**NEW ISSUE – BOOK-ENTRY ONLY**

*In the opinion of Kutak Rock LLP, Chicago, Illinois, Bond Counsel, assuming compliance with certain covenants and agreements which are intended to ensure compliance with the Internal Revenue Code of 1986, as amended (the "Code"), under existing laws, regulations, rulings and judicial decisions, interest on the 2005 Series E Bonds (as defined below) is excludable from gross income of the owners thereof for federal income tax purposes. Interest on the 2005 Series E Bonds is not taken into account as a specific preference item included in minimum taxable income for purposes of calculating the alternative minimum tax imposed on individuals and corporations under the Code. Bond Counsel expresses no opinion concerning the exclusion of interest on the 2005 Series E Bonds for any periods for which a 2005 Series E Bond is held by a "substantial user" of the facilities financed by such 2005 Series E Bond or held by a "related person." Interest on the 2005 Series F Bonds (as defined below) is includable in the gross income of the owners of the 2005 Series F Bonds for federal income tax purposes. 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 Offered 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.*

# $44,340,000
# ILLINOIS HOUSING DEVELOPMENT AUTHORITY
## Housing Bonds, consisting of
## $24,760,000 2005 Series E (Non-AMT)
## $19,580,000 2005 Series F (Taxable)

**Dated:** See inside cover **Due:** See inside cover

The Housing Bonds, 2005 Series E (Non-AMT) (the "2005 Series E Bonds") and the Housing Bonds, 2005 Series F (Taxable) (the "2005 Series F Bonds" and, collectively with the 2005 Series E Bonds, the "Offered Bonds") are issuable only in registered form. The Depository Trust Company ("DTC"), New York, New York, will act as securities depository of the Offered Bonds and its nominee, Cede & Co., will be the registered owner of the Offered Bonds. For further details on ownership, payments, notices and other matters under the book-entry only system, see "BOOK-ENTRY ONLY SYSTEM." The Offered Bonds are issued pursuant to a Trust Indenture dated as of March 1, 1999 and Series Supplemental Indentures dated as of October 1, 2005 between the Authority and LaSalle Bank National Association, Chicago, Illinois, as Trustee. Principal of, premium, if any, and interest on the Offered Bonds will be paid by J.P. Morgan Trust Company, National Association, Chicago, Illinois, as Master Paying Agent.

The Offered Bonds are issuable in fully registered form in denominations of $5,000 or any integral multiple thereof. The Offered 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, 2006.

The Offered Bonds are subject to optional and mandatory redemption prior to maturity, including at par without premium, as described herein under the caption, "THE OFFERED BONDS –Redemption."

Proceeds of the 2005 Series E Bonds and 2005 Series F Bonds, together with other available funds, will be used to: (a) make new mortgage loans for the purpose of prepaying existing mortgage loans funded with the proceeds of the Authority's Multi-Family Program Bonds, Series 1, 3 and 5 (the "Prior Multi-Family Tax-Exempt Bonds") and the Authority's Multi-Family Program Bonds, Series 2, 4 and 6 (Taxable) (the "Prior Multi-Family Taxable Bonds") with respect to the developments listed on Appendix I; (b) make a deposit to the Reserve Fund; (c) make a deposit to the Debt Service Account for capitalized interest; (d) provide additional financing for the developments listed on Appendix I; and (e) pay certain costs incurred in connection with the issuance of the 2005 Series E Bonds and 2005 Series F Bonds.

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

The scheduled payment of principal of and interest on the Offered Bonds when due will be guaranteed under a municipal bond new issue insurance policy to be issued concurrently with the delivery of the Offered Bonds by Financial Guaranty Insurance Company.

FGIC Financial Guaranty Insurance Company

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

*The Offered Bonds are offered when, as and if issued and received by the Underwriters, subject to prior sale, withdrawal or modification of the offer without notice, and to the approval of legality by Kutak Rock LLP, Chicago, Illinois, Bond Counsel. Certain legal matters will be passed upon for the Authority by its General Counsel and by its counsel, Mayer, Brown, Rowe & Maw LLP, Chicago, Illinois, and for the Underwriters by their counsel, Shefsky & Froelich Ltd., Chicago, Illinois. See "LEGAL MATTERS." It is expected that the Offered Bonds will be available for delivery to DTC in New York, New York, on or about November 1, 2005.*

**Merrill Lynch & Co.**

**Cabrera Capital Markets Inc.** **George K. Baum & Company**

This official statement is dated October 19, 2005.

**$44,340,000**
**ILLINOIS HOUSING DEVELOPMENT AUTHORITY**
**Housing Bonds, consisting of**
**$24,760,000 2005 Series E (Non-AMT)**
**$19,580,000 2005 Series F (Taxable)**

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## MATURITY SCHEDULES

**Dated: Date of Delivery, expected to be November 1, 2005**

### $24,760,000 2005 Series E Bonds (Non-AMT)

### 2005 Series E Serial Bonds

| Maturity Date | Amount | Interest Rate | Maturity Date | Amount | Interest Rate |
|---|---|---|---|---|---|
| July 1, 2011 | $180,000 | 3.65 % | January 1, 2014 | $225,000 | 4.00 % |
| January 1, 2012 | 205,000 | 3.75 | July 1, 2014 | 230,000 | 4.00 |
| July 1, 2012 | 210,000 | 3.80 | January 1, 2015 | 235,000 | 4.10 |
| January 1, 2013 | 215,000 | 3.90 | July 1, 2015 | 240,000 | 4.10 |
| July 1, 2013 | 220,000 | 3.90 | | | |

### 2005 Series E Term Bonds

**$1,980,000 4.450% Term Bonds due July 1, 2020**
**$2,615,000 4.625% Term Bonds due July 1, 2025**
**$6,135,000 4.750% Term Bonds due July 1, 2030**
**$12,070,000 4.800% Term Bonds due January 1, 2036**

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### $19,580,000 2005 Series F Bonds (Taxable)

### 2005 Series F Serial Bonds

| Maturity Date | Amount | Interest Rate | Maturity Date | Amount | Interest Rate |
|---|---|---|---|---|---|
| January 1, 2006 | $160,000 | 4.09 % | January 1, 2011 | $595,000 | 4.94 % |
| July 1, 2006 | 470,000 | 4.46 | July 1, 2011 | 450,000 | 4.95 |
| January 1, 2007 | 485,000 | 4.60 | January 1, 2012 | 435,000 | 5.06 |
| July 1, 2007 | 495,000 | 4.59 | July 1, 2012 | 445,000 | 5.07 |
| January 1, 2008 | 510,000 | 4.63 | January 1, 2013 | 460,000 | 5.08 |
| July 1, 2008 | 520,000 | 4.68 | July 1, 2013 | 465,000 | 5.11 |
| January 1, 2009 | 540,000 | 4.78 | January 1, 2014 | 495,000 | 5.11 |
| July 1, 2009 | 545,000 | 4.80 | July 1, 2014 | 500,000 | 5.12 |
| January 1, 2010 | 560,000 | 4.88 | January 1, 2015 | 515,000 | 5.16 |
| July 1, 2010 | 580,000 | 4.89 | July 1, 2015 | 535,000 | 5.16 |

### 2005 Series F Term Bonds

**$6,370,000 5.730% Term Bonds due July 1, 2022**
**$3,450,000 5.840% Term Bonds due January 1, 2029**

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**PRICE FOR ALL OFFERED BONDS: 100%**

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

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

THE UNDERWRITERS HAVE PROVIDED THE FOLLOWING SENTENCE FOR INCLUSION IN THIS OFFICIAL STATEMENT: THE UNDERWRITERS HAVE REVIEWED THE INFORMATION IN THIS OFFICIAL STATEMENT IN ACCORDANCE WITH, AND AS PART OF, ITS RESPONSIBILITIES TO INVESTORS UNDER THE FEDERAL SECURITIES LAWS AS APPLIED TO THE FACTS AND CIRCUMSTANCES OF THIS TRANSACTION, BUT THE UNDERWRITERS DO NOT GUARANTEE THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION. THE OFFERED BONDS HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

IN CONNECTION WITH THE OFFERING OF THE OFFERED BONDS, THE UNDERWRITERS MAY OVER ALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICES OF OFFERED BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AND RECOMMENCED AT ANY TIME WITHOUT NOTICE.

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

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

**relating to**

**$44,340,000**
**ILLINOIS HOUSING DEVELOPMENT AUTHORITY**
**Housing Bonds, consisting of**
**$24,760,000 2005 Series E (Non-AMT)**
**$19,580,000 2005 Series F (Taxable)**

## INTRODUCTION

This Official Statement (including the cover page and appendices) is being distributed by the Illinois Housing Development Authority (the "Authority") in order to furnish information in connection with the issuance by the Authority of its $44,340,000 Housing Bonds, consisting of $24,760,000 2005 Series E (Non-AMT) (the "2005 Series E Bonds") and $19,580,000 2005 Series F (Taxable) (the "2005 Series F Bonds" and, together with the 2005 Series E Bonds, the "Offered Bonds"). The Offered Bonds are being issued by the Authority pursuant to the Illinois Housing Development Act, 20 ILCS 3805/1 *et seq.,* as amended (the "Act").

The Offered Bonds are being issued under the provisions of: (i) a Trust Indenture dated as of March 1, 1999 (the "Indenture") between the Authority and LaSalle Bank National Association, Chicago, Illinois, as trustee (the "Trustee"); (ii) with respect to the 2005 Series E Bonds, a Series Supplemental Indenture dated as of October 1, 2005 (the "2005 Series E Supplemental Indenture") between the Authority and the Trustee; (iii) with respect to the 2005 Series F Bonds, a Series Supplemental Indenture dated as of October 1, 2005 (the "2005 Series F Supplemental Indenture") between the Authority and the Trustee; and (iv) the resolution of the Authority adopted on September 16, 2005, as supplemented by the respective Determinations of the Chairman and Executive Director of the Authority (collectively, 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 Authority's multi-family program are referred to as "Financed Developments."

The Offered Bonds are being issued for the following purposes:

- The 2005 Series E Bonds are being issued to provide funds to be applied, together with other available funds, to (i) make new mortgage loans for the purpose of prepaying existing mortgage loans funded with the proceeds of the Authority's Multi-Family Program Bonds, Series 1, 3 and 5 (the "Prior Multi-Family Tax-Exempt Bonds") with respect to the developments listed on Appendix I, (ii) make a deposit to the Debt Service Account for capitalized interest, and (iii) make a deposit to the Reserve Fund. The proceeds of the prepayment of the existing mortgage loans will be used to currently refund all or a portion of the Authority's Prior Multi-Family Tax-Exempt Bonds.

- The 2005 Series F Bonds are being issued to provide funds to be applied, together with other available funds, to (i) make new mortgage loans for the purpose of prepaying existing mortgage loans funded with the proceeds of the Authority's Multi-Family Program Bonds, Series 2, 4 and 6 (Taxable) (the "Prior Multi-Family Taxable Bonds") with respect to the developments listed on Appendix I, (ii) make a deposit to the Reserve Fund, (iii) make a deposit to the Debt Service Account for capitalized interest, (iv) provide additional financing for the developments listed on Appendix I, and (v) pay certain costs of issuing the 2005 Series E Bonds and 2005 Series F Bonds, certain costs related to refunding and/or defeasing all or a portion of the Prior Multi-Family Tax-Exempt Bonds and the Prior Multi-Family Taxable Bonds. The proceeds of the prepayment of the existing mortgage loans will be used to currently refund all or a portion of the Authority's Prior Multi-Family Taxable Bonds.

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

As of August 31, 2005, the Authority had previously issued $246,545,000 aggregate original principal amount of bonds under the Indenture, of which $200,775,000 aggregate principal amount were outstanding (the "Prior Bonds"). The Offered Bonds are being issued on a parity basis with the Prior Bonds. The Prior Bonds, the Offered Bonds and all other bonds hereafter issued under the Indenture are referred to herein as the "Bonds." Additional Bonds (the "Additional Bonds"), which may be secured by security in addition to the security for the Offered Bonds, may be issued by the Authority for purposes, upon terms and subject to conditions provided in the Indenture. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Additional Bonds."

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

Additional Bonds will specify whether such Additional Bonds will be the general obligation of the Authority and whether they will be secured on a parity basis with the Offered Bonds. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS."

The scheduled payment of principal of and interest on the Offered Bonds when due will be guaranteed under a municipal bond new issue insurance policy (the "Insurance Policy") to be issued concurrently with the delivery of the Offered Bonds by Financial Guaranty Insurance Company (the "Bond Insurer"). For a description of certain provisions of the Insurance Policy and for certain information concerning the Bond Insurer, see "THE BOND INSURANCE POLICY" and "APPENDIX H - FORM OF BOND INSURANCE POLICY."

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

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

## PLAN OF FINANCE

Proceeds of the Offered Bonds, together with other available funds, will be used to: (a) make new mortgage loans for the purpose of prepaying existing mortgage loans funded with the proceeds of the Authority's Prior Multi-Family Tax-Exempt Bonds and the Prior Multi-Family Taxable Bonds with respect to the developments listed on Appendix I; (b) make a deposit to the Reserve Fund; (c) make a deposit to the Debt Service Account for capitalized interest; (d) provide additional financing for the developments listed on Appendix I; and (e) pay certain costs incurred in connection with the issuance of the Offered Bonds and the redemption and/or defeasance of the Prior Multi-Family Tax-Exempt Bonds and the Prior Multi-Family Taxable Bonds. See "SOURCES AND USES OF FUNDS."

### Assumptions

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

The maturities and Sinking Fund Installments of the Offered Bonds were established based on the assumption that (a) there would be no Loan Prepayments, Acquired Bonds Redemption Receipts or Recovery Payments related to the 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 the Financed Developments, and (ii) the Authority is not obligated to recycle such surplus Revenues by making other Loans or acquiring Acquired Bonds. *As mentioned below under the caption "THE OFFERED BONDS," Loan Prepayments, Acquired Bonds Redemption Receipts, Recovery Payments, and surplus Revenues may be used to redeem Bonds of any Series, including the 2005 Series E Bonds and/or 2005 Series F Bonds.* Consequently, to the extent such amounts are used to redeem Offered Bonds, the average life of an Offered Bond may be significantly shorter than its stated maturity.

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

## SOURCES AND USES OF FUNDS

The estimated sources and uses of funds in connection with the issuance of the Offered Bonds are as follows:

| | | |
|---|---|---|
| **Sources:** | | |
| | 2005 Series E Bond Proceeds | $ 24,760,000 |
| | 2005 Series F Bond Proceeds | 19,580,000 |
| | Other Sources[1] | 277,701 |
| | **Total Sources** | $ 44,617,701 |
| **Uses:** | | |
| | Deposit to Program Fund | $ 41,360,290 |
| | Deposit to Reserve Fund | 1,732,000 |
| | Deposit to Debt Service Account for Capitalized Interest | 277,701 |
| | Cost of Issuance | 886,258 |
| | Underwriters' Fees[2] | 361,452 |
| | **Total Uses** | $ 44,617,701 |

[1] Other Sources include the Authority's contribution.

[2] Includes approximately $4,693 for the initial semi-annual premium (through January 1, 2006) for the Insurance Policy being paid for by the Underwriters. See "UNDERWRITING." The insurance premiums for the Insurance Policy, thereafter, will be paid for by the respective Borrowers with default recourse to the Authority.

# 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 June 30, 2005, the Authority had debt outstanding in the amount of $1,721,190,601, which consisted of general obligation debt, special limited obligation debt and conduit debt. The conduit debt, which is special limited obligation debt, accounted for $294,073,900 of that total.

## Multi-Family Housing Experience

The Authority has significant experience in the underwriting and servicing of multifamily mortgage loans. In its more than 30 years of operation, the Authority has financed over 200 multi-family developments throughout the State under several separate multi-family bond programs, excluding single project financings. Total loans and other assets outstanding under these programs as of June 30, 2005, were approximately $800 million.

The Authority is an FHA-Approved Mortgagee and is also an approved Seller/Servicer under the Fannie Mae Prior Approval Program. The Authority also serves as the State's administering agency for the Low Income Housing Tax Credit. As of June 30, 2005, the Authority's Multi-Family Programs and Technical Services Departments employed 50 people with a variety of skills in multi-family loan underwriting, market research, construction management, and subsidy contract administration, and its Asset Management Services Department employed 24 people in areas of asset management and other aspects of loan servicing.

## Membership

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

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

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

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

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

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

S. RAJA KRISHNAMOORTHI, Member – Associate, Kirkland & Ellis

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

There are currently two vacancies.

## Management

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

KELLY KING DIBBLE, Executive Director, has extensive public and private real estate experience. As a deputy commissioner for the Chicago Department of Planning and Development, Ms. Dibble created initiatives to stimulate the residential and commercial development on the city's near west and south sides. In the private sector, Ms. Dibble was a director of Chicago's Hyatt Development Corp. from 1995 to 2000, providing analysis and project leadership. For the next two years, she was vice president of business development for Rezmar Corp. of Chicago, specializing in hotel and commercial project development. Before graduating in 1985 from Harvard Law School, Ms. Dibble launched her long-standing interest in affordable housing and community development as president of the Harvard Real Estate and Urban Development Forum. Earlier, she earned a B.A. in economics from Wellesley College in 1982.

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

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

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

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

MICHAEL J. LOHMEIER, Assistant to the Executive Director for Multifamily Programs, joined the Authority in 2005. Mr. Lohmeier has held various positions in commercial and community development finance, including Investment Manager for Affordable Housing and Community Development at the General Board of Pension & Health Benefits of The United Methodist Church, Fair Lending Officer and Credit Policy Officer at The Northern Trust Company. Mr. Lohmeier holds a Master of Public Policy Studies from the Harris Graduate

School of Public Policy Studies at the University of Chicago and a Bachelor of Arts in economics and political science from Northwestern University.

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

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

## SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

### General

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

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 Offered Bonds) pledge the revenues, assets and moneys of the Authority with respect to the developments and mortgage loans financed by those obligations to the payment of those obligations, and such revenues, assets and moneys are not available for the payment of the Bonds. The full faith and credit of the Authority are also pledged for payment of many other outstanding notes, bonds and other obligations of the Authority. See "OTHER PROGRAMS" and Note F to the Authority Annual Financial Statements (Audited) 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 Offered Bonds are also secured on a parity basis with the Prior Bonds by a pledge of the Trust Estate established under the Indenture, including Revenues, Funds and Accounts established under the Indenture and Series Supplemental Indentures (other than the Acquired Development Fund) and all deposits and investments of those Funds and Accounts, Acquired Bonds, rights of the Authority to the payment of amounts in connection with Loans to the extent the payments would be included in Revenues, including, to the extent they may be so pledged, any right to governmental subsidies payable to the Authority to be used to pay principal of or interest on Loans, and also security for the pledged rights in Loans including, without limitation, mortgages, assignments of rents and other security interests and agreements, in each case to the extent subject to the pledge, assignment, lien and security interest provided in the Indenture.

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

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

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

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

**Revenues**

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

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

**Acquired Bonds**

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

**Loans**

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

**Reserve Fund**

The Indenture establishes a Reserve Fund to be used to pay debt service on Bonds other than Subordinate Bonds or payments under Derivative Agreements relating to Bonds, other than Subordinate Bonds, to the extent no other funds are available for that purpose. The "Reserve Requirement," as of any particular date of calculation, is 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, 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.

The 2005 Series E Supplemental Indenture establishes a Reserve Requirement for the 2005 Series E Bonds. The Reserve Requirement for the 2005 Series E Bonds is an amount, from time to time, equal to the maximum principal and interest due on the 2005 Series E Bonds on any semi-annual interest payment date excluding the final interest payment date. The initial Reserve Requirement will be funded using proceeds of the 2005 Series E Bonds. There is no Reserve Requirement for the 2005 Series F Bonds (all Bonds including the 2005 Series E Bonds and the 2005 Series F Bonds are secured by a common Reserve Fund).

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 C 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 D for a description of the FHA mortgage insurance program.

**Derivatives**

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

**Additional Bonds**

The Indenture provides that Additional Bonds may be issued subject to certain conditions and limitations. The Authority shall, at the time of issuance of a Series of Additional Bonds, determine whether such Series of Additional Bonds will be special, limited obligations of the Authority or general obligations of the Authority, to which its full faith and credit are pledged. Unless otherwise provided in a Series Supplemental Indenture with respect to a Series of Additional Bonds, Section 26.1 of the Act shall not apply to any such series of Additional Bonds.

In addition, except as may otherwise be provided in a Series Supplemental Indenture for Subordinate Bonds, such Series of Additional Bonds shall be secured and be payable on parity with and shall be entitled to the same benefits and security under the Indenture as all other Bonds issued under the Indenture, including the Offered Bonds. Nonetheless, the Authority may issue a

Series of Bonds which may be secured by a credit facility or a bond insurance policy securing only such Series of Bonds or a portion of such Series of Bonds as determined by the applicable Series Supplemental Indenture.

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

Before any Series of Additional Bonds (other than Subordinate Bonds) may be issued, the Authority must deliver to the Trustee, 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 OFFERED BONDS.**

## THE BOND INSURANCE POLICY

*Financial Guaranty Insurance Company (the "Bond Insurer") has supplied the following information for inclusion in this Official Statement. No representation is made by the Authority or the Underwriters as to the accuracy or completeness of this information.*

**Payments Under the Insurance Policy**

Concurrently with the issuance of the Offered Bonds, the Bond Insurer will issue a Municipal Bond New Issue Insurance Policy for the Offered Bonds (the "Insurance Policy"). The Insurance Policy unconditionally guarantees the payment of that portion of the principal or accreted value (if applicable) of and interest on the Offered Bonds which has become due for payment, but shall be unpaid by reason of nonpayment by the Authority. The Bond Insurer will make such payments to U.S. Bank Trust National Association, or its successor as its agent (the "Fiscal Agent"), on the later of the date on which such principal, accreted value or interest (as applicable) is due or on the business day next following the day on which the Bond Insurer shall have received notice (in accordance with the terms of the Insurance Policy) from an owner of Offered Bonds or the trustee or paying agent (if any) of the nonpayment of such amount by the Authority. The Fiscal Agent will disburse such amount due on any Offered Bond to its owner upon receipt by the Fiscal Agent of evidence satisfactory to the Fiscal Agent of the owner's right to receive payment of the principal, accreted value or interest (as applicable) due for payment and evidence, including any appropriate instruments of assignment, that all of such owner's rights to payment of such principal, accreted value or interest (as applicable) shall be vested in the Bond Insurer. The term "nonpayment" in respect of an Offered Bond includes any payment of principal, accreted value or interest (as applicable) made to an owner of an Offered Bond which has been recovered from such owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction.

Once issued, the Insurance Policy is non-cancellable by the Bond Insurer. The Insurance Policy covers failure to pay principal (or accreted value, if applicable) of the Offered Bonds on their stated maturity dates and their mandatory sinking fund redemption dates, and not on any other date on which the Offered Bonds may have been otherwise called for redemption, accelerated or advanced in maturity. The Insurance Policy also covers the failure to pay interest on the stated date for its payment. In the event that payment of the Offered Bonds is accelerated, the Bond Insurer will only be obligated to pay principal (or accreted value, if applicable) and interest in the originally scheduled amounts on the originally scheduled payment dates. Upon such payment, the Bond Insurer will become the owner of the Offered Bond, appurtenant coupon or right to payment of principal or interest on such Offered Bond and will be fully subrogated to all of the Bondholder's rights thereunder.

The Insurance Policy does not insure any risk other than Nonpayment by the Authority, as defined in the Insurance Policy. Specifically, the Insurance Policy does not cover: (i) payment on acceleration, as a result of a call for redemption (other than mandatory sinking fund redemption) or as a result of any other advancement of maturity; (ii) payment of any redemption, prepayment or acceleration premium; or (iii) nonpayment of principal (or accreted value, if applicable) or interest caused by the insolvency or negligence or any other act or omission of the trustee or paying agent, if any.

As a condition of its commitment to insure Offered Bonds, the Bond Insurer may be granted certain rights under the Offered Bond documentation. The specific rights, if any, granted to the Bond Insurer in connection with its insurance of the Offered Bonds may be set forth in the description of the principal legal documents appearing elsewhere in this Official Statement, and reference should be made thereto.

The Insurance Policy is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

**Financial Guaranty Insurance Company**

Financial Guaranty Insurance Company, a New York stock insurance corporation, is a direct, wholly-owned subsidiary of FGIC Corporation, a Delaware corporation, and provides financial guaranty insurance for public finance and structured finance obligations. The Bond Insurer is licensed to engage in financial guaranty insurance in all 50 states, the District of Columbia, the U.S. Virgin Islands, the Commonwealth of Puerto Rico and, through a branch, in the United Kingdom.

On December 18, 2003, an investor group consisting of The PMI Group, Inc. ("PMI"), affiliates of The Blackstone Group L.P. ("Blackstone"), affiliates of The Cypress Group L.L.C. ("Cypress") and affiliates of CIVC Partners L.P. ("CIVC") acquired FGIC Corporation (the "FGIC Acquisition") from a subsidiary of General Electric Capital Corporation ("GE Capital"). PMI, Blackstone, Cypress and CIVC acquired approximately 42%, 23%, 23% and 7%, respectively, of FGIC Corporation's common stock. FGIC Corporation paid GE Capital approximately $284.3 million in pre-closing dividends from the proceeds of dividends it, in turn, had received from the Bond Insurer, and GE Capital retained approximately $234.6 million in liquidation preference of FGIC Corporation's convertible participating preferred stock and approximately 5% of FGIC Corporation's common stock. Neither FGIC Corporation nor any of its shareholders is obligated to pay any debts of the Bond Insurer or any claims under any insurance policy, including the Insurance Policy, issued by the Bond Insurer.

The Bond Insurer is subject to the insurance laws and regulations of the State of New York, where it is domiciled, including Article 69 of the New York Insurance Law ("Article 69"), a comprehensive financial guaranty insurance statute. The Bond Insurer is also subject to the insurance laws and regulations of all other jurisdictions in which it is licensed to transact insurance business. The insurance laws and regulations, as well as the level of supervisory authority that may be exercised by the various insurance regulators, vary by jurisdiction, but generally require insurance companies to maintain minimum standards of business conduct and solvency, to meet certain financial tests, to comply with requirements concerning permitted investments and the use of policy forms and premium rates and to file quarterly and annual financial statements on the basis of statutory accounting principles ("SAP") and other reports. In addition, Article 69, among other things, limits the business of each financial guaranty insurer, including the Bond Insurer, to financial guaranty insurance and certain related lines.

For the six months ended June 30, 2005, and the years ended December 31, 2004 and December 31, 2003, the Bond Insurer had written directly or assumed through reinsurance, guaranties of approximately $35.3 billion, $59.5 billion and $42.4 billion par value of securities, respectively (of which approximately 61%, 56% and 79%, respectively, constituted guaranties of municipal bonds), for which it had collected gross premiums of approximately $131.4 million, $323.6 million and $260.3 million, respectively. For the six months ended June 30, 2005, the Bond Insurer had reinsured, through facultative arrangements, approximately 4.2% of the risks it had written.

As of June 30, 2005, the Bond Insurer had net admitted assets of approximately $3.327 billion, total liabilities of approximately $2.152 billion, and total capital and policyholders' surplus of approximately $1.175 billion, determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

The unaudited financial statements of the Bond Insurer as of June 30, 2005, and the audited financial statements of the Bond Insurer as of December 31, 2004 and December 31, 2003, which have been filed with the Nationally Recognized Municipal Securities Information Repositories ("NRMSIRs"), are hereby included by specific reference in this Official Statement. Any statement contained herein under the heading "THE BOND INSURANCE POLICY," or in any documents included by specific reference herein, shall be modified or superseded to the extent required by any statement in any document subsequently filed by the Bond Insurer with such NRMSIRs, and shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement. All financial statements of the Bond Insurer (if any) included in documents filed by the Bond Insurer with the NRMSIRs subsequent to the date of this Official Statement and prior to the termination of the offering of the Offered Bonds shall be deemed to be included by specific reference into this Official Statement and to be a part hereof from the respective dates of filing of such documents.

The Bond Insurer also prepares quarterly and annual financial statements on the basis of generally accepted accounting principles. Copies of the Bond Insurer's most recent GAAP and

SAP financial statements are available upon request to: Financial Guaranty Insurance Company, 125 Park Avenue, New York, NY 10017, Attention: Corporate Communications Department. The Bond Insurer's telephone number is (212) 312-3000.

**Financial Guaranty's Credit Ratings**

The financial strength of the Bond Insurer is rated "AAA" by Standard & Poor's, a Division of The McGraw-Hill Companies, Inc., "Aaa" by Moody's Investors Service, and "AAA" by Fitch Ratings. Each rating of the Bond Insurer should be evaluated independently. The ratings reflect the respective rating agency's current assessment of the insurance financial strength of the Bond Insurer. Any further explanation of any rating may be obtained only from the applicable rating agency. These ratings are not recommendations to buy, sell or hold the Offered Bonds, and are subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the Offered Bonds. The Bond Insurer does not guarantee the market price or investment value of the Offered Bonds nor does it guarantee that the ratings on the Offered Bonds will not be revised or withdrawn.

**Neither the Bond Insurer nor any of its affiliates accepts any responsibility for the accuracy or completeness of the Official Statement or any information or disclosure that is provided to potential purchasers of the Offered Bonds, or omitted from such disclosure, other than with respect to the accuracy of information with respect to the Bond Insurer or the Insurance Policy under the heading "THE BOND INSURANCE POLICY." In addition, the Bond Insurer makes no representation regarding the Offered Bonds or the advisability of investing in the Offered Bonds.**

## THE OFFERED BONDS

### General

The Offered Bonds are issuable only in fully registered form without coupons in denominations of $5,000 or any integral multiple thereof. The Offered 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, 2006.

### Redemption

*Mandatory Sinking Fund Redemption.* The 2005 Series E Bonds maturing on July 1, 2020 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 the principal amount of the 2005 Series E Bonds to be redeemed plus accrued interest to the date of redemption, without redemption premium:

| Redemption Date | Sinking Fund Installment | Redemption Date | Sinking Fund Installment |
|---|---|---|---|
| January 1, 2016 | $245,000 | July 1, 2018 | $165,000 |
| July 1, 2016 | 250,000 | January 1, 2019 | 40,000 |
| January 1, 2017 | 275,000 | July 1, 2019 | 40,000 |
| July 1, 2017 | 295,000 | January 1, 2020 | 70,000 |
| January 1, 2018 | 445,000 | July 1, 2020† | 155,000 |

† Final maturity.

The 2005 Series E Bonds maturing on July 1, 2025 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 the principal amount of the 2005 Series E Bonds to be redeemed plus accrued interest to the date of redemption, without redemption premium:

| Redemption Date | Sinking Fund Installment | Redemption Date | Sinking Fund Installment |
|---|---|---|---|
| January 1, 2021 | $160,000 | July 1, 2023 | $260,000 |
| July 1, 2021 | 195,000 | January 1, 2024 | 265,000 |
| January 1, 2022 | 235,000 | July 1, 2024 | 275,000 |
| July 1, 2022 | 250,000 | January 1, 2025 | 350,000 |
| January 1, 2023 | 255,000 | July 1, 2025† | 370,000 |

† Final maturity.

The 2005 Series E Bonds maturing on July 1, 2030 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 the principal amount of the 2005 Series E Bonds to be redeemed plus accrued interest to the date of redemption, without redemption premium:

| Redemption Date | Sinking Fund Installment | Redemption Date | Sinking Fund Installment |
|---|---|---|---|
| January 1, 2026 | $385,000 | July 1, 2028 | $535,000 |
| July 1, 2026 | 435,000 | January 1, 2029 | 705,000 |
| January 1, 2027 | 500,000 | July 1, 2029 | 825,000 |
| July 1, 2027 | 505,000 | January 1, 2030 | 845,000 |
| January 1, 2028 | 530,000 | July 1, 2030† | 870,000 |

† Final maturity.

The 2005 Series E Bonds maturing on January 1, 2036 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 the principal amount of the 2005 Series E Bonds to be redeemed plus accrued interest to the date of redemption, without redemption premium:

| Redemption Date | Sinking Fund Installment | Redemption Date | Sinking Fund Installment |
|---|---|---|---|
| January 1, 2031 | $890,000 | July 1, 2033 | $1,020,000 |
| July 1, 2031 | 915,000 | January 1, 2034 | 1,040,000 |
| January 1, 2032 | 935,000 | July 1, 2034 | 1,075,000 |
| July 1, 2032 | 960,000 | January 1, 2035 | 1,105,000 |
| January 1, 2033 | 995,000 | July 1, 2035 | 1,135,000 |
| | | January 1, 2036† | 2,000,000 |

† Final maturity.

The 2005 Series F Bonds maturing on July 1, 2022 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 the principal amount of the 2005 Series F Bonds to be redeemed plus accrued interest to the date of redemption, without redemption premium:

| Redemption Date | Sinking Fund Installment | Redemption Date | Sinking Fund Installment |
|---|---|---|---|
| January 1, 2016 | $545,000 | July 1, 2019 | $490,000 |
| July 1, 2016 | 565,000 | January 1, 2020 | 470,000 |
| January 1, 2017 | 550,000 | July 1, 2020 | 385,000 |
| July 1, 2017 | 560,000 | January 1, 2021 | 365,000 |
| January 1, 2018 | 520,000 | July 1, 2021 | 315,000 |
| July 1, 2018 | 510,000 | January 1, 2022 | 300,000 |
| January 1, 2019 | 490,000 | July 1, 2022† | 305,000 |

† Final maturity.

The 2005 Series F Bonds maturing on January 1, 2029 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 the principal amount of the 2005 Series F Bonds to be redeemed plus accrued interest to the date of redemption, without redemption premium:

| Redemption Date | Sinking Fund Installment | Redemption Date | Sinking Fund Installment |
|---|---|---|---|
| January 1, 2023 | $320,000 | July 1, 2026 | $245,000 |
| July 1, 2023 | 325,000 | January 1, 2027 | 220,000 |
| January 1, 2024 | 340,000 | July 1, 2027 | 225,000 |
| July 1, 2024 | 345,000 | January 1, 2028 | 235,000 |
| January 1, 2025 | 290,000 | July 1, 2028 | 240,000 |
| July 1, 2025 | 285,000 | January 1, 2029† | 85,000 |
| January 1, 2026 | 295,000 | | |

† Final maturity.

The Sinking Fund Installments on the Offered Bonds maturing on any date shall be reduced by the amount of those Offered Bonds that have been redeemed, other than by Sinking Fund Installments on the Offered Bonds (or by the purchase of those Offered Bonds from money otherwise to be used for such a redemption not pursuant to Sinking Fund Installments), on or prior to the due date of the particular Sinking Fund Installments, as may be specified by the Authority. The total credit against Sinking Fund Installments will equal the principal amount of the Offered Bonds so redeemed or purchased. The Authority, at the time of giving notice to the Trustee of an election or direction to redeem Offered 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 Offered 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 Offered Bonds remaining Outstanding.

*Optional Redemption.* The Offered Bonds shall be subject to redemption, at the option of the Authority, on any date on or after January 1, 2015, in whole or in part, in any order of maturity as determined by the Authority, and by lot within a maturity, in whole or in part, on any date, 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.

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

(i) Loan Prepayments and Recovery Payments with respect to any Loans whether financed by Offered Bonds or other Bonds; 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 Offered Bonds are less than the Outstanding principal amount of the Bonds that financed the portion of the Loans with respect to which that Loan Prepayment or Recovery Payment was received;

(iii) (1) in case of the 2005 Series E Bonds only, money available from a reduction in the Debt Service Reserve Requirement as a result of the redemption or payment of the 2005 Series E Bonds; and (2) in the case of the 2005 Series F Bonds only, money available from a reduction in the Debt Service Reserve Requirement as a result of the redemption or payment of the 2005 Series F Bonds;

(iv) moneys available from surplus Revenues; see "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – Funds and Accounts - Revenue Fund;"

(v) in the case of the 2005 Series E Bonds only, any amounts remaining in the 2005 Series E Account of the Program Fund as of 90 days after the date of the 2005 Series E Bonds as a result of the failure to make, in whole or in part, any Loan described above under "PLAN OF FINANCE" that is being made for the purpose of repaying existing mortgage loans funded with the proceeds of the Prior Multi-Family Tax-Exempt Bonds (such as, for example, because conditions to funding such Loan is not met or because less than all of the proceeds of the Loan are disbursed);

(vi) in the case of the 2005 Series F Bonds only, any amounts remaining in the 2005 Series F Account of the Program Fund as of 90 days after the date of the 2005 Series F Bonds as a result of the failure to make, in whole or in part, any Loan described above under "PLAN OF FINANCE" that is being made for the purpose of repaying existing mortgage loans funded with the proceeds of the Prior Multi-Family Taxable Bonds (such as, for example, because conditions to funding such Loan is not met or because less than all of the proceeds of the Loan are disbursed); and

(vii) in the case of the 2005 Series E Bonds only, any money provided by the Authority, if, in the opinion of nationally recognized bond counsel selected by the Authority, the redemption of the 2005 Series E Bonds is required to prevent interest on them from being included in gross income of their owners for federal income tax purposes or if there occurs a final decree or judgment of a federal court, a determination of the Internal Revenue Service or an opinion of such bond counsel, that interest on the 2005 Series E Bonds is or was included in gross income of their owners within the meaning of the Code (except for gross income on the 2005 Series E Bonds held by a "substantial user" or "related person" within the meaning of the Code).

