

NEW ISSUE — BOOK ENTRY ONLY

In the opinion of Schiff Hardin & Waite, Bond Counsel, (i) if there is continuing compliance with applicable requirements of the Internal Revenue Code of 1954, as amended (the "1954 Code") and the Internal Revenue Code of 1986, as amended (together with the 1954 Code, unless otherwise indicated, the "Code"), interest on the 1999 Series A Bonds (non-AMT) is excludable from 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, and (ii) interest on the 1999 Series C Bonds (Taxable) is NOT excludable from gross income of their owners for federal income tax purposes. Under the Illinois Housing Development Act (the "Act"), in its present form, interest on the Offered Bonds is exempt from Illinois income taxes. See "CERTAIN TAX CONSEQUENCES" regarding certain other tax considerations.

\$46,810,000
ILLINOIS HOUSING DEVELOPMENT AUTHORITY
Housing Bonds

consisting of

\$46,175,000 Housing Bonds, 1999 Series A (non-AMT)

\$635,000 Housing Bonds, 1999 Series C (Taxable)

Dated: March 1, 1999

Due: As set forth on the inside cover

The 1999 Series A Bonds (non-AMT) and the 1999 Series C Bonds (Taxable) (collectively, 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 will be the registered owner of the Offered Bonds. Individual purchases of interests in the Offered Bonds must be in the principal amount of \$5,000 or any integral multiple thereof and will be recorded on a book-entry only system operated by DTC. For further details on ownership, payments, notices and other matters under the book-entry only system, see "THE OFFERED BONDS — Book-Entry Only System" and "THE OFFERED BONDS — General Redemption Provisions."

The Offered Bonds will bear interest from their date payable semiannually on each January 1 and July 1, with the first interest payment date being January 1, 2000. Principal of and premium, if any, and semiannual interest on the Offered Bonds (payable as provided on the inside cover) will be paid by The First National Bank of Chicago, Chicago, Illinois, as Master Paying Agent. The First National Bank of Chicago, Chicago, Illinois, serves as Trustee under the Indenture.

The Offered Bonds are subject to redemption prior to maturity, including special redemption at par without premium, as more fully described herein under the caption "THE OFFERED BONDS — Redemption."

The Offered Bonds are being issued to refinance, directly or indirectly, all or a portion of 11 multi-family developments (the "Financed Developments"). Proceeds of the Offered Bonds will be used, together with certain other available moneys, to (a) make a Loan (as defined herein), (b) purchase the Acquired Bonds (as defined herein), (c) redeem the Refunded FRHB Bonds (as defined herein), (d) make a deposit to the Reserve Fund, and (e) pay certain costs incurred in connection with the issuance of Offered Bonds (including a portion of the bond insurance premium). See "PLAN OF FINANCE" and "SOURCES AND USES OF FUNDS."

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

Payment of the principal of and interest on the Offered Bonds when due will be insured by a financial guaranty insurance policy to be issued simultaneously with the delivery of the Offered Bonds by MBIA Insurance Corporation.



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

The Offered Bonds are offered when, as and if issued and received by the Underwriters, or, in the case of the 1999 Series A Bonds due January 1, 2031, by their purchaser, subject to prior sale, withdrawal or modification of the offer without notice, and to the approval of legality by Schiff Hardin & Waite, Chicago, Illinois, Bond Counsel. Certain legal matters in connection with the issuance of the Offered Bonds will be passed upon for the Authority by its Acting General Counsel, Ellen F. Distelheim, Esq., and by its counsel, Hopkins & Sutter, Chicago, Illinois, and for the Underwriters by their counsel, Bell, Boyd & Lloyd, 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 April 13, 1999.

Merrill Lynch & Co.

Bear, Stearns & Co. Inc.

Goldman, Sachs & Co.

Lehman Brothers

First Chicago Capital Markets, Inc.

John Nuveen & Co. Incorporated

Mesirow Financial, Inc.

Salomon Smith Barney

The date of this Official Statement is March 29, 1999.

