner Mortgage Revenue Bond accounts were identified for the purpose of making various mortgage loans.

At June 30, 2012, the Authority had authorized loans and grants totaling \$15,734,755 for the Illinois Affordable Housing Trust Fund.

Under the HOME Program, \$457.2 million and \$24.8 million for federal fiscal years 1992 through 2010 and 2012, 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, 2012, the Authority had authorized loans and grants totaling \$33,989,849 for the HOME Program.

In accordance with an agreement (the "FAF 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. In November of 2006, the Authority entered into a new agreement (the "FAF Refunding Agreement") with HUD at the time of delivery of the Authority's Housing Bonds, 2007 Series G to refund the Multi-Family Housing Bonds, 1991 Series A, 1992 Series A, and 1993 Series A. 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, 2012, loans receivable under this program were approximately \$31.5 million.

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**Note 14. Special Item**

During fiscal year 2012, the ownership interest in a foreclosed property was transferred to the Mortgage Loan Program Fund in the amount of \$6,307,176. Title to this property and this ownership interest amount was subsequently transferred to the LLC.

**Note 15. Subsequent Events**

On August 16, 2012, the Authority issued three series of bonds totaling \$12,000,000 to finance the acquisition and rehabilitation of Woodlawn Six Apartments. The bonds are special limited obligations and not general obligations of the Authority. Series A bonds are secured with a credit enhancement from Freddie Mac, Series B bonds are secured with equity and Series C bonds are secured with a note.

On September 25, 2012 the Authority created IHDA Dispositions LLC (the Company), a member-managed limited liability company under the Illinois Limited Liability Company Act. The Company was organized by, and is a component unit of, the Illinois Housing Development Authority (Authority), a body politic and corporate of the State of Illinois. The sole member of the Company is the Authority. To the extent provided by the Illinois Limited Liability Company Act, the Authority's liability is limited.

The purpose of the Company is to maintain, improve and dispose of properties acquired through foreclosure or deed-in-lieu of foreclosure that are owned by single asset entity LLC's of which IHDA Dispositions LLC will be the sole member. On September 25, 2012 IHDA Dispositions 2012-1 LLC was created and took title to Kankakee Scattered Sites on October 15, 2012. The Authority's interest in Illinois Housing Authority, LLC which owns Marywood Apartment Homes (Marywood) was transferred to IHDA Dispositions LLC on December 5, 2012.

On October 31, 2012, the Authority issued bonds under a stand-alone indenture in the amount of \$8,000,000. Proceeds from the bonds were used to finance the acquisition and rehabilitation of Phoenix Tower Apartments. The bonds are special limited obligations and not general obligations of the Authority. The bonds are secured by direct obligations of the United States Government.

On November 27, 2012, the Authority anticipates an issuance of bonds under a stand-alone indenture in the amount of \$40,863,097. Proceeds from the bonds will be used to provide funds for first-time homebuyers under its Single Family Program. The bonds are limited obligations and not general obligations of the Authority. The bonds will be secured with Fannie Mae mortgage-backed securities and Ginnie Mae certificates.



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Nonmajor Governmental Funds

Combining Balance Sheet

June 30, 2012

	<b>Neighborhood Stabilization Program Fund</b>	<b>Foreclosure Prevention Program Fund</b>	<b>Community Development Block Grant Fund</b>	<b>Total</b>
<b>Assets:</b>				
<b>Current Assets:</b>				
Cash	\$ 159,088	\$ 2,854,306	\$ -	\$ 3,013,394
Grant receivable	757,236	281,038	138,747	1,177,021
Total current assets	<u>916,324</u>	<u>3,135,344</u>	<u>138,747</u>	<u>4,190,415</u>
Total assets	<u>\$ 916,324</u>	<u>\$ 3,135,344</u>	<u>\$ 138,747</u>	<u>\$ 4,190,415</u>
<b>Liabilities and Fund Balances:</b>				
<b>Current liabilities:</b>				
Due to other funds	\$ 757,189	\$ 281,038	\$ 138,747	\$ 1,176,974
Total current liabilities	<u>757,189</u>	<u>281,038</u>	<u>138,747</u>	<u>1,176,974</u>
<b>Fund balances:</b>				
Restricted	<u>159,135</u>	<u>2,854,306</u>	<u>-</u>	<u>3,013,441</u>
Total fund balances	<u>159,135</u>	<u>2,854,306</u>	<u>-</u>	<u>3,013,441</u>
Total liabilities and fund balances	<u>\$ 916,324</u>	<u>\$ 3,135,344</u>	<u>\$ 138,747</u>	<u>\$ 4,190,415</u>

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Nonmajor Governmental Funds

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances

Year ended June 30, 2012

	<b>Neighborhood Stabilization Program Fund</b>	<b>Foreclosure Prevention Program Fund</b>	<b>Community Development Block Grant Fund</b>	<b>Total</b>
Revenues:				
Grant from State of Illinois	\$ -	\$ 3,970,629	\$ -	\$ 3,970,629
Federal funds	11,083,585	-	415,771	11,499,356
Interest and investment income	919,746	-	-	919,746
Total revenues	<u>12,003,331</u>	<u>3,970,629</u>	<u>415,771</u>	<u>16,389,731</u>
Expenditures:				
Grants	10,550,440	835,285	46,664	11,432,389
General and administrative	1,335,202	281,038	369,107	1,985,347
Total expenditures	<u>11,885,642</u>	<u>1,116,323</u>	<u>415,771</u>	<u>13,417,736</u>
Net change in fund balances	117,689	2,854,306	-	2,971,995
Fund balances at beginning of year	<u>41,446</u>	<u>-</u>	<u>-</u>	<u>41,446</u>
Fund balances at end of year	<u>\$ 159,135</u>	<u>\$ 2,854,306</u>	<u>\$ -</u>	<u>\$ 3,013,441</u>

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Mortgage Loan Program Fund

Combining Schedule of Net Assets

June 30, 2012

	Housing Bonds	Multifamily Initiative Bonds	Multifamily Housing Revenue Bonds (Marywood)	Multifamily Bonds (Turnberry)	Affordable Housing Program Trust Fund Bonds	Total
<b>Assets:</b>						
Current assets:						
Cash and cash equivalents	\$ 3,160,392	\$ 32,982,693	\$ -	\$ 261,337	\$ 13,553,657	\$ 49,958,079
Investment income receivable – restricted	161,794	-	-	-	3,340	165,134
Program loans receivable	18,208,673	4,845,192	-	61,109	3,268,174	26,383,148
Interest receivable on program loans	991,410	250,075	-	22,098	119,960	1,383,543
Due from other funds	14,310,611	-	-	21,940	-	14,332,551
Total current assets	<u>36,832,880</u>	<u>38,077,960</u>	<u>-</u>	<u>366,484</u>	<u>16,945,131</u>	<u>92,222,455</u>
Noncurrent assets:						
Investments – restricted	131,110,427	-	-	-	16,763,994	147,874,421
Program loans receivable, net of current portion	398,301,038	45,933,501	15,039,073	4,887,499	39,008,698	503,169,809
Less allowance for estimated losses	(5,780,903)	(17,659)	(6,711,970)	(49,485)	(4,172,027)	(16,732,044)
Net program loans receivable	<u>392,520,135</u>	<u>45,915,842</u>	<u>8,327,103</u>	<u>4,838,014</u>	<u>34,836,671</u>	<u>486,437,765</u>
Unamortized bond issuance costs	2,188,170	1,801,274	-	-	2,329,194	6,318,638
Real estate held for sale, net	108,461	-	-	-	-	108,461
Due from Fannie Mae	-	84,177,143	-	-	-	84,177,143
Due from Freddie Mac	-	7,759,547	-	-	-	7,759,547
Capital assets, net	26,502,696	-	-	-	-	26,502,696
Derivative instrument asset	107,270	-	-	-	-	107,270
Other	179,663	-	-	-	25,064	204,727
Total noncurrent assets	<u>552,716,822</u>	<u>139,653,806</u>	<u>8,327,103</u>	<u>4,838,014</u>	<u>53,954,923</u>	<u>759,490,668</u>
Total assets	<u>589,549,702</u>	<u>177,731,766</u>	<u>8,327,103</u>	<u>5,204,498</u>	<u>70,900,054</u>	<u>851,713,123</u>
<b>Liabilities:</b>						
Current liabilities:						
Bonds and notes payable	16,085,000	8,530,000	-	70,000	2,950,000	27,635,000
Accrued interest payable	7,736,850	1,628,987	469,291	76,638	292,512	10,204,278
Deferred revenue	307,104	-	-	-	-	307,104
Accrued liabilities and other	319,534	401,576	-	-	147,663	868,773
Due to other funds	3,193,017	47,703	1,149,302	5,759	18,075	4,413,856
Total current liabilities	<u>27,641,505</u>	<u>10,608,266</u>	<u>1,618,593</u>	<u>152,397</u>	<u>3,408,250</u>	<u>43,429,011</u>
Noncurrent liabilities:						
Bonds and notes payable, net of current portion	354,946,307	166,130,000	14,884,996	4,865,000	54,340,000	595,166,303
Deferred inflows of resources	107,270	-	-	-	-	107,270
Total noncurrent liabilities	<u>355,053,577</u>	<u>166,130,000</u>	<u>14,884,996</u>	<u>4,865,000</u>	<u>54,340,000</u>	<u>595,273,573</u>
Total liabilities	<u>382,695,082</u>	<u>176,738,266</u>	<u>16,503,589</u>	<u>5,017,397</u>	<u>57,748,250</u>	<u>638,702,584</u>
<b>Net assets:</b>						
Invested in capital assets, net of related debt	(6,782,304)	-	-	-	-	(6,782,304)
Restricted for bond resolution purposes	213,636,924	993,500	-	187,101	13,151,804	227,969,329
Unrestricted	-	-	(8,176,486)	-	-	(8,176,486)
Total net assets	<u>\$ 206,854,620</u>	<u>\$ 993,500</u>	<u>\$ (8,176,486)</u>	<u>\$ 187,101</u>	<u>\$ 13,151,804</u>	<u>\$ 213,010,539</u>