As used in the Indenture:

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

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

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

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

As of June 30, 2005, Loans in the aggregate outstanding principal amount of $64,040,718 are 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

"FINANCED DEVELOPMENTS." Any prepayments may result in the special redemption of Offered Bonds at par as described above.

Moneys received from the prepayment of a Loan or the redemption of an Acquired Bond may, upon filing a Cash Flow Certificate and delivery of a Bond Counsel Opinion, be used to make other Loans or to purchase other Acquired Bonds in lieu of redeeming Offered Bonds as described above. Any such new Loan or Acquired Bond will become security under the Indenture. No assurances can be given that such moneys will be used to make new Loans or purchase other Acquired Bonds.

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

**General Redemption Provisions**

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

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

***Offered Bonds Not Held in Book-Entry Only System.*** If the Offered Bonds are not held by the nominee of DTC or the nominee of any successor securities depository, at least 30 days but not more than 90 days before the redemption date of any Offered Bonds, the Trustee (or Master Paying Agent, if one is appointed and serving) will cause a notice of any such redemption, either in whole or in part, signed by the Trustee (or Master Paying Agent, if one is appointed and serving) to be mailed, first class postage prepaid, to all Registered Owners of Offered Bonds to be redeemed at their addresses as they appear on the registration books kept by the Trustee (or Master Paying Agent, if one is appointed and serving). Each notice of redemption will set forth the date fixed for redemption, the Redemption Price to be paid, the place or places where amounts due upon such redemption will be payable and, if less than all of the Offered Bonds then Outstanding are called for redemption, the series or subseries, the maturities and the distinctive numbers, if any, of such Offered Bonds to be redeemed and, in the case of Offered Bonds to be redeemed in part only, the portion of the principal amount to be redeemed. *The notice of redemption may be conditional.* If conditional, the notice will set forth in summary terms the conditions precedent to such redemption and that if such conditions have not been satisfied on or prior to the redemption date, such notice will be of no force and effect and such Offered Bonds will not be redeemed. If such conditions are not satisfied, or if the Authority by written notice to the Trustee and the Master Paying Agent given prior to the date fixed for redemption revokes the redemption (other than a mandatory redemption), the redemption will not be made and the Trustee (or Master Paying Agent, if one is appointed and serving) will within a reasonable time give notice to the affected Owners, in the manner in which the notice of redemption was given, that such conditions were not satisfied. An affidavit of the Trustee (or Master Paying Agent, if one is appointed and serving) of mailing the notice of redemption will be conclusive and binding upon the Authority and owners of the Offered Bonds. *Once notice of redemption is sent in accordance with the provisions of the Indenture, it will be effective whether or not received by a Bondowner.* If any Offered Bond is to be redeemed in part only, the notice of redemption which relates to such Offered Bond will state also that on or after the redemption date, upon surrender of such Offered Bond, a new Offered Bond of the same maturity and series, bearing interest at the same rate and in principal amount equal to the unredeemed portion of such Offered Bond, will be issued.

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

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

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

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

**Master Paying Agent and Trustee**

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

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

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

## BOOK-ENTRY ONLY SYSTEM

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

The Depository Trust Corporation ("DTC"), New York, New York, will act as securities depository for the Offered 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 depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-

U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC's records. The ownership interest of each actual purchaser of each Security ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in Securities are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Securities, except in the event that use of the book-entry system for the Securities is discontinued.

To facilitate subsequent transfers, all Securities deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co, or such other name as may be requested by an authorized representative of DTC. The deposit of Securities 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 Securities; DTC's records reflect only the identity of the Direct Participants to whose accounts such Securities are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Securities may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Securities, such as redemptions, defaults and proposed amendments to the security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities for their benefit has agreed to obtain and transmit notices to Beneficial Owners.

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Securities unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments (including redemption proceeds) on the Securities will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Trustee or the Authority, on 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 (including redemption proceeds) to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

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

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## FINANCED DEVELOPMENTS

### General

Under the Indenture, the Authority issues its Bonds for the purpose of financing Developments located throughout the State intended for occupancy principally by persons and families of low and moderate income. Upon issuance of the Offered Bonds, 48 Financed Developments will be financed under the Indenture. A schedule of the Financed Developments is set forth below.

### Description of Financed Developments

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

Of the Financed Developments reflected in the following table, 25 Financed Developments are subject to Section 236 subsidies. In 1999, Congress passed legislation that permits owners of Section 236 developments to refinance their mortgages (if such mortgages are otherwise eligible for prepayment) while retaining the Section 236 subsidy. See "APPENDIX C – DESCRIPTION OF FEDERAL SECTION 236 INTEREST RATE REDUCTION PROGRAM AND SECTION 8 SUBSIDY PROGRAM."

Of the Financed Developments reflected in the following table, two Financed Developments are subject to FHA mortgage insurance and two Financed Developments are subject to the mortgage insurance issued by the United States Department of HUD through the FHA pursuant to a mortgage insurance program known as the "Risk Sharing Program" established under the Federal Housing and Community Development Act of 1992. See "APPENDIX D – DESCRIPTION OF FHA MORTGAGE INSURANCE PROGRAM" and "APPENDIX E – RISK SHARING PROGRAM."

As of June 30, 2005, none of the mortgage loans listed in the following table, were delinquent in excess of 60 days.

*[Table on Following Page]*

## FINANCED DEVELOPMENTS

*(Information as of June 30, 2005 unless otherwise indicated)*

| ML # | Development | Location | Number of Units Total | Number of Units Subsidized | Subsidy | Latest Expiration Date of §8 Contract | Occupancy (1) | Mortgage Rate (2) | Approximate Unpaid Principal Balance | Prepayment Date (3) |
|---|---|---|---|---|---|---|---|---|---|---|
| ML 001 | Harper Square Cooperative | Chicago | 591 | 365 | Sec 236 | | 99% | 5.53 / 7.81 | $6,878,932 | |
| ML 002 | Winfield Village I | Savoy | 160 | 160 | Sec 236 | | 98% | 5.53 / 7.81 | $1,315,345 | |
| ML 003 | Vermilion Gardens | Danville | 240 | 240 | Sec 236 | | 76% | 5.53 | $1,543,186 | (4) |
| ML 004 | Huntington Square Apartments | Mt. Prospect | 324 | 108 | Sec 236 | | 91% | 5.53 | $2,604,035 | (4) |
| ML 006 | University Village I | DeKalb | 246 | 246 | Sec 236 | | 98% | 5.53 | $1,767,122 | (4) |
| ML 013 | Cumberland Green | St. Charles | 204 | 204 | Sec 236 | | 99% | 5.53 / 7.81 / 9.0 / 4.5 | $4,049,568 | |
| ML 019 | Innsbruck | Bolingbrook | 475 | 150 | Sec 236 | | 85% | 7.49 / 9.0 | $6,121,642 | |
| ML 020 | Carriage House I | Decatur | 120 | 120 | Sec 236 | | 100% | 7.81 | $1,175,192 | |
| ML 021 | Cedar Point at Pinebrook | Springfield | 160 | 160 | Sec 236 | | 90% | 7.49 / 7.95 | $1,819,462 | |
| ML 022 | River Run | Macomb | 100 | 100 | Sec 236 | | 97% | 7.81 | $977,240 | |
| ML 024 | Indian Trails (5) | Addison | 200 | 66 | Sec 236 | | 95% | 7.49 | $- | |
| ML 025 | West Wind Towers | Elgin | 150 | 149 | Sec 236 | | 98% | 7.81 | $1,348,768 | |
| ML 029 | East Court Village | Kankakee | 133 | 133 | Sec 236 | | 96% | 7.95 | $1,399,849 | |
| ML 030 | Winfield Village II | Savoy | 188 | 188 | Sec 236 | | 97% | 7.81 | $2,179,654 | |
| ML 033 | Colony Park | Carol Stream | 284 | 284 | Sec 236 | | 98% | 7.49 | $2,664,371 | |
| ML 035 | Lincolnshire | Charleston | 114 | 114 | Sec 236 | | 97% | 7.81 | $1,182,975 | |
| ML 037 | St. Clair Village | Belleville | 240 | 79 | Sec 236 | | 95% | 7.49 | $3,267,667 | |
| ML 038 | Constitution House | Aurora | 232 | 232 | Sec 236 | | 99% | 7.81 | $2,377,380 | |
| ML 039 | University Village II | DeKalb | 168 | 126 | Sec 236 | | 97% | 7.95 | $2,170,180 | (4) |
| ML 040 | Burnham Oaks | University Park | 59 | 59 | Sec 8 | 12/31/05 | 97% | 7.81 | $671,887 | |
| ML 044 | Leisure Acres | Washington | 101 | 101 | Sec 236 | | 96% | 7.95 | $1,351,734 | |
| ML 045 | Westport Village | Freeport | 121 | 121 | Sec 236 | | 64% | 7.81 | $1,271,555 | |
| ML 049 | Woodcrest Apartments | Ottawa | 92 | 92 | Sec 236 | | 94% | 7.81 | $1,115,117 | |
| ML 056 | Thornwood House | University Park | 183 | 183 | Sec 236 | | 95% | 7.81 | $2,640,264 | |
| ML 061 | New Vistas I | Chicago | 148 | 148 | Sec 236 | | 98% | 7.86 / 9.0 | $2,035,639 | |
| ML 082 | Atrium Village (6) | Chicago | 309 | 309 | Sec 236 | | 93% | 9.0 | $7,813,850 | |
| ML 199 | Columbia Lakes Apartments | Columbia | 138 | 0 | n/a | | 95% | 6.2146 | $5,588,856 | |
| ML 209 | HICA Redevelopment Project (6) | Chicago | 120 | 120 | Sec 8 | 12/27/05 | 98% | 8.3 | $4,793,768 | |
| ML 289 | Country Club Heights | Quincy | 200 | 175 | Sec 236 | | 79% | 4.4 / 5.14 | $5,964,974 | 09/01/15 |
| ML 290 | Northpoint Apartments | Chicago | 304 | 304 | Sec 8 | 12/31/12 | 89% | 5.55 / 6.07 | $19,809,117 | 09/01/15 |
| TEB 2000 | Campbell Terrace | Chicago | 249 | 249 | Sec 8 | 05/31/15 | 100% | 4.73 / 5.405 | $23,027,981 | 06/01/15 |
| TEB 2001 | Southern Hills / Orlando | Decatur | 212 | 212 | Sec 8 | 12/31/11 | 100% | VR | $9,353,333 | 04/01/14 |
| TEB 2002 | Countrybrook Apartments | Champaign | 150 | 150 | Sec 8 | 02/28/13 | 100% | 6.17 / 5.47 | $7,335,307 | 07/01/14 |
| TEB 2007 | Oakridge Village Apartments | Antioch | 90 | 90 | Sec 8 | 02/28/23 | 100% | 6.08 | $4,822,174 | 07/01/19 |
| TEB 2093 | Valkommen Plaza | Rockford | 171 | 171 | Sec 8 | 06/30/11 | 98% | 4.0/5.25 | $4,667,176 | 04/01/15 |
| TEB 2094 | The Coventry | Rock Island | 147 | 147 | Sec 8 | 01/31/21 | 100% | 3.6/5.2 | $6,480,116 | 02/01/21 |
| TEB 2110 | Phoenix Tower | Bloomington | 158 | 158 | Sec 8 | 03/31/18 | 100% | 2.50/4.75 | $3,845,880 | (4) |

| ML # | Development | Location | Number of Units Total | Subsidized | Subsidy | Latest Expiration Date of §8 Contract | Occupancy (1) | Mortgage Rate (2) | Approximate Unpaid Principal Balance | Prepayment Date (3) |
|---|---|---|---|---|---|---|---|---|---|---|
| TEB 2111 | Brookhaven Apartments | Gurnee | 181 | 181 | Sec 8 | 10/31/21 | 93% | 2.95/4.825 | $10,315,048 | (4) |
| TEB 2112 | Blackhawk Hills | East Moline | 164 | 164 | Sec 8 | 09/30/16 | 100% | 2.35/4.425 | $2,889,293 | (4) |
| TEB 2113 | The Fields | Carbondale | 156 | 156 | Sec 8 | 12/31/21 | 100% | 2.90/4.85 | $6,806,729 | (4) |
| | **Total** | | | | | | | | **$177,442,368** | |
| | **Issuance after June 30, 2005** | | | | | | | | | |
| TEB 2071 | Victory Centre of Bartlett SLF (7) | Bartlett | 104 | 0 | n/a | n/a | n/a | 5.315 | $10,330,000 | 04/01/17 (8) |
| TEB 2063 | Liberty Arms Senior Apartments (7) | Wauconda | 119 | 0 | n/a | n/a | n/a | 5.375 | $6,345,000 | 04/01/17 (8) |
| TEB 2210 | Brookmeadows | Pekin | 156 | 156 | Sec 8 | 12/31/17 | 100% | 5.34/3.57 | $4,824,000 | 01/01/18 |
| TEB 2263 | Walnut Place | Highland Park | 68 | 68 | Sec 8 | 08/31/20 | 100% | 5.80/5.78 | $5,306,000 | 09/01/20 |
| TEB 2269 | Frank B. Peers | Highland Park | 67 | 67 | Sec 8 | 12/31/17 | 97% | 5.77/5.91 | $4,885,000 | 01/01/18 |
| TEB 2273 | West Point Plaza | Chicago | 200 | 200 | Sec 8 | 08/31/18 | 97% | 5.63/5.54 | $8,411,000 | 09/01/18 |
| TEB 2274 | Oak Tree Towers | Downers Grove | 165 | 165 | Sec 8 | 05/31/17 | 100% | 5.96/5.90 | $11,443,000 | 06/01/17 |
| TEB 2277 | Carriage House II | Decatur | 100 | 100 | Sec 8 | 03/31/18 | 100% | 5.53/5.22 | $2,680,000 | 04/01/18 |
| TEB 2279 | Burnham Manor | Elgin | 100 | 100 | Sec 8 | 11/30/19 | 100% | 5.64/5.66 | $5,059,000 | 11/01/15 |

1. As of March 31, 2005.
2. Some borrowers have more than one note.
3. Unless a date is shown in the table, this loan has passed its earliest optional prepayment date.
4. The borrower has no right to prepay this loan.
5. On July 15, 2005, the Authority's board approved an acquisition/rehabilitation financing for the Indian Trails development (ML-024). A portion of the proceeds of the financing has been used to prepay loan ML-024.
6. Developments ML-082 and ML-209 are subject to FHA mortgage insurance.
7. The loan for development TEB-2063 and TEB-2071 are subject to the Risk Sharing Program.
8. The prepayment date is the date that is the tenth anniversary of the first day of the second month following the final endorsement by HUD of the note evidencing the loan for the Financed Development; such date will be no earlier than the date set forth in the above table.

## 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 E – Program Loans Receivable," "– Note F – Bonds and Notes Payable" and "– Note I – Other Liabilities" attached as Appendix A and for a description of the Section 8 Program, see Appendix C.

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

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

***Affordable Housing Program Trust Fund Bonds.*** The Authority is designated the administrator of the Illinois Affordable Housing Program. The program is funded by the Illinois Affordable Housing Trust Fund with funds generated by an increase in the State real estate transfer tax. The Authority is authorized to pledge an aggregate of $10 million annually of the revenues and amounts on deposit or to be deposited to the Affordable Housing Trust Fund as security for affordable housing bonds that the Authority issues under this program to finance low and very low income single-family and multi-family housing. The Authority has pledged and may in the future pledge its general obligation in certain limited respects as security for some of these bonds, but such bonds are not and will not be subject to certification under Section 26.1 of the Act. The Authority issued a refunding series of these bonds in the summer of 2004 and the spring of 2005. The proceeds of these bonds were used to redeem all or a portion of a prior series of bonds.

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

***Multi-Family Housing Revenue Bonds.*** In November 1997, the Authority issued its Multi-Family Housing Revenue Bonds, Series 1997 (AMT) (Camelot Development) to pay or redeem certain of the Authority's outstanding Multi-Family Housing Bonds (proceeds of which were used to finance the Camelot Development), pay or reimburse the Authority for costs of rehabilitation and improvement of the Camelot Development, and certain other uses. In June 2000, the Authority issued its Multi-Family Housing Revenue Bonds, Series 2000A (Lakeshore Plaza Development) to pay or redeem certain of the Authority's outstanding Multi-Family Housing Bonds (proceeds of which were used to refinance the Lakeshore Plaza Development), and certain other uses. These two series of bonds are general obligations of the Authority but are not subject to certification pursuant to Section 26.1 of the Act.

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

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

Risk Sharing Loans, and is currently reviewing a number of other applications for Risk Sharing Loans, and anticipates entering into commitments for, and closing, additional Risk Sharing Loans.

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

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

**Single-Family Mortgage Purchase Programs**

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

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

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

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

**Other Authorized Activities**

In addition to the programs described above, the Authority is authorized under the Act to: (i) make grants to non-profit corporations for operating, administrative and other expenses relating to developments financed under assisted or unassisted mortgage financing programs; (ii) make housing assistance grants to non-profit corporations and limited profit entities for the benefit of residents of developments in order to achieve lower rentals for some or all of the housing units in such developments financed under assisted or unassisted mortgage financing programs; (iii) make loans, grants or deferred payment loans to low and moderate income persons or to non-profit and limited profit entities to finance the improvement or rehabilitation of single-family residences; (iv) make non-interest bearing advances to non-profit corporations for constructing or rehabilitating developments to make housing available to low and moderate income persons; (v) make loans for housing related commercial facilities; (vi) act as a developer of land or structures to provide developments, community facilities or housing related commercial facilities; and (vii) make loans or grants to encourage research in demonstration projects to develop new and better techniques for increasing the supply of housing for low and moderate income persons and families. The Authority may also provide technical assistance in the development of housing for low and moderate income persons and families.

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

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

## SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

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

### Certain Definitions

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

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

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

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

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

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

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

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

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

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

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

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

"*Appreciated Amount*" shall mean with respect to a Deferred Interest Bond, as of any date of computation, an amount equal to its initial principal amount plus the interest accrued on it from the date of its original issuance to the earlier of the date of computation or the date, if any, set forth in the related Series Supplemental Indenture on which interest to be paid on a current interest payment date shall begin to accrue. The accrued interest shall be calculated at the rate or rates per year set forth in the related Series Supplemental Indenture, and shall be compounded on such dates set forth in that Series Supplemental Indenture, with accrual between compounding dates in equal daily amounts. For the purposes of actions, requests, notifications, consents or directions of Bondowners under the Indenture, the calculation of the Appreciated Amount shall be as of the interest payment date or compounding date preceding such date of calculation (unless such date of calculation shall be an interest payment date or compounding date, in which case it shall be as of the date of calculation).

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

"*Development*" means a development, as such term is defined in the Act, as amended from time to time, in respect of which the Authority is authorized by law and under a Series

Supplemental Indenture either to make a Loan to an eligible borrower or acquire, construct and operate on its own behalf.

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

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

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

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

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

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

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

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

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

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

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

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

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

(i) any Bond deemed paid in accordance with the Indenture;

(ii) any Bond cancelled by, or delivered for cancellation to, the Trustee because of payment at maturity or redemption or purchase prior to maturity; and

(iii) any Bond in lieu of or in substitution for which another Bond has been authenticated and delivered pursuant to the Indenture, unless proof satisfactory to the Trustee is presented that any Bond for which such Bond has been authenticated and delivered is held by a bona fide purchaser, as that term is defined in Article Eight of the Illinois Uniform Commercial Code, as amended, in which case both the Bond so substituted and replaced and the Bond or Bonds authenticated and delivered in lieu of, or in substitution for, it shall be deemed outstanding.

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

(i) (A) Government Obligations, or (B) obligations with the highest long term rating by each Rating Agency at the time of purchase, of any state of the United States of America or any political subdivision of such a state, payment of which is secured by an irrevocable pledge of Government Obligations;

(ii) (A) notes, bonds, debentures or other obligations issued by Student Loan Marketing Association (excluding securities which do not have a fixed par value and/or whose terms do not promise a fixed dollar amount at maturity or call date), Federal Home Loan Banks, the Tennessee Valley Authority, Farm Credit System, Federal Home Loan Mortgage Corporation (which guarantees full and timely payment of principal and interest), the Resolution Trust Corporation and the Small Business Administration; or (B) bonds, debentures or other obligations issued by Federal National Mortgage Association; in each case (1) excluding mortgage securities which are valued greater than par on the portion of unpaid principal or mortgage securities which represent payments of principal only or interest only with respect to the underlying mortgage loans and (2) with a rating by each Rating Agency at the time of purchase at least equal to that Rating Agency's existing Rating on the Bonds, other than Subordinate Bonds;

(iii) any other obligations of any agency controlled or supervised by and acting as an instrument of the United States pursuant to authority granted by the Congress of the United States, as set forth in a Series Supplemental Indenture, with a rating by each Rating Agency at the time of purchase at least equal to that Rating Agency's existing Rating on the Bonds, other than Subordinate Bonds;

(iv) time deposits, certificates of deposit or any other deposit with a bank, trust company, national banking association, savings bank, federal mutual savings bank, savings and loan association, federal savings and loan association or any other institution chartered or licensed by any state or the United States, including the Trustee (as used in this (iv), "deposits" shall mean obligations evidencing deposit liability which rank at least on a parity with the claims of general creditors in liquidation), which are fully insured by the Federal Deposit Insurance Corporation;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

"*Serial Bonds*" means Bonds which are not Term Bonds.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**Certain Authority Covenants**

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

**Authorization of Bonds; Nature of Authority Obligation**

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

**Pledge of the Indenture**

As security for the payment of interest on and principal of and the redemption premium, if any, of the Bonds, and subject to application as provided in the Indenture and any Series Supplemental Indentures, and subject to the rights of the Authority specified in the Indenture, the Authority pledges and assigns and grants a lien on and security interest to the Trustee in all:

(i) Funds and Accounts held by the Trustee and all deposits and investments of those Funds and Accounts;

(ii) Acquired Bonds (which shall be registered in the name of the Trustee);

(iii) Revenues; and

(iv) rights of the Authority to the payments of amounts in connection with Loans to the extent the payments would be included in Revenues, including, to the extent they may be so pledged, any right to governmental subsidies payable to the Authority to be used to pay principal of or interest on Loans, and also all security for the pledged rights in Loans including, without limitation, mortgages, assignments of rents and other security interests and agreements.

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

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

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

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

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

**Issuance of Bonds**

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

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

(i) the authorized principal amount of such Series of Bonds;

(ii) the purposes for which such Series of Bonds are being issued, which shall be one or more of the following purposes: (a) the acquisition, construction, renovation, rehabilitation, improvement, expansion or equipping of any Development, including any Acquired Development and including providing reserves for those purposes, (b) the purchase, acquisition or making of Loans, (c) the purchase or acquisition of Acquired Bonds, (d) the making of such deposits in amounts, if any, required by the Indenture or the Series Supplemental Indentures to be paid into various Funds and Accounts, (e) the refunding of Bonds including prior to their redemption or maturity dates, (f) the acquisition, purchase, redemption or refunding of Obligations or (g) other lawful purposes of the Authority as specified in the Series Supplemental Indenture;

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

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

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

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

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

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

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

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

(xi) the Series Program Determinations, if any;

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

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

(xiv) instruments to be deposited with the Trustee pursuant to the Indenture; and

(xv) any other provisions deemed advisable by the Authority not in conflict with the provisions of the Indenture.

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

**Funds and Accounts**

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

Program Fund

Series Program Accounts

Revenue Funds

Debt Service Account

Special Receipts Account

Redemption Account
Subordinate Bond Accounts

Reserve Fund

Acquired Development Fund

Rebate Fund

Series Rebate Accounts

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

***Program Fund.*** For each Series of Bonds there is a Series Program Account in the Program Fund. Except as may be provided by a Series Supplemental Indenture for Subordinate Bonds, amounts received upon the sale of a Series of Bonds will be deposited in the Program Fund and credited to the related Series Program Account in the amount, if any, provided in the applicable Series Supplemental Indenture. In addition, amounts shall be deposited in the Program Fund from the Revenue Fund as described below and shall be credited to the Series Program Account as specified in the Authority Request directing the transfer. Amounts available from or upon the refunding of Obligations shall be deposited in Funds and Accounts as provided in the applicable Series Supplemental Indenture. For a series of bonds issued as convertible option bonds there may be a Series Program Account (COB Rate Period) and a Series Program Account (Fixed Rate Period) as provided in the Series Supplemental Indenture.

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

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

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

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

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

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

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

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

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

Indenture for Subordinate Bonds, timely to pay interest and principal, at maturity or mandatory redemption, due on such succeeding debt service payment date on the Subordinate Bonds, to pay any fees in connection with tender option features, letters of credit, standby bond purchase agreements and other forms of credit or liquidity related to such Bonds as set forth in the Series Supplemental Indenture or a Supplemental Indenture and to pay any Derivative Payments related to such Bonds due on such debt service payment date as set forth in the Series Supplemental Indenture or a Supplemental Indenture, or to provide any reserve with respect to Subordinate Bonds; or

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

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

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

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

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

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

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

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

(2) The Trustee (or Master Paying Agent, if one is appointed and serving), upon Authority Request accompanied by evidence that a Compliance Certificate or Cash Flow Certificate, as appropriate, has been filed with the Trustee, shall call Bonds for redemption, on the earliest practicable date on which those Bonds are subject to redemption, from money in the Redemption Account, and, with respect to interest on such Bonds payable upon redemption, the Debt Service Account or the Revenue Fund (not credited to any Account in it).

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

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

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

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

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

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

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

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

**Security for Deposits and Investment of Funds**

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

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

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

Money deposited with the Trustee under the Indenture shall, as nearly as is practicable, be fully and continuously invested or reinvested by the Trustee upon the direction of an

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

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

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

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

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

**Rating Certificates, Compliance Certificates and Cash Flow Certificates**

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

(i) issuing any Series of Bonds;

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

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

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

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

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

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

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

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

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

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

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

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

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

(i) the timing and amounts of prepayments;

(ii) the timing and amounts of the receipt of payments of scheduled principal of and interest on Loans and Acquired Bonds;

(iii) the investment return on Funds and Accounts;

(iv) availability of amounts in the Reserve Fund;

(v) Expenses to be paid; and

(vi) the form of any Supplemental Coverage.

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

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

**Covenants Relating to Loans and Acquired Bonds**

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

**Certain Other Covenants**

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

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

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

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

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

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

**Defaults and Remedies**

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

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

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

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

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

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

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

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

**Pro Rata Application of Funds**

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

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

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

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

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

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

*fifth*: to the payment of the unpaid principal of any of the Subordinate Bonds which has become due and payable (except Subordinate Bonds called for redemption for the payment of which money is held pursuant to the provisions of the Indenture) in the order of their stated payment dates, with interest on the principal amount of such Subordinate Bonds at the respective rates specified in such Subordinate Bonds from the respective dates upon which such Subordinate Bonds became due and payable, and, if the amount available is not sufficient to pay in full the principal of the Subordinate Bonds by their stated terms due and payable on any particular date, together with such interest, then to the payment first of such interest, ratably, according to the amount of such interest due on such date on such Subordinate Bonds, and then to the payment of such principal, ratably, according to the amount of such principal due on such date, of Subordinate

Bonds, without any discrimination or preference except as to any difference in the respective rates of interest specified in the Subordinate Bonds; 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. See “Bond Insurer Provisions” below for certain information regarding the Authority’s covenants to the Bond Insurer with respect to the Offered Bonds.

**Trustee Entitled to Indemnity**

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

**Limitation of Obligations and Responsibilities of Trustee**

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

**Compensation and Indemnification of Trustee**

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

**Resignation and Removal of Trustee**

No resignation or removal of the Trustee or the Master Paying Agent and no appointment of a successor Trustee pursuant to the Indenture shall become effective until the acceptance of appointment by the successor Trustee. Subject to the foregoing, the Trustee may resign and thereby become discharged from the trusts, by notice in writing to be given to the Authority and mailed, first class, postage prepaid, to all Registered Owners of Bonds at their addresses as they appear on the registration books kept by the Trustee, not less than 60 days before such resignation is to take effect, but such resignation shall take effect immediately upon the appointment of a new Trustee, if such new Trustee is appointed before the time limited by such notice and then accepts the trusts. No resignation of the Trustee shall be effective if an Event of Default, or any event which upon the passage of time would be an Event of Default, has occurred and is continuing except upon the consent of Owners of a majority in principal amount of the Outstanding Bonds.

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

**Appointment of Successor Trustee**

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

**Master Paying Agent**

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

**Successor Master Paying Agent**

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

**Modifications of Resolutions and Outstanding Bonds**

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

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

(a) to authorize the issuance of a Series of Bonds; or

(b) to cure any ambiguity or defect or omission in the Indenture; or

(c) to grant to or confer upon the Trustee for the benefit of the Bondowners any additional rights, remedies, powers, authority or security that may lawfully be granted to or conferred upon the Bondowners or the Trustee; or

(d) to include as Revenues or in the Trust Estate any additional amounts, receipts or property; or

(e) to cure any ambiguity, to correct or supplement any provision which may be inconsistent with any other provision, or to make any other provisions with respect to matters or questions arising under the Indenture which are not inconsistent with the provisions of the Indenture, provided such action shall not materially adversely affect the interest of the Bondowners; or

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

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

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

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

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

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

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

The Indenture and any Series Supplemental Indenture may be modified, supplemented or amended by a Supplemental Indenture in ways not described above, as set forth below. No such Supplemental Indenture shall be effective except upon the consent of (i) the Owners of greater than 50 percent in aggregate principal amount of Outstanding Bonds (other than Subordinate Bonds); (ii) if less than all of the Outstanding Bonds are affected, the Owners of greater than 50 percent in principal amount of Bonds then Outstanding, other than Subordinate Bonds, so affected and, if Subordinate Bonds are affected, 50 percent of the aggregate principal amount of the Subordinate Bonds so affected; and (iii) in case the terms of any Sinking Fund Installments are changed, the Owners of greater than 50 percent in principal amount of the Outstanding Bonds of the particular Series and maturity entitled to such Sinking Fund Installments. However, without the consent of all adversely affected Bondowners, no Supplemental Indenture shall (a) change the terms of redemption or of the maturity of the principal of or the interest on any Bond, or (b) reduce the principal amount of any Bond or the redemption premium or the rate of interest on it, or (c) create or grant a pledge, assignment, lien or security interest of the Trust Estate, or any part of it, other than as created or permitted by the Indenture without the Supplemental Indenture, or (d) create a preference or priority of any Bond or Bonds over any other Bond or Bonds, except as may be permitted by the Indenture or (e) reduce the aggregate principal amount or classes of the Bonds required for consent to such Supplemental Indenture. If any such modification, supplement or amendment will by its terms, not take effect so long as any Bonds of any specified Series and maturity remain Outstanding, the consent of the Owners of those Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Bonds under this paragraph. For the purpose of this paragraph, a Series shall be deemed to be affected by a modification or amendment of the Indenture if it adversely affects or diminishes the rights of the Owner of Bonds of such Series. The Trustee may in its discretion determine whether Bonds of any particular Series and maturity would be affected by any modification, supplement or amendment of the Indenture or a Supplemental Indenture and any such determination shall be binding and conclusive on the Authority and all Owners of Bonds.

**Defeasance**

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

Bonds for the payment or redemption of which money has been set aside and held in trust by the Trustee or the related Master Paying Agent (through deposit by the Authority of funds for such payment or redemption or otherwise), whether at or prior to the maturity or the redemption date of such Bonds, shall be deemed to have been paid within the meaning of and with the effect expressed above. All Bonds shall, prior to their maturity or redemption date, be deemed to have been paid within the meaning of and with the effect expressed above if: (i) there is deposited with such Trustee or Master Paying Agent either money in an amount which is sufficient, or Government Obligations the principal of and interest on which when due will provide money which, without reinvestment, when added to the money, if any, deposited with such Trustee or Master Paying Agent at the same time, is sufficient to pay the principal of those Bonds at maturity, or on sinking fund installment dates for Term Bonds, or the principal, redemption premium, if any, and interest due and to become due on those Bonds on and prior to the redemption date or maturity date (or sinking fund installment dates for Term Bonds) of the Bonds, as the case may be; (ii) there is deposited with the Trustee a report of an Accountant verifying the sufficiency of the deposit; (iii) in case any of the Bonds are to be redeemed on any date prior to their maturity, the Authority has given to the Trustee(s) or Master Paying Agent(s) irrevocable instruction to give any required notice of redemption, which instruction the Trustee or Master Paying Agent has accepted in writing; and (iv) the Authority has received a Bond Counsel Opinion to the effect that the defeasance of the Bonds shall not cause interest on the tax-exempt Bonds to be included in "gross income" of the Registered Owners for federal income tax purposes if the Authority has covenanted in the Series Supplemental Indenture not to take such action.

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

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

**Bond Insurer Provisions – Supplemental Indenture**

The Underwriters are required to acquire the Insurance Policy from the Bond Insurer and pay the initial semi-annual premium therefor; thereafter, the Borrowers are required to pay the premium for the Insurance Policy. For as long as the Insurance Policy is in full force and effect relating to the Offered Bonds, the Authority covenants to the Bond Insurer, as follows:

1. The Authority shall provide the Bond Insurer with copies of all notices given by the Authority to the Bondowners, the Trustee, the Master Paying Agent and/or the Rating Agencies under the Indenture.

2. The Authority shall provide the Bond Insurer with copies of all Cash Flow Certificates submitted to the Trustee in accordance with the Indenture, as well as the annual audited financial statements of the Authority and the Authority's annual budget. The Authority shall provide the Bond Insurer, on written request, such additional information regarding the Authority or the Offered Bonds as is reasonably requested by the Bond Insurer.

3. The Bond Insurer shall have the same rights as Bondowners to inspect documents and receive reports.

4. The Bond Insurer shall receive written notice of the resignation or removal of the Trustee and any Paying Agent, or appointment of a successor Trustee or Paying Agent.

5. If any action requires Bondholders' consent, consent of the Bond Insurer shall be required as well with respect to any consent by Owner of Offered Bonds.

6. The Bond Insurer shall be a party in interest in the Indenture, along with the Authority, the Trustee and the Bondholder.

7. No acceleration of any Offered Bonds may be made without the consent of the Bond Insurer.

8. No Additional Bonds may be issued except in compliance with the Indenture.

9. The following shall apply to any payment by the Bond Insurer under the Policy:

(a) In the event that, on the second Business Day, and again on the Business Day prior to the payment date on the Offered Bonds, the Trustee has not received sufficient moneys to pay all principal of and interest on the Offered Bonds due on the second following or following, as the case may be, Business Day, the Trustee shall immediately notify the Bond Insurer or its designee on the same Business Day by telephone or telegraph, confirmed in writing by registered or certified mail, of the amount of the deficiency.

(b) If the deficiency is made up in whole or in part prior to or on the payment date, the Trustee shall so notify the Bond Insurer or its designee.

(c) In addition, if the Trustee has notice that any Bondholder has been required to disgorge payments of principal or interest on the Offered Bonds to a trustee in bankruptcy or creditors or others pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such Bondholder within the meaning of any applicable bankruptcy laws, then the Trustee shall notify the Bond Insurer or its designee of such fact by telephone or telegraphic notice, confirmed in writing by registered or certified mail.

(d) The Trustee is irrevocably designated appointed, directed and authorized to act as attorney-in-fact for Holders of the Offered Bonds as follows:

(1) if and to the extent there is a deficiency in amounts required to pay interest on the Offered Bonds, the Trustee shall (a) execute and deliver to U.S. Bank Trust National Association, or its successors under the Policy (the "Insurance Paying Agent"), in form satisfactory to the Insurance Paying Agent, an instrument appointing the Bond Insurer as agent for such Holders in any legal proceeding related to the payment of such interest and an assignment to the Bond Insurer of the claims for interest to which such deficiency relates and which are paid by the Bond Insurer, (b) receive as designee of the respective Holders (and not as Trustee) in accordance with the tenor of the Policy payment from the Insurance Paying Agent with respect to the claims for interest so assigned, and (c) disburse the same to such respective Holders; and

(2) if and to the extent of a deficiency in amounts required to pay principal of the Offered Bonds, the Trustee shall (a) execute and deliver to the Insurance Paying Agent in form satisfactory to the Insurance Paying Agent an instrument appointing the Bond Insurer as agent for such Holder in any legal proceeding relating to the payment of such principal and an assignment to the Bond Insurer of any of the Offered Bonds surrendered to the Insurance Paying Agent of so much of the principal amount thereof as has not previously been paid or for which moneys are not held by the Trustee and available for such payment (but such assignment shall be delivered only if payment from the Insurance Paying Agent is received), (b) receive as designee of the respective Holders (and not as Trustee) in accordance with the tenor of the Policy payment therefor from the Insurance Paying Agent, and (c) disburse the same to such Holders.