\$46,810,000
ILLINOIS HOUSING DEVELOPMENT AUTHORITY
Housing Bonds
consisting of
\$46,175,000 Housing Bonds, 1999 Series A (non-AMT)
\$635,000 Housing Bonds, 1999 Series C (Taxable)

Dated: March 1, 1999

MATURITY SCHEDULES
1999 Series A (non-AMT)

| <u>Maturity</u> | <u>Amount</u> | <u>Interest Rate</u> | <u>Price or Yield</u> | <u>Maturity</u> | <u>Amount</u> | <u>Interest Rate</u> | <u>Price or Yield</u> |
|-----------------|---------------|--------------------------|---------------------------|-----------------|---------------|--------------------------|---------------------------|
| July 1, 2000 | \$1,670,000 | 3.300% | 3.300% | July 1, 2006 | \$2,250,000 | 4.350% | 4.350% |
| July 1, 2001 | 1,735,000 | 3.700 | 3.700 | July 1, 2007 | 2,340,000 | 4.400 | 4.400 |
| July 1, 2002 | 1,810,000 | 3.875 | 3.875 | July 1, 2008 | 2,450,000 | 4.500 | 4.500 |
| July 1, 2003 | 1,890,000 | 4.000 | 4.000 | July 1, 2009 | 2,565,000 | 4.550 | 4.550 |
| July 1, 2004 | 1,960,000 | 4.125 | 4.125 | July 1, 2010 | 2,680,000 | 4.650 | 4.650 |
| July 1, 2005 | 2,140,000 | 4.250 | 4.250 | July 1, 2011 | 2,805,000 | 4.750 | 4.750 |

\$10,995,000 — 5.125% Term Bonds due July 1, 2018 Price — 100%

\$2,005,000 — 5.250% Term Bonds due July 1, 2030 Price — 100%

\$6,880,000 — 5.250% Term Bonds due January 1, 2031 Price — 100% NOT REOFFERED
(Accrued Interest to be added)

1999 Series C (Taxable)

\$635,000 — 6.050% Term Bonds due July 1, 2003 Price — 100%
(Accrued Interest to be added)

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

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THE OFFERED BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND THE INDENTURE RELATING TO THE OFFERED BONDS 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 BONDS HAVE BEEN REGISTERED OR QUALIFIED AND THE EXEMPTION FROM REGISTRATION OR QUALIFICATION IN OTHER STATES CANNOT BE REGARDED AS A RECOMMENDATION THEREOF.

IN MAKING AN INVESTMENT DECISION INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE DEVELOPMENTS AND TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THE OFFERED BONDS HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

IN CONNECTION WITH THE OFFERING OF THE OFFERED BONDS (OTHER THAN THE 1999 SERIES A BONDS MATURING JANUARY 1, 2031 (THE "PLACED BONDS")), THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICES OF THOSE BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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

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**OFFICIAL STATEMENT
of
ILLINOIS HOUSING DEVELOPMENT AUTHORITY**

Relating to

\$46,810,000

ILLINOIS HOUSING DEVELOPMENT AUTHORITY

Housing Bonds

consisting of

\$46,175,000 Housing Bonds, 1999 Series A (non-AMT)

\$635,000 Housing Bonds, 1999 Series C (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 (i) \$46,175,000 Housing Bonds, 1999 Series A (non-AMT) (the "1999 Series A Bonds") and (ii) the \$635,000 Housing Bonds, 1999 Series C (Taxable) (the "1999 Series C Bonds" and, together with the 1999 Series A Bonds, the "Offered Bonds").* The Offered Bonds are being issued by the Authority pursuant to the Illinois Housing Development Act, as amended (the "Act").

The Offered Bonds are being issued under a Trust Indenture dated as of March 1, 1999 (the "Indenture") between the Authority and The First National Bank of Chicago, Chicago, Illinois (the "Trustee"), as Trustee, and, with respect to the 1999 Series A Bonds, a 1999 Series A Supplemental Indenture dated as of March 1, 1999 (the "1999 Series A Supplemental Indenture") and, with respect to the 1999 Series C Bonds, a 1999 Series C Supplemental Indenture dated as of March 1, 1999 (the "1999 Series C Supplemental Indenture" and, together with the 1999 Series A Supplemental Indenture, the "Offered Bonds Supplemental Indenture"). 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.