**ILLINOIS HOUSING DEVELOPMENT AUTHORITY**

(A Component Unit of the State of Illinois)

Mortgage Loan Program Fund

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

Year ended June 30, 2012

	Housing Bonds	Multifamily Initiative Bonds	Multifamily Housing Revenue Bonds (Marywood)	Multifamily Bonds (Turnberry)	Affordable Housing Program Trust Fund Bonds	Total
Operating revenues:						
Interest and other investment income	\$ 889,639	\$ 5,302	\$ -	\$ 29	\$ 80,160	\$ 975,130
Net increase (decrease) in fair value of investments	564,331	324	-	(25)	(60,021)	504,609
Total investment income	1,453,970	5,626	-	4	20,139	1,479,739
Interest earned on program loans	22,146,776	2,390,415	628,635	254,815	1,079,679	26,500,320
Federal assistance programs	3,855,065	-	-	-	-	3,855,065
Other	5,528,076	1,208	-	-	-	5,529,284
Total operating revenues	32,983,887	2,397,249	628,635	254,819	1,099,818	37,364,408
Operating expenses:						
Interest expense	17,559,102	1,949,826	744,249	231,038	3,879,933	24,364,148
Federal assistance programs	3,855,065	-	-	-	-	3,855,065
Other general and administration	-	269,826	-	-	-	269,826
Financing costs	628,645	21,706	-	4,003	98,985	753,339
Program grants	-	-	-	-	1,287,902	1,287,902
Provision for (reversal of) estimated losses on program loans receivable	(429,379)	4,660	2,605,396	(251,480)	(7,435)	1,921,762
Total operating expenses	21,613,433	2,246,018	3,349,645	(16,439)	5,259,385	32,452,042
Operating income (loss)	11,370,454	151,231	(2,721,010)	271,258	(4,159,567)	4,912,366
Special item - foreclosed property	-	-	6,307,176	-	-	6,307,176
Transfers in	-	-	-	-	5,200,000	5,200,000
Transfers out	-	-	(6,307,176)	-	-	(6,307,176)
Total transfers and special item	-	-	-	-	5,200,000	5,200,000
Change in net assets	11,370,454	151,231	(2,721,010)	271,258	1,040,433	10,112,366
Net assets at beginning of year	195,484,166	842,269	(5,455,476)	(84,157)	12,111,371	202,898,173
Net assets at end of year	\$ 206,854,620	\$ 993,500	\$ (8,176,486)	\$ 187,101	\$ 13,151,804	\$ 213,010,539

**ILLINOIS HOUSING DEVELOPMENT AUTHORITY**

(A Component Unit of the State of Illinois)

Mortgage Loan Program Fund

Combining Schedule of Cash Flows

Year ended June 30, 2012

	Housing Bonds	Multifamily Initiative Bonds	Multifamily Housing Revenue Bonds (Marywood)	Multifamily Bonds (Turnberry)	Affordable Housing Program Trust Fund Bonds	Total
Cash flows from operating activities:						
Receipts for program loans, interest and service fees	\$ 52,650,396	\$ 11,864,379	\$ 628,635	\$ 356,387	\$ 1,192,098	\$ 66,691,895
Receipts for real estate held for sale	13,063	-	-	-	-	13,063
Payments for program loans	(1,079,490)	(28,893,332)	-	-	-	(29,972,822)
Receipts for federal assistance programs	3,855,065	-	-	-	-	3,855,065
Payments for federal assistance programs	(3,855,065)	-	-	-	-	(3,855,065)
Payments for credit enhancements	-	(91,936,690)	-	-	-	(91,936,690)
Payments to suppliers	(1,176,685)	(180,388)	-	(4,003)	(98,985)	(1,460,061)
Payments for program grants	-	-	-	-	(1,287,902)	(1,287,902)
Other receipts	5,528,076	-	-	-	-	5,528,076
Net cash provided by (used in) operating activities	<u>55,935,360</u>	<u>(109,146,031)</u>	<u>628,635</u>	<u>352,384</u>	<u>(194,789)</u>	<u>(52,424,441)</u>
Cash flows from noncapital financing activities:						
Proceeds from sale of revenue bonds and notes	-	121,550,000	-	-	-	121,550,000
Principal paid on revenue bonds and notes	(32,814,247)	(130,970,000)	-	(60,000)	(2,765,000)	(166,609,247)
Interest paid on revenue bonds and notes	(17,961,559)	(2,489,621)	(744,250)	(231,936)	(3,625,641)	(25,053,007)
Due to other funds	132,178	33,589	115,615	(5,367)	(3,688)	272,327
Transfers in	-	-	-	-	5,200,000	5,200,000
Net cash used in noncapital financing activities	<u>(50,643,628)</u>	<u>(11,876,032)</u>	<u>(628,635)</u>	<u>(297,303)</u>	<u>(1,194,329)</u>	<u>(64,639,927)</u>
Cash flows from capital financing and related activities:						
Acquisition of capital assets	(289,006)	-	-	-	-	(289,006)
Cash flows from investing activities:						
Purchase of investment securities	(255,303,131)	(391,795,514)	-	-	(92,036,293)	(739,134,938)
Proceeds from sales and maturities of investment securities	249,516,894	515,601,869	-	128,994	106,410,118	871,657,875
Interest received on investments	1,444,413	5,874	-	4	71,205	1,521,496
Net cash provided by (used in) investing activities	<u>(4,341,824)</u>	<u>123,812,229</u>	<u>-</u>	<u>128,998</u>	<u>14,445,030</u>	<u>134,044,433</u>
Net increase in cash and equivalents	660,902	2,790,166	-	184,079	13,055,912	16,691,059
Cash and cash equivalents at beginning of year	2,499,490	30,192,527	-	77,258	497,745	33,267,020
Cash and cash equivalents at end of year	<u>\$ 3,160,392</u>	<u>\$ 32,982,693</u>	<u>\$ -</u>	<u>\$ 261,337</u>	<u>\$ 13,553,657</u>	<u>\$ 49,958,079</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:						
Operating income (loss)	\$ 11,370,454	\$ 151,231	\$ (2,721,010)	\$ 271,258	\$ (4,159,567)	\$ 4,912,366
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:						
Investment income	(1,453,970)	(5,626)	-	(4)	(20,139)	(1,479,739)
Interest expense	17,559,102	1,949,826	744,249	231,038	3,879,933	24,364,148
Depreciation and amortization	800,000	-	-	-	-	800,000
Provision for (reversal of) estimated losses						
on program loans receivable	(429,379)	4,660	2,605,396	(251,480)	(7,435)	1,921,762
Changes in assets and liabilities:						
Program loans receivable	28,618,257	(19,383,022)	-	67,475	44,694	9,347,404
Interest receivable on program loans	(21,401)	(37,552)	-	34,097	38,054	13,198
Other liabilities	(868,377)	111,142	-	-	-	(757,235)
Other assets	360,674	-	-	-	29,671	390,345
Due from Fannie Mae	-	(84,177,143)	-	-	-	(84,177,143)
Due from Freddie Mac	-	(7,759,547)	-	-	-	(7,759,547)
Total adjustments	<u>44,564,906</u>	<u>(109,297,262)</u>	<u>3,349,645</u>	<u>81,126</u>	<u>3,964,778</u>	<u>(57,336,807)</u>
Net cash provided by (used in) operating activities	<u>\$ 55,935,360</u>	<u>\$ (109,146,031)</u>	<u>\$ 628,635</u>	<u>\$ 352,384</u>	<u>\$ (194,789)</u>	<u>\$ (52,424,441)</u>
Noncash investing, capital and financing activities:						
Transfer of foreclosed assets	\$ 70,994	\$ -	\$ -	\$ -	\$ -	\$ 70,994
The fair value of investments increased (decreased)	<u>\$ 949,227</u>	<u>\$ 725</u>	<u>\$ -</u>	<u>\$ (27)</u>	<u>\$ 21,186</u>	<u>\$ 971,111</u>