(e) Payments with respect to claims for interest on and principal of Offered Bonds disbursed by the Trustee from proceeds of the Policy shall not be considered to discharge the obligation of the Authority with respect to such Offered Bonds, and the Bond Insurer shall become the owner of such unpaid Offered Bonds and claims for the interest in accordance with the tenor of the assignment made to it as described above or otherwise.

(f) Irrespective of whether any such assignment is executed and delivered, the Authority and the Trustee agree for the benefit of the Bond Insurer that:

(i) they recognize that to the extent the Bond Insurer makes payments, directly or indirectly (as by paying through the Trustee), on account of principal of or interest on the Offered Bonds, the Bond Insurer will be subrogated to the rights of such Holders to receive the amount of such principal and interest from the Authority, with interest thereon as provided and solely from the sources stated in the Indenture and the Offered Bonds; and

(ii) they will accordingly pay to the Bond Insurer the amount of such principal and interest (including principal and interest recovered under the Policy, which principal and interest shall be deemed past due and not to have been paid), with interest thereon as provided in the Indenture and the Offered Bonds, but only from the sources and in the manner described herein for the payment of principal of and interest on the Offered Bonds to Holders, and will otherwise treat the Bond Insurer as the owner of such rights to the amount of such principal and interest.

(g) In connection with the issuance of Additional Bonds, the Authority shall deliver to the Bond Insurer a copy of the disclosure document, if any, circulated with respect to such Additional Bonds.

(h) Copies of any amendments made to the documents executed in connection with the issuance of the Offered Bonds which are consented to by the Bond Insurer shall be sent to the Rating Agencies.

10. The Authority shall not enter into any agreement nor shall it consent to or participate in any arrangement pursuant to which Offered Bonds are tendered or purchased for any purpose other than the redemption and cancellation or legal defeasance of such Offered Bonds without the prior written consent of the Bond Insurer.

11. The Authority shall reimburse the Bond Insurer for all payments made by the Bond Insurer under the terms of the Policy and shall indemnify the Bond Insurer against any and all liability, claims, loss, costs, charges, damages, fees of attorneys and other expenses which the Bond Insurer may sustain or incur in connection with, by reason of, or in consequence of (1) actions of the Authority in breach of its obligations under the Indenture or any other documents relating to the Offered Bonds, and (2) downgrades of the rating of the Authority by any Rating Agency.

12. Upon the occurrence and during the pendency of an Event of Default under the Indenture, the Bond Insurer shall be recognized and treated as the owner of 100% of the outstanding principal amount of the Offered Bonds for purposes of directing the exercise of remedies and waiving Events of Default.

13. The Authority agrees that it will not cause the proceeds of the Offered Bonds to be invested in any investments other than "Permitted Investments" approved in writing by the Bond Insurer; the Authority will provide a copy of such approval to the Trustee.

14. Notwithstanding anything to the contrary contained in the Indenture, provisions of the Indenture requiring maintenance of the rating on the Offered Bonds or limiting or prohibiting actions adverse to the interests of the Bondholders shall be interpreted disregarding the effect on such rating or on the security for the Bondholders of the Policy.

15. The Authority agrees that it will not, without the prior written consent of the Bond Insurer, cause the Offered Bonds to be optionally redeemed if any amounts are then owing the Bond Insurer. The Offered Bonds may not be defeased prior to payment in full of all amounts owing the Bond Insurer.

16. The Authority agrees that the Offered Bonds shall not be defeased with Government Obligations composed of "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" or "guaranteed transit bonds of the Washington Metropolitan Transit Authority."

17. The Authority shall provide notice to the Bond Insurer of any Supplemental Indenture not requiring Bondholder consent under the Indenture. The Authority shall obtain the prior written consent of the Bond Insurer to any Supplemental Indenture requiring Bondholder consent under the Indenture. A copy of each Supplemental Indenture so consented to by the Bond Insurer shall be provided by the Authority to the Rating Agencies.

**The foregoing covenants and agreements are for the benefit of the Bond Insurer only; no Bondholder shall have any right to enforce the same. The foregoing covenants and agreements may be waived or modified by the Bond Insurer and the Authority without the consent of any Bondholder.**

## TAX MATTERS

### 2005 Series E Bonds

In the opinion of Kutak Rock LLP, Chicago, Illinois, Bond Counsel, to be delivered on the date of issuance of the 2005 Series E Bonds, and assuming compliance by the Authority with covenants in the Trust Indenture, under existing laws, regulations, rulings and judicial decisions, interest on the respective 2005 Series E Bonds is excluded from gross income of the owners thereof for federal income tax purposes, except that no opinion is expressed with respect to interest on any 2005 Series E Bond for any period during which such 2005 Series E Bond is held by a "substantial user" of the facilities financed by such 2005 Series E Bond or a "related person" as those terms are defined in Section 147 of the Internal Revenue Code of 1986, as amended (the "Code"). Bond Counsel is further of the opinion that interest on the 2005 Series E Bonds is not a specific preference item for purposes of the alternative minimum tax provisions imposed by the Code on individuals and corporations. The form of such Bond Counsel opinion is attached hereto as Appendix F.

The Code establishes certain continuing requirements that must be met with respect to the 2005 Series E Bonds and subsequent to issuance in order that interest thereon be excluded from gross income for federal income tax purposes. Failure to comply with such applicable requirements could cause the interest on the respective 2005 Series E Bonds to be includable in gross income retroactive to the date of original issuance of the 2005 Series E Bonds. Certain of these requirements must be met on a continuous basis throughout the term of the 2005 Series E Bonds. These requirements include (a) limitations as to the use of the proceeds of the 2005 Series E Bonds and the use of the facilities financed by the 2005 Series E Bonds; (b) limitations on the extent to which amounts treated as proceeds of the 2005 Series E Bonds may be invested in higher yielding investments; and (c) a provision, subject to certain limited exceptions, that requires all investment earnings on amounts treated as proceeds of the 2005 Series E Bonds above the yield on the 2005 Series E Bonds to be paid to the United States Treasury. The Authority will covenant and represent in the Trust Indenture that it will take all steps to comply with the requirements of the Code to the extent necessary to maintain the exclusion of interest on the 2005 Series E Bonds from gross income for federal income tax purposes. The failure or inability of the Authority or the owner of the facilities to comply with these requirements could cause the interest on the 2005 Series E Bonds to be included in gross income from the date of issuance.

Section 148 of the Code sets forth, as a condition to the exclusion of interest from gross income for federal income tax purposes on governmental obligations, such as the 2005 Series E Bonds, certain restrictions regarding the investment of the "gross proceeds" of such obligations. These "arbitrage" provisions set forth limitations on the yield of investments acquired with "gross proceeds" of the 2005 Series E Bonds and also provide for periodic rebate of specified portions of the arbitrage profit derived from such investments. Failure to comply with such requirements at any time could retroactively affect the exclusion from gross income for federal income tax purposes of interest on the 2005 Series E Bonds. The Authority has covenanted to comply with the ongoing requirements of Section 148 of the Code, including requirements regarding, among other things, limitations on investment of the 2005 Series E Bond proceeds and rebate to the federal government, which covenants, if complied with, will satisfy Section 148 of the Code.

Section 1.103-8(b) of the Income Tax Regulations (the "Regulations") sets forth requirements for compliance with Section 103(b)(4)(A) of the Internal Revenue Code of 1954 which is applicable to the developments refinanced by the 2005 Series E Bonds. The Regulations require, in part, that 20% (15% for developments located in targeted areas) of the completed rental units in a development must be continuously occupied by "individuals of low or moderate income" during the Qualified Project Period. "Qualified Project Period" is defined as that period beginning on the later of the first day on which at least 10% of the units in a development were occupied or the date of initial delivery of the bonds originally financing such development and ending on the latest of (a) the date which is 10 years after the date on which at least 50% of the units in such development are occupied, (b) the date which is a "qualified number of days" (meaning 50% of the number of days from the date of initial issuance of the bonds originally financing such development until the maturity date of the respective 2005 Series E Bond with the longest maturity, measured from the date on which any unit in the development is occupied initially), or (c) the date on which any assistance provided with respect to such development under Section 8 of the 1937 Housing Act terminates.

Although Bond Counsel will render an opinion that interest on the 2005 Series E Bonds will not be included in gross income for federal income tax purposes, the accrual or receipt of interest on the 2005 Series E Bonds may otherwise affect the federal income tax liability of the recipient. The extent of these other tax consequences will depend upon the recipient's particular tax status or other items of income or deduction. Bond Counsel expresses no opinion regarding any such consequences. Purchasers of the 2005 Series E 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, or taxpayers who may be deemed to have incurred or continued indebtedness to carry tax exempt obligations are advised to consult their tax advisors as to the tax consequences of purchasing, holding or selling the 2005 Series E Bonds.

THE EXTENT OF THE TAX CONSEQUENCES OF PURCHASING OR HOLDING THE 2005 SERIES E BONDS WILL DEPEND UPON THE BONDHOLDERS TAX STATUS OR OTHER ITEMS OF INCOME OR DEDUCTION. PROSPECTIVE PURCHASERS OF THE 2005 SERIES E BONDS SHOULD CONSULT WITH THEIR TAX ADVISORS AS TO THE CONSEQUENCES OF PURCHASING OR HOLDING THE 2005 SERIES E BONDS.

**Original Issue Premium and Discount**

An amount equal to the excess of the issue price of any 2005 Series E Bonds over its stated price at maturity (a "Premium Bond") constitutes premium on such Premium Bond. An initial purchaser of a Premium Bond must amortize any premium over such Premium Bond's term using constant yield principles, based on the purchaser's yield to maturity. As premium is amortized, the purchaser's basis in such Premium Bond is reduced by a corresponding amount resulting in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes upon a sale or disposition of such Premium Bond prior to its maturity. Even though the purchaser's basis may be reduced, no federal income tax deduction is allowed.

Any 2005 Series E Bond originally offered at a price below the amount payable on such 2005 Series E Bond at maturity is known as a Discount Bond, the difference being hereinafter referred to as "Original Issue Discount." An owner of a Discount Bond shall accrue Original Issue Discount by using the economic accrual method, and such accruals shall be treated as (i) tax exempt interest received by the owner of such Discount Bond, and (ii) added to the owner's tax basis for purposes of determining gain or loss upon a sale of such Discount Bond. The amount representing Original Issue Discount that is treated as being received by an owner of a Discount Bond will be added to the owner's tax basis for purposes of determining gain or loss upon a sale of a Discount Bond.

Purchasers of Premium Bonds and Discount Bonds should consult with their tax advisors with respect to the determination and treatment of amortizable premium and discount for federal income tax purposes and with respect to the state and local tax consequences of owning a Premium Bond or a Discount Bond.

**2005 Series F Bonds**

***In General.*** The following is a summary of certain anticipated federal income tax consequences of the purchase, ownership and disposition of the 2005 Series F Bonds. The summary is based upon the provisions of the Code, the regulations promulgated thereunder and the judicial and administrative rulings and decisions now in effect, all of which are subject to change or possible differing interpretations. The summary does not purport to address all aspects of federal income taxation that may affect particular investors in light of their individual circumstances or certain types of investors subject to special treatment under the federal income tax laws. Potential purchasers of the 2005 Series F Bonds should consult their own tax advisors in determining the federal, state or local tax consequences to them of the purchase, holding and disposition of the 2005 Series F Bonds.

Although there are not any regulations, published rulings or judicial decisions involving the characterization for federal income tax purposes of securities with terms substantially the same as the 2005 Series F Bonds, Bond Counsel has advised the Authority that the 2005 Series F Bonds will be treated for federal income tax purposes as evidences of indebtedness of the Authority and not as an ownership interest in the trust estate securing the 2005 Series F Bonds or as an equity interest in the Authority or any other party, or in a separate association taxable as a corporation. Interest on the 2005 Series F Bonds is includable in gross income for federal income tax purposes under Code Section 103. Interest on the 2005 Series F Bonds will be fully subject to federal income taxation. In general, interest paid on the 2005 Series F Bonds and recovery of accrued market discount, if any, will be treated as ordinary income to a bondholder, and principal payments will be treated as a return of capital. The Code contains special federal income tax rules for "real estate mortgage investment conduits." The Authority does not intend to treat the arrangement by which the trust estate secures the 2005 Series F Bonds as a "real estate mortgage investment conduit."

The 2005 Series F Bonds will not (a) represent interest in "qualifying real property loans," within the meaning of Section 593(d) of the Code, (b) constitute "loans secured by an interest in real property," within the meaning of Section 7701(a)(19)(C)(v) of the Code, (c) constitute "real estate assets" or "Government securities," within the meaning of Section 856(c)(5)(B) of the Code, or (d) constitute "Government securities," within the meaning of Section 851(b)(3)(A)(i) of the Code. Interest on the 2005 Series F Bonds will not be considered "interest on obligations secured by mortgages on real property or on interests in real property," within the meaning of Section 856(c)(3)(B) of the Code.

***Market Discount***. Any owner who purchases a 2005 Series F Bond at a price which includes market discount in excess of a prescribed *de minimis* amount (*i.e.*, at a purchase price that is less than its adjusted issue price in the hands of an original owner) will recognize gain upon receipt of each scheduled or unscheduled principal payment. In particular, such owner will generally be required (a) to allocate each such principal payment to accrued market discount not previously included in income and to recognize ordinary income to that extent and to treat any gain upon sale or other disposition of such a 2005 Series F Bond as ordinary income to the extent of any remaining accrued market discount (under this caption), or (b) to elect to include such market discount in income currently as it accrues on all market discount instruments acquired by such an owner on or after the first day of the taxable year to which such election applies.

The Code authorizes the Treasury Department to issue regulations providing for the method for accruing market discount on debt instruments the principal of which is payable in more than one installment. Until such time as regulations are issued by the Treasury Department, certain rules described in the legislative history of the Tax Reform Act of 1986 will apply. Under those rules, market discount will be included in income either (a) on a constant interest basis or (b) in proportion to the accrual of stated interest.

An owner of a 2005 Series F Bond who acquires such 2005 Series F Bond at a market discount also may be required to defer, until the maturity date of such 2005 Series F Bond or its earlier disposition in a taxable transaction, the deduction of a portion of the amount of interest that the owner paid or accrued during the taxable year on indebtedness incurred or maintained to purchase or carry a 2005 Series F Bond in excess of the aggregate amount of interest (including original issue discount) includable in such owner's gross income for the taxable year with respect to such 2005 Series F Bond. The amount of such net interest expense deferred in a taxable year may not exceed the amount of market discount accrued on the 2005 Series F Bond for the days during the taxable year on which the owner held the 2005 Series F Bond and, in general, would be deductible when such market discount is includable in income. The amount of any remaining deferred deduction is to be taken into account in the taxable year in which the 2005 Series F Bond matures or is disposed of in a taxable transaction. In the case of a disposition in which gain or loss is not recognized in whole or in part, any remaining deferred deduction will be allowed to the extent gain is recognized on the disposition. This deferral rule does not apply if the bondowner elects to include such market discount in income currently as it accrues on all market discount obligations acquired by such bondowner in that taxable year or thereafter.

***Market Premium***. A subsequent purchaser of a 2005 Series F Bond who purchases such 2005 Series F Bond at a cost greater than its then principal amount will be considered to have purchased such 2005 Series F Bond at a market premium. Under Section 171 of the Code, such a purchaser must amortize the amount of such market premium using constant yield principles based on the purchaser's yield to maturity. Amortizable market premium is generally treated as an offset to interest income, and a reduction in basis under Code Section 1016(a) of the 2005 Series F Bond is required for amortizable bond premium that is applied to reduce interest payments. Purchasers of any 2005 Series F Bond who acquire such Bond at a premium should consult with their own tax advisors with respect to the determination and treatment of amortizable premium for federal income tax purposes and with respect to state and local tax consequences of owning such 2005 Series F Bond.

***Sale or Redemption of 2005 Series F Bonds***. A bondowner's tax basis for a 2005 Series F Bond is the price such owner pays for the 2005 Series F Bond plus amounts of any original issue discount included in income, reduced on account of any payments received (other than "qualified periodic interest" payments) and any amortized premium. Gain or loss recognized on a sale, exchange or redemption of a 2005 Series F Bond, measured by the difference between the amount realized and the 2005 Series F Bond's basis as so adjusted, will generally give rise to capital gain or loss if the 2005 Series F Bond is held as a capital asset.

***Backup Withholding***. A bondowner may, under certain circumstances, be subject to "backup withholding" at the rate of 28% for tax years through 2010 and 31% for tax years 2011 and thereafter with respect to interest or original issue discount on the 2005 Series F Bonds. This withholding generally applies if the owner of a 2005 Series F Bond (a) fails to furnish the Trustee or other payor with its taxpayer identification number; (b) furnishes the Trustee or other payor an incorrect taxpayer identification number; (c) fails to report properly interest, dividends or other "reportable payments" as defined in the Code; or (d) under certain circumstances, fails to provide the Trustee or other payor with a certified statement, signed under penalty of perjury, that the taxpayer identification number provided is its correct number and that the holder is not subject to backup withholding. Backup withholding will not apply, however, with respect to certain payments made to bondowners, including payments to certain exempt recipients (such as certain exempt organizations) and to certain Nonresidents (as defined below). Owners of the 2005 Series F Bonds should consult their tax advisors as to their qualification for exemption from backup withholding and the procedure for obtaining the exemption.

The amount of "reportable payments" for each calendar year and the amount of tax withheld, if any, with respect to payments on the 2005 Series F Bonds will be reported to the bondowners and to the Internal Revenue Service.

***Foreign Bondowners***. Under the Code, interest and original issue discount income with respect to 2005 Series F Bonds held by nonresident alien individuals, foreign corporations or other non-United States persons ("Nonresidents") generally will not be subject to the 30% United States withholding tax if the Department (or other person who would otherwise be required to withhold tax from such payments) is provided with an appropriate statement that the beneficial owner of the 2005 Series F Bonds is a Nonresident. The withholding tax may be reduced or eliminated by an applicable tax treaty, if any. Notwithstanding the foregoing, if any such payments are effectively connected with a United States trade or business conducted by a

Nonresident bondowner, they will be subject to regular United States income tax, but will ordinarily be exempt from United States withholding tax.

***ERISA***. The Employees Retirement Income Security Act of 1974, as amended ("ERISA"), and the Code generally prohibit certain transactions between a qualified employee benefit plan under ERISA or tax-qualified retirement plans and individual retirement accounts under the Code (collectively, the "Plans") and persons who, with respect to a Plan, are fiduciaries or other "parties in interest" within the meaning of ERISA or "disqualified persons" within the meaning of the Code. All fiduciaries of Plans, in consultation with their advisors, should carefully consider the impact of ERISA and the Code on an investment in any 2005 Series F Bonds.

In all events, all investors should consult their own tax advisors in determining the federal, state, local and other tax consequences to them of the purchase, ownership and disposition of the 2005 Series F Bonds.

### Changes in Federal Tax Law

From time to time, there are legislative proposals in the Congress that, if enacted, could alter or amend the federal tax matters referred to above or adversely affect the market value of the Offered 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. Purchasers of the Offered Bonds should consult their tax advisors regarding any pending or proposed tax legislation. The opinions expressed by Bond Counsel are based upon existing legislation as of the date of issuance and delivery of the Offered Bonds and Bond Counsel has expressed no opinion as of any date subsequent thereto or with respect to any pending legislation.

### Illinois Taxes

Under the Act, in its present form, income from the Offered Bonds is exempt from all taxes of the State of Illinois or its political subdivisions, except for estate, transfer and inheritance taxes. The Offered Bonds and the income therefrom may be subject to taxation under the laws of states other than the State of Illinois. Purchasers of the Offered Bonds should consult their tax advisors with respect thereto. There are no assurances that the Act will not be amended in the future in a manner that affects the tax status of the Offered Bonds under Illinois law. The opinions expressed by Bond Counsel are based upon the Act in its present form (as of the date of issuance and delivery of the Offered Bonds), and Bond Counsel has expressed no opinion as of any date subsequent thereto.

## LEGAL MATTERS

The approving opinions of Kutak Rock LLP, Chicago, Illinois, Bond Counsel, will be delivered with the Offered Bonds. Certain legal matters will be passed upon for the Authority by its General Counsel, and by its counsel, Mayer, Brown, Rowe & Maw LLP, Chicago, Illinois, and for the Underwriters by their counsel, Shefsky & Froelich Ltd., Chicago, Illinois.

## LITIGATION

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

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

## LEGALITY FOR INVESTMENT

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

## RATINGS

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

## UNDERWRITING

The Offered Bonds are being purchased by the Underwriters listed on the cover page of this Official Statement. The Underwriters will jointly and severally agree to purchase the Offered Bonds at the purchase price (expressed as a percentage of the aggregate initial principal amount of the respective Series of Offered Bonds) of 100% pursuant to the terms of a purchase contract. The obligation to make such purchases is subject to certain terms and conditions and the approval of certain legal matters by counsel. The Underwriters will receive: (i) a fee of $211,933.33 (which includes $2,620.43 for the initial semi-annual premium for that portion of the Insurance Policy relating to the 2005 Series E Bonds that is being paid for by the Underwriters) for their services and expenses in connection with the issuance and delivery of the 2005 Series E Bonds; and (ii) a fee of $149,518.99 (which includes $2,072.22 representing the initial semi-annual premium for that portion of the Insurance Policy relating to the 2005 Series F Bonds that is being paid for by the Underwriters) for the services and expenses in connection with the issuance and delivery of the 2005 Series F Bonds. All such fees will be paid by the Authority. The Underwriters may offer and sell the Offered Bonds offered to the public to certain dealers (including dealers depositing the Offered Bonds into unit investment trusts, certain of which may be sponsored or managed by an Underwriter) and others at prices lower than the public offering prices stated on the cover page hereof.

## FINANCIAL STATEMENTS

The financial statements of the Authority as of and for the year ended June 30, 2004, included in Appendix A, have been audited by KPMG LLP, independent auditors, to the extent and for the period indicated in their report, which is also included in Appendix A.

The interim financial statements of the Authority as of and for the nine-month period ended March 31, 2005 that are included in Appendix B do not comprise the complete financial statements as they do not contain the relevant notes to the financial statements. These interim financial statements are derived from Authority records and are unaudited.

## 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 "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 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, 2004, see "AUTHORITY ANNUAL FINANCIAL STATEMENTS (AUDITED) – Note C – Cash and Investments" attached as Appendix A.

## CONTINUING DISCLOSURE

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

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

## MISCELLANEOUS

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

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

ILLINOIS HOUSING DEVELOPMENT AUTHORITY

*/s/ Kelly King Dibble*
Executive Director

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# APPENDIX A
# AUTHORITY ANNUAL FINANCIAL STATEMENTS (AUDITED)

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

**Financial Statements As of and For the Year Ended June 30, 2004**

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KPMG

**KPMG LLP**
303 East Wacker Drive
Chicago, IL 60601-5212

## Independent Auditors' Report

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

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Illinois Housing Development Authority (the Authority), a component unit of the State of Illinois, as of and for the year ended June 30, 2004, 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Authority, as of June 30, 2004, 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.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The Combining Mortgage Loan Program Fund and the Combining Single Family Program Fund Schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Combining Mortgage Loan Program Fund and the Combining Single Family Program Fund Schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

KPMG LLP

October 28, 2004

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

This section of the Illinois Housing Development Authority's (Authority) annual financial report presents management's discussion and analysis of the Authority's financial performance during the fiscal year that ended on June 30, 2004. Please read it in conjunction with the Authority's financial statements, which follow this section.

**Financial Highlights**

- Net assets of the Authority increased $37.1 million, to $642.4 million as of June 30, 2004, from increases in the Authority's governmental ($37.1 million) activities. Net assets of the Authority's business-type activities increased by less than $45 thousand.
- The operating loss of the Authority's business-type activities increased $4.9 million from the prior year results as decreases in interest on program loans ($16.4 million) and investment income ($9.7 million), were only partially offset by lower interest expense ($20.8 million).
- The Authority's debt outstanding of $1,489.7 million as of June 30, 2004 decreased $293.1 million from the amount outstanding as of June 30, 2003. Debt issuances for the year totaled $321.7 million.
- Loan originations for the year totaled $197.1 million and $35.0 million in the Authority's business-type and governmental activities, respectively.

**Overview of the Financial Statements**

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

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

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

The 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.

**Fund Financial Statements**

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

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

**Financial Analysis of the Authority as a Whole**

**Net Assets.** The combined net assets of the Authority increased by $37.1 million, or 6.1%, from the June 30, 2003 amount. The following table shows a summary of changes from prior year amounts.

Net Assets
(In millions of dollars)

| | Governmental Activities | | Business-type Activities | | Total | | Inc. / (Dec.) | |
|---|---|---|---|---|---|---|---|---|
| | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 | Amt | % |
| Cash & investments – unrestricted | $70.5 | $62.9 | $94.9 | $131.7 | $165.4 | $194.6 | $ (29.2) | (15.0) |
| Program loans receivable | 8.4 | 8.2 | 34.8 | 35.8 | 43.2 | 44.0 | (.8) | (1.9) |
| Other current assets | (.6) | (1.2) | 14.5 | 17.2 | 13.9 | 16.0 | (2.1) | (13.5) |
| Total current assets | 78.3 | 69.9 | 144.2 | 184.7 | 222.5 | 254.6 | (32.1) | (12.6) |
| Investments – restricted | | | 634.6 | 733.1 | 634.6 | 733.1 | (98.5) | (13.4) |
| Net program loans receivable | 280.4 | 251.3 | 1,145.7 | 1,319.0 | 1,426.1 | 1,570.3 | (144.2) | (9.2) |
| Other assets | - | .4 | 56.4 | 65.2 | 56.4 | 65.6 | (9.2) | (14.0) |
| Total assets | 358.7 | 321.6 | 1980.9 | 2,302.0 | 2,339.6 | 2,623.6 | (284.0) | (10.8) |
| Bonds and notes payable | - | - | 126.7 | 138.8 | 126.7 | 138.8 | (12.1) | (8.7) |
| Deposits held in escrow | - | - | 151.3 | 150.5 | 151.3 | 150.5 | .6 | .5 |
| Other current liabilities | - | - | 56.2 | 85.0 | 56.2 | 85.0 | (28.8) | (33.9) |
| Total current liabilities | - | - | 334.2 | 374.3 | 334.2 | 374.3 | (40.1) | (10.7) |
| Bonds & notes payable | - | - | 1,363.0 | 1,644.0 | 1,363.0 | 1,644.0 | (281.0) | (17.1) |
| Total liabilities | - | - | 1,697.2 | 2,018.3 | 1,697.2 | 2,018.3 | (321.1) | (15.9) |
| Net assets | | | | | | | | |
| Invested in capital assets, net | - | - | .6 | .7 | .6 | .7 | (.1) | (15.3) |
| Restricted | 111.6 | 100.3 | 195.3 | 194.4 | 306.9 | 294.7 | 12.2 | 4.2 |
| Unrestricted | 247.1 | 221.3 | 87.8 | 88.6 | 334.9 | 309.9 | 25.0 | 8.1 |
| Total net assets | $358.7 | $321.6 | $283.7 | $283.7 | $642.4 | $605.3 | $37.1 | 6.1 |

## Governmental Activities

Net assets of the Authority's governmental activities increased $37.1 million, or 11.5% to $358.7 million. Total program loans receivable (current and non-current), which are funded by a portion of the State Real Estate Transfer Tax and federal funds and for which there is no repayment liability, increased by $29.3 million, or 11.3% to $288.8 million. Cash and investments increased by $7.6 million, or 12.1% as revenues and repayments of loans exceeded loan and grant payouts, plus administrative expenses. State statute restricts the use of the Affordable Housing Trust Fund and the HOME programs to program activities.

**Business-type Activities**

Net assets of the Authority's business-type activities increased by less than $45 thousand, to $283.7 million. Increases in net assets of the Authority's multi-family lending and other programs were virtually offset by losses in the Authority's Single Family Program Fund. Program loans receivable (current and non-current) decreased $174.3 million, or 12.9% to $1,180.5 million due mainly to decreases in both the Authority's Single Family Program ($96.1 million) and Mortgage Loan Program ($91.9 million) Funds as loan prepayments exceeded loan originations. Cash and investments (current and non-current) decreased $135.3 million, or 15.7% as funds received from loan prepayments in both the current and prior fiscal years were used to retire debt. Total bonds and notes payable (current and non-current) decreased $293.1 million, or 16.5%, due primarily to retirement of debt, primarily from special redemptions, in response to loan prepayments.

Restricted net assets of the Authority's business-type activities increased $.9 million, or .5%. The increase represented earnings from the FAF program, the activities of which are recorded in the Authority's Administrative Fund.

**Statement of Activities**

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

A condensed statement of activities for the fiscal year ended June 30, 2004 is shown in the following table.

Changes in Net Assets
(In millions of dollars)

| | Governmental Activities | | Business-Type Activities | | Total | |
|---|---|---|---|---|---|---|
| | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| Revenues: | | | | | | |
| Program revenues | | | | | | |
| Charges for services | $3.0 | $2.7 | $108.9 | $132.2 | $111.9 | $134.9 |
| Tax/grant/federal revenues | 17.4 | 19.0 | 160.0 | 158.2 | 177.4 | 177.2 |
| General revenues: | | | | | | |
| Investment income | - | - | .5 | 2.6 | .5 | 2.6 |
| Real estate transfer taxes | 43.1 | 35.7 | - | - | 43.1 | 35.7 |
| Total revenues | 63.5 | 57.4 | 269.4 | 293.0 | 332.9 | 350.4 |
| Expenses: | | | | | | |
| Direct | 21.2 | 15.1 | 262.2 | 281.6 | 283.4 | 296.7 |
| Administrative | - | - | 12.4 | 11.7 | 12.4 | 11.7 |
| Total expenses | 21.2 | 15.1 | 274.6 | 293.3 | 295.8 | 308.4 |
| Excess (deficit) before transfers | 42.3 | 42.3 | (5.2) | (.3) | 37.1 | 42.0 |
| Transfers | (5.2) | (5.2) | 5.2 | 5.2 | - | - |
| Increase in net assets | $37.1 | $37.1 | $ - | $4.9 | $37.1 | $42.0 |

**Governmental Activities**

Revenues of the Authority's governmental activities increased by $6.1 million from the prior year mainly from a $7.4 million increase in real estate transfer taxes, partially offset by a decrease in federal program funds, which are used primarily to originate loans. Direct expenses, which consisted of a payment to the State of Illinois General Revenue Fund ($8.8 million), grants ($8.6 million), allocations of expenses incurred ($3.3 million) to administer the programs and provisions for estimated losses on program loans receivable ($.5 million) increased $6.1 million from the prior year due to the above noted payment to the State of Illinois General Revenue Fund, partially offset by a $1.5 million decrease in grants and a $1.0 million decrease in the provision for estimated losses for program loans receivable. The transfer ($5.2 million) from the governmental activities to the Authority's business-type activities represents an annual transfer, pursuant to the Illinois Affordable Housing Act, from the Illinois Affordable Housing Trust Fund to the Multi-Family Mortgage Loan Programs.

**Business-type Activities**

Revenues of the Authority's business-type activities declined $23.6 million from the prior year primarily from a $23.3 million decrease in charges for services, which consist primarily of interest income on program loans ($77.7 million), program investment income ($16.3 million) and servicing fee and application fee income. Program investment income is that income earned within the Authority's bond funds, the investments and the income of which is restricted to those funds. Interest income on program loans ($16.4 million) and program investment income ($7.6 million) accounted for most of the decrease compared to prior year.

Direct expenses of the Authority's business-type activities, which consist primarily of interest expense ($97.5 million) on Authority debt incurred to fund its various lending programs and the pass-through of federal assistance programs' funds ($158.8 million), declined $19.4 million from the prior year, primarily from lower interest expense ($20.8 million). The direct expenses also include Administrative Fund allocations of expenses of Authority departments directly involved in the production or monitoring activities associated with the programs, as well as certain costs, both internally and externally incurred, associated with these programs. Administrative expenses, which are incurred within the Authority's Administrative Fund and which includes all other administrative and supportive functions and all overhead expenses, were $.7 million above the prior year.

The Authority's business-type activities also generated $.5 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 $11.1 million (See the Statement of Activities) and thus provided most of the Authority's nominal increase in net assets. Direct expenses of the Single-Family Mortgage Loan Program exceeded program revenues by $7.2 million, as the Program, as in the past fiscal year, continued to be adversely affected by a high level of prepayments of higher coupon mortgage loans, which were then reinvested, prior to the redemption of underlying bonds, at rates lower than the underlying bond interest rates.

**Proprietary Fund Results**

Net assets of the Authority's proprietary funds increased from the June 30, 2003 amount by less than $45 thousand, to $283.7 million. The following table summarizes the statement of revenues, expenses and changes in net assets of the Authority's proprietary funds for the fiscal years ended June 30, 2004 and June 30, 2003.

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

| | Administrative Fund | | Mortgage Loan Program Fund | | Single Family Program Fund | |
|---|---|---|---|---|---|---|
| | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| Operating revenues: | | | | | | |
| Interest earned on program loans | $3.5 | $1.0 | $44.2 | $49.8 | $30.0 | $43.3 |
| Investment income | .5 | 2.6 | 7.3 | 11.7 | 9.0 | 12.2 |
| Federal assistance programs | 153.7 | 151.2 | 5.1 | 5.8 | - | - |
| Service fees | 9.0 | 8.2 | - | - | - | - |
| Development fees | .5 | .6 | - | - | - | - |
| HUD savings | 1.3 | 1.3 | - | - | - | - |
| Other | 2.3 | 2.4 | 3.1 | 2.9 | - | - |
| Total operating revenues | 170.8 | 167.3 | 59.7 | 70.2 | 39.0 | 55.5 |
| Operating expenses: | | | | | | |
| Interest expense | - | - | 52.5 | 57.6 | 45.0 | 60.7 |
| Federal assistance programs | 153.7 | 151.2 | 5.1 | 5.8 | - | - |
| Salaries and benefits | 11.3 | 10.4 | - | - | - | - |
| Professional fees | 1.9 | 1.3 | - | - | .1 | .1 |
| Other general and administrative | 3.4 | 3.6 | - | - | .1 | .2 |
| Financing costs | .6 | .4 | .6 | .5 | .4 | .5 |
| Provision for losses on program loans receivable | - | - | - | 1.0 | - | - |
| Total operating expenses | 170.9 | 166.9 | 58.2 | 64.9 | 45.6 | 61.5 |
| Operating income | (.1) | .4 | 1.5 | 5.3 | (6.6) | (6.0) |
| Transfers in (out) | .5 | (.2) | 5.2 | 5.3 | (.5) | .1 |
| Change in net assets | .4 | .2 | 6.7 | 10.6 | (7.1) | (5.9) |
| Net assets at beginning of year | 110.9 | 110.7 | 133.9 | 123.3 | 38.8 | 44.7 |
| Net assets at end of year | $111.3 | $110.9 | $140.6 | $133.9 | $31.7 | $38.8 |

Net assets of the Administrative Fund increased by $.4 million, slightly above the prior year increase of $.2 million. Operating revenues, excluding revenues from Federal assistance programs, increased by $1.0 million. Interest earned on program loans increased $2.5 million, primarily from an acceleration of deferred fees as a number of multi-family developments prepaid their loans. This and a $.8 million increase in service fees were largely offset by lower investment income of $2.1 million. Operating expenses, excluding revenues from Federal assistance programs, increased by $1.5 million.

Net assets of the Mortgage Loan Program Fund increased $6.7 million, or $3.9 million below the prior year's $10.6 million increase. Results were adversely affected by lower investment income ($4.4 million) and interest income lost due to loan prepayments. Investment income was increased $2.2 million in the prior year from a net increase in the fair value of investments, while in fiscal year 2004 investment income was decreased $1.6 million due to a net decrease in the fair value of investments.

Net assets of the Single Family Program Fund decreased $7.1 million, compared to a $5.9 million decrease of the prior year. Results continued to be adversely affected by a high rate of prepayments of higher coupon loans, the reinvestment of prepayments at rates below their underlying debt until the debt could be extinguished, and accelerations of the amortization of bond issuance and loan origination costs due to high prepayment rates. Lower interest earned on program loans ($13.3 million) was offset by decreased interest ($15.7 million) expense. Investment income decreased $3.2 million, primarily due to lower investment balances and yields. In addition, fiscal year 2003 results were favorably affected ($.9 million) by increases in the fair value of investments, while fiscal year 2004 results were unfavorably impacted by $.4 million.