The Offered Bonds are the first Series of Bonds issued under the Indenture. They are being issued to refinance all or a portion of 11 multi-family housing developments (the "Financed Developments"). The Financed Developments were financed under three other multi-family bond programs of the Authority, the Multi-Family Housing Bond program, the Housing Development Bond

* The Authority has reserved the designation "1999 Series B" for a series of convertible option bonds that it may issue in 1999 as Additional Bonds (as defined herein) under the Indenture (as defined herein).

program and the Fixed Rate Housing Bond program. See "OTHER PROGRAMS – Other Multi-Family Mortgage Loan Programs." One Financed Development will be refinanced by using Offered Bonds proceeds to make a new mortgage loan. Proceeds of the new loan will be used in part to prepay an existing mortgage loan made by the Authority. Amounts received upon the prepayment of that existing mortgage loan will be used to redeem the bonds whose proceeds were used to make that mortgage loan. Nine Financed Developments will be refinanced by using Offered Bonds proceeds to purchase bonds issued by the Authority under other bond programs. Proceeds of these bonds will be used to redeem the bonds whose proceeds were used to finance existing mortgage loans made by the Authority. The remaining Financed Development will be refinanced by using Offered Bonds proceeds to redeem bonds whose proceeds were used to finance an existing mortgage loan made by the Authority. Upon redemption of those bonds, that mortgage loan will be pledged under the Indenture. See "PLAN OF FINANCE."

The Offered Bonds and all other bonds hereafter issued under the Indenture are referred to herein as the "Bonds." Additional Bonds (the "Additional Bonds"), which may be secured by security in addition to the security for the Offered Bonds, may be issued by the Authority for purposes, upon the terms and subject to the conditions provided in the Indenture. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Additional Bonds."

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

Payment of the principal of and interest on the Offered Bonds when due will be insured by a financial guaranty insurance policy (the "Bond Insurance Policy") to be issued simultaneously with the delivery of the Offered Bonds by MBIA Insurance Corporation (the "Bond Insurer"). For a description of certain provisions of the Bond Insurance Policy and for certain information concerning the Bond Insurer, see "THE BOND INSURANCE POLICY" and "FORM OF BOND INSURANCE POLICY" attached as Appendix J.

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

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

PLAN OF FINANCE

The proceeds of the Offered Bonds will be used, together with certain other available moneys, to (a) make a new Loan (as defined herein), (b) purchase the Acquired Bonds (as defined herein), (c) redeem the Refunded FRHB Bonds (as defined herein), (d) make a deposit to the Reserve Fund (as defined herein) and (e) pay certain costs incurred in connection with the issuance of Offered Bonds (including a portion of the bond insurance premium). See "SOURCES AND USES OF FUNDS."

The Offered Bonds are being issued to refinance, directly or indirectly, all or a portion of the Financed Developments. Schedules with certain summary information about the Financed Developments appear under the captions "THE OFFERED BONDS - Redemption - *Special Redemption*" and "FINANCED DEVELOPMENTS - Description of Financed Developments."

The refinancing will be accomplished in three different ways. One Financed Development will be refinanced by using Offered Bonds proceeds to make a new Loan. A portion of the proceeds of the new Loan will be used to prepay an existing mortgage loan made by the Authority for that Financed Development. Amounts received upon the prepayment of that existing mortgage loan will be used to redeem certain of the Refunded MFHB Bonds (as defined herein). A portion of the proceeds of the Refunded MFHB Bonds were used to make that mortgage loan. See "*Loans*" below for a further discussion of the use of the proceeds of this Loan.

Nine Financed Developments will be refinanced by using Offered Bonds proceeds to purchase the Acquired Bonds. The Acquired Bonds are bonds issued by the Authority under other multi-family program bond resolutions, and are purchased to enable the Authority to use Offered Bonds proceeds to finance, refinance or continue the financing of mortgage loans held under other of its multi-family bond programs. Proceeds of the Acquired Bonds will be used to redeem the Refunded HDB Bonds (as defined herein) and certain of the Refunded MFHB Bonds. A portion of the proceeds of those bonds financed mortgage loans made by the Authority for those nine Financed Developments. See "*Acquired Bonds*" below and Appendices C and E for a further discussion of the use of the proceeds of the Acquired Bonds.

The remaining Financed Development will be refinanced by using Offered Bonds proceeds to redeem the Refunded FRHB Bonds (as defined herein). A portion of the proceeds of the Refunded FRHB Bonds financed a mortgage loan made by the Authority for that Financed Development. Upon the defeasance of the Refunded FRHB Bonds (as described below under "*Refunded FRHB Bonds*"), that mortgage loan will become a Loan and be pledged under the Indenture.

Loans

A new Loan in the principal amount of \$6,300,000 will be made to one of the Financed Developments, Columbia Lakes Apartments. See "FINANCED DEVELOPMENTS - Description of Financed Developments."