**ILLINOIS HOUSING DEVELOPMENT AUTHORITY**

(A Component Unit of the State of Illinois)

Single Family Program Fund

Combining Schedule of Net Assets

June 30, 2012

	Homeowner Mortgage Revenue Bonds	Residential Mortgage Revenue Bonds	Housing Revenue Bonds	Total
<b>Assets:</b>				
Current assets:				
Cash and cash equivalents	\$ 15,149,324	\$ 761	\$ 348,372	\$ 15,498,457
Investment income receivable – restricted	319,580	8,445	232,140	560,165
Program loans receivable	13,670,857	-	-	13,670,857
Interest receivable on program loans	2,162,392	-	-	2,162,392
Due from other funds	351,293	-	-	351,293
Total current assets	<u>31,653,446</u>	<u>9,206</u>	<u>580,512</u>	<u>32,243,164</u>
Noncurrent assets:				
Investments – restricted	348,243,780	450,987	70,791,120	419,485,887
Program loans receivable, net of current portion	493,942,436	-	-	493,942,436
Less allowance for estimated losses	<u>(12,645,516)</u>	<u>-</u>	<u>-</u>	<u>(12,645,516)</u>
Net program loans receivable	481,296,920	-	-	481,296,920
Unamortized bond issuance costs	4,529,185	-	800,165	5,329,350
Real estate held for sale, net	11,522,315	-	-	11,522,315
Deferred outflow of resources	3,182,942	-	-	3,182,942
Other	8,767,963	-	-	8,767,963
Total noncurrent assets	<u>857,543,105</u>	<u>450,987</u>	<u>71,591,285</u>	<u>929,585,377</u>
Total assets	<u>889,196,551</u>	<u>460,193</u>	<u>72,171,797</u>	<u>961,828,541</u>
<b>Liabilities:</b>				
Current liabilities:				
Bonds and notes payable	209,525,000	-	1,053,206	210,578,206
Accrued interest payable	11,602,916	10,115	332,311	11,945,342
Accrued liabilities and other	1,158,292	-	12,117	1,170,409
Due to other funds	439,648	-	-	439,648
Total current liabilities	<u>222,725,856</u>	<u>10,115</u>	<u>1,397,634</u>	<u>224,133,605</u>
Noncurrent liabilities:				
Bonds and notes payable, net of current portion	585,970,471	314,089	64,088,063	650,372,623
Derivative instrument liability	3,182,942	-	-	3,182,942
Total noncurrent liabilities	<u>589,153,413</u>	<u>314,089</u>	<u>64,088,063</u>	<u>653,555,565</u>
Total liabilities	<u>811,879,269</u>	<u>324,204</u>	<u>65,485,697</u>	<u>877,689,170</u>
<b>Net assets:</b>				
Restricted for bond resolution purposes	77,317,282	135,989	6,686,100	84,139,371
Total net assets	<u>\$ 77,317,282</u>	<u>\$ 135,989</u>	<u>\$ 6,686,100</u>	<u>\$ 84,139,371</u>

**ILLINOIS HOUSING DEVELOPMENT AUTHORITY**

(A Component Unit of the State of Illinois)

Single Family Program Fund

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

Year ended June 30, 2012

	<b>Homeowner Mortgage Revenue Bonds</b>	<b>Residential Mortgage Revenue Bonds</b>	<b>Housing Revenue Bonds</b>	<b>Total</b>
Operating revenues:				
Interest and other investment income	\$ 2,658,727	\$ 20,527	\$ 2,139,618	\$ 4,818,872
Net increase (decrease) in fair value of investments	<u>546,002</u>	<u>(24)</u>	<u>5,563,219</u>	<u>6,109,197</u>
Total investment income	3,204,729	20,503	7,702,837	10,928,069
Interest earned on program loans	<u>26,532,212</u>	<u>-</u>	<u>-</u>	<u>26,532,212</u>
Total operating revenues	<u>29,736,941</u>	<u>20,503</u>	<u>7,702,837</u>	<u>37,460,281</u>
Operating expenses:				
Interest expense	30,843,745	25,694	1,589,488	32,458,927
Other general and administrative	1,251,738	-	-	1,251,738
Financing costs	2,179,803	-	113,673	2,293,476
Program Grants	2,071,098	-	150,149	2,221,247
Provision for estimated losses on program loans receivable	<u>9,590,081</u>	<u>-</u>	<u>-</u>	<u>9,590,081</u>
Total operating expenses	<u>45,936,465</u>	<u>25,694</u>	<u>1,853,310</u>	<u>47,815,469</u>
Operating income (loss)	<u>(16,199,524)</u>	<u>(5,191)</u>	<u>5,849,527</u>	<u>(10,355,188)</u>
Transfers in	32,761	-	845,409	878,170
Transfers out	<u>-</u>	<u>-</u>	<u>(8,836)</u>	<u>(8,836)</u>
Total transfers	<u>32,761</u>	<u>-</u>	<u>836,573</u>	<u>869,334</u>
Change in net assets	(16,166,763)	(5,191)	6,686,100	(9,485,854)
Net assets at beginning of year	<u>93,484,045</u>	<u>141,180</u>	<u>-</u>	<u>93,625,225</u>
Net assets at end of year	<u>\$ 77,317,282</u>	<u>\$ 135,989</u>	<u>\$ 6,686,100</u>	<u>\$ 84,139,371</u>

**ILLINOIS HOUSING DEVELOPMENT AUTHORITY**

(A Component Unit of the State of Illinois)

Single Family Program Fund

Combining Schedule of Cash Flows

Year ended June 30, 2012

	Homeowner Mortgage Revenue Bonds	Residential Mortgage Revenue Bonds	Housing Revenue Bonds	Total
Cash flows from operating activities:				
Receipts for program loans, interest and service fees	\$ 101,145,047	\$ -	\$ -	\$ 101,145,047
Payments for program grants	(2,071,098)	-	(150,149)	(2,221,247)
Receipts for real estate held for sale	2,456,770	-	-	2,456,770
Payments to suppliers	(3,253,766)	-	(101,556)	(3,355,322)
Net cash provided by (used in) operating activities	<u>98,276,953</u>	<u>-</u>	<u>(251,705)</u>	<u>98,025,248</u>
Cash flows from noncapital financing activities:				
Proceeds from sale of revenue bonds and notes	-	1,419	67,807,826	67,809,245
Principal paid on revenue bonds and notes	(96,914,704)	-	(2,666,557)	(99,581,261)
Interest paid on revenue bonds and notes	(30,760,866)	(25,694)	(2,057,342)	(32,843,902)
Due to other funds	(267,408)	-	-	(267,408)
Transfers in	32,761	-	845,409	878,170
Transfers out	-	-	(8,836)	(8,836)
Net cash provided by (used in) noncapital financing activities	<u>(127,910,217)</u>	<u>(24,275)</u>	<u>63,920,500</u>	<u>(64,013,992)</u>
Cash flows from investing activities:				
Purchase of investment securities	(2,790,266,187)	(303,904)	(73,403,381)	(2,863,973,472)
Proceeds from sales and maturities of investment securities	2,820,482,118	307,915	2,612,261	2,823,402,294
Interest received on investments	3,314,431	20,446	7,470,697	10,805,574
Net cash provided by (used in) investing activities	<u>33,530,362</u>	<u>24,457</u>	<u>(63,320,423)</u>	<u>(29,765,604)</u>
Net increase in cash and cash equivalents	3,897,098	182	348,372	4,245,652
Cash and cash equivalents at beginning of year	<u>11,252,226</u>	<u>579</u>	<u>-</u>	<u>11,252,805</u>
Cash and cash equivalents at end of year	<u>\$ 15,149,324</u>	<u>\$ 761</u>	<u>\$ 348,372</u>	<u>\$ 15,498,457</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income ( loss)	\$ (16,199,524)	\$ (5,191)	\$ 5,849,527	\$ (10,355,188)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Investment income	(3,204,729)	(20,503)	(7,702,837)	(10,928,069)
Interest expense	30,843,745	25,694	1,589,488	32,458,927
Reversal of estimated losses on real estate held for sale	(773,197)	-	-	(773,197)
Provision for estimated losses on program loans receivable	10,363,278	-	-	10,363,278
Changes in assets and liabilities:				
Program loans receivable	78,383,735	-	-	78,383,735
Interest receivable on program loans	643,725	-	-	643,725
Other liabilities	777,070	-	12,117	789,187
Other assets	(2,557,150)	-	-	(2,557,150)
Total adjustments	<u>114,476,477</u>	<u>5,191</u>	<u>(6,101,232)</u>	<u>108,380,436</u>
Net cash provided by (used in) operating activities	<u>\$ 98,276,953</u>	<u>\$ -</u>	<u>\$ (251,705)</u>	<u>\$ 98,025,248</u>
Noncash investing, capital and financing activities:				
Transfer of foreclosed assets	<u>\$ 5,125,859</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,125,859</u>
The fair value of investments increased (decreased)	<u>\$ (1,447,860)</u>	<u>\$ (24)</u>	<u>\$ 5,563,219</u>	<u>\$ 4,115,335</u>



APPENDIX B  
**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 of 1934, as amended (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 the lesser of (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 incomes increase 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 is discussed below.