## Authority Debt

Authority debt issuances during fiscal year 2004 totaled $321.7 million, with activity arising from the Single Family Program ($191.3 million), and the Mortgage Loan Program Fund ($130.4 million). Total bonds and notes payable decreased $293.1 million as debt issuances were more than offset by retirements of debt, primarily special redemptions necessitated by a high level of mortgage prepayments within both the Authority's Single Family Program and Mortgage Loan Program Funds. For additional information, see Note F, Bonds and Notes Payable in the Notes to Financial Statements.

During fiscal year 2004, the Authority's Issuer Credit Ratings remained at A+/A1/A+ by Fitch Ratings, Moody's Investors Service and Standard & Poor's Ratings Services respectively.

## 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 900, Chicago, Il. 60611or visit our website at: www.ihda.org.

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

**STATEMENT OF NET ASSETS**
**As of June 30, 2004**

| ASSETS | Governmental Activities | Business-type Activities | Total |
|---|---|---|---|
| Current assets: | | | |
| Cash and cash equivalents.....$ | 1,680,968 | 15,337,809 | 17,018,777 |
| Funds held by State Treasurer..... | 31,349,455 | | 31,349,455 |
| Investments..... | 37,510,116 | 79,585,255 | 117,095,371 |
| Investment income receivable..... | | 4,545,123 | 4,545,123 |
| Program loans receivable..... | 8,422,000 | 34,749,000 | 43,171,000 |
| Grant receivable..... | 649,353 | | 649,353 |
| Interest receivable on program loans..... | 143,535 | 8,480,220 | 8,623,755 |
| Interfund accounts receivable (payable)..... | (1,489,405) | 1,489,405 | |
| Total current assets..... | 78,266,022 | 144,186,812 | 222,452,834 |
| Noncurrent assets: | | | |
| Investments - restricted..... | | 634,570,721 | 634,570,721 |
| Program loans receivable, net of current portion..... | 292,410,239 | 1,168,291,456 | 1,460,701,695 |
| Less allowance for estimated losses..... | (12,000,000) | (22,565,000) | (34,565,000) |
| Net program loans receivable..... | 280,410,239 | 1,145,726,456 | 1,426,136,695 |
| Unamortized bond issuance costs..... | | 17,185,071 | 17,185,071 |
| Real estate held for sale (net)..... | | 31,002,176 | 31,002,176 |
| Capital assets (net)..... | | 595,811 | 595,811 |
| Other..... | | 7,586,990 | 7,586,990 |
| Total noncurrent assets..... | 280,410,239 | 1,836,667,225 | 2,117,077,464 |
| Total assets..... | 358,676,261 | 1,980,854,037 | 2,339,530,298 |
| **LIABILITIES** | | | |
| Current liabilities: | | | |
| Bonds and notes payable..... | | 126,725,000 | 126,725,000 |
| Accrued interest payable..... | | 29,859,245 | 29,859,245 |
| Deposits held in escrow..... | | 151,250,179 | 151,250,179 |
| Accrued liabilities and other..... | | 26,294,864 | 26,294,864 |
| Total current liabilities..... | | 334,129,288 | 334,129,288 |
| Noncurrent liabilities: | | | |
| Bonds and notes payable, net of current portion..... | | 1,363,025,033 | 1,363,025,033 |
| Total liabilities..... | | 1,697,154,321 | 1,697,154,321 |
| **NET ASSETS** | | | |
| Invested in capital assets (net)..... | | 595,811 | 595,811 |
| Restricted for bond resolution purposes..... | | 172,352,146 | 172,352,146 |
| Restricted for loan and grant programs..... | 111,582,873 | 22,917,848 | 134,500,721 |
| Unrestricted..... | 247,093,388 | 87,833,911 | 334,927,299 |
| Total net assets.....$ | 358,676,261 | 283,699,716 | 642,375,977 |

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

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

**STATEMENT OF ACTIVITIES**
**For the Year Ended June 30, 2004**

| FUNCTIONS / PROGRAMS | Expenses | Program Revenues: Charges for Services and Interest Income | Program Revenues: Operating Grant/Federal Revenues | Net (Expenses) / Revenues and Changes in Net Assets: Governmental Activities | Net (Expenses) / Revenues and Changes in Net Assets: Business-type Activities | Net (Expenses) / Revenues and Changes in Net Assets: Total |
|---|---|---|---|---|---|---|
| Governmental activities: | | | | | | |
| Illinois Affordable Housing Trust Fund ………… | $ 14,611,848 | 1,994,515 | 500,000 | (12,117,333) | | (12,117,333) |
| HOME Program ……………………………………… | 6,575,156 | 975,560 | 16,919,931 | 11,320,335 | | 11,320,335 |
| Total governmental activities …………………… | 21,187,004 | 2,970,075 | 17,419,931 | (796,998) | | (796,998) |
| Business-type activities: | | | | | | |
| Administrative ……………………………………… | 12,448,621 | 7,663 | | | (12,440,958) | (12,440,958) |
| Multi-Family Mortgage Loan Programs …………… | 55,535,458 | 66,664,483 | | | 11,129,025 | 11,129,025 |
| Multi-Family Federal Assistance Programs ……… | 158,817,045 | | 158,817,045 | | | |
| Single-Family Mortgage Loan Programs ………… | 47,222,914 | 39,986,175 | | | (7,236,739) | (7,236,739) |
| Tax Credit Authorization and Monitoring ………. | 587,899 | 2,174,348 | | | 1,586,449 | 1,586,449 |
| FAF Lending Program ……………………………… | 4,838 | 109,682 | 1,195,572 | | 1,300,416 | 1,300,416 |
| Total business-type activities …………………… | 274,616,775 | 108,942,351 | 160,012,617 | | (5,661,807) | (5,661,807) |
| Total Authority ……………………………………… | $ 295,803,779 | 111,912,426 | 177,432,548 | (796,998) | (5,661,807) | (6,458,805) |
| Real Estate Transfer Taxes …………………………… | | | | 43,078,589 | | 43,078,589 |
| Unrestricted investment income …………………… | | | | | 505,975 | 505,975 |
| Transfers ……………………………………………… | | | | (5,200,000) | 5,200,000 | |
| Total general revenues and transfers ……………… | | | | 37,878,589 | 5,705,975 | 43,584,564 |
| Change in net assets …………………………… | | | | 37,081,591 | 44,168 | 37,125,759 |
| Net assets at beginning of year……………………… | | | | 321,594,670 | 283,655,548 | 605,250,218 |
| Net assets at end of year…………………………… | | | | $358,676,261 | 283,699,716 | 642,375,977 |

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

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

**GOVERNMENTAL FUNDS**
**BALANCE SHEET**
**As of June 30, 2004**

| ASSETS | Illinois Affordable Housing Trust Fund | HOME Program Fund | Total |
|---|---|---|---|
| Current assets: | | | |
| Cash | $ 1,680,968 | | 1,680,968 |
| Funds held by State Treasurer | 30,969,681 | 379,774 | 31,349,455 |
| Investments | 37,510,116 | | 37,510,116 |
| Program loans receivable | 6,999,000 | 1,423,000 | 8,422,000 |
| Grant receivable | | 649,353 | 649,353 |
| Interest receivable on program loans | 74,443 | 69,092 | 143,535 |
| Due from other funds | | 2,698 | 2,698 |
| Total current assets | 77,234,208 | 2,523,917 | 79,758,125 |
| Noncurrent assets: | | | |
| Program loans receivable, net of current portion | 178,699,232 | 113,711,007 | 292,410,239 |
| Less allowance for estimated losses | (8,000,000) | (4,000,000) | (12,000,000) |
| Net program loans receivable | 170,699,232 | 109,711,007 | 280,410,239 |
| Total noncurrent assets | 170,699,232 | 109,711,007 | 280,410,239 |
| Total assets | $ 247,933,440 | 112,234,924 | 360,168,364 |
| **LIABILITIES AND FUND BALANCES** | | | |
| Current liabilities: | | | |
| Deferred revenue | $ 74,443 | 69,092 | 143,535 |
| Due to other funds | 840,052 | 652,051 | 1,492,103 |
| Total current liabilities | 914,495 | 721,143 | 1,635,638 |
| Fund balances: | | | |
| Reserved for loans receivable | 170,699,232 | 109,711,007 | 280,410,239 |
| Unreserved | 76,319,713 | 1,802,774 | 78,122,487 |
| Total fund balances | 247,018,945 | 111,513,781 | 358,532,726 |
| Total liabilities and fund balances | $ 247,933,440 | 112,234,924 | |
| Amounts reported for governmental activities in the statement of net assets are different due to interest receivable on program loans | | | 143,535 |
| Net assets of governmental activities | | | $ 358,676,261 |

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

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

## GOVERNMENTAL FUNDS
## STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
**For the Year Ended June 30, 2004**

| | Illinois Affordable Housing Trust Fund | HOME Program Fund | Total |
|---|---|---|---|
| Revenues: | | | |
| Real estate transfer taxes | $ 43,078,589 | | 43,078,589 |
| Federal HOME funds | | 16,919,931 | 16,919,931 |
| Interest and investment income | 1,964,883 | 968,385 | 2,933,268 |
| Private donation | 500,000 | | 500,000 |
| Application fees | 25,935 | | 25,935 |
| Total revenues | 45,569,407 | 17,888,316 | 63,457,723 |
| Expenditures: | | | |
| Grants | 3,359,853 | 5,235,423 | 8,595,276 |
| General and administrative | 1,947,995 | 1,339,733 | 3,287,728 |
| Payment to State of Illinois General Revenue Fund | 8,804,000 | | 8,804,000 |
| Provision for estimated losses on program loans receivable | 500,000 | | 500,000 |
| Total expenditures | 14,611,848 | 6,575,156 | 21,187,004 |
| Excess of revenues over expenditures | 30,957,559 | 11,313,160 | 42,270,719 |
| Other financing uses: | | | |
| Transfer out | (5,200,000) | | (5,200,000) |
| Net change in fund balances | 25,757,559 | 11,313,160 | 37,070,719 |
| Fund balances at beginning of year | 221,261,386 | 100,200,621 | |
| Fund balances at end of year | $ 247,018,945 | 111,513,781 | |
| Amounts reported for governmental activities in the statement of activities are different due to interest on program loans receivable | | | 10,872 |
| Change in net assets of governmental activities | | | $ 37,081,591 |

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

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

**PROPRIETARY FUNDS**
**STATEMENT OF NET ASSETS**
**As of June 30, 2004**

| ASSETS | Administrative Fund | Mortgage Loan Program Fund | Single Family Program Fund | Total |
|---|---|---|---|---|
| Current assets: | | | | |
| Cash and cash equivalents..........$ | 13,815,184 | 253,496 | 1,269,129 | 15,337,809 |
| Investments.......... | 79,585,255 | | | 79,585,255 |
| Investment income receivable.......... | 282,636 | 1,810,188 | 2,452,299 | 4,545,123 |
| Program loans receivable.......... | 2,104,000 | 23,527,000 | 9,118,000 | 34,749,000 |
| Interest receivable on program loans.......... | 514,723 | 2,569,441 | 5,396,056 | 8,480,220 |
| Due from other funds.......... | 6,580,732 | 24,982,809 | | 31,563,541 |
| Total current assets.......... | 102,882,530 | 53,142,934 | 18,235,484 | 174,260,948 |
| Noncurrent assets: | | | | |
| Investments - restricted.......... | 157,395,745 | 222,091,869 | 255,083,107 | 634,570,721 |
| Program loans receivable, net of current portion.......... | 42,074,145 | 598,439,832 | 527,777,479 | 1,168,291,456 |
| Less allowance for estimated losses.......... | (8,815,000) | (13,750,000) | | (22,565,000) |
| Net program loans receivable.......... | 33,259,145 | 584,689,832 | 527,777,479 | 1,145,726,456 |
| Unamortized bond issuance costs.......... | | 8,016,937 | 9,168,134 | 17,185,071 |
| Real estate held for sale (net).......... | 33,805 | 29,817,166 | 1,151,205 | 31,002,176 |
| Capital assets (net).......... | 595,811 | | | 595,811 |
| Other.......... | 5,753,692 | 1,833,298 | | 7,586,990 |
| Total noncurrent assets.......... | 197,038,198 | 846,449,102 | 793,179,925 | 1,836,667,225 |
| Total assets.......... | 299,920,728 | 899,592,036 | 811,415,409 | 2,010,928,173 |
| LIABILITIES | | | | |
| Current liabilities: | | | | |
| Bonds and notes payable.......... | | 17,640,000 | 109,085,000 | 126,725,000 |
| Accrued interest payable.......... | | 15,199,720 | 14,659,525 | 29,859,245 |
| Deposits held in escrow.......... | 151,250,179 | | | 151,250,179 |
| Accrued liabilities and other.......... | 12,337,472 | 11,653,938 | 2,303,454 | 26,294,864 |
| Due to other funds.......... | 24,985,507 | 3,078,885 | 2,009,744 | 30,074,136 |
| Total current liabilities.......... | 188,573,158 | 47,572,543 | 128,057,723 | 364,203,424 |
| Noncurrent liabilities: | | | | |
| Bonds and notes payable, net of current portion.......... | | 711,405,279 | 651,619,754 | 1,363,025,033 |
| Total liabilities.......... | 188,573,158 | 758,977,822 | 779,677,477 | 1,727,228,457 |
| NET ASSETS | | | | |
| Invested in capital assets (net).......... | 595,811 | | | 595,811 |
| Restricted for bond resolution purposes.......... | | 140,614,214 | 31,737,932 | 172,352,146 |
| Restricted for loan and grant programs.......... | 22,917,848 | | | 22,917,848 |
| Unrestricted.......... | 87,833,911 | | | 87,833,911 |
| Total net assets ..........$ | 111,347,570 | 140,614,214 | 31,737,932 | 283,699,716 |

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

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

## PROPRIETARY FUNDS
## STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
**For the Year Ended June 30, 2004**

| | Administrative Fund | Mortgage Loan Program Fund | Single Family Program Fund | Total |
|---|---|---|---|---|
| Operating revenues: | | | | |
| Interest and other investment income……………………………$ | 1,296,950 | 8,833,522 | 9,429,720 | 19,560,192 |
| Net decrease in fair value of investments……………………… | (790,975) | (1,578,125) | (417,838) | (2,786,938) |
| Total investment income……………………………………… | 505,975 | 7,255,397 | 9,011,882 | 16,773,254 |
| Interest earned on program loans……………………………… | 3,549,071 | 44,169,642 | 29,980,457 | 77,699,170 |
| Federal assistance programs…………………………………… | 153,665,344 | 5,151,701 | | 158,817,045 |
| Service fees………………………………………………… | 8,964,254 | | | 8,964,254 |
| Development fees…………………………………………… | 466,780 | | | 466,780 |
| HUD savings………………………………………………… | 1,305,254 | | | 1,305,254 |
| Other………………………………………………………… | 2,332,339 | 3,102,847 | | 5,435,186 |
| Total operating revenues……………………………………… | 170,789,017 | 59,679,587 | 38,992,339 | 269,460,943 |
| Operating expenses: | | | | |
| Interest expense……………………………………………… | | 52,501,580 | 45,019,565 | 97,521,145 |
| Federal assistance programs…………………………………… | 153,665,344 | 5,151,701 | | 158,817,045 |
| Salaries and benefits………………………………………… | 11,270,791 | | | 11,270,791 |
| Professional fees……………………………………………… | 1,921,958 | 4,500 | 64,500 | 1,990,958 |
| Other general and administrative……………………………… | 3,426,062 | | 60,352 | 3,486,414 |
| Financing costs………………………………………………… | 559,387 | 530,133 | 440,902 | 1,530,422 |
| Total operating expenses……………………………………… | 170,843,542 | 58,187,914 | 45,585,319 | 274,616,775 |
| Operating income (loss)……………………………………… | (54,525) | 1,491,673 | (6,592,980) | (5,155,832) |
| Other: | | | | |
| Transfers in…………………………………………………… | 2,297,576 | 5,200,000 | 1,810,123 | 9,307,699 |
| Transfers out………………………………………………… | (1,810,123) | | (2,297,576) | (4,107,699) |
| Total other…………………………………………………… | 487,453 | 5,200,000 | (487,453) | 5,200,000 |
| Change in net assets…………………………………………… | 432,928 | 6,691,673 | (7,080,433) | 44,168 |
| Net assets at beginning of year………………………………… | 110,914,642 | 133,922,541 | 38,818,365 | 283,655,548 |
| Net assets at end of year……………… ……………………………$ | 111,347,570 | 140,614,214 | 31,737,932 | 283,699,716 |

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

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

**PROPRIETARY FUNDS**
**STATEMENT OF CASH FLOWS**
**For the Year Ended June 30, 2004**

| | Administrative Fund | Mortgage Loan Program Fund | Single Family Program Fund | Total |
|---|---|---|---|---|
| Cash flows from operating activities: | | | | |
| Cash received from interest, service fees, and principal on program loans | $ 14,006,756 | 193,913,607 | 231,862,195 | 439,782,558 |
| Cash payments for loaned amounts | (17,302,173) | (59,883,923) | (119,963,660) | (197,149,756) |
| Cash received from federal assistance programs | 152,104,352 | 5,151,701 | | 157,256,053 |
| Cash payments for federal assistance programs | (144,467,623) | (5,151,701) | | (149,619,324) |
| Cash payments for operating expenses | (21,015,740) | | | (21,015,740) |
| Interest on investments | 2,069,633 | 11,070,032 | 13,141,428 | 26,281,093 |
| Other | (15,171,903) | 5,592,802 | (430,548) | (10,009,649) |
| Net cash provided by (used in) operating activities | (29,776,698) | 150,692,518 | 124,609,415 | 245,525,235 |
| Cash flows from noncapital financing activities: | | | | |
| Proceeds from sale of revenue bonds and notes | | 130,430,000 | 191,577,523 | 322,007,523 |
| Principal paid on revenue bonds and notes | | (233,141,100) | (354,790,000) | (587,931,100) |
| Interest paid on revenue bonds and notes | | (54,183,609) | (45,092,687) | (99,276,296) |
| Transfers in | 2,297,576 | 85,025,498 | 22,526,204 | 109,849,278 |
| Transfers out | (1,810,123) | (79,825,498) | (11,196,486) | (92,832,107) |
| Other | | | (1,304,689) | (1,304,689) |
| Net cash provided by (used in) noncapital financing activities. | 487,453 | (151,694,709) | (198,280,135) | (349,487,391) |
| Cash flows from investing activities: | | | | |
| Purchase of investment securities | (731,701,427) | (647,801,782) | (512,180,157) | (1,891,683,366) |
| Proceeds from sales and maturities of investment securities | 745,844,740 | 647,043,552 | 580,207,118 | 1,973,095,410 |
| Developer escrow and other interest | 2,291,773 | | | 2,291,773 |
| Net cash provided by (used in) investing activities | 16,435,086 | (758,230) | 68,026,961 | 83,703,817 |
| Net decrease in cash and cash equivalents | (12,854,159) | (1,760,421) | (5,643,759) | (20,258,339) |
| Cash and cash equivalents at beginning of year | 26,669,343 | 2,013,917 | 6,912,888 | 35,596,148 |
| Cash and cash equivalents at end of year | $ 13,815,184 | 253,496 | 1,269,129 | 15,337,809 |
| Reconciliation of operating income (loss) to net cash provided by (used in) operating activities: | | | | |
| Operating income (loss) | $ (54,525) | 1,491,673 | (6,592,980) | (5,155,832) |
| Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities: | | | | |
| Interest expense | | 52,501,580 | 45,019,565 | 97,521,145 |
| Depreciation and amortization | 277,145 | 800,000 | | 1,077,145 |
| Changes in assets and liabilities: | | | | |
| Decrease in investment income receivable | 94,137 | 2,050,363 | 2,424,775 | 4,569,275 |
| Decrease (increase) in program loan and interest receivable | (13,627,291) | 92,430,417 | 93,735,249 | 172,538,375 |
| Increase (decrease) in due to/from other funds | 747,877 | (1,411,466) | 565,755 | (97,834) |
| Increase (decrease) in other liabilities | (19,502,403) | 168,109 | (246,660) | (19,580,954) |
| Decrease in other assets | 2,584,159 | 199,026 | 124,205 | 2,907,390 |
| Other | (295,797) | 2,462,816 | (10,420,494) | (8,253,475) |
| Total adjustments | (29,722,173) | 149,200,845 | 131,202,395 | 250,681,067 |
| Net cash provided (used in) by operating activities | $ (29,776,698) | 150,692,518 | 124,609,415 | 245,525,235 |

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

## NOTE A —AUTHORIZING LEGISLATION

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

The bonds and notes outstanding as of June 30, 2004, as shown on the Authority's financial statements consist of both general and special limited obligations of the Authority (see Note F). The full faith and credit of the Authority are pledged for payment of general obligation bonds and notes. The Authority has the power under the Act to have up to $3,600,000,000 of general and special limited obligation bonds and notes outstanding, excluding those issued to refund outstanding bonds and notes. At June 30, 2004, amounts outstanding against this limitation were approximately $1,796,000,000.

## NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following summarizes the significant accounting policies of the Authority:

### Reporting Entity

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

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

(2) Fiscal dependency on the primary government.

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

### Basis of Presentation

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

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the Authority and for each function of the Authority's governmental activities. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include (a) charges paid by the recipients for goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

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

**The Authority reports the following major governmental funds:**

**Illinois Affordable Housing Trust Fund**

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

**HOME Investment Partnerships Program**

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

**The Authority reports the following major proprietary funds:**

**Administrative Fund**

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

The designations of the Authority's Administrative Fund unrestricted net assets as of June 30, 2004 are as follows:

| | |
|---|---|
| Housing Partnership Program…… | $8,000,000 |
| To pay expenses for programs under commitment or contract…… | 1,000,000 |
| To pay possible losses arising in the Multi-Family Bond Fund Program attributable, but not limited to, delinquencies or defaults on uninsured or unsubsidized loans…… | 13,000,000 |
| Provide funds to purchase single family mortgage loans which will eventually be purchased with proceeds from future issuances of IHDA bonds…… | 25,000,000 |
| Provide funds to the Authority's Homeowner Mortgage Revenue Bonds General Resolution for the purpose of acquiring single family loans…… | 10,000,000 |
| Provide funds and reserves to support the Mortgage Participation Certificate Program…… | 30,000,000 |
| | $87,000,000 |

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

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

**Mortgage Loan Program Fund**

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

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

**Single Family Program Fund**

The Single Family Program Fund accounts for the proceeds of Homeowner 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 below market-rate mortgage loans involves federal restrictions on expenses chargeable to the program. Any expenses incurred in the program in excess of such maximum amounts are absorbed by the Administrative Fund.

**Restrictions of Assets and Fund Equity**

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

**Basis of Accounting**

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

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

Separate fund financial statements are provided for governmental and proprietary funds. Major individual governmental funds and proprietary funds are reported as separate columns in the fund financial statements.

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

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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.

**Cash and Cash Equivalents**

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

**Investments**

Investments of the Authority, which are generally held to maturity, are reported at fair value, with the exceptions of nonparticipating investment contracts ("demand repurchase agreements"), which are reported at cost, and money market investments that have a remaining maturity at time of purchase of one year or less, which are reported at amortized cost. 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 of the Authority consist of investments in furniture, fixtures and equipment, computer hardware and computer software are defined by the Authority as assets with an initial, individual cost of $5,000 or more. Depreciation or amortization is on a straight-line basis over a period of five to ten years, depending upon the nature of the asset. Depreciation and amortization expenses for fiscal year 2004 were approximately $277,000.

**Real Estate Held for Sale**

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

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

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, 2004, the net carrying value of ML-181was $29,817,166 and accumulated depreciation was $8,611,000.

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

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

**Bond Discount and Issuance Costs**

Discount on bonds is deferred and amortized using a method approximating the 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 bond issuance costs are expensed to the Administrative Fund.

**Operations**

Development fee and financing fee income are deferred and amortized over the contractual life of the loan as a yield adjustment using the 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 F), are recognized as income in the Administrative Fund generally at the time of initial closing.

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

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

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

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

**Compensated Absences**

The Authority grants vacation and sick leave to all employees and accrues for unused compensated absences. Vacations are allotted on a calendar year basis and are intended to be taken during that year. Unused sick leave allowance is carried forward and accumulated. In the event of termination, employees are paid for all earned but unused vacation time and, within a maximum time limit, for one half of accumulated sick leave earned. At June 30, 2004, unused compensated absences, which are included in Other Liabilities, were $512,284. The Authority has no other post-employment benefits.

**Provision for Estimated Losses on Program Loans**

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

## NOTE C—CASH AND INVESTMENTS

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

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

- Safety of principal. Each investment transaction shall seek to ensure that capital losses within the investment portfolio are avoided, whether they be from securities defaults or erosion of market value.

- Liquidity. The investment portfolio shall remain sufficiently flexible to enable the Authority to meet all operating requirements which may be reasonably anticipated in any fund.

- Maximum rate of return. The investment portfolio shall be designed with the purpose of regularly exceeding the average return of United States Treasury obligations of comparable maturities. The investment program shall seek to augment returns above this threshold, consistent with risk limitations identified herein and prudent investment principles.

As of June 30, 2004, the Authority had the following investments, maturities and credit quality.

| | | Investment Maturities (in Years) | | | | |
|---|---|---|---|---|---|---|
| **Investment** | **Carrying Amount** | **Less Than 1** | **1-5** | **6-10** | **More Than 10** | **Custodial Credit Risk** |
| Demand Repurchase Agreements……… | $220,775,821 | $ - | $ 4,255,536 | $ - | $216,520,285 | $ - |
| United States Agency Obligations…….. | 481,694,383 | 455,037,664 | 22,919,904 | - | 3,736,815 | - |
| United States Government Obligations.. | 47,095,633 | 18,692,081 | 14,214,306 | 404,824 | 13,784,422 | - |
| Municipal Obligations and Other……… | 2,100,255 | 176,080 | 50,247 | 810,927 | 1,063,001 | - |
| | $751,666,092 | $473,905,825 | $41,439,993 | $1,215,751 | $235,104,523 | $ - |

Demand repurchase agreements are collateralized by obligations of the United States Government or its agencies, or direct investments of such obligations and have one-day demand of funds provisions exercisable at the Authority's option. The market value of securities subject to such agreements must be maintained at least equal to 100 percent of the principal of and accrued interest on the invested funds by marking to market at least weekly and using an immediate under value cure provision. The Authority invests in demand repurchase agreements for both short-term (generally program funds) and long-term (generally reserve) investments. On June 30, 2004, approximately $4 million was invested in such short-term agreements having a maturity date of September 1, 2005, at a rate of 1.27% and approximately $217 million was invested in such long-term agreements having maturity dates ranging from December 1, 2015, to August 1, 2032, primarily at rates ranging from 4.13% to 7.60%.

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

## NOTE D—INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

### Interfund Balances

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

Interfund accounts receivable (payable) balances at June 30, 2004 consisted of the following:

| | Payable From | | | | | |
|---|---|---|---|---|---|---|
| **Receivable To** | **Illinois Affordable Housing Trust** | **HOME Program** | **Administrative** | **Mortgage Loan Program** | **Single Family Program** | **Total** |
| Administrative……………….. | $ 840,052 | $652,051 | $ - | $3,078,885 | $2,009,744 | $6,580,732 |
| Home Program.…..…………... | - | - | 2,698 | - | - | 2,698 |
| Mortgage Loan Program……... | - | - | 24,982,809 | - | - | 24,982,809 |
| | $ 840,052 | $652,051 | $24,985,507 | $3,078,885 | $2,009,744 | $31,566,239 |

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

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

Transfers for the year ended June 30, 2004 consisted of the following:

| | Transfers Out | | | |
|---|---|---|---|---|
| **Transfers In** | **Illinois Affordable Housing Trust** | **Administrative** | **Single Family Program** | **Total** |
| Administrative……….. | $ - | $ - | $2,297,576 | $2,297,576 |
| Mortgage Loan Program... | 5,200,000 | - | - | 5,200,000 |
| Single Family Program…. | - | 1,810,123 | - | 1,810,123 |
| | $5,200,000 | $1,810,123 | $2,297.576 | $9,307,699 |

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, 2004 totaled $5,200,000. The transfers out from the Administrative Fund primarily were to pay issuance and other costs of certain bond issuances. The transfers out from the Single Family Program represented transfers of certain assets in conjunction with the closing of various accounts.

## NOTE E—PROGRAM LOANS RECEIVABLE

The Authority has loans throughout the State, of which approximately two-thirds are in the Chicago metropolitan area.

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

The ability of the mortgagors to make required payments on the mortgage loans receivable depends principally upon the related developments achieving and sustaining sufficient occupancy and rental levels to support such payments. With respect to most developments financed from proceeds of Multi-Family Housing Bonds and Multi-Family Program Bonds, the Authority, HUD and the owners of the developments have entered into agreements whereby HUD will make, under its Section 8 Program, housing assistance payments for the developments. With respect to 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.

During the year ended June 30, 2004, HUD subsidy payments were received and disbursed as follows:

| Program | Received | Disbursed |
|---|---|---|
| Section 8 | $153,554,044 | $150,185,255 |
| Section 236 | 5,263,001 | 5,263,001 |

The Authority records HUD Section 8 housing assistance transactions in its Administrative Fund. HUD Section 236 transactions are recorded in the Mortgage Loan Program Fund.

At June 30, 2004, 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 $522,707 and $261,886, respectively.

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

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

The Authority has pursued actions available under the mortgage and regulatory agreements to cure certain delinquencies. With respect to some developments, the need for capital improvements, repairs, marketing campaigns and other expenditures may be indicated. Where necessary and appropriate, the Authority has committed and/or advanced residual income loans from the Administrative Fund or mortgage loan increases from the related program 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 $6.4 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.

The Authority's policy for converting mortgage loans to non-accrual status is based upon the recording of a specifically identifiable allowance for estimated loss. Throughout fiscal year 2004, the accrual of interest and service fee income was suspended on approximately $9.6 million of mortgage loans in the Mortgage Loan Program Fund and $7.1 million of mortgage loans in the Administrative Fund for which allowances for estimated losses had been provided, and such income was recognized only as received. Interest and service fee income due but not accrued was approximately $520,000 in the Administrative Fund at June 30, 2004. In addition, the Authority does not accrue interest income on approximately $15.2 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 the Administrative Fund. At June 30, 2004, loans receivable under this program were approximately $7,524,000.

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

The Authority, as of June 30, 2004, has entered into twenty-eight Risk Sharing Loans totaling $144,172,148 and elected that HUD assume 10 to 50 percent of the loss with respect to those loans. Except for three loans totaling $16,591,000 which were financed through the issuance of the Authority's Housing Finance Bonds and two loans totaling $10,993,148 which were financed through the issuance of the Authority's Multi-Family Housing Bonds, these loans are not included in the Authority's financial statements as the Authority sold 100 percent participation interests in the loans to outside parties. The program's service and insurance fee incomes are recorded in the Administrative Fund.

In December 2000, the Authority received a commitment from Ambac Assurance Corporation ("Ambac") under which Ambac will insure mortgage loans ("Ambac Loans") on multi-family housing developments under the Authority's Mortgage Participation Certificate Program. Ambac has guaranteed repayment of principal and interest due on a timely or accelerated basis in accordance with the agreement between the Authority and Ambac. Once Ambac Loans are issued and minimum threshold requirements are met, Ambac and the Authority will enter into a sharing agreement on the remaining principal balance on each mortgage loan. As of June 30, 2004, the Authority has entered into seven Ambac Loans totaling $26,343,000.

At June 30, 2004, for loans financed under the Risk Sharing and Mortgage Participation Certificate Programs, there were no amounts in arrears equal to more than two months debt service payments or required deposits to tax and insurance and/or replacement reserves.

With respect to the mortgage loans funded by the Homeowner Mortgage Revenue Bonds, substantially all delinquent mortgage loans receivable at June 30, 2004, were covered by pool insurance, which provides for an aggregate limit equal to 3.5% of the aggregate original principal amount of mortgage loans so covered, less a deductible ranging from zero to 1.0% of the aggregate of the original amount of all mortgage loans covered.

Loans made through the Illinois Affordable Housing Trust Fund are to acquire, construct, rehabilitate, develop, operate, insure and retain affordable single family and multi-family housing for low and very low-income households. Interest rates on these loans are set at below market rates and have ranged from 0% to 7.0%, 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, 2004, is as follows:

| Interest Rate - % | Principal Due By June 30 2005 | 2010 | 2020 | After 2020 | Total |
|---|---|---|---|---|---|
| | | ($ in thousands) | | | |
| 0 -.99 | $ 3,968 | $ 5,753 | $ 14,102 | $ 55,443 | $ 79,266 |
| 1 - 1.99 | 2,435 | 7,619 | 23,185 | 59,961 | 93,200 |
| 2 - 3.99 | 539 | 1,578 | 2,762 | 7,036 | 11,915 |
| 4 - 7.00 | 57 | 182 | 538 | 540 | 1,317 |
| | $ 6,999 | $ 15,132 | $ 40.587 | $ 122,980 | $ 185,698 |

The approximate aging of the receivables of the HOME program as of June 30, 2004, is as follows:

| Interest Rate - % | Principal Due By June 30 2005 | 2010 | 2020 | After 2020 | Total |
|---|---|---|---|---|---|
| | | ($ in thousands) | | | |
| 0 -.99 | $ 116 | $ 592 | $ 4,773 | $ 29,390 | $ 34,871 |
| 1 - 1.99 | 977 | 3,563 | 18,365 | 52,050 | 74,955 |
| 2 - 3.99 | 253 | 930 | 2,335 | 1,168 | 4,686 |
| 4 - 5.00 | 77 | 533 | 12 | 0 | 622 |
| | $ 1,423 | $ 5,618 | $ 25,485 | $ 82,608 | $ 115,134 |

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, 2004 in the accompanying financial statements are adequate to cover estimated losses of the various funds. For fiscal year 2004, the Authority increased the allowance for estimated losses for the Illinois Affordable Housing Trust Fund by $500,000 and made various offsetting adjustments within the Mortgage Loan Program Fund . No other write-offs or other adjustments were made.