A portion of the proceeds of the Loan will be used to prepay an existing mortgage loan made with a portion of the proceeds of the Authority's 1987 Series A Bonds previously issued under the MFHB Resolution (as defined herein). Amounts received upon the prepayment of that existing mortgage loan will be used to redeem a portion of those bonds, as further described below under the subcaption "*Acquired Bonds*." A portion of the proceeds of the Loan will also be (i) used to repay an unsecured loan from the Authority to this Financed Development (approximately \$48,000), and (ii) paid to the borrower (approximately \$420,000).

The Loan for this Financed Development will be evidenced and secured by a note, a first mortgage, security agreement and assignment of rents and leases, a regulatory agreement, UCC financing statements, an environmental indemnity agreement and other security agreements. The Loan will be in an amount not to exceed \$6,300,000. The Loan will bear interest at 5.95 percent per annum for the first 61 months, and thereafter at 6.21 percent per annum.* The maturity date will be May 1, 2030. The borrower must also pay to the Authority an annual loan servicing fee of 0.25 percent of the original principal amount of the Loan, payable in equal monthly installments. The Loan will be nonrecourse. The Loan documents will require a Replacement Reserve Account, a Tax and Insurance Fund and a Capital Improvements Reserve Fund. These accounts and funds will be held by the Authority and are not pledged under the Indenture.

The Loan is not prepayable without the consent of the Authority, in whole or in part, until May 1, 2005. After that date, the Loan will be prepayable in whole but not in part, upon 60 days written notice to the Authority. In the event of a prepayment, the borrower will be obligated to pay, in addition to the principal amount of the Loan remaining unpaid, other costs of the Authority associated with financing the Loan, which may include the following: (i) a proportionate share of the principal amount of the Offered Bonds issued for the purpose of paying issuance costs and making deposits in the Reserve Fund, (ii) the interest to accrue on all Offered Bonds to be redeemed by the Authority in connection with such prepayment, (iii) the redemption premium, if any, on the Offered Bonds to be redeemed, and (iv) the costs and expenses of the Authority in effecting the redemption of the Offered Bonds to be redeemed.

The regulatory agreement requires that at least 20 percent of the units in this Financed Development be rented to individuals or families whose income is less than or equal to 80 percent of the median family income of the metropolitan statistical area encompassing the Financed Development.

Acquired Bonds

The Acquired Bonds will consist of (i) \$10,135,000 aggregate principal amount of Multi-Family Housing Bonds, 1999 Series A (the "Acquired MFHB Bonds"), and (ii) \$26,335,000 aggregate principal amount of Housing Development Bonds, 1999 Series A (the "Acquired HDB Bonds"). See "*Acquired Bonds - Acquired MFHB Bonds*" and "*- Acquired HDB Bonds*" below. The Acquired Bonds will be issued directly to and held by the Trustee under the Indenture. The Acquired Bonds will not be offered to the public.

* This interest rate is a composite rate based upon two notes, one of which bears interest only at 5.30 percent with respect to \$5,680,000 in principal amount, and the other of which bears interest at 15.89 percent with respect to \$620,000 in principal amount and amortizes in 61 months. The interest rate on the first note increases to 6.21 percent and commences amortization after 61 months.

Acquired MFHB Bonds. The Acquired MFHB Bonds will be issued by the Authority pursuant to the Act and under its Multi-Family Housing Bond Resolution, adopted February 26, 1975, as amended and supplemented, and a series resolution adopted pursuant thereto (collectively, the "MFHB Resolution"). The MFHB Resolution provides for Multi-Family Housing Bonds to be issued in series by the Authority to make mortgage loans for the financing and refinancing of multi-family rental housing developments for persons and families of low and moderate income in the State, and to refund Multi-Family Housing Bonds (the "MFHB Program").

As of December 31, 1998, \$410,682,481 of bonds were outstanding under the MFHB Resolution. These outstanding bonds financed 52 multi-family developments ("MFHB Development(s)") through mortgage loans. As of December 31, 1998, the aggregate outstanding balance of those mortgage loans ("MFHB Mortgage Loan(s)") was \$281,592,900. One acquired development, Lakeshore Plaza in Chicago, Illinois, is also held under the MFHB Resolution. As of December 31, 1998, the carrying value of this acquired development was \$31,395,499. A schedule of the MFHB Developments is set forth in Appendix B. See "FINANCIAL STATEMENTS" in Appendix A.