An additional “deep subsidy” entitled “Rental Assistance Payments” (“RAP”) was established in 1975 under Section 236(f)(2) of the National Housing Act. The RAP program is designed to assist tenants in Section 236 Developments 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.<sup>1</sup>

### **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 Payment 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 Prior Bonds are approximately coterminous with the maturity of the underlying mortgages. See, however, “Decoupling Program” below.

### **Reduction and Termination of Section 236 Payments**

Each Section 236 Mortgage provides that the mortgagor must maintain hazard insurance on the Section 236 Development 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 Development 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 Development 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 Section 236 Contract not to sell, convey, or transfer such development except to a mortgagor that is eligible under Section 236 and approved by the Authority.

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<sup>1</sup> HUD has recently implemented a Rental Assistance Demonstration program under which projects receiving RAP may convert those subsidies into assistance under Section 8. At this writing it is not known whether any of the Section 236 Developments will seek to convert RAP commitments into Section 8 subsidies pursuant to the Rental Assistance Demonstration, but the Authority does not believe that any such conversion would have an adverse impact on the ability of the applicable Section 236 Development to make debt service payments on its Section 236 Mortgage.

*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 mortgagor or the Authority under 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 Section 236 Mortgage Loan without the prior written approval of HUD.

### **Prepayment of Section 236 Mortgage Loans**

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 assistance under the Section 236 Contract. Under the program, HUD enters into a new Section 236 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. Section 236 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 Payments 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 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 Program 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 housing finance 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 50 percent 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 25 percent of units (15 percent for developments with HAP contracts dated after October 1, 1981) may have incomes up to 80 percent of the area’s median income, as adjusted by HUD. Legislation also requires that not less than 40 percent 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 percent of area median income (as determined by HUD and adjusted for family size) at the time of admission.

*Subsidy Contracts.* Under the Section 8 Program, 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 the Authority to enter into a Housing Assistance Payment Contract (“HAP Contract”) upon completion and acceptance of the development, providing for payment by the Authority 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 Authority and HUD execute an Annual Contributions Contract (“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 with respect to a unit under a HAP Contract is the applicable rent established in the HAP Contract for such unit (the “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, subject to certain adjustments. 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 through the Authority 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 percent 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, in certain limited cases discussed below, downward, subject to the limitation 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 1937 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 (“FMRs”) (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. The validity of the provisions that would impose upon the Borrower the obligation to obtain comparability studies and that would limit AAFs for Section 8 units which experienced no turnover in tenants has been and remains the subject of litigation involving HUD, the Authority and other state housing finance agencies and certain owners of projects receiving Section 8 subsidies. The Authority does not believe that the outcome of any such litigation would have an adverse impact on the ability of the owners of the Section 8 Developments to pay debt service on their mortgages.

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 crediting by HUD to 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 amounts credited to 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)(5) 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)(5) 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 provide 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, the Authority 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 was initially 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 vacancies, 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 Related Legislation**

Until 1997, there was substantial uncertainty as to what would happen to Section 8 developments upon the expiration of their HAP Contracts at the end of their terms. HUD's Fiscal Year 1998 Appropriations Act, Pub. L. 105-65, signed into law on October 27, 1997, included within it the "Multifamily Assisted Housing Reform and Affordability Act of 1997 (the "1997 Act"), which has been further amended since. The 1997 Act implements a "Mark-to-Market" program, pursuant to which many FHA-insured Section 8 developments with expiring HAP Contracts and above-market rents are 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.

Although the primary focus of the Mark-to-Market Program is 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, 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 Cost 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 for renewal contracts 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. Renewal contracts are also subject to annual Congressional appropriations.

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. A default under an 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.

None of the Section 8 Developments, except the project known as the “HICA Redevelopment Project,” has an FHA-insured mortgage loan. Because the HICA Redevelopment Project has an FHA-insured mortgage loan, and its HAP Contract is not coterminous with the mortgage loan, the HICA Redevelopment Project may be subject to having its mortgage restructured under the 1997 Act. The HICA Redevelopment Project is not one of the Series C Bonds Financed Developments. None of the Series C Bonds Financed Developments are subject to restructuring under the 1997 Act. A restructuring of the HICA Redevelopment Project under the 1997 Act could lead to a partial redemption of the Series C Bonds. It is the policy of the Authority to encourage and facilitate the retention of the Section 8 Developments as affordable housing, and the Authority undertakes no obligation to holders of

the Series C Bonds to take or refrain from taking any action with respect to the Section 8 Developments, such as refinancing or restructuring, in order to reduce the likelihood or amount of any such partial redemption. Information regarding the Section 8 Developments' ability to make timely debt service payments may also be found under "SECURITY AND SOURCES OF PAYMENTS FOR BONDS – Certain Factors Affecting Multi-Family Loans."

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 (the so called "Old Regulation Section 8 Developments"), 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 37 of the Old Regulation 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 37 Authority-financed Old Regulation Section 8 Developments that have refinanced, 35 of these projects have executed such amendments, and these amendments have been acknowledged 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.

Information regarding the HAP Contracts for certain of the Section 8 Developments may be found under APPENDIX F – "FINANCED DEVELOPMENTS."

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APPENDIX C  
**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. 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 applicable mortgage(s) to FHA, or in the event the Authority receives title to any such development, to convey title as soon as practicable 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 determined by HUD within a range of 1/4 of 1 percent to 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 HUD 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.

HUD 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 HUD 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 developments that have rents regulated pursuant to a project based Section 8 contract (or any other restriction unrelated to the FHA mortgage insurance program), 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. In the event of a default under the Regulatory Agreement, the Regulatory Agreement also provides that FHA may pursue certain remedies such as collecting all rents and charges, taking possession of the Project, and pursuing specific performance.

*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 HUD 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.

Following 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, 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) 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; (2) any amounts received by the mortgagee after the date of default with respect to such development; and (3) 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 mortgagee 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.

Exercise of the override provision by HUD could result in a prepayment of a Mortgage Loan and a redemption of Housing Bonds prior to maturity without premium.

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## **APPENDIX D DESCRIPTION OF RISK SHARING PROGRAM**

The following is a description of the Risk Sharing Program, and is qualified in its entirety by reference to Section 542(c) of the Housing and Community Development Act of 1992 and the regulations promulgated thereunder at 24 CFR Part 266 (the “Federal Act”).

The Federal Act directs the Secretary of HUD, acting through FHA, to carry out programs that will demonstrate the effectiveness of providing new forms of federal credit enhancement for multifamily loans. Section 542 of the Federal Act, entitled “Multifamily Mortgage Credit Demonstrations,” provides new independent insurance authority that is not available under the National Housing Act. Section 542(c) of the Federal Act specifically directs the Secretary of HUD to carry out a pilot program of risk-sharing with qualified State and local housing finance agencies (“HFAs”). The qualified HFAs are authorized to underwrite and process loans. HUD will provide full mortgage insurance on mortgages with respect to affordable multifamily housing projects processed by such HFAs under this program.

Pursuant to Section 542(c) of the Federal Act, the Authority and HUD have entered into a risk-sharing agreement, dated as of June 20, 1994 (the “Risk Sharing Agreement”) under which the Authority has been granted Level 1 status, and whereby HUD has agreed to provide federal insurance on certain mortgage loans made by the Authority, and the Authority has agreed to reimburse HUD for 50 percent to 90 percent (as negotiated for each specific mortgage loan) of the payments made by HUD on any of the mortgage loans insured under the federal insurance. However, any failure by the Authority to reimburse HUD pursuant to the Risk Sharing Agreement will not affect HUD’s obligation to pay the insurance claim as described below. Claims made by the Authority under the federal insurance program will be made at the times and in the manner described below.

Under the terms of such Section 542(c), if a mortgagor has failed to make a mortgage payment when due (a “Payment Default”), or if a mortgagor has defaulted in the performance of one of its covenants under the mortgage and as a result thereof the mortgagee has accelerated the debt and the mortgagor fails to pay the full amount due (a “Covenant Default”), then the Authority becomes eligible to file an insurance claim with HUD if such default has continued for 30 days. Unless a written extension has been granted by HUD, the Authority must file within 75 days of the date of default (defined, in the case of a payment default, as the date of the first missed payment) an application for initial insurance claim payment. The initial claim payment will be paid by HUD to the Authority in an amount equal to 100 percent of the outstanding principal of the mortgage note, plus interest at the rate set forth in such mortgage note from the Date of Default to the date on which initial claim payment is made. Since interest is paid one month in arrears, 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. The accrual of interest on the initial claim may be curtailed in the event the Authority fails to meet certain deadlines by the number of days by which the required action is late. In addition, the claim will be reduced by any delinquent mortgage insurance premiums. In the Supplemental Indentures for Bonds subject to the Risk Sharing Program, the Authority has covenanted to do all things necessary to receive such payment in cash. Under the Federal Act, “Date of Default” is defined as (1) the date of the first uncorrected failure to perform a mortgage

covenant or obligation, or (2) the date of the first failure to make a mortgage payment that is not covered by subsequent payments.