Scheduled receipts of principal on proprietary fund program loans receivable in the five years subsequent to June 30, 2004 and thereafter are as follows:

| | |
|---|---|
| 2005 | $34,749,000 |
| 2006 | 37,410,000 |
| 2007 | 39,481,000 |
| 2008 | 45,389,000 |
| 2009 | 48,768,000 |
| After 2009 | 997,243,000 |
| | $1,203,040,000 |

## NOTE F—BONDS AND NOTES PAYABLE

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

Bonds and notes outstanding at June 30, 2004 are as follows. The June 30, 2003 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, 2003 | Amount June 30, 2004 |
|---|---|---|---|---|---|
| Housing Development Bonds: | | | | | |
| 1993 Series A | 2003-2018 | 5.10 – 6.00 | G.O. | $56,505,000 | $ - |
| 1999 Series A | 2003-2015 | 3.94 – 5.19 | G.O. | 22,155,000 | - |
| | | | | 78,660,000 | - |
| Less unamortized discount thereon. | | | | 121,118 | - |
| | | | | $78,538,882 | $ - |
| Multi-Family Housing Bonds: | | | | | |
| 1979 Series B | 2019-2023 | 6.00 | G.O. | $275,000 | $275,000 |
| 1982 Series B | 2011-2017 | 7.00 | G.O. | 18,840,000 | 18,840,000 |
| 1982 Series C | 2015-2025 | 5.00 | G.O. | 29,705,000 | 22,035,000 |
| 1983 Series A (1) | 2006-2025 | 10.75 | G.O. | 13,521,739 | 1,286,949 |
| 1991 Series A | 2004-2016 | 8.13-8.25 | G.O. | 62,325,000 | 42,860,000 |
| 1991 Series C | 2004-2023 | 6.75-7.35 | G.O. | 8,180,000 | - |
| 1992 Series A | 2004-2026 | 6.65-7.10 | G.O. | 37,950,000 | 34,150,000 |
| 1993 Series A | 2004-2025 | 6.05-6.13 | G.O. | 42,935,000 | 17,085,000 |
| 1993 Series B (Taxable) | 2003 | 6.85 | G.O. | 880,000 | - |
| 1993 Series C | 2004-2028 | 5.80-6.10 | G.O. | 12,010,000 | 11,810,000 |
| 1993 Series D (Taxable) | 2003 | 6.80 | G.O. | 130,000 | - |
| 1994 Series A and B | 2004-2020 | 6.80 | G.O. | 3,785,000 | 210,000 |
| 1995 Series A | 2004-2021 | 5.00-5.95 | S.L.O. | 21,525,000 | 20,580,000 |
| 1999 Series A | 2004-2028 | 3.94-5.31 | G.O. | 9,605,000 | - |
| 2001 Series B | 2004-2043 | 4.60-5.50 | S.L.O. | 10,895,000 | 10,745,000 |
| | | | | 272,561,739 | 179,876,949 |
| Less unamortized discount thereon. | | | | 15,889,720 | 15,456,670 |
| | | | | $256,672,019 | $164,420,279 |

(1) Capital appreciation term bonds which were originally issued in the amount of $150,000 and which are scheduled for redemption in part, on a semi-annual basis from July 1, 2009 through July 1, 2025, at accreted values aggregating $9,069,423. These bonds were redeemed on July 1, 2004.

| | Maturity Dates | Interest Rate Range-% | Debt Class | Amount June 30, 2003 | Amount June 30, 2004 |
|---|---|---|---|---|---|
| Fixed Rate Housing Bonds: | | | | | |
| 1984 Series A | 2003-2021 | 7.25 | G.O. | $8,585,000 | $ - |
| 1984 Series D | 2003-2015 | 7.25 | G.O. | 1,935,000 | - |
| | | | | $10,520,000 | $ - |
| Multi-Family Program Bonds: | | | | | |
| Series 1 | 2005-2021 | 6.63-6.75 | G.O. | $45,715,000 | $45,715,000 |
| Series 2 (Taxable) | 2004-2005 | 7.85 | G.O. | 5,420,000 | 2,815,000 |
| Series 3 | 2009-2023 | 6.05-6.20 | G.O. | 98,135,000 | 72,165,000 |
| Series 4 (Taxable) | 2004-2008 | 7.65-7.80 | G.O. | 26,190,000 | 17,350,000 |
| Series 5 | 2007-2023 | 6.65-6.75 | G.O. | 74,725,000 | 74,725,000 |
| Series 6 (Taxable) | 2004-2006 | 8.18-8.28 | G.O. | 12,365,000 | 9,175,000 |
| Series 7 | 2019-2029 | 6.25 | S.L.O. | 11,350,000 | - |
| Series 8 (Taxable) | 2004-2031 | 7.19-8.52 | S.L.O. | 16,690,000 | - |
| | | | | $290,590,000 | $221,945,000 |
| Housing Bonds: | | | | | |
| 1999 Series A | 2004-2031 | 4.13-5.25 | G.O. | $40,960,000 | $34,095,000 |
| 1999 Series C | 2003 | 6.05 | G.O. | 90,000 | - |
| 2003 Series A | 2007-2046 | 2.55-5.05 | G.O. | - | 20,860,000 |
| 2003 Series B | 2040 | 3.30-5.05 | G.O. | - | 55,285,000 |
| 2003 Series C | 2004-2034 | 1.55-4.95 | G.O. | - | 6,275,000 |
| 2004 Series A | 2013-2039 | 2.90-4.70 | G.O. | - | 25,000,000 |

| | Maturity Dates | Interest Rate Range-% | Debt Class | Amount June 30, 2003 | Amount June 30, 2004 |
|---|---|---|---|---|---|
| 2004 Series B | 2034 | - | G.O. | - | 10,000,000 |
| 2004 Series C | 2005-2045 | 1.70-5.45 | G.O. | - | 13,010,000 |
| | | | | $41,050,000 | $164,525,000 |
| Housing Finance Bonds: | | | | | |
| 1999 Series B | 2004-2030 | 5.50 -6.30 | S.L.O. | $5,495,000 | $5,415,000 |
| 2000 Series A | 2004-2032 | 5.75-6.30 | S.L.O. | 9,330,000 | 9,205,000 |
| | | | | $14,825,000 | $14,620,000 |
| Multi-Family Variable Rate Demand Bonds: | | | | | |
| Series 1996A (Taxable) (1) | 2026 | 6.06 | S.L.O. | $8,135,000 | $8,135,000 |
| Multi-Family Housing Revenue Bonds: | | | | | |
| Series 1997(1) | | 5.75 | G.O. | $14,170,000 | $14,170,000 |
| Series 2000 A (1) | | 5.51 | S.L.O. | 42,385,000 | 41,585,000 |
| | | | | $56,555,000 | $55,755,000 |

(1) Interest rates on the bonds are determined weekly at a rate established by the Remarketing Agents on each Rate Determination Date. The Authority has agreements with liquidity providers to purchase any bonds tendered for purchase in accordance with the indentures with respect to which the Trustee does not, on the date any such tendered bonds are required to be purchased, have sufficient funds to make such purchase. Payment of the principal and interest on the bonds when due is insured by a financial guarantee insurance policy. The Authority has a general obligation to reimburse the insurer for any such payments made.

| | Maturity Dates | Interest Rate Range-% | Debt Class | Amount June 30, 2003 | Amount June 30, 2004 |
|---|---|---|---|---|---|
| Multifamily Housing Revenue Bonds: | | | | | |
| Marywood Apartment Homes, Series 2003 | 2005-2046 | 4.50-5.20 | S.L.O. | $15,865,000 | $15,865,000 |
| Multifamily Bonds: | | | | | |
| Turnberry Village II Apartments | 2005-2046 | 4.50-4.75 | S.L.O. | $5,320,000 | $5,320,000 |
| Affordable Housing Program Trust Fund Bonds: | | | | | |
| Series 1994 A | 2004-2021 | 8.13-8.64 | S.L.O. | $42,700,000 | $41,380,000 |
| Series 1995 A | 2004-2022 | 6.92-7.82 | S.L.O. | 38,155,000 | 37,080,000 |
| | | | | $80,855,000 | $78,460,000 |
| Total Mortgage Loan Program Fund | | | | $874,936,739 | $744,501,949 |
| Less unamortized discount thereon | | | | 16,010,838 | 15,456,670 |
| | | | | $858,925,901 | $729,045,279 |

**Single Family Program Fund**

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

| | Maturity Dates | Interest Rate Range-% | Debt Class | Amount June 30, 2003 | Amount June 30, 2004 |
|---|---|---|---|---|---|
| Residential Mortgage Revenue Bonds: | | | | | |
| 1983 Series A | 2015 | 10.872 | G.O. | $1,467 | $1,631 |
| 1983 Series B | 2015 | 10.746 | G.O. | 1,487 | 1,651 |
| 1984 Series B | 2016 | 11.257 | G.O. | 1,260 | 1,406 |
| 1985 Series A | 2017 | 10.75 | G.O. | 1,206 | 1,338 |
| 1987 Series B | 2014 | 8.13 | G.O. | 100,000 | 100,000 |
| 1987 Series C | 2014 | 7.50 | G.O. | 100,000 | 100,000 |

| | Maturity Dates | Interest Rate Range-% | Debt Class | Amount June 30, 2003 | Amount June 30, 2004 |
|---|---|---|---|---|---|
| 1987 Series D | 2017 | 8.65 | G.O. | 100,000 | 100,000 |
| 1988 Series C | 2003 | 7.70 | G.O. | 5,000 | - |
| 1993 Series A and B | 2003-2024 | 4.80-5.90 | G.O. | 10,700,000 | - |
| | | | | $11,010,420 | $306,026 |

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

| Series | Redemption Basis and Period | Original Issue Amount (1) | Accreted Value June 30, 2003 | Accreted Value June 30, 2004 | Aggregate Value to be Redeemed |
|---|---|---|---|---|---|
| 1983 Series A | Maturity 2/1/15 | $180 | $1,467 | $1,631 | $5,000 |
| 1983 Series B | Maturity 2/1/15 | 193 | 1,487 | 1,651 | 5,000 |
| 1984 Series B | Maturity 2/1/16 | 166 | 1,260 | 1,406 | 5,000 |
| 1985 Series A | Maturity 2/1/17 | 190 | 1,206 | 1,338 | 5,000 |

(1) Amounts reflect original issue amounts of capital appreciation bonds outstanding as of June 30, 2004.

Homeowner Mortgage Revenue Bonds:

| | | | | | |
|---|---|---|---|---|---|
| 1994 Series A | 2003-2025 | 5.50-6.45 | S.L.O. | $ 1,970,000 | $ - |
| 1995 Series A | 2004-2022 | 5.63-6.00 | S.L.O. | 3,435,000 | - |
| 1995 Series B | 2004-2026 | 5.40- 6.63 | S.L.O. | 14,735,000 | 3,200,000 |
| 1995 Series C | 2004-2008 | 4.95-5.35 | S.L.O. | 7,205,000 | 2,680,000 |
| 1995 Series D | 2004-2009 | 5.65-6.15 | S.L.O. | 6,555,000 | 3,950,000 |
| 1995 Series E | 2023-2028 | 6.17 | S.L.O. | 7,760,000 | - |
| 1996 Series A | 2004-2020 | 5.13-5.75 | S.L.O. | 18,995,000 | 6,375,000 |
| 1996 Series B | 2006-2028 | 6.30-6.45 | S.L.O. | 10,780,000 | - |
| 1996 Series C | 2020 | 5.63 | S.L.O. | 14,685,000 | 210,000 |
| 1996 Series E | 2004-2027 | 5.05-6.13 | S.L.O. | 15,405,000 | 7,205,000 |
| 1996 Series F | 2004-2028 | 4.55-5.65 | S.L.O. | 20,950,000 | 15,235,000 |
| 1997 Series A | 2004-2028 | 5.00-6.15 | S.L.O. | 24,310,000 | 17,350,000 |
| 1997 Series B (remarketed 4/30/98) | 2004-2028 | 4.40-5.50 | S.L.O. | 19,920,000 | 14,135,000 |
| 1997 Series B (remarketed 6/29/98) | 2004-2017 | 4.40-5.40 | S.L.O. | 23,460,000 | 19,845,000 |
| 1997 Series C | 2004-2028 | 4.60-5.80 | S.L.O. | 25,285,000 | 14,665,000 |
| 1997 Series C-5 (Taxable) | 2003-2029 | 6.72-7.74 | S.L.O. | 5,825,000 | - |
| 1997 Series D | 2004-2028 | 4.55-5.65 | S.L.O. | 13,865,000 | 11,620,000 |
| 1997 Series D-3 (Taxable) | 2006-2028 | 6.60 | S.L.O. | 2,395,000 | 2,120,000 |
| 1998 Series A (Taxable) | 2004-2028 | 6.45-6.52 | S.L.O. | 9,085,000 | 4,240,000 |
| 1998 Series C (Taxable) | 2003-2029 | 6.28-7.00 | S.L.O. | 12,465,000 | - |
| 1998 Series D (remarketed 10/7/98) | 2004-2029 | 4.15-5.20 | S.L.O. | 23,545,000 | 19,260,000 |
| 1998 Series D (remarketed 12/17/98) | 2004-2029 | 4.20-5.25 | S.L.O. | 13,550,000 | 11,070,000 |
| 1998 Series D (remarketed 4/29/99) | 2004-2029 | 4.13-5.20 | S.L.O. | 32,070,000 | 22,145,000 |
| 1998 Series E (Taxable) | 2004-2029 | 5.66-5.91 | S.L.O. | 16,440,000 | 9,180,000 |
| 1998 Series G | 2004-2029 | 4.20-5.25 | S.L.O. | 22,495,000 | 17,565,000 |
| 1999 Series A | 2004-2028 | 5.15-6.00 | S.L.O. | 17,630,000 | 6,510,000 |
| 1999 Series B | 2004-2021 | 5.15-5.80 | S.L.O. | 10,725,000 | 4,130,000 |
| 1999 Series D | 2004-2029 | 4.70-5.70 | S.L.O. | 29,310,000 | 23,195,000 |

| | Maturity Dates | Interest Rate Range-% | Debt Class | Amount June 30, 2003 | Amount June 30, 2004 |
|---|---|---|---|---|---|
| 1999 Series D-3 (Taxable) | 2004-2030 | 6.70 | S.L.O. | 3,965,000 | 3,260,000 |
| 1999 Series E | 2004-2028 | 5.20-6.00 | S.L.O. | 17,700,000 | 6,495,000 |
| 1999 Series F (Taxable) | 2004-2030 | 8.25 | S.L.O. | 10,565,000 | 10,455,000 |
| 1999 Series G | 2004-2031 | 5.00-6.05 | S.L.O. | 14,745,000 | 12,935,000 |
| 2000 Series B | 2004-2031 | 4.80-5.45 | S.L.O. | 14,245,000 | 11,690,000 |
| 2000 Series C | 2004-2031 | 5.45-5.80 | S.L.O. | 15,360,000 | 3,180,000 |
| 2000 Series C-4 (Taxable) | 2004-2031 | 8.19 | S.L.O. | 4,485,000 | 3,910,000 |
| 2000 Series D | 2004-2031 | 4.80-6.05 | S.L.O. | 37,345,000 | 33,365,000 |
| 2000 Series E | 2004-2031 | 4.60-5.95 | S.L.O. | 26,480,000 | 23,620,000 |
| 2001 Series A | 2004-2032 | 3.90-5.50 | S.L.O. | 36,985,000 | 32,825,000 |
| 2001 Series B (Taxable) | 2003-2032 | 6.36 | S.L.O. | 4,390,000 | - |
| 2001 Series C | 2004-2032 | 3.60-5.55 | S.L.O. | 41,975,000 | 36,625,000 |
| 2001 Series D (Taxable) | 2004-2032 | Variable | S.L.O. | 7,855,000 | 7,090,000 |
| 2001 Series E | 2004-2033 | 3.40-5.60 | S.L.O. | 50,580,000 | 41,740,000 |
| 2001 Series F (Taxable) | 2004-2020 | Variable | S.L.O. | 10,000,000 | 10,000,000 |
| 2002 Series A | 2004-2033 | 3.10-5.63 | S.L.O. | 39,885,000 | 38,640,000 |
| 2002 Series B (Taxable) | 2004-2023 | Variable | S.L.O. | 10,000,000 | 9,700,000 |
| 2002 Series C | 2004-2033 | 2.75-5.40 | S.L.O. | 49,975,000 | 47,365,000 |
| 2003 Series B | 2004-2034 | 1.20-5.15 | S.L.O. | - | 49,975,000 |
| 2004 Series A | 2004-2034 | 1.10-5.50 | S.L.O. | - | 50,000,000 |
| | | | | 821,385,000 | 668,755,000 |
| Plus unamortized premium thereon | | | | 106,495 | 353,728 |
| | | | | $821,491,495 | $669,108,728 |
| Homeowner Mortgage Revenue Notes: | | | | | |
| 2003 Series A | 2004 | 1.13-1.18 | S.L.O. | $91,455,000 | $ - |
| 2004 Series B | 2006 | .99-1.04 | S.L.O. | - | 91,290,000 |
| | | | | $91,455,000 | $91,290,000 |
| Total Single Family Program Fund | | | | $923,850,420 | $760,351,026 |
| Plus unamortized premium thereon | | | | 106,495 | 353,728 |
| | | | | $923,956,915 | $760,704,754 |

The following summarizes the debt activity for the Authority's proprietary funds for fiscal year 2004:

| | 6/30/03 | Issuance | Accretion | Retirement | 6/30/04 |
|---|---|---|---|---|---|
| Housing Development Bond…………………. | $ 78,660,000 | $ - | $ - | ($78,660,000) | $ - |
| Multi-Family Housing Bond…………………. | 272,561,739 | - | 586,309 | (93,271,099) | 179,876,949 |
| Fixed Rate Housing Bond……………………. | 10,520,000 | - | - | (10,520,000) | - |
| Multi-Family Program Bond………………… | 290,590,000 | - | - | (68,645,000) | 221,945,000 |
| Housing Bond………………………………… | 41,050,000 | 130,430,000 | - | (6,955,000) | 164,525,000 |
| Housing Finance Bond……………………….. | 14,825,000 | - | - | (205,000) | 14,620,000 |
| Multi-Family Variable Rate Demand Bond….. | 8,135,000 | - | - | - | 8,135,000 |
| Multi-Family Housing Revenue Bond……….. | 56,555,000 | - | - | (800,000) | 55,755,000 |
| Multifamily Housing Revenue Bond (Marywood) | 15,865,000 | - | - | - | 15,865,000 |
| Multifamily Bond (Turnberry II)…………….. | 5,320,000 | - | - | - | 5,320,000 |
| Affordable Housing Program Trust Fund Bond | 80,855,000 | - | - | (2,395,000) | 78,460,000 |
| Total Mortgage Loan Program Fund…………. | 874,936,739 | 130,430,000 | 586,309 | (261,451,099) | 744,501,949 |
| Residential Mortgage Revenue Bond………… | 11,010,420 | - | 606 | (10,705,000) | 306,026 |
| Homeowner Mortgage Revenue Bond……….. | 821,385,000 | 100,000,000 | - | (252,630,000) | 668,755,000 |
| Homeowner Mortgage Revenue Note……….. | 91,455,000 | 91,290,000 | - | (91,455,000) | 91,290,000 |
| Total Single Family Program Fund………….. | 923,850,420 | 191,290,000 | 606 | (354,790,000) | 760,351,026 |
| Total Proprietary Funds……………………… | $1,798,787,159 | $321,720,000 | $586,915 | ($616,241,099) | $1,504,852,975 |

### Other Financings

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

As of June 30, 2004, there were twenty-six series of such bonds or notes outstanding, with an aggregate principal amount payable of $291,108,900.

### Assets Restricted for Capital and Debt Service Reserves

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

| Bonds | Requirement |
|---|---|
| Affordable Housing Program Trust Fund Bonds<br>Multi-Family Housing Bonds | 7.5% to 13.45%, as defined for each series, of the principal amounts of bonds outstanding provided that the debt service reserve funds for the 1978 Series B Bonds (none of which are outstanding) and subsequent series of bonds cannot be less than a specified percentage (100% except for the 1979 Series B Bonds, for which the percentage is 120%) of the maximum annual debt service on such bonds for the current or any succeeding year until July 1 of the year preceding the final maturity of the bonds of such series |
| Multi-Family Program Bonds | Maximum amounts of principal, sinking fund installments and interest due in the then current or any future bond year for all bonds then outstanding |
| Multi-Family Variable Rate Demand Bonds<br>Multi-Family Housing Revenue Bonds | Three months of adjusted debt service requirements |
| Housing Bonds | 25% of the maximum annual principal and interest |
| Housing Finance Bonds | 50% of the maximum annual principal and interest |
| Multifamily Housing Revenue Bonds (Marywood) | Six months of maximum annual interest |
| Homeowner Mortgage Revenue Bonds<br>Residential Mortgage Revenue Bonds | The sum of all amounts established by each series resolution, but such amount cannot be less than 2% for the Homeowner Mortgage Revenue Bonds, and 4% for the Residential Mortgage Revenue Bonds, of the sum of (i) the outstanding principal balance or related mortgage loans and (ii) the amounts on deposit to the credit of series program accounts on the program fund |

The amounts of such reserves, for measurement purposes against the various bond resolution reserve requirements, are valued at book value or par, or, if purchased at less than par, at their cost to the Authority. At June 30, 2004, these amounts, which were not less than the amounts required, are as follows:

| | |
|---|---:|
| Multi-Family Housing Bonds | $34,592,567 |
| Multi-Family Program Bonds | 24,490,488 |
| Housing Bonds | 7,102,152 |
| Housing Finance Bonds | 519,000 |
| Multi-Family Variable Rate Demand Bonds | 359,511 |
| Multi-Family Housing Revenue Bonds | 809,750 |
| Multifamily Housing Revenue Bonds (Marywood) | 406,441 |
| Homeowner Mortgage Revenue Bonds | 32,693,648 |
| | $100,973,557 |

In addition to the above, the debt service reserve requirement of the Affordable Housing Program Trust Fund Bonds ($8,848,236) at June 30, 2004, is satisfied through the Authority's holding of a surety bond.

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

**Other Maturity Information**

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

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

Debt service requirements (in $ millions) through 2009 and in five-year increments thereafter to maturity for the Authority's proprietary funds are as follows:

| Year Ending June 30 | Mortgage Loan Program Fund Principal* | Mortgage Loan Program Fund Interest | Single Family Program Fund Principal* | Single Family Program Fund Interest | Total Principal | Total Interest |
|---|---|---|---|---|---|---|
| 2005 | $22.1 | $43.9 | $109.1 | $35.8 | $131.2 | $79.7 |
| 2006 | 24.1 | 42.3 | 20.0 | 35.0 | 44.1 | 77.3 |
| 2007 | 25.8 | 40.7 | 21.0 | 33.1 | 46.8 | 73.8 |
| 2008 | 27.5 | 39.1 | 21.7 | 32.1 | 49.2 | 71.2 |
| 2009 | 29.1 | 37.2 | 20.5 | 31.1 | 49.6 | 68.3 |
| **Five Years Ending June 30** | | | | | | |
| 2010-2014 | 182.6 | 154.8 | 101.3 | 140.8 | 283.9 | 295.6 |
| 2015-2019 | 178.0 | 95.4 | 115.5 | 111.3 | 293.5 | 206.7 |
| 2020-2024 | 119.1 | 48.8 | 105.6 | 82.5 | 224.7 | 131.3 |
| 2025-2029 | 75.4 | 21.5 | 157.8 | 47.8 | 233.2 | 69.3 |
| 2030-2034 | 21.4 | 12.6 | 86.4 | 9.8 | 107.8 | 22.4 |
| 2035-2039 | 20.0 | 7.8 | 1.5 | 0.1 | 21.5 | 7.9 |
| 2040-2044 | 15.2 | 3.0 | | | 15.2 | 3.0 |
| 2045-2049 | 4.2 | 0.3 | - | - | 4.2 | 0.3 |
| | $744.5 | $547.4 | $760.4 | $559.4 | $1,504.9 | $1,106.8 |

* Includes capital appreciation bonds at their final redemption values.

### Derivatives

The Authority, as of June 30, 2004 has six active swap contracts, two interest rate caps, and a forward delivery swap. Details are shown in the following table.

| Associated Bond Issue | Notional Amounts | Effective Date | Fixed Rate Paid | Variable Rate Received | Fair Values (3) | Termination Date | Counterparty Credit Rating |
|---|---|---|---|---|---|---|---|
| **SWAP CONTRACTS** | | | | | | | |
| **MVRDB*** | | | | | | | |
| Series 1996A | $5,135,000 | 12/98 | 6.41% | 30 day nonfinancial CP | $(525,487) | 12/2008 | A+/Aa3 |
| Series 1996A | $2,975,951 | 12/03 | 5.467% | 1mo LIBOR | $(46,513) | 8/2026 | AAA/Aa2 |
| **MHRB**** | | | | | | | |
| Series 2000A (Lakeshore Plaza)(1) | $41,585,000 | 6/00 | 5.51% | Actual bond rate | $(1,333,313) | 7/2027 | AAA/Aaa |
| **HMRB***** | | | | | | | |
| Series 2001 D | $7,090,000 | 7/01 | 6.13% | 1mo LIBOR +30bp | $(523,553) | 2/2010 | AAA/Aaa |
| Series 2001F | $10,000,000 | 1/02 | 6.615% | 1mo LIBOR +40bp | $(1,098,515) | 8/2020 | A+/Aa3 |
| Series 2002B | $ 9,700,000 | 5/02 | 6.145% | 1mo LIBOR +41.5bp | $(724,609) | 2/2023 | AAA/Aaa |
| **INTEREST RATE CAP** | | | | | | | |
| **MHRB**** | | | | | | | |
| Series 1997 (Camelot Development) | $14,170,000 | 11/97 | 5.75% | N/A | $(123,075) | 12/2007 | AA-/Aa3 |
| **HB****** | | | | | | | |
| Series 2004B | 10,000,000 | 3/04 | 5.00% | N/A | $119,209 | 4/2012 | AAA/A aa |
| **FORWARD DELIVERY SWAP** | | | | | | | |
| **AHPTFB******* | | | | | | | |
| Series 1994(2) | $24,115,000 | 8/04 | 6.50% | 1mo LIBOR | $(2,387,248) | 7/29/04 | A/A2 |

*Multi-Family Variable Rate Demand Bonds
**Multi-Family Housing Revenue Bonds
***Homeowner Mortgage Revenue Bonds
****Housing Bonds
*****Affordable Housing Program Trust Fund Bonds
(1) $550,000 premium received 9-17-98. Par termination rights at Authority's option beginning 7/1/05.
(2) Counterparty collateralizes negative market value.
(3) Includes accrued interest.

To protect against the potential of rising interest rates, the Authority has entered into six pay-fixed, receive variable interest rate swap agreements, the objective of which is to achieve a synthetic fixed interest rate on the underlying bonds at a cost anticipated to be less than the amounts paid had the Authority issued fixed-rate debt. In addition, the Authority has entered into interest rate cap agreements, the objective of which are 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, 2004 are shown in the above table. The notional amounts of the swaps match the principal amounts of the associated debt. The Authority's swap agreements contain scheduled reductions to outstanding notional amounts that are expected to approximately follow scheduled or anticipated reductions in the associated bonds payable category.

Because interest rates have declined since the implementation of the swap agreements, all currently active swaps, except for Housing Bonds Series 2004B, had a negative fair value as of June 30, 2004. The negative fair values may be countered by reductions in total interest payments required under the variable-rate bonds, creating lower synthetic interest rates. Because the coupons on the Authority's variable rate bonds adjust to changing interest rates, the bonds do not have corresponding fair value changes.

As of June 30, 2004, the Authority was not exposed to credit risk because of the negative fair values of the swaps. Should interest rates change and the fair values become positive, the Authority would be exposed to credit risk in the amount of the swaps fair value. Fair value is a factor only upon termination.

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

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

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

As of June 30, 2004, debt service requirements of the Authority's outstanding variable-rate debt and net swap payments, assuming current interest rates remain the same, for their term are as follows:

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

| | **Variable-Rate Bonds** | | | |
|---|---|---|---|---|
| **Year Ending June 30** | **Principal** | **Interest** | **Interest Rate Swaps, Net** | **Total** |
| 2005 | $1,970,000 | $1,953,764 | $3,117,695 | $7,041,459 |
| 2006 | 2,245,000 | 1,918,420 | 3,052,645 | 7,216,065 |
| 2007 | 2,380,000 | 1,880,508 | 2,983,932 | 7,244,440 |
| 2008 | 2,420,000 | 1,793,134 | 2,794,554 | 7,007,688 |
| 2009 | 7,615,000 | 1,704,904 | 2,604,872 | 11,924,776 |
| **Five Years Ending June 30** | | | | |
| 2014 | 12,580,000 | 7,860,873 | 11,839,933 | 32,280,806 |
| 2019 | 18,765,000 | 6,676,325 | 9,319,666 | 34,760,991 |
| 2024 | 17,600,000 | 4,816,645 | 5,206,299 | 27,622,944 |
| 2029 | 34,805,000 | 2,629,421 | 1,824,228 | 39,258,649 |
| 2034 | 10,975,000 | 578,045 | 151,003 | 11,704,048 |
| Total | $111,355,000 | $31,812,039 | $42,894,827 | $186,061,866 |

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

## NOTE G—DEPOSITS HELD IN ESCROW

Deposits from developers, which are held in escrow in the Administrative Fund, may be used when necessary to pay principal and interest payments and fund construction cost overruns, change orders, tax and insurance payments and capital improvements (see Note E). In addition, on certain developments, letters of credit and assignments of syndication proceeds are held by the Authority for similar purposes and to fund potential operating deficits of the related developments. Investment income earned on deposited funds is credited to the respective developer's escrow accounts.

## NOTE H—LEASES

The Authority leases office facilities under a lease which extends through July 31, 2006, and which provides the Authority an option to extend the lease five years beyond that date and, during certain time periods, to lease additional office facilities.

The office lease provides for annual base rent of approximately $876,000 for the fiscal year 2004 and escalates by approximately $29,000 annually throughout the lease period, plus payments totaling $861,000 in fiscal year 2004 for the Authority's 8.041% share of ownership taxes and operating expenses, which also are subject to adjustment, based on the actual costs incurred by the lessor.

For fiscal year 2004, total rent expense of the Authority was $ 1,734,794.

## NOTE I—OTHER LIABILITIES

Included in Other Liabilities at June 30, 2004 is $7,713,740 in undisbursed Risk Sharing Loan proceeds and $3,606,264 in undisbursed Ambac Loan proceeds.

The bonds issued by the Authority after 1980 are subject to a variety of Internal Revenue Service ("IRS") regulations which limit the amount of income which may be earned with non-mortgage investments to an amount not greater than the amount which would have been earned had the funds been invested at the yield on the bonds as defined by the IRS.

Excess earnings must be rebated annually, or every five years, depending on the date and type of bond issue. Included in Other Liabilities at June 30, 2004, is an estimated rebate liability of $3,599,117.

The Authority is a defendant in various legal actions arising from normal business activities. Management believes, after consultation with legal counsel, that the ultimate liability, if any, resulting from these legal actions will not materially affect the Authority's financial position or results of operations.

The Authority carries commercial insurance for director's and officer's liability, general liability, workers' compensation, and automobile ownership and usage. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

## NOTE J—RETIREMENT PLAN

The Authority provides a defined contribution retirement plan for the benefit of its employees. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Full time employees are eligible to participate in and are fully vested in the plan from the date of employment. All plan assets and investments are administered by a trustee, which maintains an individual account for each participant. The Authority contributes 6% of its employees' salaries and employees, at their option, may contribute up to 19% (within a maximum dollar limit) of their salaries to the plan. In addition, the Authority, under the provisions of the Economic Growth and Tax Relief Act of 2001, permits additional contributions each calendar year for those employees who attain age 50 (or higher) during the calendar year. The plan may be amended or terminated by the Authority at any time and for any reason in the future, but no such action can deprive employees of their vested interests.

The Authority's total payroll in fiscal year 2004 was $10,584,178. The Authority's contributions were calculated using the base salary amount of $10,521,633. The Authority contributed $631,298 or 6% of the base salary amount, in fiscal year 2004. Employee contributions amounted to $769,044 in fiscal year 2004, or 7.3 % of the base salary amount.

## NOTE K—COMMITMENTS

At June 30, 2004 unexpended bond proceeds held by the Authority in the form of cash and investments amounting to $93,387,951 in the Homeowner Mortgage Revenue Bond accounts were identified for the purpose of purchasing various mortgage loans.

At June 30, 2004, the Authority had authorized commitments for loans and grants totaling $31,566,520 and $6,650,000 respectively, of the Illinois Affordable Housing Trust Fund.

Under the HOME Program, $253.7 million and $25.5 million for federal fiscal years 1992 through 2003 and 2004, 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, 2004, the Authority had authorized commitments for loans and grants of $18,388,494 and $10,199,391 respectively for the HOME Program.

In accordance with an agreement entered into by the Authority and HUD at the time of delivery of the Authority's Multi-Family Housing Bonds, 1982 Series A, 1982 Series B and 1983 Series A, annual Section 8 contributions payable to HUD with respect to the developments financed by these bonds would be reduced to the extent of the debt service savings resulting from the early redemptions of these Bonds.

These redemptions were accomplished through the issuance of the Authority's Multi-Family Housing Bonds, 1991 Series A and B, 1992 Series A and B and 1993 Series A and B. Pursuant to federal legislation and a written agreement with the Authority, HUD has agreed to share a portion of such savings (the FAF Savings Program) with the Authority in order to create and maintain affordable housing opportunities for individuals of "very low income" (as such term is defined in the 1937 Housing Act) in the State. These savings, which are to be used solely for the purpose stated above, became available beginning in fiscal year 1992 for the 1991 Series A and B Bonds and in fiscal year 1994 for the 1993 Series A and B Bonds, and are recorded as other income of the Administrative Fund. At June 30, 2004, loans receivable under this program were approximately $18.5 million.

## NOTE L—CONTINGENCIES

HUD's Office of General Counsel (OGC) has expressed the opinion that certain language used in the form of Housing Assistance Payments (HAP) Contracts in use prior to February 1980 for State Agency projects with mortgages that were not insured by FHA, has the effect of terminating those HAP Contracts upon refinancing of the related project mortgages. While only expressed in the form of an internal memorandum, this opinion has been communicated by HUD to the public. The position expressed in the opinion has not been promulgated in any official form, nor has HUD taken any action to impose consequences that might arise from the opinion on projects that were previously refinanced. The Authority has determined that approximately 57 of the Section 8 projects that it has financed have been refinanced in a fashion that might cause a termination of the related HAP Contracts under such OGC opinion.

Were HUD to stop HAP payments to affected projects and/or attempt to recover previously made payments, such action could adversely affect project income, the Authority's revenues from those projects and, as a consequence thereof, the Authority's financial position. However, in Congressional testimony and in public discussions with industry participants, HUD officials have expressed the desire to prevent its position regarding the pre-1980 HAP form contract language from having an adverse impact upon the affected projects and State Agencies. In addition, HUD has offered to approve an amendment to the affected HAP contracts that would amend the language at issue to clarify that the term of the form HAP contract extends to the originally scheduled maturity date of the original HFA financing. Of the 57 Authority-financed projects that have refinanced, 53 of these projects have executed such amendments, and these amendments have been approved by HUD. One other project has entered into a long term renewal HAP contract. Further, while it is not possible to predict with certainty the outcome of any litigation, the Authority has been advised by counsel that if HUD were to attempt to recover previously made payments under the HAP contracts related to these projects, HUD would be unlikely to prevail.

## NOTE M— SUBSEQUENT EVENTS

On July 13, 2004, the Authority issued its Homeowner Mortgage Revenue Bonds, 2004 Series C, in the aggregate principal amount of $80,000,000, maturing in 2005 through 2034, at initial interest rates of 1.90% to 5.35% and its Homeowner Mortgage Revenue Bonds, 2004 Series D, in the aggregate principal amount of $43,405,000, at an initial interest rate of 1.68%. The 2004 Series D bonds are convertible option bonds subject to mandatory redemption no later than February 1, 2036. The Series C and D bonds are special limited obligations of the Authority.

On July 29, 2004, the Authority issued its Affordable Housing Program Trust Fund Refunding Bonds, Series 2004, in the aggregate principal amount of $45,380,000, maturing in 2004 through 2026, at initial interest rates of 4.55% to 6.21%. These bonds are special limited obligations of the Authority.

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

## MORTGAGE LOAN PROGRAM FUND
## COMBINING SCHEDULE OF NET ASSETS
## As of June 30, 2004

| ASSETS | Multi-Family Housing Bonds | Multi-Family Program Bonds | Housing Bonds | Housing Finance Bonds | Multi-Family Variable Rate Demand Bonds | Multi-Family Housing Revenue Bonds | Multifamily Housing Revenue Bonds (Marywood) | Multifamily Bonds (Turnberry) | Affordable Housing Program Trust Fund Bonds | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| Current assets: | | | | | | | | | | |
| Cash and cash equivalents……………………………………… $ | 83,428 | 1,615 | 58,621 | | 27,816 | 76,705 | 4,603 | 708 | | 253,496 |
| Investment income receivable……………………………… | 833,953 | 800,759 | 61,111 | 18,337 | 8,954 | | 18,287 | | 68,787 | 1,810,188 |
| Program loans receivable…………………………………… | 5,061,000 | 8,492,000 | 6,227,000 | 211,000 | 61,000 | | 9,000 | 21,000 | 3,445,000 | 23,527,000 |
| Interest receivable on program loans……………………… | 236,490 | | 1,626,991 | 82,846 | 83,476 | 12,726 | | | 526,912 | 2,569,441 |
| Due from other funds………………………………………… | | 7,318,607 | 4,381,268 | | | 13,260,994 | | 21,940 | | 24,982,809 |
| Total current assets…………………………… | 6,214,871 | 16,612,981 | 12,354,991 | 312,183 | 181,246 | 13,350,425 | 31,890 | 43,648 | 4,040,699 | 53,142,934 |
| Noncurrent assets: | | | | | | | | | | |
| Investments-restricted……………………………………… | 84,333,728 | 45,511,409 | 59,896,414 | 1,106,744 | 2,753,031 | 6,771,884 | 6,004,936 | 214,720 | 15,499,003 | 222,091,869 |
| Program loans receivable, net of current portion…………… | 143,589,645 | 179,424,338 | 147,321,077 | 13,858,615 | 8,009,478 | 9,796,400 | 11,195,464 | 5,299,000 | 79,945,815 | 598,439,832 |
| Less allowance for estimated losses………………… | (3,500,000) | | (2,650,000) | | (100,000) | | | | (7,500,000) | (13,750,000) |
| Net program loans receivable………………… | 140,089,645 | 179,424,338 | 144,671,077 | 13,858,615 | 7,909,478 | 9,796,400 | 11,195,464 | 5,299,000 | 72,445,815 | 584,689,832 |
| Unamortized bond issuance costs…………………………… | 3,441,960 | | 2,360,216 | | 116,479 | 1,040,709 | | | 1,057,573 | 8,016,937 |
| Real estate held for sale (net)……………………………… | | | | | | 29,817,166 | | | | 29,817,166 |
| Other………………………………………………………… | | | | | | 1,653,494 | | | 179,804 | 1,833,298 |
| Total noncurrent assets………………………… | 227,865,333 | 224,935,747 | 206,927,707 | 14,965,359 | 10,778,988 | 49,079,653 | 17,200,400 | 5,513,720 | 89,182,195 | 846,449,102 |
| Total assets……………………………………………………… | 234,080,204 | 241,548,728 | 219,282,698 | 15,277,542 | 10,960,234 | 62,430,078 | 17,232,290 | 5,557,368 | 93,222,894 | 899,592,036 |
| **LIABILITIES** | | | | | | | | | | |
| Current liabilities: | | | | | | | | | | |
| Bonds and notes payable…………………………………… | 3,060,000 | 9,625,000 | 1,510,000 | 220,000 | | 800,000 | | | 2,425,000 | 17,640,000 |
| Accrued interest payable…………………………………… | 5,940,720 | 4,945,588 | 3,071,970 | 302,345 | 7,559 | 49,187 | 268,611 | 82,413 | 531,327 | 15,199,720 |
| Accrued liabilities and other………………………………… | 6,208,311 | 1,624,962 | 2,544,360 | | | | 943,627 | 129,618 | 203,060 | 11,653,938 |
| Due to other funds…………………………………………… | 616,416 | 407,604 | 426,859 | 23,830 | 851,007 | 685,531 | 417 | | 67,221 | 3,078,885 |
| Total current liabilities………………………… | 15,825,447 | 16,603,154 | 7,553,189 | 546,175 | 858,566 | 1,534,718 | 1,212,655 | 212,031 | 3,226,608 | 47,572,543 |
| Noncurrent liabilities: | | | | | | | | | | |
| Bonds and notes payable, net of current portion……………… | 161,360,279 | 212,320,000 | 163,015,000 | 14,400,000 | 8,135,000 | 54,955,000 | 15,865,000 | 5,320,000 | 76,035,000 | 711,405,279 |
| Total liabilities………………………………………………… | 177,185,726 | 228,923,154 | 170,568,189 | 14,946,175 | 8,993,566 | 56,489,718 | 17,077,655 | 5,532,031 | 79,261,608 | 758,977,822 |
| **NET ASSETS** | | | | | | | | | | |
| Restricted for bond resolution purposes…………………………… | 56,894,478 | 12,625,574 | 48,714,509 | 331,367 | 1,966,668 | 5,940,360 | 154,635 | 25,337 | 13,961,286 | 140,614,214 |
| Total net assets ……………………………………………………$ | 56,894,478 | 12,625,574 | 48,714,509 | 331,367 | 1,966,668 | 5,940,360 | 154,635 | 25,337 | 13,961,286 | 140,614,214 |

See accompanying independent auditors' report.