Most of the MFHB Developments are subject to full or partial project-based Section 8 subsidies, or are subject to mortgage insurance issued by the Federal Housing Administration ("FHA") under Section 221(d)(4) of the National Housing Act of 1934, as amended (the "National Housing Act"), or are subject to both. See Appendices F and G for descriptions of and current developments regarding these programs. These programs are material to the Authority's ability to pay debt service on the bonds issued under the MFHB Resolution, including the Acquired MFHB Bonds. Two of the Financed Developments are subject to both full project-based Section 8 subsidies and FHA mortgage insurance. Their respective Section 8 contracts will expire on December 27, 2005 (HICA Redevelopment Project) and July 31, 2003 (Austin Renaissance). See "FINANCED DEVELOPMENTS - Description of Financed Developments."

As further described in Appendix C, the Acquired MFHB Bonds are general obligations of the Authority. The full faith and credit of the Authority (subject to the provisions of resolutions pledging particular moneys, assets or revenues to the payment of notes, bonds or other obligations other than the Acquired MFHB Bonds) is pledged for payment of the principal and redemption price, if any, of and interest and sinking fund requirements on the Acquired MFHB Bonds. Together with other bonds issued under the MFHB Resolution, the Acquired MFHB Bonds are also secured by the revenues, mortgage loans and other assets, funds and accounts pledged under the MFHB Resolution.

The Acquired MFHB Bonds have received a long term rating of "A+" from Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("S&P") and a long term rating of "A1" from Moody's Investors Service, Inc. ("Moody's"). Ratings assigned to the Acquired MFHB 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 which have been assigned to the Acquired MFHB 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.

Proceeds of the Acquired MFHB Bonds will be used to redeem a portion of the Authority's 1987 Series A Bonds previously issued under the MFHB Resolution. A portion of the proceeds of those bonds financed mortgage loans made to two of the Financed Developments, HICA Redevelopment Project and Austin Renaissance. See "FINANCED DEVELOPMENTS - Description of Financed Developments." For further information regarding the Acquired MFHB Bonds, the security and sources of payment for the Acquired MFHB Bonds, the MFHB Resolution, the MFHB Mortgage Loans held, and the developments (the "MFHB Developments") financed, under the MFHB Resolution, see "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS - Acquired Bonds - *Acquired MFHB Bonds*," "OTHER PROGRAMS - Other Multi-Family Mortgage Loan Programs - *Multi-Family Housing Bonds*" and Appendices B and C.

Proceeds of the Acquired MFHB Bonds, together with amounts received upon the prepayment of the mortgage loan as described above under the subcaption "*Loan*" and other available funds, will be used to redeem (or pay at maturity), on or before July 1, 1999, all of the outstanding 1987 Series A Bonds (\$16,080,000 aggregate principal amount) issued under the MFHB Resolution (the "Refunded MFHB Bonds").

Acquired HDB Bonds. The Acquired HDB Bonds will be issued by the Authority pursuant to the Act and under its Housing Development Bond Resolution, adopted April 17, 1970, as amended and supplemented, and a series resolution adopted pursuant thereto (collectively, the "HDB Resolution"). The HDB Resolution provides for Housing Development Bonds to be issued in series by the Authority to make mortgage loans for the financing and refinancing of multi-family rental housing developments for persons and families of low and moderate income in the State, and to refund Housing Development Bonds (the "HDB Program").

As of December 31, 1998, \$114,260,000 of bonds were outstanding under the HDB Resolution. These outstanding bonds financed 32 multi-family developments ("HDB Development(s)") through mortgage loans. As of December 31, 1998, the aggregate outstanding balance of those mortgage loans ("HDB Mortgage Loan(s)") was \$100,137,349. A schedule of the HDB Developments is set forth in Appendix D. See "FINANCIAL STATEMENTS" in Appendix A.

Most of the HDB Developments are entitled to interest reduction payments by HUD under Section 236 of the 1937 Housing Act for all or a portion of the units in the development. One of the HDB Developments is subject to Section 8 subsidies. See Appendix F for a description of and current developments regarding the Section 236 program and the Section 8 program. These programs are material to the Authority's ability to pay debt service on the bonds issued under the HDB Resolution, including the Acquired HDB Bonds.