In connection with making a claim payment, the Federal Act requires that the Authority issue Authority debentures to HUD no later than 30 days following the initial claim payment. Authority debentures will be issued in an amount equal to the initial claim payment.

Subject to certain conditions, the Authority may file with HUD a request for a partial claim payment (but not in excess of 50 percent of the amount of the unpaid balance of the mortgage) if the restructured mortgage will be financially viable, the default was beyond the control of the mortgagor, and certain other conditions are satisfied.

*Following the receipt of HUD insurance proceeds relating to a default on a loan for a Financed Development subject to the Risk Sharing Program, the Authority will redeem, at a redemption price of 100 percent, a proportionate amount of Bonds relating to such Financed Development.*

The Federal Act provides that the HUD insurance will terminate upon the occurrence of any of the following: (i) the mortgage is paid in full; (ii) the Authority acquires the development insured by HUD and notifies HUD that it will not file an insurance claim; (iii) a party other than the Authority acquires the property at a foreclosure sale; (iv) the Authority or its successors commit fraud or make a material misrepresentation to HUD with respect to information used in obtaining the insurance or while the federal insurance is in existence; or (v) HUD receives an application from the Authority for a final settlement of the loss as between the Authority and HUD.



## APPENDIX E

### FORM OF OPINION OF BOND COUNSEL

[Date of Delivery]

Illinois Housing Development Authority  
401 North Michigan Avenue, Suite 700  
Chicago, Illinois 60611

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 \$5,775,000 aggregate principal amount of its Housing Bonds, 2013 Series C (Sunrise Apartments) (the “Bonds”), including the authorization, execution and delivery of the 2013 Series C Supplemental Indenture, dated as of May 1, 2013 (the “2013 Series C Supplemental Indenture”), between the Authority and The Bank of New York Mellon Trust Company, N.A., as trustee (the “Trustee”). The 2013 Series C Supplemental Indenture is executed and delivered pursuant and supplemental to the Trust Indenture, dated as of March 1, 1999, as amended, between the Authority and the Trustee (as so supplemented, the “Trust Indenture”). We have also examined copies, certified by the Authority, of its authorizing resolution with respect to the Trust Indenture, the Bonds, the 2013 Series C Supplemental Indenture and the proceedings of the Members of the Authority for the meeting at which such resolution was adopted.

Proceeds of the Bonds will be used, together with certain other available moneys, to (a) refinance outstanding Housing Bonds (Sunrise Apartments), 2006 Series D of the Authority (the “Prior Bonds”), (b) make a deposit to the Reserve Fund or pay the cost of a Cash Equivalent for the Reserve Fund, and (c) pay capitalized interest and certain costs incurred in connection with the issuance of the Bonds.

The Bonds mature on the dates, bear interest at the rates per annum payable on the interest payment dates, and are subject to redemption at the times, and upon the terms, that are set forth in (i) the authorizing resolution of the Authority, adopted on April 19, 2013 with respect to the Bonds (as supplemented by a Determination of the Chairman and Executive Director of the Authority) and (ii) the Trust Indenture.

The Internal Revenue Code of 1986 (the “Code”), establishes certain continuing requirements which must be met in order that interest on the Bonds not be included in gross income of the owners thereof 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 development financed by the Prior Bonds (the “Refinanced Development”). 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 Refinanced Development in documents related to the mortgage loan for that development. Failure to comply with certain of such covenants could cause interest on the Bonds to be included in gross income of the owners thereof 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 execute and deliver the Trust Indenture and issue the Bonds. The Trust Indenture has been duly authorized, executed and delivered by the Authority, is in full force and effect, and is 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 Trust Indenture) and all other monies and investments in all Funds and Accounts established under the Trust Indenture, all to the extent provided in the Trust Indenture. The Bonds are issued 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 Trust Indenture, enforceable in accordance with their terms and the terms of the Trust Indenture and entitled to the benefits of the Trust Indenture and the Act. The full faith and credit of the Authority is validly pledged for the payment of the principal of, premium, if any, and interest on the Bonds (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).

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 owner of the Refinanced Development with their respective covenants described above, we are of the opinion that interest on the Bonds will continue to be excluded from the gross income of the owners thereof for federal income tax purposes. No opinion is expressed, however, as to the exclusion from gross income of the owners of the Bonds 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 the Refinanced Development refinanced with the proceeds of such Bond or any person considered to be related to such person within the meaning of the Code. Interest on the Bonds is a specific preference item for purposes of the federal alternative minimum tax. 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, in its present form, the income from the Bonds is exempt from all taxes of the State of Illinois or its political subdivisions, except for estate, transfer and inheritance taxes.

The rights of the owners of the Bonds, and the enforceability of the Bonds and the Trust Indenture, may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights. Enforcement of provisions of the Bonds and the Trust 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**

### **FINANCED DEVELOPMENTS**

The tables beginning on the following page set 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.

As of March 31, 2013, one of the Mortgage Loans listed in the following table was delinquent in excess of 60 days. The total outstanding principal amount in delinquency is approximately \$764,000.

**HOUSING BONDS  
FINANCED DEVELOPMENTS  
(Information as of 3/31/2013 unless otherwise indicated)**

LOAN NUMBER	DEVELOPMENT	MORTGAGE RATE	MORTGAGE OUTSTANDING	MATURITY DATE	61+ DAYS DELINQUENT (AS APPLICABLE)	PREPAYMENT LOCKOUT
<b>SERIES: 2003A</b>						
10-290-01	NORTHPOINT	6.070	<u>16,604,698.82</u> 16,604,698.82	10/01/2045		09/01/2015
<b>SERIES: 2003B</b>						
10-019-01	INNSBRUCK APARTMENTS	7.490	2,899,733.91	07/01/2018		NONE
10-019-02	INNSBRUCK APARTMENTS	9.000	78,927.98	11/01/2014		NONE
10-020-01	CARRIAGE HOUSE I	7.810	404,710.32	07/01/2016		NONE
10-021-01	CEDAR POINT AT PINEBROOK	7.950	743,771.82	07/01/2017		NONE
10-021-02	CEDAR POINT AT PINEBROOK	7.490	42,193.22	07/01/2018		NONE
10-022-01	RIVER RUN	7.810	336,327.37	07/01/2016		NONE
10-025-01	WESTWIND TOWERS APARTMENTS	7.810	464,485.80	07/01/2016		NONE
10-029-01	EASTCOURT VILLAGE	7.950	601,148.33	07/01/2017		NONE
10-033-01	COLONY PARK	7.490	1,325,108.41	07/01/2018		NONE
10-035-01	LINCOLNSHIRE APARTMENTS	7.810	407,133.19	07/01/2016		NONE
10-038-01	CONSTITUTION HOUSE	7.810	818,199.89	07/01/2016		NONE
10-039-01	UNIVERSITY VILLAGE II	7.950	937,557.90	07/01/2017		N/A
10-044-01	LEISURE ACRES	7.950	599,772.13	07/01/2017		NONE
10-045-01	WESTPORT VILLAGE	7.810	763,893.38	07/01/2016	YES	NONE
10-049-01	WOODCREST APARTMENTS	7.810	380,463.93	07/01/2016		NONE
10-056-01	THORNWOOD HOUSE APTS	7.810	920,904.41	07/01/2016		NONE
10-082-01	ATRIUM VILLAGE	9.000	<u>5,119,328.94</u> 16,843,660.93	08/01/2020		NONE
<b>SERIES: 2003C</b>						
10-289-01	COUNTRY CLUB HEIGHTS	5.140	3,239,238.47	01/01/2034		09/01/2015
10-289-02	COUNTRY CLUB HEIGHTS	4.400	<u>602,783.77</u> 3,842,022.24	09/01/2015		09/01/2015
<b>SERIES: 2004A</b>						
12-2000-01	CAMPBELL TERRACE	5.405	13,145,257.53	04/01/2039		06/01/2015
12-2000-02	CAMPBELL TERRACE	4.730	<u>2,257,904.26</u> 15,403,161.79	06/01/2015		06/01/2015
<b>SERIES: 2004B</b>						
12-2001-01	SOUTHERN HILLS/ORLANDO APTS	VARIABLE	<u>4,540,833.38</u> 4,540,833.38	04/01/2034		04/01/2014