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

## MORTGAGE LOAN PROGRAM FUND
## COMBINING SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
## For the Year Ended June 30, 2004

| | Multi-Family Housing Bonds | Multi-Family Program Bonds | Housing Development Bonds | Fixed Rate Housing Bonds | Housing Bonds | Housing Finance Bonds | Multi-Family Variable Rate Demand Bonds | Multi-Family Housing Revenue Bonds | Multifamily Housing Revenue Bonds (Marywood) | Multifamily Bonds (Turnberry) | Affordable Housing Program Trust Fund Bonds | Inter-Account Eliminations | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Operating revenues: | | | | | | | | | | | | | |
| Interest and other investment income.......................... $ | 3,874,208 | 2,581,759 | 127,148 | (60,447) | 1,095,910 | 56,095 | 48,882 | 69,005 | 108,216 | 383 | 932,363 | | 8,833,522 |
| Net decrease in fair value of investments..................... | (1,555,065) | | | | | | (23,060) | | | | | | (1,578,125) |
| Total investment income (loss)............................ | 2,319,143 | 2,581,759 | 127,148 | (60,447) | 1,095,910 | 56,095 | 25,822 | 69,005 | 108,216 | 383 | 932,363 | | 7,255,397 |
| Interest earned on program loans............................... | 16,068,140 | 14,915,230 | 2,352,290 | 355,103 | 5,053,865 | 985,760 | 636,354 | 144,794 | 830,760 | 271,757 | 2,555,589 | | 44,169,642 |
| Federal assistance programs...................................... | 153,381 | | 1,746,540 | 282,231 | 2,969,549 | | | | | | | | 5,151,701 |
| Other................................................................ | | | | | | | | 3,102,847 | | | | | 3,102,847 |
| Total operating revenues...................................... | 18,540,664 | 17,496,989 | 4,225,978 | 576,887 | 9,119,324 | 1,041,855 | 662,176 | 3,316,646 | 938,976 | 272,140 | 3,487,952 | | 59,679,587 |
| Operating expenses: | | | | | | | | | | | | | |
| Interest expense.................................................. | 16,284,198 | 16,264,129 | 3,307,492 | 447,385 | 4,232,969 | 911,935 | 510,484 | 2,653,537 | 805,834 | 247,238 | 6,836,379 | | 52,501,580 |
| Federal assistance programs...................................... | 153,381 | | 1,746,540 | 282,231 | 2,969,549 | | | | | | | | 5,151,701 |
| Professional fees.................................................. | | | | | 1,500 | 3,000 | | | | | | | 4,500 |
| Financing costs.................................................... | 46,526 | 47,432 | 17,439 | | 25,749 | 4,806 | 40,435 | 129,490 | 417 | 300 | 217,539 | | 530,133 |
| Provision for (reversal of) estimated losses on program loans receivable.................................... | | | | | (2,500,000) | | | | | | 2,500,000 | | |
| Total operating expenses..................................... | 16,484,105 | 16,311,561 | 5,071,471 | 729,616 | 4,729,767 | 919,741 | 550,919 | 2,783,027 | 806,251 | 247,538 | 9,553,918 | | 58,187,914 |
| Operating income (loss)...................................... | 2,056,559 | 1,185,428 | (845,493) | (152,729) | 4,389,557 | 122,114 | 111,257 | 533,619 | 132,725 | 24,602 | (6,065,966) | | 1,491,673 |
| Other: | | | | | | | | | | | | | |
| Transfers in............................................................ | | 158,820 | | | 44,039,218 | | | | | | 5,200,000 | (44,198,038) | 5,200,000 |
| Transfers out.......................................................... | | | (35,081,397) | (9,116,641) | | | | | | | | 44,198,038 | |
| Total other............................................................ | | 158,820 | (35,081,397) | (9,116,641) | 44,039,218 | | | | | | 5,200,000 | | 5,200,000 |
| Change in net assets.................................................. | 2,056,559 | 1,344,248 | (35,926,890) | (9,269,370) | 48,428,775 | 122,114 | 111,257 | 533,619 | 132,725 | 24,602 | (865,966) | | 6,691,673 |
| Net assets at beginning of year...................................... | 54,837,919 | 11,281,326 | 35,926,890 | 9,269,370 | 285,734 | 209,253 | 1,855,411 | 5,406,741 | 21,910 | 735 | 14,827,252 | | 133,922,541 |
| Net assets at end of year.............................................$ | 56,894,478 | 12,625,574 | | | 48,714,509 | 331,367 | 1,966,668 | 5,940,360 | 154,635 | 25,337 | 13,961,286 | | 140,614,214 |

See accompanying independent auditors' report.

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

**MORTGAGE LOAN PROGRAM FUND**
**COMBINING SCHEDULE OF CASH FLOWS**
**For the Year Ended June 30, 2004**

| | Multi-Family Housing Bonds | Multi-Family Program Bonds | Housing Development Bonds | Fixed Rate Housing Bonds | Housing Bonds | Housing Finance Bonds | Multi-Family Variable Rate Demand Bonds | Multi-Family Housing Revenue Bonds | Multi-Family Housing Revenue Bonds (Marywood) | Multi-Family Bonds (Turnberry) | Affordable Housing Program Trust Fund Bonds | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Cash flows from operating activities: | | | | | | | | | | | | |
| Cash received from interest, service fees, and principal on program loans........ $ | 88,793,345 | 78,589,201 | 6,640,311 | 527,682 | 11,474,205 | 1,070,380 | 627,798 | 145,299 | | 259,180 | 5,786,206 | 193,913,607 |
| Cash payments for loaned amounts.......... | | | | | (56,076,593) | | | | (3,807,330) | | | (59,883,923) |
| Cash received from federal assistance programs.......... | 153,381 | | 1,746,540 | 282,231 | 2,969,549 | | | | | | | 5,151,701 |
| Cash payments for federal assistance programs.......... | (153,381) | | (1,746,540) | (282,231) | (2,969,549) | | | | | | | (5,151,701) |
| Interest on investments.......... | 3,835,593 | 3,217,264 | 526,319 | 449,024 | 1,808,667 | 59,378 | 49,561 | 97,729 | 105,549 | 383 | 920,565 | 11,070,032 |
| Other.......... | 885,883 | (485,557) | (34,650) | | 2,529,474 | | | 2,974,490 | | (64,788) | (212,050) | 5,592,802 |
| Net cash provided by (used in) operating activities.......... | 93,514,821 | 81,320,908 | 7,131,980 | 976,706 | (40,264,247) | 1,129,758 | 677,359 | 3,217,518 | (3,701,781) | 194,775 | 6,494,721 | 150,692,518 |
| Cash flows from noncapital financing activities: | | | | | | | | | | | | |
| Proceeds from sale of revenue bonds and notes.......... | | | | | 130,430,000 | | | | | | | 130,430,000 |
| Principal paid on revenue bonds and notes.......... | (83,861,100) | (68,645,000) | (59,760,000) | (10,520,000) | (6,955,000) | (205,000) | | (800,000) | | | (2,395,000) | (233,141,100) |
| Interest paid on revenue bonds and notes.......... | (17,053,383) | (17,868,132) | (5,313,586) | (689,475) | (1,977,519) | (915,797) | (505,532) | (2,520,018) | (658,098) | (173,753) | (6,508,316) | (54,183,609) |
| Transfers in.......... | | 158,820 | 46,950,417 | 5,530,659 | 27,185,602 | | | | | | 5,200,000 | 85,025,498 |
| Transfers out.......... | | | (23,320,156) | (3,865,446) | (52,639,896) | | | | | | | (79,825,498) |
| Net cash provided by (used in) noncapital financing activities. | (100,914,483) | (86,354,312) | (41,443,325) | (9,544,262) | 96,043,187 | (1,120,797) | (505,532) | (3,320,018) | (658,098) | (173,753) | (3,703,316) | (151,694,709) |
| Cash flows from investing activities: | | | | | | | | | | | | |
| Purchase of investment securities.......... | (195,762,105) | (101,304,505) | (68,110,233) | (22,449,744) | (222,367,198) | (1,091,861) | (4,561,571) | (17,002,026) | (3,671,667) | (268,656) | (11,212,216) | (647,801,782) |
| Proceeds from sales and maturities of investment securities.......... | 203,191,512 | 106,338,680 | 102,333,544 | 30,954,780 | 166,646,581 | 1,082,900 | 3,874,471 | 16,281,895 | 7,864,442 | 53,936 | 8,420,811 | 647,043,552 |
| Net cash provided by (used in) investing activities.......... | 7,429,407 | 5,034,175 | 34,223,311 | 8,505,036 | (55,720,617) | (8,961) | (687,100) | (720,131) | 4,192,775 | (214,720) | (2,791,405) | (758,230) |
| Net increase (decrease) in cash and cash equivalents.......... | 29,745 | 771 | (88,034) | (62,520) | 58,323 | | (515,273) | (822,631) | (167,104) | (193,698) | | (1,760,421) |
| Cash and cash equivalents at beginning of year.......... | 53,683 | 844 | 88,034 | 62,520 | 298 | | 543,089 | 899,336 | 171,707 | 194,406 | | 2,013,917 |
| Cash and cash equivalents at end of year..........$ | 83,428 | 1,615 | | | 58,621 | | 27,816 | 76,705 | 4,603 | 708 | | 253,496 |
| Reconciliation of operating income (loss) to net cash provided by (used in) operating activities: | | | | | | | | | | | | |
| Operating income (loss)..........$ | 2,056,559 | 1,185,428 | (845,493) | (152,729) | 4,389,557 | 122,114 | 111,257 | 533,619 | 132,725 | 24,602 | (6,065,966) | 1,491,673 |
| Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities: | | | | | | | | | | | | |
| Interest expense.......... | 16,284,198 | 16,264,129 | 3,307,492 | 447,385 | 4,232,969 | 911,935 | 510,484 | 2,653,537 | 805,834 | 247,238 | 6,836,379 | 52,501,580 |
| Depreciation and amortization.......... | | | | | | | | 800,000 | | | | 800,000 |
| Provision for (reversal of) estimated losses on program loans receivable... | | | | | (2,500,000) | | | | | | 2,500,000 | |
| Changes in assets and liabilities: | | | | | | | | | | | | |
| Decrease (increase) in investment income receivable.......... | 681,988 | 226,742 | 399,171 | 29,581 | 717,835 | 3,283 | 679 | 5,549 | (2,667) | | (11,798) | 2,050,363 |
| Decrease (increase) in program loan and interest receivable.......... | 81,884,904 | 64,079,568 | 82,446,273 | 10,401,663 | (146,100,364) | 192,092 | (16,681) | 505 | (3,683,862) | | 3,226,319 | 92,430,417 |
| Increase (decrease) in due to/from other funds.......... | (670,543) | (492,312) | 2,893,545 | 653,895 | (3,953,596) | (12,943) | 48,560 | 129,490 | 417 | (12,277) | 4,298 | (1,411,466) |
| Increase (decrease) in other liabilities.......... | (799,312) | (378,638) | (85,079) | | 2,536,877 | (86,723) | | | (954,228) | (64,788) | | 168,109 |
| Decrease (increase) in other assets.......... | 15,875 | 27,226 | | | 278,794 | | | (128,358) | | | 5,489 | 199,026 |
| Other.......... | (5,938,848) | 408,765 | (80,983,929) | (10,403,089) | 100,133,681 | | 23,060 | (776,824) | | | | 2,462,816 |
| Total adjustments.......... | 91,458,262 | 80,135,480 | 7,977,473 | 1,129,435 | (44,653,804) | 1,007,644 | 566,102 | 2,683,899 | (3,834,506) | 170,173 | 12,560,687 | 149,200,845 |
| Net cash provided by (used in) operating activities..........$ | 93,514,821 | 81,320,908 | 7,131,980 | 976,706 | (40,264,247) | 1,129,758 | 677,359 | 3,217,518 | (3,701,781) | 194,775 | 6,494,721 | 150,692,518 |

See accompanying independent auditors' report.

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

**SINGLE FAMILY PROGRAM FUND**
**COMBINING SCHEDULE OF NET ASSETS**
**As of June 30, 2004**

| ASSETS | Homeowner Mortgage Revenue Bonds | Residential Mortgage Revenue Bonds | Total |
|---|---|---|---|
| Current assets: | | | |
| Cash and cash equivalents $ | 1,268,148 | 981 | 1,269,129 |
| Investment income receivable | 2,443,855 | 8,444 | 2,452,299 |
| Program loans receivable | 9,118,000 | | 9,118,000 |
| Interest receivable on program loans | 5,396,056 | | 5,396,056 |
| Total current assets | 18,226,059 | 9,425 | 18,235,484 |
| Noncurrent assets: | | | |
| Investments-restricted | 254,635,245 | 447,862 | 255,083,107 |
| Program loans receivable, net of current portion | 527,777,479 | | 527,777,479 |
| Unamortized bond issuance costs | 9,168,134 | | 9,168,134 |
| Real estate held for sale (net) | 1,151,205 | | 1,151,205 |
| Total noncurrent assets | 792,732,063 | 447,862 | 793,179,925 |
| Total assets | 810,958,122 | 457,287 | 811,415,409 |
| **LIABILITIES** | | | |
| Current liabilities: | | | |
| Bonds and notes payable | 109,085,000 | | 109,085,000 |
| Accrued interest payable | 14,649,410 | 10,115 | 14,659,525 |
| Accrued liabilities and other | 2,303,454 | | 2,303,454 |
| Due to other funds | 1,982,439 | 27,305 | 2,009,744 |
| Total current liabilities | 128,020,303 | 37,420 | 128,057,723 |
| Noncurrent liabilities: | | | |
| Bonds and notes payable, net of current portion | 651,313,728 | 306,026 | 651,619,754 |
| Total liabilities | 779,334,031 | 343,446 | 779,677,477 |
| **NET ASSETS** | | | |
| Restricted for bond resolution purposes | 31,624,091 | 113,841 | 31,737,932 |
| Total net assets $ | 31,624,091 | 113,841 | 31,737,932 |

See accompanying independent auditors' report.

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

**SINGLE FAMILY PROGRAM FUND**
**COMBINING SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**
**For the Year Ended June 30, 2004**

| | Homeowner Mortgage Revenue Bonds | Residential Mortgage Revenue Bonds | Inter-Account Eliminations | Total |
|---|---|---|---|---|
| Operating revenues: | | | | |
| Interest and other investment income | $ 9,423,145 | 6,575 | | 9,429,720 |
| Net decrease in fair value of investments | (417,838) | | | (417,838) |
| Total investment income | 9,005,307 | 6,575 | | 9,011,882 |
| Interest earned on program loans | 29,376,441 | 604,016 | | 29,980,457 |
| Total operating revenues | 38,381,748 | 610,591 | | 38,992,339 |
| Operating expenses: | | | | |
| Interest expense | 44,648,582 | 370,983 | | 45,019,565 |
| Professional fees | 51,000 | 13,500 | | 64,500 |
| Other general and administrative | 55,410 | 4,942 | | 60,352 |
| Financing costs | 432,039 | 8,863 | | 440,902 |
| Total operating expenses | 45,187,031 | 398,288 | | 45,585,319 |
| Operating income (loss) | (6,805,283) | 212,303 | | (6,592,980) |
| Other: | | | | |
| Transfers in | 35,078,541 | | (33,268,418) | 1,810,123 |
| Transfers out | (787) | (35,565,207) | 33,268,418 | (2,297,576) |
| Total other | 35,077,754 | (35,565,207) | | (487,453) |
| Change in net assets | 28,272,471 | (35,352,904) | | (7,080,433) |
| Net assets at beginning of year | 3,351,620 | 35,466,745 | | 38,818,365 |
| Net assets at end of year | $ 31,624,091 | 113,841 | | 31,737,932 |

See accompanying independent auditors' report.

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

SINGLE FAMILY PROGRAM FUND
COMBINING SCHEDULE OF CASH FLOWS
For the Year Ended June 30, 2004

| | Homeowner Mortgage Revenue Bonds | Residential Mortgage Revenue Bonds | Total |
|---|---|---|---|
| Cash flows from operating activities: | | | |
| Cash received from interest, service fees, and principal on program loans $ | 227,379,437 | 4,482,758 | 231,862,195 |
| Cash payments for loaned amounts | (119,963,660) | | (119,963,660) |
| Interest on investments | 11,801,413 | 1,340,015 | 13,141,428 |
| Other | (761,408) | 330,860 | (430,548) |
| Net cash provided by operating activities | 118,455,782 | 6,153,633 | 124,609,415 |
| Cash flows from noncapital financing activities: | | | |
| Proceeds from sale of revenue bonds and notes | 191,577,523 | | 191,577,523 |
| Principal paid on revenue bonds and notes | (344,085,000) | (10,705,000) | (354,790,000) |
| Interest paid on revenue bonds and notes | (44,675,860) | (416,827) | (45,092,687) |
| Transfers in | 22,526,204 | | 22,526,204 |
| Transfers out | (787) | (11,195,699) | (11,196,486) |
| Other | (1,304,689) | | (1,304,689) |
| Net cash used in noncapital financing activities | (175,962,609) | (22,317,526) | (198,280,135) |
| Cash flows from investing activities: | | | |
| Purchase of investment securities | (491,281,832) | (20,898,325) | (512,180,157) |
| Proceeds from sales and maturities of investment securities | 544,189,747 | 36,017,371 | 580,207,118 |
| Net cash provided by investing activities | 52,907,915 | 15,119,046 | 68,026,961 |
| Net decrease in cash and cash equivalents | (4,598,912) | (1,044,847) | (5,643,759) |
| Cash and cash equivalents at beginning of year | 5,867,060 | 1,045,828 | 6,912,888 |
| Cash and cash equivalents at end of year $ | 1,268,148 | 981 | 1,269,129 |
| Reconciliation of operating income (loss) to net cash provided by operating activities: | | | |
| Operating income (loss) $ | (6,805,283) | 212,303 | (6,592,980) |
| Adjustments to reconcile operating income (loss) to net cash provided by operating activities: | | | |
| Interest expense | 44,648,582 | 370,983 | 45,019,565 |
| Changes in assets and liabilities: | | | |
| Decrease in investment income receivable | 2,070,374 | 354,401 | 2,424,775 |
| Decrease in program loan and interest receivable | 65,486,999 | 28,248,250 | 93,735,249 |
| Increase in due to/from other funds | 265,314 | 300,441 | 565,755 |
| Decrease in other liabilities | (213,560) | (33,100) | (246,660) |
| Decrease in other assets | 33,381 | 90,824 | 124,205 |
| Other | 12,969,975 | (23,390,469) | (10,420,494) |
| Total adjustments | 125,261,065 | 5,941,330 | 131,202,395 |
| Net cash provided by operating activities $ | 118,455,782 | 6,153,633 | 124,609,415 |

See accompanying independent auditors' report.

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# APPENDIX B
# AUTHORITY INTERIM FINANCIAL STATEMENTS (UNAUDITED)

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

**STATEMENT OF NET ASSETS**
**As of March 31, 2005**
**(Unaudited)**

| | Governmental Activities | Business-type Activities | Total |
|---|---|---|---|
| **ASSETS** | | | |
| Current Assets: | | | |
| Cash and cash equivalents | $ 1,185,173 | 28,255,638 | 29,440,811 |
| Funds held by State Treasurer | 51,529,312 | | 51,529,312 |
| Investments | 31,412,282 | 83,354,242 | 114,766,524 |
| Investment income receivable | | 2,089,083 | 2,089,083 |
| Program loans receivable | 9,670,000 | 35,702,000 | 45,372,000 |
| Grant receivable | 234,439 | | 234,439 |
| Interest receivable on program loans | 158,811 | 8,247,579 | 8,406,390 |
| Interfund accounts receivable (payable) | (720,053) | 720,053 | |
| Total current assets | 93,469,964 | 158,368,595 | 251,838,559 |
| Noncurrent assets: | | | |
| Investments - Restricted | | 682,774,148 | 682,774,148 |
| Program loans receivable, net of current portion | 313,118,956 | 1,154,941,840 | 1,468,060,796 |
| Less allowance for estimated losses | (13,000,000) | (22,965,000) | (35,965,000) |
| Net program loans receivable | 300,118,956 | 1,131,976,840 | 1,432,095,796 |
| Unamortized bond issuance costs | | 20,641,183 | 20,641,183 |
| Real estate held for sale (net) | | 32,335,514 | 32,335,514 |
| Capital assets (net) | | 536,344 | 536,344 |
| Other | | 5,778,810 | 5,778,810 |
| Total noncurrent assets | 300,118,956 | 1,874,042,839 | 2,174,161,795 |
| Total assets | $ 393,588,920 | 2,032,411,434 | 2,426,000,354 |
| **LIABILITIES** | | | |
| Current liabilities: | | | |
| Bonds and notes payable | $ | 209,555,000 | 209,555,000 |
| Accrued interest payable | | 13,413,390 | 13,413,390 |
| Deposits held in escrow | | 140,711,863 | 140,711,863 |
| Accrued liabilities and other | | 26,088,730 | 26,088,730 |
| Total current liabilities | | 389,768,983 | 389,768,983 |
| Noncurrent liabilities: | | | |
| Bonds and notes payable, net of current portion | | 1,344,592,720 | 1,344,592,720 |
| Total liabilities | $ | 1,734,361,703 | 1,734,361,703 |
| **NET ASSETS** | | | |
| Invested in capital assets (net) | $ | 536,344 | 536,344 |
| Restricted for bond resolution purposes | | 199,456,896 | 199,456,896 |
| Restricted for loan and grant programs | 118,681,068 | 23,876,683 | 142,557,751 |
| Unrestricted | 274,907,852 | 74,179,808 | 349,087,660 |
| Total net assets | $ 393,588,920 | 298,049,731 | 691,638,651 |

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

**STATEMENT OF ACTIVITIES**
**For the Nine Months Ended March 31, 2005**
**(Unaudited)**

| FUNCTIONS / PROGRAMS | Expenses | Program Revenues: Charges for Services and Interest Income | Program Revenues: Operating Grant/Federal Revenues | Net (Expenses) / Revenues and Changes in Net Assets: Governmental Activities | Net (Expenses) / Revenues and Changes in Net Assets: Business-type Activities | Net (Expenses) / Revenues and Changes in Net Assets: Total |
|---|---|---|---|---|---|---|
| Governmental activities: | | | | | | |
| Illinois Affordable Housing Trust Fund ………… | $ 9,034,954 | 1,937,977 | 500,000 | (6,596,977) | | (6,596,977) |
| HOME Program ……………………………………… | 8,864,908 | 905,055 | 15,058,048 | 7,098,195 | | 7,098,195 |
| Total governmental activities …………………… | 17,899,862 | 2,843,032 | 15,558,048 | 501,218 | | 501,218 |
| Business-type activities: | | | | | | |
| Administrative ……………………………………… | 8,504,602 | 8,452 | | | (8,496,150) | (8,496,150) |
| Multi-Family Mortgage Loan Programs ………… | 32,964,703 | 45,771,479 | | | 12,806,776 | 12,806,776 |
| Multi-Family Federal Assistance Programs ……… | 114,490,367 | | 114,490,367 | | | |
| Single-Family Mortgage Loan Programs ………… | 30,319,694 | 31,765,605 | | | 1,445,911 | 1,445,911 |
| Tax Credit Authorization and Monitoring ……… | 382,292 | 1,936,535 | | | 1,554,243 | 1,554,243 |
| FAF Lending Program …………………………… | | 62,156 | 896,679 | | 958,835 | 958,835 |
| Total business-type activities …………………… | 186,661,658 | 79,544,227 | 115,387,046 | | 8,269,615 | 8,269,615 |
| Total Authority ………………………………………… | 204,561,520 | 82,387,259 | 130,945,094 | 501,218 | 8,269,615 | 8,770,833 |
| Real Estate Transfer Taxes ……………………… | | | | 39,611,441 | | 39,611,441 |
| Unrestricted investment income ………………… | | | | | 880,400 | 880,400 |
| Transfers ………………………………………… | | | | (5,200,000) | 5,200,000 | |
| Total general revenues and transfers …………… | | | | 34,411,441 | 6,080,400 | 40,491,841 |
| Change in net assets …………………………… | | | | 34,912,659 | 14,350,015 | 49,262,674 |
| Net assets at beginning of period……………… | | | | 358,676,261 | 283,699,716 | 642,375,977 |
| Net assets at end of period……………………… | | | | $ 393,588,920 | 298,049,731 | 691,638,651 |

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

**GOVERNMENTAL FUNDS**
**BALANCE SHEET**
**As of March 31, 2005**
**(Unaudited)**

| **ASSETS** | **Illinois Affordable Housing Trust Fund** | **HOME Program Fund** | **Total** |
|---|---|---|---|
| Current assets: | | | |
| Cash | $ 1,185,173 | | 1,185,173 |
| Funds held by State Treasurer | 51,196,655 | 332,657 | 51,529,312 |
| Investments | 31,412,282 | | 31,412,282 |
| Program loans receivable | 8,160,000 | 1,510,000 | 9,670,000 |
| Grant receivable | | 234,439 | 234,439 |
| Interest receivable on program loans | 86,216 | 72,595 | 158,811 |
| Due from other funds | | 3,613 | 3,613 |
| Total current assets | 92,040,326 | 2,153,304 | 94,193,630 |
| Noncurrent assets: | | | |
| Program loans receivable, net of current portion | 192,353,140 | 120,765,816 | 313,118,956 |
| Less allowance for estimated losses | (9,000,000) | (4,000,000) | (13,000,000) |
| Net program loans receivable | 183,353,140 | 116,765,816 | 300,118,956 |
| Total noncurrent assets | 183,353,140 | 116,765,816 | 300,118,956 |
| Total assets | $ 275,393,466 | 118,919,120 | 394,312,586 |
| **LIABILITIES AND FUND BALANCES** | | | |
| Current Liabilities: | | | |
| Deferred revenue | $ 86,216 | 72,595 | 158,811 |
| Due to other funds | 485,614 | 238,052 | 723,666 |
| Total current liabilities | 571,830 | 310,647 | 882,477 |
| Fund balances: | | | |
| Reserved for loans receivable | 183,353,140 | 116,765,816 | 300,118,956 |
| Unreserved | 91,468,496 | 1,842,657 | 93,311,153 |
| Total fund balances | 274,821,636 | 118,608,473 | 393,430,109 |
| Total liabilities and fund balances | $ 275,393,466 | 118,919,120 | |
| Amounts reported for governmental activities in the statement of net assets are different due to interest receivable on program loans | | | 158,811 |
| Net assets of governmental activities | | | $ 393,588,920 |

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

**GOVERNMENTAL FUNDS**
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**
**For the Nine Months Ended March 31, 2005**
**(Unaudited)**

| | Illinois Affordable Housing Trust Fund | HOME Program Fund | Total |
|---|---|---|---|
| Revenues: | | | |
| Real estate transfer taxes | $ 39,611,441 | | 39,611,441 |
| Federal HOME funds | | 15,058,048 | 15,058,048 |
| Interest and investment income | 1,904,379 | 901,552 | 2,805,931 |
| Private donation | 500,000 | | 500,000 |
| Application fees | 21,825 | | 21,825 |
| Total revenues | 42,037,645 | 15,959,600 | 57,997,245 |
| Expenditures: | | | |
| Grants | 6,197,300 | 8,066,442 | 14,263,742 |
| General and administrative | 1,594,165 | 798,466 | 2,392,631 |
| Payment to State of Illinois General Revenue Fund | 243,489 | | 243,489 |
| Provision for estimated losses on program loans receivable | 1,000,000 | | 1,000,000 |
| Total expenditures | 9,034,954 | 8,864,908 | 17,899,862 |
| Excess of revenues over expenditures | 33,002,691 | 7,094,692 | 40,097,383 |
| Other financing uses: | | | |
| Transfer out | (5,200,000) | | (5,200,000) |
| Net change in fund balances | 27,802,691 | 7,094,692 | 34,897,383 |
| Fund balances at beginning of period | 247,018,945 | 111,513,781 | |
| Fund balances at end of period | $ 274,821,636 | 118,608,473 | |
| Amounts reported for governmental activities in the statement of activities are different due to interest on program loans receivable | | | 15,276 |
| Changes in net assets of governmental activities | | | $ 34,912,659 |

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

**PROPRIETARY FUNDS**
**STATEMENT OF NET ASSETS**
**As of March 31, 2005**
**(Unaudited)**

| ASSETS | Administrative Fund | Mortgage Loan Program Fund | Single Family Program Fund | Total |
|---|---|---|---|---|
| Current assets: | | | | |
| Cash and cash equivalents | $ 15,662,367 | 1,966,111 | 10,627,160 | 28,255,638 |
| Investments | 83,354,242 | | | 83,354,242 |
| Investment income receivable | 395,923 | 1,187,354 | 505,806 | 2,089,083 |
| Program loans receivable | 2,130,000 | 23,692,000 | 9,880,000 | 35,702,000 |
| Interest receivable on program loans | 516,548 | 2,451,380 | 5,279,651 | 8,247,579 |
| Due from other funds | 3,764,764 | 22,265,143 | | 26,029,907 |
| Total current assets | 105,823,844 | 51,561,988 | 26,292,617 | 183,678,449 |
| Noncurrent assets: | | | | |
| Investments - Restricted | 134,329,915 | 213,960,116 | 334,484,117 | 682,774,148 |
| Program loans receivable, net of current portion | 37,550,282 | 546,134,786 | 571,256,772 | 1,154,941,840 |
| Less allowance for estimated losses | (8,815,000) | (14,150,000) | | (22,965,000) |
| Net program loans receivable | 28,735,282 | 531,984,786 | 571,256,772 | 1,131,976,840 |
| Unamortized bond issuance costs | | 11,736,154 | 8,905,029 | 20,641,183 |
| Real estate held for sale (net) | 35,504 | 30,529,707 | 1,770,303 | 32,335,514 |
| Capital assets (net) | 536,344 | | | 536,344 |
| Other | 5,721,600 | 57,210 | | 5,778,810 |
| Total noncurrent assets | 169,358,645 | 788,267,973 | 916,416,221 | 1,874,042,839 |
| Total assets | $ 275,182,489 | 839,829,961 | 942,708,838 | 2,057,721,288 |
| **LIABILITIES** | | | | |
| Current liabilities: | | | | |
| Bonds and notes payable | $ | 16,055,000 | 193,500,000 | 209,555,000 |
| Accrued interest payable | | 7,608,598 | 5,804,792 | 13,413,390 |
| Deposits held in escrow | 140,711,863 | | | 140,711,863 |
| Accrued liabilities and other | 13,609,035 | 10,836,071 | 1,643,624 | 26,088,730 |
| Due to other funds | 22,268,756 | 2,670,483 | 370,615 | 25,309,854 |
| Total current liabilities | 176,589,654 | 37,170,152 | 201,319,031 | 415,078,837 |
| Noncurrent liabilities: | | | | |
| Bonds and notes payable, net of current portion | | 650,402,190 | 694,190,530 | 1,344,592,720 |
| Total liabilities | $ 176,589,654 | 687,572,342 | 895,509,561 | 1,759,671,557 |
| **NET ASSETS** | | | | |
| Invested in capital assets (net) | $ 536,344 | | | 536,344 |
| Restricted for bond resolution purposes | | 152,257,619 | 47,199,277 | 199,456,896 |
| Restricted for loan and grant programs | 23,876,683 | | | 23,876,683 |
| Unrestricted | 74,179,808 | | | 74,179,808 |
| Total net assets | $ 98,592,835 | 152,257,619 | 47,199,277 | 298,049,731 |

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

**PROPRIETARY FUNDS**
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**
**For the Nine Months Ended March 31, 2005**
**(Unaudited)**

| | Administrative Fund | Mortgage Loan Program Fund | Single Family Program Fund | Total |
|---|---|---|---|---|
| Operating revenues: | | | | |
| Interest and other investment income | $ 1,086,852 | 6,578,340 | 6,655,943 | 14,321,135 |
| Net increase (decrease) in fair value of investments | (206,452) | 155,862 | 234,636 | 184,046 |
| Total investment income | 880,400 | 6,734,202 | 6,890,579 | 14,505,181 |
| Interest earned on program loans | 1,402,646 | 28,904,147 | 24,409,615 | 54,716,408 |
| Federal assistance programs | 111,016,718 | 3,473,649 | | 114,490,367 |
| Service fees | 7,144,417 | | | 7,144,417 |
| Development fees | 325,720 | | | 325,720 |
| HUD savings | 958,835 | | | 958,835 |
| Other | 2,035,729 | 1,635,016 | | 3,670,745 |
| Total operating revenues | 123,764,465 | 40,747,014 | 31,300,194 | 195,811,673 |
| Operating expenses: | | | | |
| Interest expense | | 30,128,517 | 28,614,543 | 58,743,060 |
| Federal assistance programs | 111,016,718 | 3,473,649 | | 114,490,367 |
| Salaries and benefits | 8,454,441 | | | 8,454,441 |
| Professional fees | 986,804 | | | 986,804 |
| Other general and administrative | 2,465,335 | | | 2,465,335 |
| Financing costs | 259,270 | 559,589 | 302,792 | 1,121,651 |
| Provision for estimated losses on program loans receivable | | 400,000 | | |
| Total operating expenses | 123,182,568 | 34,561,755 | 28,917,335 | 186,261,658 |
| Operating income | 581,897 | 6,185,259 | 2,382,859 | 9,550,015 |
| Other: | | | | |
| Transfers in | 824 | 5,458,146 | 13,079,310 | 18,538,280 |
| Transfers out | (13,337,456) | | (824) | (13,338,280) |
| Total other | (13,336,632) | 5,458,146 | 13,078,486 | 5,200,000 |
| Change in net assets | (12,754,735) | 11,643,405 | 15,461,345 | 14,750,015 |
| Net assets at beginning of period | 111,347,570 | 140,614,214 | 31,737,932 | 283,699,716 |
| Net assets at end of period | $ 98,592,835 | 152,257,619 | 47,199,277 | 298,449,731 |