As further described in Appendix E, the Acquired HDB Bonds are general obligations of the Authority. The full faith and credit of the Authority (subject to the provisions of resolutions pledging particular moneys, assets or revenues to the payment of notes, bonds or other obligations other than the Acquired HDB Bonds) is pledged for payment of the principal and redemption price, if any, of and interest and sinking fund requirements on the Acquired HDB Bonds. Together with other bonds issued under the HDB Resolution, the Acquired HDB Bonds are also secured by the revenues, mortgage loans and other assets, funds and accounts pledged under the HDB Resolution.

The Acquired HDB Bonds have received a long term rating of "A+" from S&P and a long term rating of "A1" from Moody's. Ratings assigned to the Acquired HDB 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 which have been assigned to the Acquired HDB 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.

Proceeds of the Acquired HDB Bonds, together with other available funds, will be used to redeem (or pay at maturity), on or before July 1, 1999, all of the outstanding 1972 Series A Bonds previously issued by the Authority under the HDB Resolution (\$26,405,000 aggregate principal amount) (the "Refunded HDB Bonds"). A portion of the proceeds of the Refunded HDB Bonds financed mortgage loans made to seven of the Financed Developments, Harper Square, Winfield Village I, Vermillion Gardens, Huntington Square Apartments, University Village I, Lancaster Heights, and Cumberland Green. See "FINANCED DEVELOPMENTS - Description of Financed Developments." For further information regarding the Acquired HDB Bonds, the security and sources of payment for the Acquired HDB Bonds, the HDB Resolution, the HDB Mortgage Loans held, and the developments (the "HDB Developments") financed, under the HDB Resolution, see "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS - Acquired Bonds - *Acquired HDB Bonds*," "OTHER PROGRAMS - Other Multi-Family Mortgage Loan Programs - *Housing Development Bonds*" and Appendices D and E.

Refunded FRHB Bonds

Proceeds of the Offered Bonds, together with other available funds, will also be used to redeem \$4,190,000 aggregate principal amount of the 1984 Series B Bonds (the "Refunded FRHB Bonds") previously issued under the Authority's Fixed Rate Housing Bond Resolution (the "FRHB Resolution"). See "OTHER PROGRAMS - Other Multi-Family Mortgage Loan Programs - *Fixed Rate Housing Bonds*." A portion of the proceeds of the Refunded FRHB Bonds financed a mortgage loan made to one of the Financed Developments, Country Club Heights. See "FINANCED DEVELOPMENTS - Description of Financed Developments."

Proceeds of the Offered Bonds will be transferred to the trustee under the FRHB Resolution to be held by such trustee for the redemption of the Refunded FRHB, anticipated to occur on or before June 1, 1999. Upon such transfer, the Refunded FRHB Bonds will be deemed to be paid in accordance with the provisions and requirements of the FRHB Resolution and the series resolution for the Refunded FRHB Bonds. On and after the date of such transfer and prior to their redemption, the Refunded FRHB Bonds will be payable solely from such transferred funds. Those funds will not secure, or be available to pay, the principal of or premium, if any, or interest on any Offered Bonds.

Upon the transfer of such funds, the mortgage loan financed by the Refunded FRHB Bonds will become a Loan and will be pledged under the Indenture.

The Loan for this Financed Developments is evidenced and secured by a note, a first mortgage and assignment of rents and leases, a regulatory agreement, UCC financing statements, and other security agreements. As of December 31, 1998, the unpaid principal balance of this Loan was \$3,867,128. Effective as of the date of issuance of the Offered Bonds, the interest on this Loan will reduce to 5.15 percent per annum. The maturity date is September 1, 2015. The borrower must also pay to the Authority an annual loan servicing fee of 0.50 percent of the original principal amount of the Loan, payable in equal monthly installments. The Loan is nonrecourse. The Loan documents will require monthly payments in respect of taxes, insurance and reserves. These amounts will be held by the Authority and are not pledged under the Indenture.

This Loan may be prepaid, in whole but not in part, at any time without the consent of the Authority. In the event of a prepayment, the borrower will be obligated to pay, in addition to the principal amount of the Loan remaining unpaid, other costs of the Authority associated with financing the Loan, which may include the following: (i) a proportionate share of the principal amount of the Offered Bonds issued for the purpose of paying issuance costs and making deposits in the Reserve Fund, (ii) the interest to accrue on all Offered Bonds to be redeemed by the Authority in connection with such prepayment, (iii) the redemption premium, if any, on the Offered Bonds to be redeemed, and (iv) the costs and expenses of the Authority in effecting the redemption of the Offered Bonds to be redeemed, less certain other available monies.