**HOUSING BONDS  
FINANCED DEVELOPMENTS  
(Information as of 3/31/2013 unless otherwise indicated)**

LOAN NUMBER	DEVELOPMENT	MORTGAGE RATE	MORTGAGE OUTSTANDING	MATURITY DATE	61+ DAYS DELINQUENT (AS APPLICABLE)	PREPAYMENT LOCKOUT
<b>SERIES: 2004C-1</b>						
12-2002-01	COUNTRYBROOK APARTMENTS	6.170	5,610,198.57	07/01/2044		07/01/2014
			<u>5,610,198.57</u>			
<b>SERIES: 2004C-2</b>						
12-2007-01	OAKRIDGE VILLAGE	6.080	3,314,845.28	03/01/2023		07/01/2019
			<u>3,314,845.28</u>			
<b>SERIES: 2005A</b>						
12-2093-01	VALKOMMEN PLAZA	5.500	3,368,432.28	04/01/2035		04/01/2015
12-2094-01	THE COVENTRY	5.200	5,506,599.83	04/01/2035		02/01/2021
12-2113-01	THE FIELDS	4.850	4,257,471.69	01/01/2022		01/01/2022
			<u>13,132,503.80</u>			
<b>SERIES: 2005C</b>						
17-2071-01	VICTORY CENTER OF BARTLETT	5.315	9,624,782.52	04/01/2042		04/01/2017
			<u>9,624,782.52</u>			
<b>SERIES: 2005D</b>						
17-2063-01	LIBERTY ARMS SENIOR APARTMENTS	5.375	6,030,911.12	04/01/2047		04/01/2017
			<u>6,030,911.12</u>			
<b>SERIES: 2005E</b>						
12-2210-01	BROOKMEADOWS	5.340	2,225,845.56	01/01/2018		01/01/2018
12-2263-01	WALNUT PLACE	5.801	2,546,000.00	11/01/2035		09/01/2020
12-2269-01	FRANK B PEERS	5.771	2,290,000.00	11/01/2035		01/01/2018
12-2273-01	WEST POINT PLAZA	5.626	5,506,000.00	11/01/2035		09/01/2018
12-2274-01	OAK TREE TOWERS	5.961	4,308,000.00	11/01/2035		06/01/2017
12-2277-01	CARRIAGE HOUSE II	5.533	2,155,000.00	11/01/2035		04/01/2018
12-2279-01	BURNHAM MANOR	5.639	3,124,000.00	11/01/2035		11/01/2015
			<u>22,154,845.56</u>			
<b>SERIES: 2005F</b>						
12-2263-02	WALNUT PLACE	5.780	1,886,458.25	07/01/2024		09/01/2020
12-2269-02	FRANK B PEERS	5.911	1,849,769.41	04/01/2026		01/01/2018
12-2273-02	WEST POINT PLAZA	5.535	1,597,061.71	11/01/2019		09/01/2018
12-2274-02	OAK TREE TOWERS	5.897	5,360,980.58	09/01/2028		06/01/2017

**HOUSING BONDS  
FINANCED DEVELOPMENTS  
(Information as of 3/31/2013 unless otherwise indicated)**

LOAN NUMBER	DEVELOPMENT	MORTGAGE RATE	MORTGAGE OUTSTANDING	MATURITY DATE	61+ DAYS DELINQUENT (AS APPLICABLE)	PREPAYMENT LOCKOUT
12-2277-02	CARRIAGE HOUSE II	5.223	198,499.32	09/01/2016		04/01/2018
12-2279-02	BURNHAM MANOR	5.658	1,177,390.78	03/01/2021		11/01/2015
			12,070,160.05			
<b>SERIES: 2006A</b>						
17-2228-01	PINEVIEW OF ROCKFORD	5.400	7,237,016.41	03/01/2038		03/01/2018
			7,237,016.41			
<b>SERIES: 2006B</b>						
12-2275-01	COUNTRYSIDE VILLAGES II	5.650	4,512,669.19	07/01/2036		07/01/2021
12-2315-01	ANGLERS MANOR	5.900	3,978,745.65	07/01/2046		07/01/2021
12-2316-01	SUNNYCREST MANOR	5.900	3,817,316.92	07/01/2046		07/01/2021
			12,308,731.76			
<b>SERIES: 2006D</b>						
12-2313-01	SUNRISE APARTMENTS	6.080	5,617,885.70	12/01/2041		12/01/2021
			5,617,885.70			
<b>SERIES: 2006E</b>						
12-2285-01	PRAIRIE VIEW APARTMENTS	5.770	7,360,569.47	11/01/2041		11/01/2016
			7,360,569.47			
<b>SERIES: 2006F</b>						
12-2270-01	65TH STREET APARTMENTS	5.840	2,722,492.83	11/01/2046		11/01/2021
12-2270-02	65TH STREET APARTMENTS	5.800	607,365.49	05/01/2020		11/01/2021
			3,329,858.32			
<b>SERIES: 2006G</b>						
10-142-01	LINCOLN-DOUGLAS CARDINAL APTS	9.390	4,125,580.76	06/01/2025		NONE
10-157-01	PARK GLEN	9.700	3,771,146.19	06/01/2025		NONE
10-157-02	PARK GLEN	10.471	181,345.89	06/01/2025		NONE
10-161-01	PIERSON HILLS II	9.700	401,073.80	06/01/2015		NONE
10-161-02	PIERSON HILLS II	10.484	20,429.62	06/01/2015		NONE
10-165-01	LAKE VISTA APARTMENTS	9.700	3,023,916.43	06/01/2015		NONE
10-165-02	LAKE VISTA APARTMENTS	10.484	166,680.52	06/01/2015		NONE
10-170-01	COUNTRY VILLAGES I,II,III	9.390	880,166.24	06/01/2015		NONE
12-2407-01	PINES OF EDGEWATER	5.828	6,705,000.00	12/01/2036		12/01/2016
12-2409-01	LAKE POINTE APARTMENTS	5.790	2,609,000.00	12/01/2036		12/01/2016
12-2413-01	VILLAGER-BRIARWOOD	5.936	3,882,000.00	12/01/2036		12/01/2016



**HOUSING BONDS  
FINANCED DEVELOPMENTS  
(Information as of 3/31/2013 unless otherwise indicated)**

LOAN NUMBER	DEVELOPMENT	MORTGAGE RATE	MORTGAGE OUTSTANDING	MATURITY DATE	61+ DAYS DELINQUENT (AS APPLICABLE)	PREPAYMENT LOCKOUT
			25,766,339.45			
<b>SERIES: 2006H</b>						
12-2407-02	PINES OF EDGEWATER	6.268	3,145,530.34	10/01/2024		12/01/2016
12-2409-02	LAKE POINTE APARTMENTS	6.347	1,240,845.40	11/01/2024		12/01/2016
12-2413-02	VILLAGER-BRIARWOOD	6.381	3,439,687.74	06/01/2028		12/01/2016
			7,826,063.48			
<b>SERIES: 2006I</b>						
12-2272-01	HERITAGE WOODS OF BATAVIA II	5.800	6,747,395.40	05/01/2048		05/01/2018
			6,747,395.40			
<b>SERIES: 2006J</b>						
17-2267-01	EAGLE RIDGE OF DECATUR LP II	5.440	3,229,564.48	02/01/2048		03/01/2018
			3,229,564.48			
<b>SERIES: 2006K</b>						
10-104-01	FORNOF MANORS	6.320	1,035,346.95	07/01/2019		NONE
10-110-01	SUNRISE COURTS	5.940	234,809.50	07/01/2018		NONE
10-129-01	GREEN FARMS TOWNHOMES	5.940	715,272.45	07/01/2020		NONE
			1,985,428.90			
<b>SERIES: 2006M</b>						
12-2368-01	OGDEN MANOR APARTMENTS	5.390	11,511,415.63	01/01/2047		01/01/2017
			11,511,415.63			
<b>SERIES: 2007A</b>						
12-2602-01	RIVERWOODS	5.750	3,589,999.95	12/01/2047		06/01/2024
12-2602-02	RIVERWOODS	4.750	199,852.13	10/01/2013		06/01/2024
			3,789,852.08			
<b>SERIES: 2007C</b>						
12-2649-01	PIONEER VILLAGE APARTMENTS	6.440	8,747,011.88	04/01/2044		04/01/2019
			8,747,011.88			