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

**PROPRIETARY FUNDS**
**STATEMENT OF CASH FLOWS**
**For the Nine Months Ended March 31, 2005**
**(Unaudited)**

| | Administrative Fund | Mortgage Loan Program Fund | Single Family Program Fund | Total |
|---|---|---|---|---|
| Cash flows from operating activities: | | | | |
| Cash received from interest, service fees, and principal on program loans | $ 10,812,566 | 133,818,676 | 97,395,114 | 242,026,356 |
| Cash payments for loaned amounts | (717,425) | (53,856,666) | (118,628,779) | (173,202,870) |
| Cash received from federal assistance programs | 112,376,227 | 3,473,649 | | 115,849,876 |
| Cash payments for federal assistance programs | (112,465,583) | (3,473,649) | | (115,939,232) |
| Cash payments for operating expenses | (14,429,874) | | (1,932,591) | (16,362,465) |
| Interest on investments | 963,840 | 7,201,174 | 8,602,136 | 16,767,150 |
| Other | (2,708,512) | 6,882,120 | 465,070 | 4,638,678 |
| Net cash provided by (used in) operating activities | (6,168,761) | 94,045,304 | (14,099,050) | 73,777,493 |
| Cash flows from noncapital financing activities: | | | | |
| Proceeds from sale of revenue bonds and notes | | 82,280,000 | 238,210,000 | 320,490,000 |
| Principal paid on revenue bonds and notes | | (145,156,949) | (111,435,000) | (256,591,949) |
| Interest paid on revenue bonds and notes | | (39,585,326) | (34,573,229) | (74,158,555) |
| Transfers in | 824 | 5,458,146 | 13,079,310 | 18,538,280 |
| Transfers out | (13,337,456) | | (824) | (13,338,280) |
| Other | | (3,616,177) | (2,657,102) | (6,273,279) |
| Net cash provided by (used in) noncapital financing activities | (13,336,632) | (100,620,306) | 102,623,155 | (11,333,783) |
| Cash flows from investing activities: | | | | |
| Purchase of investment securities | (495,245,699) | (485,239,828) | (671,997,942) | (1,652,483,469) |
| Proceeds from sales and maturities of investment securities | 514,345,815 | 493,527,445 | 592,831,868 | 1,600,705,128 |
| Developer escrow and other interest | 2,252,460 | | | 2,252,460 |
| Net cash provided by (used in) investing activities | 21,352,576 | 8,287,617 | (79,166,074) | (49,525,881) |
| Net increase in cash and cash equivalents | 1,847,183 | 1,712,615 | 9,358,031 | 12,917,829 |
| Cash and cash equivalents at beginning of period | 13,815,184 | 253,496 | 1,269,129 | 15,337,809 |
| Cash and cash equivalents at end of period | $ 15,662,367 | 1,966,111 | 10,627,160 | 28,255,638 |
| Reconciliation of operating income to net cash provided by (used in) operating activities: | | | | |
| Operating income | $ 581,897 | 6,185,259 | 2,382,859 | 9,150,015 |
| Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities: | | | | |
| Interest expense | | 30,128,517 | 28,614,543 | 58,743,060 |
| Depreciation and amortization | 153,754 | 600,000 | | 753,754 |
| Provision for estimated losses on program loans receivable | | 400,000 | | 400,000 |
| Changes in assets and liabilities: | | | | |
| Decrease (increase) in investment income receivable | (113,287) | 622,834 | 1,946,493 | 2,456,040 |
| Decrease (increase) in program loan and interest receivable | 4,496,038 | 52,258,107 | (44,124,888) | 12,629,257 |
| Increase (decrease) in due to/from other funds | 99,217 | 2,309,264 | (1,639,129) | 769,352 |
| Increase (decrease) in other liabilities | 1,271,563 | (817,867) | (659,830) | (206,134) |
| Decrease (increase) in other assets | 89,860 | 1,063,547 | (619,098) | 534,309 |
| Other | (12,747,803) | 1,295,643 | | (11,452,160) |
| Total adjustments | (6,750,658) | 87,860,045 | (16,481,909) | 64,627,478 |
| Net cash provided by (used in) operating activities | $ (6,168,761) | 94,045,304 | (14,099,050) | 73,777,493 |

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

**MORTGAGE LOAN PROGRAM FUND**
**COMBINING SCHEDULE OF NET ASSETS**
**As of March 31, 2005**
**(Unaudited)**

| ASSETS | Multi-Family Housing Bonds | Multi-Family Program Bonds | Housing Bonds | Housing Finance Bonds | Multi-Family Variable Rate Demand Bonds | Multi-Family Housing Revenue Bonds | Multi-Family Housing Revenue Bonds (Marywood) | Multifamily Bonds (Turnberry) | Affordable Housing Program Trust Fund Bonds | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| Current assets: | | | | | | | | | | |
| Cash and cash equivalents | $ 90,423 | 7,806 | 670,528 | 35,289 | 343,839 | 122,067 | 632 | 73,355 | 622,172 | 1,966,111 |
| Investment income receivable | 583,796 | 325,753 | 37,309 | 3,967 | 2,956 | | 3,284 | | 230,289 | 1,187,354 |
| Program loans receivable | 4,920,000 | 6,800,000 | 8,160,000 | 217,000 | 64,000 | | 12,000 | 24,000 | 3,495,000 | 23,692,000 |
| Interest receivable on program loans | 236,490 | | 1,520,930 | 82,846 | 47,476 | 36,726 | | | 526,912 | 2,451,380 |
| Due from other funds | | 4,600,354 | 4,381,268 | | | 13,260,994 | | 22,527 | | 22,265,143 |
| Total current assets | 5,830,709 | 11,733,913 | 14,770,035 | 339,102 | 458,271 | 13,419,787 | 15,916 | 119,882 | 4,874,373 | 51,561,988 |
| Noncurrent assets: | | | | | | | | | | |
| Investments - Restricted | 71,566,166 | 57,778,596 | 50,416,243 | 809,241 | 2,602,048 | 7,428,551 | 2,262,952 | | 21,096,319 | 213,960,116 |
| Program loans receivable, net of current portion | 128,244,751 | 100,023,756 | 189,587,691 | 13,695,464 | 7,961,467 | 9,796,400 | 14,016,533 | 5,285,768 | 77,522,956 | 546,134,786 |
| Less allowance for estimated losses | (3,500,000) | | (2,650,000) | | (100,000) | | | | (7,900,000) | (14,150,000) |
| Net program loans receivable | 124,744,751 | 100,023,756 | 186,937,691 | 13,695,464 | 7,861,467 | 9,796,400 | 14,016,533 | 5,285,768 | 69,622,956 | 531,984,786 |
| Unamortized bond issuance costs | 2,965,306 | | 2,239,421 | | 111,185 | 993,372 | | | 5,426,870 | 11,736,154 |
| Real estate held for sale (net) | | | | | | 30,529,707 | | | | 30,529,707 |
| Other | | | | | | | | | 57,210 | 57,210 |
| Total noncurrent assets | 199,276,223 | 157,802,352 | 239,593,355 | 14,504,705 | 10,574,700 | 48,748,030 | 16,279,485 | 5,285,768 | 96,203,355 | 788,267,973 |
| Total assets | $205,106,932 | 169,536,265 | 254,363,390 | 14,843,807 | 11,032,971 | 62,167,817 | 16,295,401 | 5,405,650 | 101,077,728 | 839,829,961 |
| **LIABILITIES** | | | | | | | | | | |
| Current liabilities: | | | | | | | | | | |
| Bonds and notes payable | $ 3,025,000 | 7,670,000 | 1,850,000 | 230,000 | | 800,000 | | | 2,480,000 | 16,055,000 |
| Accrued interest payable | 2,469,101 | 798,986 | 1,759,298 | 74,551 | 19,028 | 585,576 | 67,153 | 20,603 | 1,814,302 | 7,608,598 |
| Accrued liabilities and other | 6,145,024 | 1,624,962 | 2,157,258 | | | | 158,692 | 26,006 | 724,129 | 10,836,071 |
| Due to other funds | 215,776 | 407,604 | 56,164 | 10,010 | 892,585 | 932,932 | | | 155,412 | 2,670,483 |
| Total current liabilities | 11,854,901 | 10,501,552 | 5,822,720 | 314,561 | 911,613 | 2,318,508 | 225,845 | 46,609 | 5,173,843 | 37,170,152 |
| Noncurrent liabilities: | | | | | | | | | | |
| Bonds and notes payable, net of current portion | 132,557,190 | 144,930,000 | 196,325,000 | 14,170,000 | 8,100,000 | 54,155,000 | 15,865,000 | 5,320,000 | 78,980,000 | 650,402,190 |
| Total liabilities | $144,412,091 | 155,431,552 | 202,147,720 | 14,484,561 | 9,011,613 | 56,473,508 | 16,090,845 | 5,366,609 | 84,153,843 | 687,572,342 |
| **NET ASSETS** | | | | | | | | | | |
| Restricted for bond resolution purposes | $ 60,694,841 | 14,104,713 | 52,215,670 | 359,246 | 2,021,358 | 5,694,309 | 204,556 | 39,041 | 16,923,885 | 152,257,619 |
| Total net assets | $ 60,694,841 | 14,104,713 | 52,215,670 | 359,246 | 2,021,358 | 5,694,309 | 204,556 | 39,041 | 16,923,885 | 152,257,619 |

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

**MORTGAGE LOAN PROGRAM FUND**
**COMBINING SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**
**For the Nine Months Ended March 31, 2005**
**(Unaudited)**

| | Multi-Family Housing Bonds | Multi-Family Program Bonds | Housing Bonds | Housing Finance Bonds | Multi-Family Variable Rate Demand Bonds | Multi-Family Housing Revenue Bonds | Multi-Family Housing Revenue Bonds (Marywood) | Multifamily Bonds (Turnberry) | Affordable Housing Program Trust Fund Bonds | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| Operating revenues: | | | | | | | | | | |
| Interest and other investment income ……..……...... | $ 2,835,204 | 2,066,837 | 766,656 | 45,608 | 53,513 | 104,285 | 44,302 | 1,185 | 660,750 | 6,578,340 |
| Net increase (decrease) in fair value of investments.... | 163,338 | | 5,946 | | (13,047) | | (375) | | | 155,862 |
| Total investment income ...……..……....……. | 2,998,542 | 2,066,837 | 772,602 | 45,608 | 40,466 | 104,285 | 43,927 | 1,185 | 660,750 | 6,734,202 |
| Interest earned on program loans ………................... | 8,486,770 | 8,435,893 | 7,952,368 | 661,184 | 441,121 | 184,013 | 614,535 | 203,447 | 1,924,816 | 28,904,147 |
| Federal assistance programs …....……................... | 114,947 | | 3,358,702 | | | | | | | 3,473,649 |
| Other …................................……......……............... | | | | | | 1,635,016 | | | | 1,635,016 |
| Total operating revenues …...........……….............. | 11,600,259 | 10,502,730 | 12,083,672 | 706,792 | 481,587 | 1,923,314 | 658,462 | 204,632 | 2,585,566 | 40,747,014 |
| Operating expenses: | | | | | | | | | | |
| Interest expense ........………...…....………………... | 7,655,810 | 9,023,591 | 5,412,953 | 676,135 | 385,318 | 1,916,464 | 604,375 | 185,428 | 4,268,443 | 30,128,517 |
| Federal assistance programs ...............……………… | 114,947 | | 3,358,702 | | | | | | | 3,473,649 |
| Financing costs …..........…………………………........ | 29,139 | | 69,002 | 2,778 | 41,579 | 252,901 | 4,166 | 5,500 | 154,524 | 559,589 |
| Provision for estimated losses on program loans receivable …...........……………… | | | | | | | | | 400,000 | 400,000 |
| Total operating expenses ........…………………… | 7,799,896 | 9,023,591 | 8,840,657 | 678,913 | 426,897 | 2,169,365 | 608,541 | 190,928 | 4,822,967 | 34,561,755 |
| Operating income (loss) ............………………… | 3,800,363 | 1,479,139 | 3,243,015 | 27,879 | 54,690 | (246,051) | 49,921 | 13,704 | (2,237,401) | 6,185,259 |
| Other: | | | | | | | | | | |
| Transfer in …...........…………………………...........… | | | 258,146 | | | | | | 5,200,000 | 5,458,146 |
| Change in net assets ...................……………………... | 3,800,363 | 1,479,139 | 3,501,161 | 27,879 | 54,690 | (246,051) | 49,921 | 13,704 | 2,962,599 | 11,643,405 |
| Net assets at beginning of period ……………………… | 56,894,478 | 12,625,574 | 48,714,509 | 331,367 | 1,966,668 | 5,940,360 | 154,635 | 25,337 | 13,961,286 | 140,614,214 |
| Net assets at end of period ...…………………...……… | $ 60,694,841 | 14,104,713 | 52,215,670 | 359,246 | 2,021,358 | 5,694,309 | 204,556 | 39,041 | 16,923,885 | 152,257,619 |

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

MORTGAGE LOAN PROGRAM FUND
COMBINING SCHEDULE OF CASH FLOWS
For the Nine Months Ended March 31, 2005
(Unaudited)

| | Multi-Family Housing Bonds | Multi-Family Program Bonds | Housing Bonds | Housing Finance Bonds | Multi-Family Variable Rate Demand Bonds | Multi-Family Housing Revenue Bonds | Multi-Family Housing Revenue Bonds (Marywood) | Multi-Family Bonds (Turnberry) | Affordable Housing Program Trust Fund Bonds | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| Cash flows from operating activities: | | | | | | | | | | |
| Cash received from interest, service fees, and principal on program loans | $ 23,572,024 | 89,792,436 | 14,359,603 | 809,321 | 522,132 | 160,013 | | 218,591 | 4,384,556 | 133,818,676 |
| Cash payments for loaned amounts | | | (51,032,597) | | | | (2,824,069) | | | (53,856,666) |
| Cash received from federal assistance programs | 114,947 | | 3,358,702 | | | | | | | 3,473,649 |
| Cash payments for federal assistance programs | (114,947) | | (3,358,702) | | | | | | | (3,473,649) |
| Interest on investments | 3,085,361 | 2,541,843 | 790,458 | 59,978 | 59,511 | 104,285 | 59,305 | 1,185 | 499,248 | 7,201,174 |
| Other | 2,305,818 | 2,995,744 | (282,637) | (7,584) | | 1,669,923 | (174,982) | (114,611) | 490,449 | 6,882,120 |
| Net cash provided by (used in) operating activities | 28,963,203 | 95,330,023 | (36,165,173) | 861,715 | 581,643 | 1,934,221 | (2,939,746) | 105,165 | 5,374,253 | 94,045,304 |
| Cash flows from noncapital financing activities: | | | | | | | | | | |
| Proceeds from sale of revenue bonds and notes | | | 36,900,000 | | | | | | 45,380,000 | 82,280,000 |
| Principal paid on revenue bonds and notes | (29,126,949) | (69,345,000) | (3,250,000) | (220,000) | (35,000) | (800,000) | | | (42,380,000) | (145,156,949) |
| Interest paid on revenue bonds and notes | (12,760,160) | (13,711,646) | (6,617,183) | (903,929) | (368,555) | (432,192) | (805,834) | (247,238) | (3,738,589) | (39,585,326) |
| Transfers in | | | 258,146 | | | | | | 5,200,000 | 5,458,146 |
| Other | | | | | | | | | (3,616,177) | (3,616,177) |
| Net cash provided by (used in) noncapital financing activities | (41,887,109) | (83,056,646) | 27,290,963 | (1,123,929) | (403,555) | (1,232,192) | (805,834) | (247,238) | 845,234 | (100,620,306) |
| Cash flows from investing activities: | | | | | | | | | | |
| Purchase of investment securities | (141,842,055) | (136,063,680) | (151,839,280) | (928,582) | (8,569,794) | (15,664,214) | (3,633,104) | (147,437) | (26,551,682) | (485,239,828) |
| Proceeds from sales and maturities of investment securities | 154,772,956 | 123,796,494 | 161,325,397 | 1,226,085 | 8,707,729 | 15,007,547 | 7,374,713 | 362,157 | 20,954,367 | 493,527,445 |
| Net cash provided by (used in) investing activities | 12,930,901 | (12,267,186) | 9,486,117 | 297,503 | 137,935 | (656,667) | 3,741,609 | | (5,597,315) | 8,287,617 |
| Net increase (decrease) in cash and cash equivalents | 6,995 | 6,191 | 611,907 | 35,289 | 316,023 | 45,362 | (3,971) | 72,647 | 622,172 | 1,712,615 |
| Cash and cash equivalents at beginning of period | 83,428 | 1,615 | 58,621 | | 27,816 | 76,705 | 4,603 | 708 | | 253,496 |
| Cash and cash equivalents at end of period | $ 90,423 | 7,806 | 670,528 | 35,289 | 343,839 | 122,067 | 632 | 73,355 | 622,172 | 1,966,111 |
| Reconciliation of operating income (loss) to net cash provided by (used in) operating activities: | | | | | | | | | | |
| Operating income (loss) | $ 3,800,363 | 1,479,139 | 3,243,015 | 27,879 | 54,690 | (246,051) | 49,921 | 13,704 | (2,237,401) | 6,185,259 |
| Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities: | | | | | | | | | | |
| Interest expense | 7,655,810 | 9,023,591 | 5,412,953 | 676,135 | 385,318 | 1,916,464 | 604,375 | 185,428 | 4,268,443 | 30,128,517 |
| Depreciation and amortization | | | | | | 600,000 | | | | 600,000 |
| Provision for estimated losses on program loans receivable | | | | | | | | | 400,000 | 400,000 |
| Changes in assets and liabilities: | | | | | | | | | | |
| Decrease (increase) in investment income receivable | 250,157 | 475,006 | 23,802 | 14,370 | 5,998 | | 15,003 | | (161,502) | 622,834 |
| Decrease (increase) in program loan and interest receivable | 15,485,894 | 81,092,582 | (44,093,553) | 157,151 | 81,011 | (24,000) | (2,824,069) | 10,232 | 2,372,859 | 52,258,107 |
| Increase (decrease) in due to/from other funds | (400,640) | 2,718,253 | (370,695) | (13,820) | 41,578 | 247,401 | (417) | (587) | 88,191 | 2,309,264 |
| Increase (decrease) in other liabilities | (63,287) | | (387,102) | | | | (784,935) | (103,612) | 521,069 | (817,867) |
| Decrease in other assets | | | | | | 940,953 | | | 122,594 | 1,063,547 |
| Other | 2,234,906 | 541,452 | 6,407 | | 13,048 | (1,500,546) | 376 | | | 1,295,643 |
| Total adjustments | 25,162,840 | 93,850,884 | (39,408,188) | 833,836 | 526,953 | 2,180,272 | (2,989,667) | 91,461 | 7,611,654 | 87,860,045 |
| Net cash provided by (used in) operating activities | $ 28,963,203 | 95,330,023 | (36,165,173) | 861,715 | 581,643 | 1,934,221 | (2,939,746) | 105,165 | 5,374,253 | 94,045,304 |

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

**SINGLE FAMILY PROGRAM FUND**
**COMBINING SCHEDULE OF NET ASSETS**
**As of March 31, 2005**
**(Unaudited)**

| **ASSETS** | **Homeowner Mortgage Revenue Bonds** | **Residential Mortgage Revenue Bonds** | **Total** |
|---|---|---|---|
| Current assets: | | | |
| Cash and cash equivalents | $ 10,626,846 | 314 | 10,627,160 |
| Investment income receivable | 502,474 | 3,332 | 505,806 |
| Program loans receivable | 9,880,000 | | 9,880,000 |
| Interest receivable on program loans | 5,279,651 | | 5,279,651 |
| Total current assets | 26,288,971 | 3,646 | 26,292,617 |
| Noncurrent assets: | | | |
| Investments - Restricted | 334,037,496 | 446,621 | 334,484,117 |
| Program loans receivable, net of current portion | 571,256,772 | | 571,256,772 |
| Unamortized bond issuance costs | 8,905,029 | | 8,905,029 |
| Real estate held for sale (net) | 1,770,303 | | 1,770,303 |
| Total noncurrent assets | 915,969,600 | 446,621 | 916,416,221 |
| Total assets | $ 942,258,571 | 450,267 | 942,708,838 |
| **LIABILITIES** | | | |
| Current liabilities: | | | |
| Bonds and notes payable | $ 193,500,000 | | 193,500,000 |
| Accrued interest payable | 5,800,746 | 4,046 | 5,804,792 |
| Accrued liabilities and other | 1,643,624 | | 1,643,624 |
| Due to other funds | 203,586 | 167,029 | 370,615 |
| Total current liabilities | 201,147,956 | 171,075 | 201,319,031 |
| Noncurrent liabilities: | | | |
| Bonds and notes payable, net of current portion | 693,884,006 | 306,524 | 694,190,530 |
| Total liabilities | $ 895,031,962 | 477,599 | 895,509,561 |
| **NET ASSETS** | | | |
| Restricted for bond resolution purposes | $ 47,226,609 | (27,332) | 47,199,277 |
| Total net assets | $ 47,226,609 | (27,332) | 47,199,277 |

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

**SINGLE FAMILY PROGRAM FUND**
**COMBINING SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**
**For the Nine Months Ended March 31, 2005**
**(Unaudited)**

| | Homeowner Mortgage Revenue Bonds | Residential Mortgage Revenue Bonds | Total |
|---|---|---|---|
| Operating revenues: | | | |
| Interest and other investment income | $ 6,638,688 | 17,255 | 6,655,943 |
| Net increase in fair value of investments | 234,636 | | 234,636 |
| Total investment income | 6,873,324 | 17,255 | 6,890,579 |
| Interest earned on program loans | 24,409,615 | | 24,409,615 |
| Total operating revenues | 31,282,939 | 17,255 | 31,300,194 |
| Operating expenses: | | | |
| Interest expense | 28,595,839 | 18,704 | 28,614,543 |
| Financing costs | 163,068 | 139,724 | 302,792 |
| Total operating expenses | 28,758,907 | 158,428 | 28,917,335 |
| Operating income (loss) | 2,524,032 | (141,173) | 2,382,859 |
| Other: | | | |
| Transfers in | 13,079,310 | | 13,079,310 |
| Transfers out | (824) | | (824) |
| Total other | 13,078,486 | | 13,078,486 |
| Change in net assets | 15,602,518 | (141,173) | 15,461,345 |
| Net assets at beginning of period | 31,624,091 | 113,841 | 31,737,932 |
| Net assets at end of period | $ 47,226,609 | (27,332) | 47,199,277 |

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

**SINGLE FAMILY PROGRAM FUND**
**COMBINING SCHEDULE OF CASH FLOWS**
**For the Nine Months Ended March 31, 2005**
**(Unaudited)**

| | Homeowner Mortgage Revenue Bonds | Residential Mortgage Revenue Bonds | Total |
|---|---|---|---|
| Cash flows from operating activities: | | | |
| Cash received from interest, service fees, and principal on program loans | $ 97,395,114 | | 97,395,114 |
| Cash payments for loaned amounts | (118,628,779) | | (118,628,779) |
| Cash payments for operating expenses | (1,932,591) | | (1,932,591) |
| Interest on investments | 8,579,769 | 22,367 | 8,602,136 |
| Other | 465,070 | | 465,070 |
| Net cash provided by (used in) operating activities | (14,121,417) | 22,367 | (14,099,050) |
| Cash flows from noncapital financing activities: | | | |
| Proceeds from sale of revenue bonds and notes | 238,210,000 | | 238,210,000 |
| Principal paid on revenue bonds and notes | (111,435,000) | | (111,435,000) |
| Interest paid on revenue bonds and notes | (34,548,954) | (24,275) | (34,573,229) |
| Transfers in | 13,079,310 | | 13,079,310 |
| Transfers out | (824) | | (824) |
| Other | (2,657,102) | | (2,657,102) |
| Net cash provided by (used in) noncapital financing activities | 102,647,430 | (24,275) | 102,623,155 |
| Cash flows from investing activities: | | | |
| Purchase of investment securities | (671,704,261) | (293,681) | (671,997,942) |
| Proceeds from sales and maturities of investment securities | 592,536,946 | 294,922 | 592,831,868 |
| Net cash provided by (used in) investing activities | (79,167,315) | 1,241 | (79,166,074) |
| Net increase (decrease) in cash and cash equivalents | 9,358,698 | (667) | 9,358,031 |
| Cash and cash equivalents at beginning of period | 1,268,148 | 981 | 1,269,129 |
| Cash and cash equivalents at end of period | $ 10,626,846 | 314 | 10,627,160 |
| Reconciliation of operating income (loss) to net cash provided by operating activities: | | | |
| Operating income (loss) | $ 2,524,032 | (141,173) | 2,382,859 |
| Adjustments to reconcile operating income (loss) to net cash provided by operating activities: | | | |
| Interest expense | 28,595,839 | 18,704 | 28,614,543 |
| Changes in assets and liabilities: | | | |
| Decrease in investment income receivable | 1,941,381 | 5,112 | 1,946,493 |
| Increase in program loan and interest receivable | (44,124,888) | | (44,124,888) |
| Increase (decrease) in due to/from other funds | (1,778,853) | 139,724 | (1,639,129) |
| Decrease in other liabilities | (659,830) | | (659,830) |
| Increase in other assets | (619,098) | | (619,098) |
| Total adjustments | (16,645,449) | 163,540 | (16,481,909) |
| Net cash provided by (used in) operating activities | $ (14,121,417) | 22,367 | (14,099,050) |

**ILLINOIS HOUSING DEVELOPMENT AUTHORITY**
**(A Component Unit of the State of Illinois)**
**DEBT ACTIVITY**
**For the Nine Months Ended March 31, 2005**
**(Unaudited)**

The following summarizes the debt activity for the Authority's proprietary funds for nine months ended March 31, 2005.

| Funds | 06/30/04 | Issuance | Accretion | Retirement | 03/31/05 |
|---|---|---|---|---|---|
| Multi-Family Housing Bond | 179,876,949 | | | (29,126,949) | 150,750,000 |
| Multi-Family Program Bond | 221,945,000 | | | (69,345,000) | 152,600,000 |
| Housing Bond | 164,525,000 | 36,900,000 | | (3,250,000) | 198,175,000 |
| Housing Finance Bond | 14,620,000 | | | (220,000) | 14,400,000 |
| Multi-Family Variable Rate Demand Bond | 8,135,000 | | | (35,000) | 8,100,000 |
| Multi-Family Housing Revenue Bond | 55,755,000 | | | (800,000) | 54,955,000 |
| Multi-Family Housing Revenue Bond (Marywood) | 15,865,000 | | | | 15,865,000 |
| Multifamily Bond (Turnberry II) | 5,320,000 | | | | 5,320,000 |
| Affordable Housing Program Trust Fund Bond | 78,460,000 | 45,380,000 | | (42,380,000) | 81,460,000 |
| Total Mortgage Loan Program Funds | 744,501,949 | 82,280,000 | | (145,156,949) | 681,625,000 |
| Residential Mortgage Revenue Bond | 306,026 | | 498 | | 306,524 |
| Homeowner Mortgage Revenue Bond | 668,755,000 | 238,210,000 | | (111,435,000) | 795,530,000 |
| Homeowner Mortgage Revenue Note | 91,290,000 | | | | 91,290,000 |
| Total Single Family Program Funds | 760,351,026 | 238,210,000 | 498 | (111,435,000) | 887,126,524 |
| Total Proprietary Funds | $1,504,852,975 | $320,490,000 | $498 | ($256,591,949) | $1,568,751,524 |
| Less unamortized discount thereon | 15,102,942 | | (499,138) | | 14,603,804 |
| Net Bonds Outstanding | $1,489,750,033 | | | | $1,554,147,720 |

## APPENDIX C
## DESCRIPTION OF FEDERAL SECTION 236 INTEREST RATE REDUCTION PROGRAM AND SECTION 8 SUBSIDY PROGRAM

### Federal Section 236
### Interest Rate Reduction Program

The mortgage loans (the "Section 236 Mortgage Loans") for some of the Financed Developments (the "Section 236 Developments") are subject to the multi-family interest reduction subsidy program administered by HUD pursuant to Section 236 of the National Housing Act. The following is a brief description of the Section 236 Program, and is qualified in its entirety by reference to the National Housing Act and the regulations thereunder.

Section 236 of the National Housing Act provides for interest reduction payments to mortgage holders ("Section 236 Payments") with respect to mortgages on rental housing projects designed for families of lower income (as determined by HUD) containing five or more dwelling units. No such payment may exceed the difference between the monthly payment for principal, interest, and mortgage insurance premium which the project owner as mortgagor is obligated to pay under the mortgage (or, if only a portion of the units in a project are subsidized, the allocable portion of the mortgage) and the monthly payment for principal and interest which such mortgagor would be obligated to pay if the mortgage were to bear interest at the rate of one percent per annum. For each dwelling unit in a project there must be established, with the approval of HUD (i) a basic rental charge, determined on the basis of operating the project with payments of principal and interest due under a mortgage bearing interest at the rate of one percent per annum and (ii) a fair market rental charge, determined on the basis of operating the project with payments of principal, interest, and any mortgage insurance premium which the mortgagor is obligated to pay under the mortgage covering the project. The rental for each dwelling unit must be at such basic rental charge or such greater amount, not exceeding 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 income increases above the levels established by HUD after initial occupancy are permitted to remain at increased rentals, however, such "excess rental charges" must be paid by the Owner to HUD in some cases, as 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 projects who cannot afford to pay basic rent. The owner of an eligible Section 236 rental project may receive RAP payments from HUD on a specified percentage of dwelling units in the project. Such payments may be made in an amount equal to the difference between the basic rental of a dwelling unit and 30 percent of an eligible tenant's monthly income. Tenant eligibility for Rental Assistance Payments is based only on income, which must be less than the applicable HUD designated income limit for the area. RAP payments are limited by contract authority on an individual project basis. Each such contract may or may not be sufficient to fully accommodate increased rents. Tenants in Section 236 Developments may also receive subsidies under the Section 8 subsidy program.

**Certain Terms of the Section 236 Contracts**

The interest reduction payment agreements with HUD (the "Section 236 Contracts") provide for the payment of the Section 236 Payments for a period of not more than 50 years from the date of the initial Section 236 Payments with respect to the applicable Section 236 development. Generally, the expiration dates of the Section 236 Contracts for the Section 236 Mortgage Loans relating to the Section 236 Developments financed directly or indirectly by the Offered Bonds are approximately coterminous with the maturity of the underlying mortgages.

**Reduction and Termination of Section 236 Payments**

Each Section 236 Mortgage provides that the mortgagor must maintain hazard insurance on the Section 236 project with such coverage and in such amounts as are satisfactory to the Authority and such that in the event of any damage to the Section 236 project all insurance proceeds are payable to the Authority. In addition, the Authority has responsibility for determining appropriate coverage amounts for insurance policies and application of proceeds thereof. In the event any dwelling unit is destroyed or rendered uninhabitable by reason of fire or any other insured risk, the Authority has the right to determine if the proceeds of insurance will be used as a prepayment under the Section 236 Mortgage or to assure that the Section 236 project is restored or rehabilitated through application of such insurance proceeds. In the event the Authority determines that such restoration or rehabilitation is not appropriate, HUD payments may be reduced to the extent applicable to such dwelling unit.

*Foreclosure*. Pursuant to the Section 236 Contracts, HUD will not terminate Section 236 Payments thereunder upon the institution by the Authority of a foreclosure proceeding (or other proceeding in lieu of foreclosure) if a foreclosure proceeding is instituted by the Authority subject to the continuing lien of the mortgage and the project is acquired by a purchaser eligible to be an owner under Section 236.

*Acquisition by Ineligible Owner.* HUD may terminate Section 236 Payments with respect to any project if the project is acquired by any owner who is not an eligible mortgagor under Section 236. Each owner has covenanted in the Section 236 Contract not to sell, convey, or transfer such project except to a mortgagor which is eligible under Section 236 and approved by the Authority.

*Certain Mortgagor Covenants.* Each mortgagor covenanted in its Section 236 Contract to limit admission to the subsidized dwelling units of a project to those families whose incomes do not exceed the lower of the Authority's limits or the applicable limits prescribed by the Secretary. The Secretary has the authority to suspend or terminate Section 236 Payments at any time upon default by the Mortgagor under any of the covenants contained in the Section 236 Contracts or upon any other default by the mortgagors or the Authority in the terms and conditions of the Section 236 Contracts.

*Forbearance and Deferment of Mortgage Repayments.* Under the Section 236 Contracts, the Authority has covenanted not to agree to the forbearance or deferment of any payment due under a mortgage without the prior written approval of HUD.

**Prepayment of Section 236 Mortgages**

Generally, as a matter of federal law, Section 236 Mortgage Loans permit prepayment after 20 years from the date of occupancy. Beginning in 1987, federal legislation imposed significant restrictions on such prepayments; however, current law permits prepayment, subject to compliance with certain tenant notice and protection requirements and, where applicable, approval of the mortgagee. Notwithstanding the changes in federal policy toward prepayment, prepayment of the Section 236 Mortgage Loans is subject to certain restrictions imposed by the Authority. See "Mortgage Loans – Mortgage Prepayments."

**Set-Off Rights of the United States**

Under federal law, the United States Government may have the right to set off liabilities of the Authority to the United States against the amounts payable under Section 236 Contracts.

**Calculation of Excess Rental Charges**

Each owner is required to remit monthly to HUD all "excess rental charges" collected by the owner. Prior to April, 1996, "excess rental charges" subject to this requirement were collected on an aggregate basis; that is, excess rental charges were determined as the amount of rent collected in excess of the sum of the basic rents for all occupied units. This method allowed an owner to deduct collection losses in calculating the amount of excess rental charges to be submitted.

Section 236 has been amended to require that, beginning in 1996, "excess rental charges" are to be calculated on a "unit-by-unit" basis (i.e., the sum of all "excess rental charges" collected, without reduction for collection losses on other units). However, under legislation first enacted in 1999, developments that are assisted under Section 236 are permitted to retain some or all of such excess income if authorized to do so by HUD. Otherwise, such payments must be remitted to HUD. The Authority's cash flow analysis assumes that the "unit-by-unit" rule will be applied.

**Decoupling Program**

Congress passed legislation in 1999 (the "1999 Act") that permits owners of Section 236 developments to refinance their mortgages (if such mortgages are otherwise eligible for prepayment) while retaining the Section 236 subsidy. HUD program guidelines implementing this legislation describe this as "decoupling" the subsidy from the original mortgage loan. Among other things, in order to benefit from the decoupling program, the development owner must agree to enforce the income restrictions applicable to tenants in the development for a period ending five years beyond the term of 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 agency to exercise a high degree of program responsibility for developments without federal mortgage insurance, such as selection of the developer, approval of design and construction quality, site selection, and determination of economic feasibility and marketability, subject to audit and review by HUD to assure compliance with federal requirements and objectives.

*Eligible Tenants.* An eligible tenant for a Section 8-assigned unit is a family or an individual whose income, determined in accordance with HUD schedules and criteria, does not exceed the income limits prescribed by HUD for the area in which the development is located. Under existing HUD regulations, the income limit is generally fifty percent (50%) of the area’s median income, with further adjustment for the size of the tenant’s family and regional economic conditions; although tenants in up to twenty five percent (25%) of units (fifteen (15%) for developments with HAP contracts dated after October 1, 1981) may have incomes up to eighty percent (80%) of the area’s medium income, as adjusted by HUD. Recent legislation also requires that not less than 40% of the dwelling units that become available for occupancy in any fiscal year shall be available for leasing only by families whose annual income does not exceed 30% of area median income (as determined by HUD and adjusted for family size) at the time of admission.

*Subsidy Contracts*. Under the Section 8 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 HUD to enter into a Housing Assistance Payment Contract (“HAP Contract”) upon completion and acceptance of the development, providing for payment by the state housing finance agency of housing assistance payments to or for the account of the owner. At the same time that the AHAP is executed, or prior to the execution of the AHAP for the moderate rehabilitation program, the state housing finance agency and HUD execute an 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. Thus, the total rental income from Section 8 housing units payable to or for the account of the owner is equal to the Contract Rent, part being paid by the tenants directly to the owner and the remainder being paid by HUD to the owner in the form of housing assistance payments. The proportion of the Contract Rent actually paid by HUD and that actually paid by tenants will vary depending upon tenant income.

*Limitations on Subsidy-Vacancies*. Generally, the Section 8 subsidy is payable with respect to the assisted dwelling unit only when it is occupied by a low income or very-low income family. However, the law and the regulations provide for the payment of the subsidy under certain limited circumstances when the dwelling is not occupied.

A subsidy amounting to 80% of the Contract Rent is payable for a vacancy period of sixty days (a) during the rent-up period following completion of the development or a stage of the development, and (b) upon occurrence of a vacancy in an assisted dwelling unit after it is initially rented, subject in each case to compliance by the owner with certain conditions relating primarily to a diligent effort to rent the subsidized unit. Such payments may continue for an additional 12-month period in an amount equal to the debt service attributable to the unit contingent upon, among other things, the additional conditions that the unit is in decent, safe and sanitary condition during the vacancy period, that the owner has taken and continues to take all feasible action to fill the vacancy, that the development is not providing the owner thereof with revenues at least equal to the costs incurred by such owner, that the amount of the payments requested is not in excess of that portion of the deficiency which is attributable to the vacant unit for the period of the vacancy and that there is a reasonable prospect that the development can achieve financial soundness within a reasonable time.