The regulatory agreement requires that at least 20 percent of the units in this Financed Development be rented to individuals or families whose income is less than or equal to 80 percent of the median family income of the metropolitan statistical area encompassing the Financed Development.

This Financed Development is entitled to interest reduction payments by HUD under Section 236 of the 1937 Housing Act for all of the units in the development. See Appendix F for a description of and current developments regarding the Section 236 program. This program is material to the Authority's ability to pay debt service on the Offered Bonds.

Assumptions

The interest rates, maturities and the payment dates for the Offered Bonds were established by the Authority in order that scheduled payments expected to be received on the Acquired Bonds, together with payments expected to be received under the Loans and other moneys and securities held under the Indenture and the income expected to be received thereon, will be sufficient to pay, when due, the debt service on and Expenses attributable to the Offered Bonds. In forming this expectation, the Authority has not considered the issuance of Additional Bonds or the application or investment of the proceeds thereof; however, a condition to issuing such Additional Bonds is the filing of a Cash Flow Certificate accompanied by a Rating Certificate. Because all Bonds issued under the Indenture (other than Subordinate Bonds) will rank equally and ratably with the 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 there would be no Loan Prepayments, Acquired Bonds Redemption Receipts or Recovery Payments related to the Financed Developments. However, the Authority may receive Loan Prepayments, Acquired Bonds Redemption Receipts and Recovery Payments related to the Financed Developments or other Developments financed by Bonds, and any such amounts may be applied to the special redemption of the Offered Bonds. See "THE OFFERED BONDS - Redemption - Special Redemption."

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."

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. See "OTHER PROGRAMS."

The Authority has the power under the Act to have up to \$3,600,000,000 of bonds and notes outstanding, excluding those issued to refund its outstanding bonds and notes. As of December 31, 1998, the Authority has debt outstanding in the amount of \$2,055,573,424, which consists of general obligation debt and special limited obligation debt. See "OTHER PROGRAMS" herein and "FINANCIAL STATEMENTS" (including Note E thereto) attached as Appendix A.

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:

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

JOHN GREEN, Vice Chairman – Project Manager, Concord Development Corporation

JOHN J. VIERA, Treasurer – Retired Vice President, Commonwealth Edison Company

NICK G. STRIGLOS, Secretary – President, Contemporary Properties, Inc.

FLOYD T. BAUMAN, Member – Manager, Credit Bureau of Champaign
County, Inc.

MICHAEL BRESLAN, Member – Retired President, Chicago and Cook County Building and
Construction Trades Council

C. KIMBERLY KANG, Member – President, K-Technology, Inc.

RUDOLPH S. SHOULTZ, Member – Pastor, Union Baptist Church of Springfield

NAPOLEON P. TARNARIS, Member – Law Offices of Napoleon P. Tarnaris, Ltd.

Management

The Authority employs a staff of approximately 165 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.

MICHAEL P. ROSE, Acting Executive Director and Deputy Executive Director, was appointed Acting Executive Director in January 1999 and was approved as Deputy Executive Director in May 1996. He had been General Counsel of the Authority since December 1995 and Acting General Counsel of the Authority since January 1995. Mr. Rose has been with the Authority since August 1992 and has served as Assistant to the Director, Legislative Liaison and Staff Attorney. He has been involved in various aspects of the Authority's finance programs, including the development of financial and program structures. Mr. Rose holds a Juris Doctor degree from the University of Virginia School of Law and a Bachelor of Arts degree from the University of Illinois.

EDWARD W. SOLAN, Assistant Executive Director and Chief Operating Officer, was appointed Assistant Executive Director in April 1996. Mr. Solan had been Manager of Multi-Family Program Operations since July 1988. He has been with the Authority since 1981. Before joining the Authority, he was Special Assistant to the Regional Director of the U.S. Economic Development Administration and also taught at the University of Illinois at Chicago. He holds a Ph.D. degree from Indiana University, a Master of Business Administration degree from the University of Chicago, and a Bachelor of Arts degree from Fordham University.

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.

ELLEN F. DISTELHEIM, Acting General Counsel, was named Acting General Counsel in April 1996. Ms. Distelheim has been with the Authority since June 1992, serving as Assistant General Counsel. Prior to joining the Authority, she was in private practice in both Chicago and New York. Ms. Distelheim holds a Juris Doctor degree from the University of Virginia School of Law and a Bachelor of Arts degree from Yale University.