**HOUSING BONDS  
FINANCED DEVELOPMENTS  
(Information as of 3/31/2013 unless otherwise indicated)**

LOAN NUMBER	DEVELOPMENT	MORTGAGE RATE	MORTGAGE OUTSTANDING	MATURITY DATE	61+ DAYS DELINQUENT (AS APPLICABLE)	PREPAYMENT LOCKOUT
<b>SERIES: 2007D</b>						
10-115-01	SANDBURG VILLAGE APARTMENTS	4.250	3,079,800.65	10/01/2020		NONE
10-126-01	LANDMARK APARTMENTS	6.296	2,947,407.04	05/01/2020		NONE
12-2604-01	WOODLAND TOWERS	5.915	2,188,000.00	11/01/2042		11/01/2018
12-2738-01	PINES OF EDGEWATER I	5.878	6,529,000.00	11/01/2037		08/01/2020
12-2754-01	AMANDA BROOKE	5.651	4,237,000.00	11/01/2037		01/01/2021
			18,981,207.69			
<b>SERIES: 2007E</b>						
12-2604-02	WOODLAND TOWERS	6.684	1,960,343.05	11/01/2032		11/01/2018
12-2738-02	PINES OF EDGEWATER I	7.259	4,617,550.71	02/01/2027		08/01/2020
12-2754-02	AMANDA BROOKE	6.307	666,197.41	12/01/2017		01/01/2021
			7,244,091.17			
<b>SERIES: 2007F</b>						
17-2647-01	EVERGREEN PLACE LITCHFIELD	5.800	6,231,508.25	11/01/2043		11/01/2018
			6,231,508.25			
<b>SERIES: 2007G</b>						
17-2646-01	EVERGREEN PLACE STREATOR	5.800	5,184,995.27	11/01/2043		11/01/2018
			5,184,995.27			
<b>SERIES: 2008A</b>						
10-226-01	LARKIN VILLAGE	VARIABLE	12,730,000.00	01/01/2027		NONE
			12,730,000.00			
<b>SERIES: 2008C</b>						
12-2314-01	FLORIDA HOUSE	VARIABLE	5,169,999.98	07/01/2041		07/01/2021
			5,169,999.98			
<b>SERIES: REVENUE FUND</b>						
10-004-01	HUNTINGTON SQUARE	5.530	342,877.27	07/01/2015		N/A
10-004-02	HUNTINGTON SQUARE	9.000	148,913.89	11/01/2014		N/A
10-006-01	UNIVERSITY VILLAGE I	5.530	234,068.20	07/01/2015		N/A
10-025-02	WESTWIND TOWERS APARTMENTS	6.000	1,752,743.99	07/01/2016		NONE
10-049-02	WOODCREST APARTMENTS	9.000	23,820.75	11/01/2014		NONE
10-059-03	ELM STREET PLAZA	5.270	34,811,749.73	10/01/2016		10/01/2016

**HOUSING BONDS  
FINANCED DEVELOPMENTS  
(Information as of 3/31/2013 unless otherwise indicated)**

LOAN NUMBER	DEVELOPMENT	MORTGAGE RATE	MORTGAGE OUTSTANDING	MATURITY DATE	61+ DAYS DELINQUENT (AS APPLICABLE)	PREPAYMENT LOCKOUT
10-10358-02	RIVER RUN	1.530	151,415.00	07/01/2016		NONE
10-116-01	SHAWNEE VILLAGE	7.375	1,739,967.91	07/01/2021		NONE
10-135-02	ASBURY PLAZA	4.780	25,004,043.63	04/01/2014		04/01/2014
10-146-01	TOWNSHIP VILLAGE APARTMENTS	4.750	2,411,285.35	07/01/2022		NONE
10-2165-01	BARTLETT ILF	5.510	4,637,441.83	05/01/2047		04/01/2017
10-2166-01	VICTORY CENTRE OF SIERRA RIDGE	5.200	2,202,495.62	09/01/2037		09/01/2037
10-2243-01	ST. JAMES SENIOR HOUSING	6.080	1,667,424.74	05/01/2047		06/01/2017
10-226-02	LARKIN VILLAGE	4.000	278,685.80	11/16/2034		NONE
10-239-01	BRANDONWOOD	6.700	2,280,197.19	08/01/2026		NONE
10-2419-01	PALMER PLACE APTS.	5.000	982,321.14	04/01/2025		04/01/2025
10-289-03	COUNTRY CLUB HEIGHTS	1.000	2,500,000.00	01/01/2034		09/01/2015
10-290-03	NORTHPOINT	3.000	1,477,589.00	10/01/2045		09/01/2015
12-10846-01	BLACKHAWK HILLS APARTMENTS	4.500	6,536,000.00	04/01/2043		NONE
12-2109-01	COATSWORTH APARTMENTS	6.300	816,710.18	02/01/2031		12/01/2020
12-2113-03	THE FIELDS	2.000	555,385.27	01/01/2022		NONE
17-253-01	FULLERTON COURT	6.360	3,349,182.37	01/01/2030		NONE
17-256-01	WOODLANDS APARTMENTS	6.360	887,849.98	01/01/2030		NONE
17-260-01	EVERGREEN SEDGWICK	5.500	2,316,498.41	08/01/2031		NONE
17-260-02	EVERGREEN SEDGWICK	5.400	668,167.22	10/01/2018		NONE
17-269-01	HUNT CLUB VILLAGE L.P.	5.329	5,896,673.36	05/01/2043		NONE
			103,673,507.83			

**393,845,067.21**

**HOUSING BONDS**

<u>Summary Statistics</u>	<u>Count</u>	<u>Balance</u>
Total # of Developments:	82	
Total # of Loans:	112	
Total # of Loans (and Amounts) Past its Lockout:	44	78,066,951.67
Total # of Loans (and Amounts) > 60 Delinquent:	1	763,893.38
N/A: NOT APPLICABLE		

**HOUSING BONDS**

**FINANCED DEVELOPMENTS**

<u>ML NUMBER</u>	<u>DEVELOPMENT</u>	<u>LOCATION</u>	<u>PROGRAM TYPE</u>	<u>SUB UNITS</u>	<u>TOTAL UNITS</u>	<u>HAP EXPIRATION</u>	<u>OCCUPANCY<sup>1</sup></u>
10-004-01	HUNTINGTON SQUARE	MT. PROSPECT, IL	SECTION 236	108	324		94
10-006-01	UNIVERSITY VILLAGE I	DEKALB, IL	SECTION 236	246	246		#N/A
10-019-01	INNSBRUCK APARTMENTS	BOLINGBROOK, IL	SECTION 236	150	475		#N/A
10-020-01	CARRIAGE HOUSE I	DECATUR, IL	SECTION 236	120	120		#N/A
10-021-01	CEDAR POINT AT PINEBROOK	SPRINGFIELD, IL	SECTION 236	160	160		87
10-022-01	RIVER RUN APARTMENTS	MACOMB, IL	SECTION 236	100	100		89
10-025-01	WESTWIND TOWER	ELGIN, IL	SECTION 236	149	150		98
10-029-01	EASTCOURT VILLAGE	KANKAKEE, IL	SECTION 236	133	133		#N/A
10-033-01	COLONY PARK	CAROL STREAM, IL	SECTION 236	284	284		99
10-035-01	LINCOLNSHIRE APARTMENTS	CHARLESTON, IL	SECTION 236	114	114		90
10-038-01	CONSTITUTION HOUSE	AURORA, IL	SECTION 236	232	232		92
10-039-01	UNIVERSITY VILLAGE II	DEKALB, IL	SECTION 236	126	168		#N/A
10-044-01	LEISURE ACRES	WASHINGTON, IL	SECTION 236	101	101		99
10-045-01	WESTPORT VILLAGE	FREEPORT, IL	SECTION 236	121	121		#N/A
10-049-01	WOODCREST APARTMENTS	OTTAWA, IL	SECTION 236	92	92		99
10-056-01	THORNWOOD HOUSE	UNIVERSITY PARK, IL	SECTION 236	183	183		93
10-059-03	ELM STREET PLAZA	CHICAGO, IL	SECTION 8	79	396	09/30/2016	97
10-082-01	ATRIUM VILLAGE	CHICAGO, IL	SECT. 236/FHA	309	309		96
10-104-01	FORNOF MANOR	STREATOR, IL	SECTION 8	105	105	12/31/2017	100
10-110-01	SUNRISE COURTS	ROSELLE, IL	SECTION 8	22	22	04/30/2019	91
10-115-01	SANDBURG VILLAGE	GALESBURG, IL	SECTION 8	128	128	09/30/2020	98
10-116-01	SHAWNEE VILLAGE	MARION, IL	SECTION 8	120	120	08/31/2019	97
10-126-01	LANDMARK APTS.	PEORIA, IL	SECTION 8	150	150	04/30/2020	99
10-129-01	GREEN FARMS TOWNHOUSE	BELVIDERE, IL	SECTION 8	50	50	01/31/2020	96
10-135-02	ASBURY PLAZA	CHICAGO, IL	SECTION 8	77	384	05/31/2021	95
10-142-01	LINCOLN-DOUGLAS	QUINCY, IL	SECTION 8	133	133	05/31/2023	98
10-146-01	TOWNSHIP VILLAGE	EAST ALTON, IL	SECTION 8	122	122	05/31/2021	99
10-157-01	PARK GLEN	TAYLORVILLE, IL	SECTION 8	125	125	07/31/2023	99
10-161-01	PIERSON HILLS II	PEORIA, IL	SECTION 8	50	50	01/01/2033	95
10-165-01	LAKE VISTA APTS.	CHICAGO, IL	SECTION 8	286	286	07/31/2013	97
10-170-01	COUNTRY VILLAGES I,II,III	ANNA/METROPOLIS/VIENNA, IL	SECTION 8	104	104	03/31/2013	93
181	LAKESHORE PLAZA	CHICAGO, IL	SECTION 8	114	567	05/31/2027	#N/A
10-226-01	LARKIN VILLAGE	JOLIET, IL	NONE	0	476		95
10-239-01	BRANDON WOOD	MORTON, IL	NONE	0	69		#N/A
17-253-01	FULLERTON CT.	CHICAGO, IL	RISKSHARE	0	196		98
17-256-01	WOODLANDS APT	PEORIA, IL	RISKSHARE	0	68		99
17-260-01	EVERGREEN SEDGWICK	CHICAGO, IL	SEC 236&8/RISKSHARE	24	84	ANNUAL	#N/A
17-269-01	HUNT CLUB VILLAGE	WHEATON, IL	RISKSHARE	0	103		95
10-289-01	COUNTRY CLUB HEIGHTS	QUINCY, IL	SECTION 236	175	200		99
10-290-01	NORTHPOINT	CHICAGO, IL	SECTION 8	304	304	12/31/2012	99
12-2000-01	CAMPBELL TERRACE	CHICAGO, IL	SECTION 8	249	249	05/31/2015	100
12-2001-01	SOUTHERN HILLS/ORLANDO APTS	DECATUR, IL	SECTION 8	212	212	03/31/2022	99
12-2002-01	COUNTRYBROOK APARTMENTS	CHAMPAIGN, IL	SECTION 8	150	150	02/28/2013	98
12-2007-01	OAKRIDGE VILLAGE	ANTIOCH, IL	SECTION 8	90	90	02/28/2023	#N/A
17-2063-01	LIBERTY ARMS	WAUCONDA, IL	RISKSHARE	0	119		100
17-2071-01	VICTORY CENTER BARLETT SLF	BARTLETT, IL	RISKSHARE	0	104		#N/A
12-2093-01	VALKOMMEN PLAZA	ROCKFORD, IL	SECTION 8	171	171	06/30/2031	95
12-2094-01	THE COVENTRY	ROCK ISLAND, IL	SECTION 8	147	147	01/31/2021	100
12-2109-01	COATSWORTH BUILDING	GALENA, IL	SECTION 8	18	18	11/30/2020	100
12-10846-01	BLACKHAWK HILLS APARTMENTS	EAST MOLINE, IL	SECTION 8	164	164	09/30/2016	#N/A
12-2113-01	THE FIELDS	CHICAGO, IL	SECTION 8	156	156	12/31/2021	97
10-2166-01	VICTORY CENTRE SIERRA RIDGE	COUNTRY CLUB, IL	NONE	0	73		#N/A