*Adjustments of Contract Rents*. The statute and applicable regulations contain various provisions for review and readjustment of the amount of the Contract Rents upward or, 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 ("FMR's") (plus any initial difference), then Contract Rents cannot be increased beyond comparable market rents (plus the initial difference) as determined by independent appraisals of at least three comparable local developments submitted by the Borrower. In addition, the AAFs for Section 8 units which experienced no turnover in tenants since their preceding HAP Contract anniversary date will be one percentage point less than the AAFs that would otherwise apply.

There can be no assurance that increases in Contract Rents, if any, will result in revenues sufficient to compensate for increased operating expenses of the Section 8 Developments.

*Reduction of Number of Subsidized Dwelling Units*. Failure to make available for occupancy by eligible families the total number of units for which assistance is committed under the HAP Contract may result in a reduction in the number of subsidized dwelling units in a development. To ensure that the number of subsidized units will not be reduced, the owner must (i) conduct marketing in accordance with Section 8 regulations; (ii) make a good faith effort to lease the units to eligible families; and (iii) accept any eligible family except for reasons acceptable to the Authority. The Authority may require owners of Section 8 Developments to maintain the full amount of subsidized units, but has not covenanted with the holders of Bonds to do so.

*Funding of Increases in Subsidy*. Funds for the payment of increased subsidies which may result from the adjustments described in the second paragraph under "Adjustment of Contract Rents" above are to be obtained in two ways. Provision is made in the 1937 Housing Act for the 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)(6) of Section 8 (quoted below) as may be necessary to obtain funds to assure that payment will be adequate to cover increases in Contract Rents and decreases in tenant rents. Subdivision (c)(6) of Section 8 provides:

"The Secretary [of HUD] shall take such steps as may be necessary, including the making of contracts for assistance payments in amounts in excess of the amounts required at the time of the initial renting of dwelling units, the reservation of annual contributions authority for the purpose of amending housing assistance contracts, or the allocation of a portion of new authorizations for the purpose of amending housing assistance contracts, to assure that assistance payments are increased on a timely basis to cover increases in maximum monthly rents or decreases in family incomes."

*Pledge of Subsidy*. The regulations permit an owner to pledge the federal subsidy payments as security for the mortgage loan for the development. Prior to any disbursement of a mortgage loan for a development which is to be subsidized under Section 8, the Authority requires the owner of the development to enter into an agreement to pledge such federal subsidy payments as security for the mortgage loan on the development.

*Foreclosure*. The regulations 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 vacancy, the owner may receive a housing assistance payment in the amount of 80 percent of the Contract Rent for a vacancy period not exceeding one month following the month in which the unit is first vacated.

**Expiring HAP Contracts and Recent Legislation**

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 new "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 Costs Adjustment Factor ("OCAF") established by HUD, (2) a budget-based rent determined by HUD, or (3) in the case of certain "moderate rehabilitation" Section 8 HAP Contracts, the lesser of (x) existing rents, adjusted by an operating cost factor determined by HUD, (y) existing fair market rents (less any amounts retained for tenant purchased utilities), or (z) comparable market rents for the market area. Under current law, future rent adjustments 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.

Under the amendments effected by the 1999 Act, Section 8 developments with FHA-insured mortgages for which the primary financing was provided by a unit of state or local government, such as the Authority, are subject to the Mark-to-Market program unless implementation of a mortgage restructuring plan would be in conflict with applicable law or agreements governing such financing. To the extent any such state and local government financed Section 8 developments with FHA-insured mortgages are determined not to qualify for the Mark-to-Market program, such developments would be treated in the same manner as other

Section 8 developments, as discussed above, that do not have FHA-insured mortgages. To the extent any such Section 8 developments are determined to be eligible for the Mark-to-Market program, all or a portion of the debt for such developments may be prepaid as part of a restructuring agreement.

Contract rents under the 1997 Act may be significantly lower than the current Section 8 contract rents in Section 8 developments, and the corresponding reduction in Section 8 Housing Assistance Payments for such developments could materially adversely affect the ability of the owners of such developments to pay debt service on the mortgage loans. Any termination or expiration of HAP Contracts, without renewal or replacement with other project-based assistance (whether due to enactment of additional legislation, material adverse financial or managerial actions by a mortgagor, poor condition of the project or other causes) could also have a material adverse impact on the ability of the related Section 8 developments to generate revenues sufficient to pay debt service on the mortgage loans. In such an instance, a default under the FHA-insured mortgage would result in a claim for payment of mortgage insurance benefits. See "APPENDIX D – DESCRIPTION OF FHA MORTGAGE INSURANCE PROGRAM."

While the 1997 Act generally allows owners to renew project-based HAP Contracts (absent certain material adverse conduct or conditions), owners are not required to renew HAP Contracts beyond their initial expiration – or the expiration of a renewal term. Upon an election not to renew a HAP Contract owners are required to provide certain notices and transitional tenant protections.

Substantially all of the Section 8 Developments do not have FHA-insured mortgages and have HAP Contracts which are generally coterminous with their mortgages. Accordingly, those Section 8 Developments will not be subject to having their mortgages restructured under the 1997 Act. Three of the Section 8 Developments have FHA-insured mortgages and HAP Contracts which expire before the maturity of the related mortgages. These developments may be subject to restructuring. In such event, the FHA-insured mortgages may be subject to prepayment in whole or in part and to refinancing, each of which events could lead to a partial redemption of the Offered Bonds. It is the policy of the Authority to encourage and facilitate the retention of these Section 8 Developments as affordable housing, and the Authority undertakes no obligation to the holders of the Offered Bonds to take or refrain from taking any action with respect to the Section 8 Developments, such as refinancing, in order to reduce the likelihood or amount of any such partial redemption.

HUD's Office of General Counsel (OGC) has expressed the opinion that certain language used in the form of HAP Contract in use prior to February 1980, for State Agency projects with mortgages that were not insured by FHA, has the effect of terminating those HAP Contracts upon refinancing of the related project mortgages. While only expressed in the form of an internal memorandum, this opinion has been communicated by HUD to the public. The position expressed in the opinion has not been promulgated in any official form, nor has HUD taken any action to impose consequences that might arise from the opinion on projects that were previously refinanced. The Authority has determined that approximately 57 of the Section 8 Developments which it has financed have been refinanced in a fashion that might cause a termination of the related HAP Contracts under such OGC opinion.

Were HUD to stop HAP payments to affected projects and/or attempt to recover previously made payments, such action could adversely affect project income, the Authority's revenues from those projects and, as a consequence thereof, the Authority's financial position. However, in Congressional testimony and in public discussions with industry participants, HUD officials have expressed the desire to prevent its position regarding the pre-1980 HAP form contract language from having an adverse impact upon the affected projects and State Agencies. In addition, HUD has offered to approve an amendment to the affected HAP contracts that would amend the language at issue to clarify that the term of the form HAP contract extends to the originally scheduled maturity date of the original HFA financing. Of the 56 Authority-financed projects that have refinanced, 41 of these projects have executed such amendments, and these amendments have been acknowledged by HUD. In addition, one of the 56 projects has executed a Mark-Up-to-Market contract for the term that would have been remaining under its original HAP contract. Further, while it is not possible to predict with certainty the outcome of any litigation, the Authority has been advised by counsel that if HUD were to attempt to recover previously made payments under the HAP contracts related to these projects, HUD would be unlikely to prevail.

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

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## APPENDIX D
## DESCRIPTION OF FHA MORTGAGE INSURANCE PROGRAM

The following is a brief description of the multi-family mortgage insurance program administered by HUD, acting through FHA, pursuant to Section 221(d)(4) of Title II of the National Housing Act of 1934, as amended (the "National Housing Act"). The description does not purport to be comprehensive or definitive, and is qualified in its entirety by reference to the National Housing Act and the regulations thereunder. FHA insurance benefits under the program are available only if the mortgagee of record is an FHA-approved mortgagee. The Authority is an FHA-approved mortgagee. The Authority has covenanted in the series resolutions pursuant to which FHA-insured developments were financed to take all action reasonably necessary to maintain FHA mortgage insurance (and to refrain from taking any action inconsistent with maintaining FHA mortgage insurance) including, if necessary, paying the insurance premiums and providing all notices of default to FHA. The Authority has also covenanted in the series resolutions pursuant to which FHA-insured developments were financed that, upon becoming eligible to receive FHA mortgage insurance benefits, the Authority will promptly elect to assign and will assign the applicable mortgage(s) to FHA, or in the event the Authority receives title to any such development, to convey title as soon as practical in settlement of its claim for mortgage insurance, and will request a cash settlement for its claim. The Authority has also covenanted in the series resolutions pursuant to which FHA-insured developments were financed that, in enforcing its rights with respect to FHA-insured Mortgage Loans, it will ask to receive or preserve for later claims the maximum amount of FHA mortgage insurance proceeds and will carry out its duties under the Resolution, to the extent possible, consistent with HUD regulations. Similarly, the series resolutions pursuant to which FHA-insured developments were financed prohibit Resolution amendments which conflict with HUD regulations and direct that the Resolution be construed to the extent possible to avoid such conflict.

### FHA Insurance Processing

Applications for insurance commitments under the FHA insurance program may undergo several processing stages. Initial FHA project evaluation typically results in the issuance of feasibility letters for rehabilitation and site and market analyses and/or conditional commitment letters for new construction. These letters set forth basic project characteristics including unit composition, estimated revenue and expenses, total replacement cost, mortgage amount, and estimated equity and working capital required for closing. These letters serve as requests for firm commitment applications based on initial project underwriting. They do not preclude adjustments deemed necessary by FHA or the sponsor prior to issuance of a firm commitment. The mortgagee must receive a firm commitment from FHA for insurance of advances prior to receiving FHA insurance at the time of initial endorsement. Issuance of the firm commitment evidences FHA's approval of the application for mortgage insurance for the proposed development and establishes the terms and conditions upon which the mortgage loan will be insured. FHA's multi-family mortgage insurance program provides for either insured advances or insurance upon completion of the project.

HUD regulations require that the mortgagee pay an annual mortgage insurance premium to FHA in an amount equal to 1/2 of 1 percent of the outstanding principal balance of the mortgage loan. Mortgage insurance premiums are collected by the mortgagee on a monthly basis and remitted to FHA annually. FHA imposes a late charge on the mortgagee in the event it fails to pay the mortgage insurance premium in a timely manner, which charge may not be imposed on the owner. Failure to pay the premium may result in a loss of insurance.

After receipt of the firm commitment, the owner proceeds to initial closing of the mortgage loan. At the initial closing the owner executes a standard form of FHA mortgage note evidencing the mortgage loan and an FHA standard form of mortgage securing the mortgage note. Concurrently with the execution of the mortgage and mortgage note, FHA initially endorses the mortgage note for mortgage insurance and funds are advanced to provide for initial fees and expenses, including land acquisition costs, title costs, design architect, attorney, inspection and other related fees and expenses. The firm commitment requires that initial endorsement take place within a stated time period which may be extended with approval from FHA.

**Construction and Rent-Up**

Construction of the development is required to proceed in accordance with the FHA standard form of Building Loan Agreement. See "The Mortgage Loan Documents – *Building Loan Agreement*" in this Appendix. During construction, a licensed inspecting architect hired by the owner and an FHA inspector make periodic inspections to ensure on-site conformity with FHA-approved plans and specifications. Under the Building Loan Agreement, funds are disbursed on a percentage of completion basis with periodic requisitions for advance of funds. Prior to any disbursement, certain conditions must be satisfied, including the completion of certain inspections of the construction, the submission and approval of certain documentation of construction work progress and compliance with the approved plans and specifications and the provision of updated title evidence satisfactory to the mortgagee and FHA and others. Each advance will be insured by FHA upon disbursement in accordance with 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.

*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.

Upon the assignment of a defaulted mortgage to FHA, FHA will reimburse the mortgagee an amount equal to the unpaid principal balance of the mortgage loan at the date of default (less one percent), plus interest at the debenture interest rate from the date of default through the date of payment of such benefits, less one percent of the outstanding principal balance of the mortgage as of the date of default from the amount of insurance benefits paid to the mortgagee. FHA also deducts: (1) 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 E
## 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 (as defined below) 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. 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 Indenture 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% 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*. See "THE OFFERED BONDS — Redemption — *Special Redemption*."

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 F
# FORM OF OPINION OF BOND COUNSEL

[Letterhead of Bond Counsel]

[Closing Date]

Illinois Housing Development Authority
401 North Michigan Avenue, Suite 900
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 $24,760,000 aggregate principal amount of its Housing Bonds, 2005 Series E (the "2005 Series E Bonds"), and $19,580,000 aggregate principal amount of its Housing Bonds, 2005 Series F (Taxable) (the "2005 Series F Bonds" and, together with the 2005 Series E Bonds, the "Bonds"), including the authorization, execution and delivery of the 2005 Series E Supplemental Indenture (the "2005 Series E Supplemental Indenture"), and the 2005 Series F Supplemental Indenture (the "2005 Series F Supplemental Indenture"), each dated as of October 1, 2005, and each between the Authority and LaSalle Bank National Association, as trustee (the "Trustee"). The 2005 Series E Supplemental Indenture and the 2005 Series F Supplemental Indenture are each executed and delivered pursuant and supplemental to the Trust Indenture, dated as of March 1, 1999, between the Authority and the Trustee (as so supplemented, the "Trust Indenture"). We have also examined copies, certified by the Authority, of its authorizing resolutions with respect to the Trust Indenture, the Bonds, the 2005 Series E Supplemental Indenture and the 2005 Series F Supplemental Indenture and of certified copies of the proceedings of the Members of the Authority for the meetings at which such resolutions were adopted.

The 2005 Series E Bonds are being issued to make new mortgage loans for the purpose of prepaying existing mortgage loans (the "Prior Tax-Exempt Mortgage Loans") funded with the proceeds of the Authority's Multi-Family Program Bonds, Series 1, 3 and 5 (the "Prior Tax-Exempt Bonds"). The 2005 Series F Bonds are being issued to make new mortgage loans for the purpose of prepaying existing mortgage loans (the "Prior Taxable Mortgage Loans") funded with the proceeds of the Authority's Multi-Family Program Bonds, Series 2, 4 and 6 (the "Prior Taxable Bonds" and, collectively with the Prior Tax-Exempt Bonds, the "Prior Bonds"), providing additional financing to certain developments and paying costs of issuance of the Bonds. The proceeds of the prepayment of the Prior Tax-Exempt Mortgage Loans will be applied by the Authority to currently refund certain of the Prior Tax-Exempt Bonds; and the proceeds of the prepayment of the Prior Taxable Mortgage Loans will be deposited by the Authority in the Bond Fund for the Prior Bonds (Prior Bonds being currently refunded with proceeds of the Bonds are referred to herein as the "Refunded Bonds"). Certain proceeds of the Prior Bonds will be transferred to the Trustee to satisfy the requirements of the Trust Indenture relative to the funding of the Debt Service Reserve Fund thereunder.

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 the authorizing resolution of the Authority, adopted on September 16, 2005 with respect to the Bonds (as supplemented by a Determination of the Chairman and Executive Director of the Authority), and the 2005 Series E Supplemental Indenture and the 2005 Series F Supplemental Indenture.

The Internal Revenue Code of 1986, as amended, or, to the extent applicable to the 2005 Series E Bonds, the Internal Revenue Code of 1954, as amended (collectively, the "Code"), establishes certain continuing requirements which must be met in order that interest on the 2005 Series E 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 2005 Series E Bonds, the payment of certain amounts to the United States and the use and occupancy of the developments financed by the Prior Tax-Exempt Bonds (the "Refinanced Developments"). In the Trust Indenture, the Authority has made various covenants with respect to these requirements, and the Authority has included various covenants with respect to these requirements relating to the Refinanced Developments in documents related to the mortgage loans for those developments. Failure to comply with certain of such covenants could cause interest on the 2005 Series E Bonds to be included in gross income of the owners thereof for federal income tax purposes, retroactively to the date of issuance of the 2005 Series E 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 2005 Series E Bonds is not includible in the gross income of their owners for federal income tax purposes and is not a specific preference item for purposes of the federal alternative minimum tax. If there is continuing compliance by the Authority and the owners of the Refinanced Developments with their respective covenants described above, we are of the opinion that interest on the 2005 Series E 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 2005 Series E Bonds for federal income tax purposes of interest on any Bond for any period during which such 2005 Series E Bond is held by a person who is a "substantial user" of any Refinanced Development refinanced with the proceeds of such 2005 Series E Bond or any person considered to be related to such person within the meaning of the Code. Ownership of the 2005 Series E 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 2005 Series E Bonds.

6. Interest on the 2005 Series F Bonds is not excluded from the gross income of their owners for federal income tax purposes.

7. 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.

8. 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 G
## SUMMARY OF CONTINUING DISCLOSURE COVENANT

(1) The Authority shall make all required filings and reports so that all requirements of Rule 15c2-12(b)(5) of the United States Securities and Exchange Commission, as amended from time to time, are met with respect to the Offered Bonds.

(2) Each year the Authority shall provide annual financial information concerning the 2005 Offered Bonds to each nationally recognized municipal securities information repository and to any entity designated by the State of Illinois as a state information depository for purposes of the Rule. A copy of the annual financial information shall also be provided to the Trustee. The annual financial information shall be so provided within 180 days after the end of the Authority's fiscal year, beginning with the fiscal year ending June 30, 2005. Copies of the annual financial information shall also be made available to any beneficial or registered owner of Offered Bonds upon request. The annual financial information shall include the Authority's audited financial statements, prepared in accordance with accounting principles generally accepted in the United States of America as in effect from time to time. The annual financial information shall also include the information concerning the Financed Developments as set forth under the caption "FINANCED DEVELOPMENTS – Description of Financed Developments" included in the Official Statement.

**The annual financial information may include any or all information by incorporating, by specific reference, other documents which have been provided to each of those national information repositories and the state information depository, if any. If the incorporated information is in an Official Statement, it must be available from the Municipal Securities Rulemaking Board. The annual financial information shall include a notice of any change in the Authority's fiscal year.**

(3) Upon the occurrence of any of the following events with respect to the Offered Bonds, if material, the Authority shall report the event in a timely manner to the state information depository, if any, and either to each of the national information repositories described above or to the Municipal Securities Rulemaking Board:

i. principal and interest payment delinquencies;

ii. non-payment related defaults;

iii. unscheduled draws on debt service reserves reflecting financial difficulties;

iv. unscheduled draws on credit enhancements reflecting financial difficulties;

v. substitution of credit or liquidity providers or their failure to perform;

vi. adverse tax opinions or events affecting tax-exempt status of the 2005 Series E Bonds;

vii. modifications to rights of Owners of the Offered Bonds;

viii. bond calls;

ix. defeasances;

x. release, substitution, or sale of property securing repayment of the Offered Bonds; and

xi. rating changes.

**The Authority will give a copy of each such report to the Trustee. The Authority will give notice in a timely manner to the Trustee, to the state information depository, if any, and either to each of the national information repositories or to the Municipal Securities Rulemaking Board of any failure timely to provide the annual financial information as provided in this Summary.**

(4) The undertaking of the Authority described in this summary is a contract between the Authority and the beneficial and registered owners from time to time of the Offered Bonds. It may be enforced by any beneficial or registered owner of Offered Bonds. The sole remedy with respect to the Authority's compliance with its undertaking described in this summary shall be to require compliance. The undertaking described in this summary shall be solely for the benefit of the beneficial or registered owners of the Offered Bonds from time to time, and shall create no right in anyone else. The Trustee shall have no powers or duties with respect to the undertaking described in this summary. No violation by the Authority of any provision described in this summary shall constitute any Event of Default or a default under the Indenture or under the Act.

Any filing required to be made with a nationally recognized municipal information repository or a state information depository, if any, in connection with the undertaking described in this summary may be made solely with an internet based electronic filing system (a "CPO") by transmitting such filing to the CPO, provided that (i) such CPO has received interpretive advice or some other approval from the SEC with respect to its status as a CPO satisfying the requirements of the Rule or (ii) an opinion of counsel has been issued stating that such filing meets the requirements of the Rule.

(5) The obligation of the Authority described in this summary shall end upon the Offered Bonds being paid or treated as paid as provided in the Indenture, except for the obligations to give notice under 3(vi) and 3(viii) above.

(6) The Authority may by resolution amend the undertakings described in this summary at any time to the extent and in the manner allowed by the Rule, as amended from time to time, if the Authority's undertaking described in this summary, as amended, shall continue to comply with the Rule, the amendment to be effective upon receipt by the Authority of an opinion of bond counsel, selected by it with significant federal securities law expertise, to that effect. Any such amendment shall be described in the next annual financial information.

# APPENDIX H
# FORM OF BOND INSURANCE POLICY

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FGIC

**Financial Guaranty Insurance Company**
125 Park Avenue
New York, NY 10017
T 212·312·3000
T 800·352·0001

# Municipal Bond
# New Issue Insurance Policy

| | |
|---|---|
| **Issuer:** | **Policy Number:** |
| | **Control Number:** 0010001 |
| **Bonds:** | **Premium:** |

SPECIMEN

Financial Guaranty Insurance Company ("Financial Guaranty"), a New York stock insurance company, in consideration of the payment of the premium and subject to the terms of this Policy, hereby unconditionally and irrevocably agrees to pay to U.S. Bank Trust National Association or its successor, as its agent (the "Fiscal Agent"), for the benefit of Bondholders, that portion of the principal and interest on the above-described debt obligations (the "Bonds") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

Financial Guaranty will make such payments to the Fiscal Agent on the date such principal or interest becomes Due for Payment or on the Business Day next following the day on which Financial Guaranty shall have received Notice of Nonpayment, whichever is later. The Fiscal Agent will disburse to the Bondholder the face amount of principal and interest which is then Due for Payment but is unpaid by reason of Nonpayment by the Issuer but only upon receipt by the Fiscal Agent, in form reasonably satisfactory to it, of (i) evidence of the Bondholder's right to receive payment of the principal or interest Due for Payment and (ii) evidence, including any appropriate instruments of assignment, that all of the Bondholder's rights to payment of such principal or interest Due for Payment shall thereupon vest in Financial Guaranty. Upon such disbursement, Financial Guaranty shall become the owner of the Bond, appurtenant coupon or right to payment of principal or interest on such Bond and shall be fully subrogated to all of the Bondholder's rights thereunder, including the Bondholder's right to payment thereof.

This Policy is non-cancellable for any reason. The premium on this Policy is not refundable for any reason, including the payment of the Bonds prior to their maturity. This Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Bond.

As used herein, the term "Bondholder" means, as to a particular Bond, the person other than the Issuer who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof. "Due for Payment" means, when referring to the principal of a Bond, the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity and means, when referring to interest on a Bond, the stated date for payment of interest. "Nonpayment" in respect of a Bond means the failure of the Issuer to have provided sufficient funds to the paying agent for payment in full of all

FGIC

**Financial Guaranty Insurance Company**
125 Park Avenue
New York, NY 10017
T 212-312-3000
T 800-352-0001

# Municipal Bond
# New Issue Insurance Policy

principal and interest Due for Payment on such Bond. "Notice" means telephonic or telegraphic notice, subsequently confirmed in writing, or written notice by registered or certified mail, from a Bondholder or a paying agent for the Bonds to Financial Guaranty. "Business Day" means any day other than a Saturday, Sunday or a day on which the Fiscal Agent is authorized by law to remain closed.

In Witness Whereof, Financial Guaranty has caused this Policy to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.



**President**

**Effective Date:** **Authorized Representative**

U.S. Bank Trust National Association, acknowledges that it has agreed to perform the duties of Fiscal Agent under this Policy.

**Authorized Officer**

# FGIC

**Financial Guaranty Insurance Company**
125 Park Avenue
New York, NY 10017
T 212·312·3000
T 800·352·0001

## Endorsement

To Financial Guaranty Insurance Company
Insurance Policy

| **Policy Number:** | **Control Number:** 0010001 |
|---|---|



It is further understood that the term "Nonpayment" in respect of a Bond includes any payment of principal or interest made to a Bondholder by or on behalf of the issuer of such Bond which has been recovered from such Bondholder pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction.

NOTHING HEREIN SHALL BE CONSTRUED TO WAIVE, ALTER, REDUCE OR AMEND COVERAGE IN ANY OTHER SECTION OF THE POLICY. IF FOUND CONTRARY TO THE POLICY LANGUAGE, THE TERMS OF THIS ENDORSEMENT SUPERSEDE THE POLICY LANGUAGE.

In Witness Whereof, Financial Guaranty has caused this Endorsement to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

**President**

**Effective Date:** **Authorized Representative**

**Acknowledged as of the Effective Date written above:**

**Authorized Officer**
**U.S. Bank Trust National Association, as Fiscal Agent**

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## APPENDIX I
## DESCRIPTION OF PROJECTS AND LOANS

| | | |
|---|---|---|
| **TEB-2210** | **Financed Development:** | Brookmeadows |
| | **Location:** | Pekin, Illinois |
| | **Units:** | 156 units consisting of 56 one bedroom units, 88 two bedroom units and 12 three bedroom units. |
| | **Use of Proceeds:** | Upon issuance of the 2005 Series E Bonds and the 2005 Series F Bonds, the Authority intends to use a portion of the proceeds of such Bonds to make two loans (the "Loans") to the owner of Brookmeadows. The proceeds of the tax-exempt Loan will be used to prepay an existing mortgage loan made to the owner with a portion of the proceeds of the Authority's Multi-Family Program Bonds, Series 3. The proceeds of the taxable Loan will be used to prepay an existing taxable mortgage loan made to the owner with a portion of the proceeds of the Authority's Multi-Family Program Bonds, Series 4, to provide additional financing for this development and to pay certain costs associated with the issuance of the 2005 Series E Bonds and the 2005 Series F Bonds and with the refunding of a portion of the Multi-Family Program Bonds, Series 3 and the Multi-Family Program Bonds, Series 4. |
| | **Loans:** | The Loans will consist of: (1) a tax-exempt component of $3,099,000 principal amount with a maturity of January 1, 2018 and bearing interest at 5.34% per annum and (2) a taxable component of $1,725,000 principal amount with a maturity of January 1, 2011 and bearing interest at 3.57% per annum. |
| | **Prepayment of Loan:** | The Loans are not optionally prepayable without the consent of the Authority, in whole or in part, until January 1, 2018. |
| | **Section 8 Contract:**[†] | The Section 8 Contract pertaining to Brookmeadows expires on December 31, 2017. |
| **TEB-2263** | **Financed Development:** | Walnut Place |
| | **Location:** | Highland Park, Illinois |
| | **Units:** | 68 units consisting of 56 one bedroom units, eight two bedroom units and four three bedroom units. |
| | **Use of Proceeds:** | Upon issuance of the 2005 Series E Bonds and the 2005 Series F Bonds, the Authority intends to use a portion of the proceeds of such Bonds to make two loans (the "Loans") to the owner of Walnut Place. The proceeds of the tax-exempt Loan will be used to prepay an existing mortgage loan made to the owner with a portion of the proceeds of the Authority's Multi-Family Program Bonds, Series 5. The proceeds of the taxable Loan will be used to prepay an existing taxable mortgage loan made to the owner with a portion of the |

[†] For federal income tax purposes, at least 20% of the units must be occupied by, or held available for occupancy by, tenants whose family incomes are less than or equal to 80% of the area median income. See the section entitled, "TAX MATTERS."

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| | | proceeds of the Authority's Multi-Family Program Bonds, Series 6, to provide additional financing for the development and to pay certain costs associated with the issuance of the 2005 Series E Bonds and the 2005 Series F Bonds and with the refunding of a portion of the Multi-Family Program Bonds, Series 5 and the Multi-Family Program Bonds, Series 6. |
| | **Loans:** | The Loans will consist of: (1) a tax-exempt Loan of $2,546,000 principal amount with a maturity of November 1, 2035 and bearing interest at 5.80% per annum, and (2) a taxable Loan of $2,760,000 principal amount with a maturity of July 1, 2024 and bearing interest at 5.78% per annum. |
| | **Prepayment of Loan:** | The Loans are not optionally prepayable without the consent of the Authority, in whole or in part, until September 1, 2020. |
| | **Section 8 Contract:**† | The Section 8 Contract pertaining to Walnut Place expires on August 31, 2020. |
| **TEB-2269** | **Financed Development:** | Frank B. Peers |
| | **Location:** | Highland Park, Illinois |
| | **Units:** | 67 units consisting of six studio units and 61 one bedroom units. |
| | **Use of Proceeds:** | Upon issuance of the 2005 Series E Bonds and the 2005 Series F Bonds, the Authority intends to use a portion of the proceeds of such Bonds to make two loans (the "Loans") to the owner of Frank B. Peers. The proceeds of the tax-exempt Loan will be used to prepay an existing mortgage loan made to the owner with a portion of the proceeds of the Authority's Multi-Family Program Bonds, Series 5. The proceeds of the taxable Loan will be used to prepay an existing taxable mortgage loan made to the owner with a portion of the proceeds of the Authority's Multi-Family Program Bonds, Series 6, to provide additional financing for the development and to pay certain costs associated with the issuance of the 2005 Series E Bonds and the 2005 Series F Bonds and with the refunding of a portion of the Multi-Family Program Bonds, Series 5 and the Multi-Family Program Bonds, Series 6. |
| | **Loans:** | The Loans will consist of: (1) a tax-exempt Loan of $2,290,000 principal amount with a maturity of November 1, 2035 and bearing interest at 5.77% per annum and (2) a taxable Loan of $2,595,000 principal amount with a maturity of April 1, 2026 and bearing interest at 5.91% per annum. |
| | **Prepayment of Loans:** | The Loans are not optionally prepayable without the consent of the Authority, in whole or in part, until January 1, 2018. |
| | **Section 8 Contract:**† | The Section 8 Contract pertaining to Frank B. Peers expires on December 31, 2017. |

† For federal income tax purposes, at least 20% of the units must be occupied by, or held available for occupancy by, tenants whose family incomes are less than or equal to 80% of the area median income. See the section entitled, "TAX MATTERS."

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| **TEB-2273** | **Financed Development:** | West Point Plaza |
| | **Location:** | Chicago, Illinois |
| | **Units:** | 200 units consisting of 200 one bedroom units. |
| | **Use of Proceeds:** | Upon issuance of the 2005 Series E Bonds and the 2005 Series F Bonds, the Authority intends to use a portion of the proceeds of such Bonds to make two loans (the "Loans") to the owner of West Point Plaza. The proceeds of the tax-exempt Loan will be used to prepay an existing mortgage loan made to the owner with a portion of the proceeds of the Authority's Multi-Family Program Bonds, Series 1. The proceeds of the taxable Loan will be used to pay certain costs associated with the issuance of the 2005 Series E Bonds and the 2005 Series F Bonds and with the refunding of a portion of the Multi-Family Program Bonds, Series 1. |
| | **Loans:** | The Loans will consist of: (1) a tax-exempt Loan of $5,506,000 principal amount with a maturity of November 1, 2035 and bearing interest at 5.63% per annum and (2) a taxable Loan of $2,905,000 principal amount with a maturity of November 1, 2019 and bearing interest at 5.54% per annum. |
| | **Prepayment of Loan:** | The Loans are not optionally prepayable without the consent of the Authority, in whole or in part, until September 1, 2018. |
| | **Section 8 Contract:**[†] | The Section 8 Contract pertaining to West Point Plaza expires on August 31, 2018. |
| **TEB-2274** | **Financed Development:** | Oak Tree Towers |
| | **Location:** | Downers Grove, Illinois |
| | **Units:** | 165 units consisting of 10 efficiency units, 154 one bedroom units and a two bedroom unit. |
| | **Use of Proceeds:** | Upon issuance of the 2005 Series E Bonds and the 2005 Series F Bonds, the Authority intends to use a portion of the proceeds of such Bonds to make two loans (the "Loans") to the owner of Oak Tree Towers. The proceeds of the tax-exempt Loan will be used to prepay an existing mortgage loan made to the owner with a portion of the proceeds of the Authority's Multi-Family Program Bonds, Series 3. The proceeds of the taxable Loan will be used to prepay an existing taxable mortgage loan made to the owner with a portion of the proceeds of the Authority's Multi-Family Program Bonds, Series 4, to provide additional financing for the development and to pay certain costs associated with the issuance of the 2005 Series E Bonds and the 2005 Series F Bonds and with the refunding of a portion of the Multi-Family Program Bonds, Series 3 and the Multi-Family Program Bonds, Series 4. |

[†] For federal income tax purposes, at least 20% of the units must be occupied by, or held available for occupancy by, tenants whose family incomes are less than or equal to 80% of the area median income. See the section entitled, "TAX MATTERS."

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| | **Loans:** | The Loans will consist of: (1) a tax-exempt Loan of $4,308,000 principal amount with a maturity of November 1, 2035 and bearing interest at 5.96% per annum and (2) a taxable Loan of $7,135,000 principal amount with a maturity of September 1, 2028 and bearing interest at 5.90% per annum. |
| | **Prepayment of Loan:** | The Loans are not optionally prepayable without the consent of the Authority, in whole or in part, until June 1, 2017. |
| | **Section 8 Contract:**† | The Section 8 Contract pertaining to Oak Tree Towers expires on May 31, 2017. |
| **TEB-2277** | **Financed Development:** | Carriage House II |
| | **Location:** | Decatur, Illinois |
| | **Units:** | 100 units consisting of 40 one bedroom units, 44 two bedroom units and 16 three bedroom units. |
| | **Use Of Proceeds:** | Upon issuance of the 2005 Series E Bonds and the 2005 Series F Bonds, the Authority intends to use a portion of the proceeds of such Bonds to make two loans (the "Loans") to the owner of Carriage House II. The proceeds of the tax-exempt Loan will be used to prepay an existing mortgage loan made to the owner with a portion of the proceeds of the Authority's Multi-Family Program Bonds, Series 3. The proceeds of the taxable Loan will be used to prepay an existing taxable mortgage loan made to the owner with a portion of the proceeds of the Authority's Multi-Family Program Bonds, Series 4 and to pay certain costs associated with the issuance of the 2005 Series E Bonds and the 2005 Series F Bonds and with the refunding of a portion of the Multi-Family Program Bonds, Series 3 and the Multi-Family Program Bonds, Series 4. |
| | **Loans:** | The Loans will consist of: (1) a tax-exempt Loan of $2,155,000 principal amount with a maturity of November 1, 2035 and bearing interest at 5.53% per annum and (2) a taxable Loan of $525,000 principal amount with a maturity of September 1, 2016 and bearing interest at 5.22% per annum. |
| | **Prepayment of Loan:** | The Loans are not optionally prepayable without the consent of the Authority, in whole or in part, until April 1, 2018. |
| | **Section 8 Contract:**† | The Section 8 Contract pertaining to Carriage House II expires on March 31, 2018. |
| **TEB-2279** | **Financed Development:** | Burnham Manor |
| | **Location:** | Elgin, Illinois |
| | **Units:** | 100 units consisting of 99 one bedroom units and one two bedroom unit. |

† For federal income tax purposes, at least 20% of the units must be occupied by, or held available for occupancy by, tenants whose family incomes are less than or equal to 80% of the area median income. See the section entitled, "TAX MATTERS."

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| **Use of Proceeds:** | Upon issuance of the 2005 Series E Bonds and the 2005 Series F Bonds, the Authority intends to use a portion of the proceeds of such Bonds to make two loans (the "Loans") to the owner of Burnham Manor. The proceeds of the tax-exempt Loan will be used to prepay an existing mortgage loan made to the owner with a portion of the proceeds of the Authority's Multi-Family Program Bonds, Series 3. The proceeds of the taxable Loan will be used to prepay an existing taxable mortgage loan made to the owner with a portion of the proceeds of the Authority's Multi-Family Program Bonds, Series 4, to provide additional financing for the development and to pay certain costs associated with the issuance of the 2005 Series E Bonds and the 2005 Series F Bonds and with the refunding of a portion of the Multi-Family Program Bonds, Series 3 and the Multi-Family Program Bonds, Series 4. |
| **Loans:** | The Loans will consist of: (1) a tax-exempt Loan of $3,124,000 principal amount with a maturity of November 1, 2035 and bearing interest at 5.64% per annum and (2) a taxable Loan of $1,935,000 principal amount with a maturity of March 1, 2021 and bearing interest at 5.66% per annum. |
| **Prepayment of Loans:** | The Loans are not optionally prepayable without the consent of the Authority, in whole or in part, until November 1, 2015. |
| **Section 8 Contract:**[†] | The Section 8 Contract pertaining to Burnham Manor expires on November 30, 2019. |

[†] For federal income tax purposes, at least 20% of the units must be occupied by, or held available for occupancy by, tenants whose family incomes are less than or equal to 80% of the area median income. See the section entitled, "TAX MATTERS."

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ILLINOIS HOUSING DEVELOPMENT AUTHORITY • HOUSING BONDS, CONSISTING OF 2005 SERIES E (NON-AMT) AND 2005 SERIES F (TAXABLE)

**PRINTED BY AUTHORITY OF THE STATE OF ILLINOIS**
**Date of Publication: October 19, 2005**
**Number of copies printed: 375**
**Printing Order No. 76278**

Recycled Paper - Printed by
IMAGEMASTER 800.452.5152