**HOUSING BONDS**

**FINANCED DEVELOPMENTS**

<u>ML NUMBER</u>	<u>DEVELOPMENT</u>	<u>LOCATION</u>	<u>PROGRAM TYPE</u>	<u>SUB UNITS</u>	<u>TOTAL UNITS</u>	<u>HAP EXPIRATION</u>	<u>OCCUPANCY<sup>1</sup></u>
12-2210-01	BROOKMEADOWS	PEKIN, IL	SECTION 8	156	156	12/31/2017	#N/A
17-2228-01	PINEVIEW ROCKFORD SLF	ROCKFORD, IL	RISKSHARE	0	99		100
12-2263-01	WALNUT PLACE	HIGHLAND PARK, IL	SECTION 8	68	68	08/31/2020	97
17-2267-01	EAGLE RIDGE DECATUR SLF II	DECATUR, IL	RISKSHARE	0	37		100
12-2269-01	FRANK B. PEERS	HIGHLAND PARK, IL	SECTION 8	67	67	12/31/2017	97
12-2270-01	65TH STREET APARTMENTS	CHICAGO, IL	SECTION 8	63	63	08/31/2016	#N/A
12-2272-01	HERITAGE WOODS BATAVIA SLF II	BATAVIA, IL	NONE	0	55		100
12-2273-01	WEST POINT PLAZA	CHICAGO, IL	SECTION 8	200	200	08/31/2018	99
12-2274-01	OAK TREE TOWERS	DOWNERS GROVE, IL	SECTION 8	165	165	05/31/2017	100
12-2275-01	COUNTRYSIDE VILLAGES II	ROCHELLE/YORKVILLE, IL	SECTION 8	125	125	02/28/2020	#N/A
12-2277-01	CARRIAGE HOUSE II	DECATUR, IL	SECTION 8	100	100	03/31/2018	#N/A
12-2279-01	BURNHAM MANOR	ELGIN, IL	SECTION 8	100	100	11/30/2019	99
12-2285-01	PRAIRIE VIEW APARTMENTS	NORTH CHICAGO, IL	SECTION 8	219	224	09/29/2021	94
12-2313-01	SUNRISE APTS.	MATTOON, IL	SECTION 8	120	120	01/31/2023	100
12-2314-01	FLORIDA HOUSE	URBANA, IL	SECTION 8	120	120	11/30/2020	98
12-2315-01	ANGLERS MANOR	BLOOMINGTON, IL	SECTION 8	96	96	06/23/2017	100
12-2316-01	SUNNYCREST MANOR	URBANA, IL	SECTION 8	101	101	07/01/2017	94
12-2368-01	OGDEN MANOR	NAPERVILLE, IL	SECTION 8	108	108	ANNUAL	99
12-2407-01	THE PINES OF EDGEWATER II	CHICAGO, IL	SECTION 8	217	217	05/31/2013	97
12-2409-01	LAKE POINTE APTS.	EFFINGHAM, IL	SECTION 8	120	120	07/31/2013	100
12-2413-01	VILLAGER/BRIARWOOD	CRYSTAL LAKE, IL	SECTION 8	116	116	02/28/2013	100
10-2419-01	PALMER PLACE	CHICAGO, IL	NONE	0	36		#N/A
12-2602-01	RIVERWOODS APTS.	KANKAKEE, IL	SECTION 8	125	125	09/30/2013	100
12-2604-01	WOODLAND TOWERS	COLLINSVILLE, IL	SECTION 8	104	104	12/31/2017	100
17-2646-01	EVERGREEN PLACE STREATOR	STREATOR, IL	RISKSHARE	0	53		100
17-2647-01	EVERGREEN PLACE LITCHFIELD	LITCHFIELD, IL	RISKSHARE	0	69		94
12-2649-01	PIONEER VILLAGE	CHICAGO, IL	SECTION 8	152	152	02/01/2022	#N/A
12-2738-01	THE PINES OF EDGEWATER I	CHICAGO, IL	SECTION 8	279	279	07/31/2020	95
12-2754-01	AMANDA BROOKE APTS.	NORMAL, IL	SECTION 8	120	120	12/31/2020	99
10-2165-01	BARLETT ILF	BARTLETT, IL	NONE	83	104		#N/A
10-2243-01	ST. JAMES SENIOR HOUSING	CRETE, IL	NONE	32	40		#N/A

<sup>1</sup> If available. #N/A: Not Available

**UNASSIGNED FINANCED DEVELOPMENTS**  
**(Information as of 3/31/2013 unless otherwise indicated)**

LOAN NUMBER	DEVELOPMENT	MORTGAGE RATE	MORTGAGE OUTSTANDING	MATURITY DATE	61+ DAYS DELINQUENT (AS APPLICABLE)	PREPAYMENT LOCKOUT
10-2030-01	THE PARKWAYS	5.550	12,159,928.02	01/01/2047		01/01/2017
10-2030-02	THE PARKWAYS	5.550	7,278,274.04	05/01/2021		01/01/2017
10-2059-01	MYERS COMMONS SENIOR HOUSING	6.200	4,984,996.32	03/01/2047		03/01/2017
10-264-01	TURNBERRY VILLAGE	7.150	2,864,410.49	04/01/2043		05/01/2018
10-273-01	HERITAGE WOODS OF BATAVIA L.P.	6.880	6,394,940.13	02/01/2034		03/01/2019
10-275-01	MELROSE COMMONS	7.100	3,182,013.13	03/01/2044		04/01/2019
10-277-01	VICTORY CENTER OF CALUMET CITY	5.950	4,088,683.35	05/01/2044		06/01/2014
10-286-01	RIVERDALE SENIOR APARTMENTS	6.150	1,504,656.42	03/01/2045		NONE
10-293-01	PARSONS PLACE II	6.260	2,072,828.78	12/01/2045		01/01/2021
10-293-02	PARSONS PLACE II	6.260	176,911.95	01/01/2015		01/01/2021
			44,707,642.63			
			44,707,642.63			

<u>Summary Statistics</u>	<u>Count</u>		
Total # of Developments:	8		
Total # of Loans:	10		
		<b><u>Balance</u></b>	
Total # of Loans (and Amounts) Past its Lockout:	1	1,504,656.42	
Total # of Loans (and Amounts) > 60 Delinquent:	0	0.00	



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