MICHAEL TODD, Director - Multi-Family Programs, was appointed Manager Multifamily Programs in 1996. Mr. Todd joined the Authority in 1992 and served as the Assistant Manager of Multifamily Programs for one year and as a Housing Development Officer for three years. Previously, he served as the Vice President for The Equity Group for two years and as a Vice President for the Balcor Company for four years. Mr. Todd also served as Vice President for General American Equities for four years and as a Portfolio Manager for Inland Steel Urban Development Corporation for eight years.

LINDA THURMOND, Director, Asset Management Services, has recently joined the Authority from her position as Assistant Vice President and Servicing Manager for Community Investment Corporation (CIC) in Chicago. She has a Masters in Management degree from the Kellogg School of Northwestern University. Previously, she worked in investment banking and loan securitization with AM&G Financial Services, Bankers Trust, and Oppenheimer & Company.

WILLIAM W. SMYTHE, Director of Preservation, joined the Authority in 1995 with 25 years of real estate development and management experience. He had previously been Director of Real Estate Operations and Asset Management for the Inland Steel Urban Development Corporation (ISUDC) and Senior Vice President of CRW, the entity resulting from the leveraged buy-out of ISUDC. He holds a Bachelor's degree from Knox College and a Masters of Business Administration degree from the University of Iowa.

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.

Multi-Family Housing Experience

The Authority has significant experience in the underwriting and servicing of multi-family mortgage loans. In its more than 30 years of operation, the Authority has financed over 191 multi-family developments throughout the State under several separate multi-family bond programs, excluding single project financings. See "OTHER PROGRAMS." Total loans and other assets under these programs as of June 30, 1998, were approximately \$1.2 billion.

The Authority is an FHA-Approved Mortgagee and is also an approved Seller/Servicer under the Fannie Mae Prior Approval Program. The Authority also serves as the State's administering agency for the Low Income Housing Tax Credit. As of December 31, 1998, the Authority's Multi-Family Programs and Technical Services Departments employed 25 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 17 people in areas of asset management and other aspects of loan servicing.

SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

General

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

Resolutions of the Authority which authorize the issuance of the Authority's outstanding bonds and notes (other than 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 E to the Financial Statements contained in Appendix A. Amounts in the Authority's Administrative Funds (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 Funds for any lawful purpose and may pledge all or any portion of those funds with priority over the Bonds. See "FINANCIAL STATEMENTS" in Appendix A.

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) 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 Offered Bonds.

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

The Act provides that any pledge, assignment, lien or security interest made pursuant to the Act, which includes the pledge and security interest made pursuant to the Indenture and any Series Supplemental Indenture, shall be valid and binding and immediately effective upon its being made or granted without any physical delivery, filing, recording or further act. The pledge, assignment, lien and security interest 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.

Except for the issuance of Bonds pursuant to the Indenture, the Authority has covenanted that it 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. 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.

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

Acquired Bonds

The Offered Bonds will also be secured on a parity basis 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.

The Offered Bonds Series Supplemental Indenture authorizes the acquisition of the Acquired MFHB Bonds and the Acquired HDB Bonds.

Acquired MFHB Bonds. As further described under "PLAN OF FINANCE," the Acquired MFHB Bonds will be issued under the MFHB Resolution to redeem certain of the Refunded MFHB Bonds.

Most of the MFHB Developments are subject to full or partial project-based Section 8 subsidies, or are subject to FHA mortgage insurance, or both. See Appendices F and G for descriptions of these programs. These programs are material to the Authority's ability to pay debt service on the bonds issued under the MFHB Resolution, including the Acquired MFHB Bonds.

The Acquired MFHB Bonds will be the general obligation of the Authority, although not all bonds issued under the MFHB Resolution are the general obligation of the Authority. Section 26.1 of the Act will not apply to the Acquired MFHB Bonds, but does apply to other series of bonds issued under the MFHB Resolution. Together with other bonds previously issued and outstanding under the MFHB Resolution and bonds that may be issued in the future under the MFHB Resolution, the Acquired MFHB Bonds are secured on a parity basis by a pledge of revenues of the Authority derived from MFHB Developments and by a pledge of mortgage loans relating to the MFHB Developments. Revenues under the MFHB Resolution include all income to the Authority in its capacity as mortgagee derived from MFHB Developments including, but not limited to, acquired development operating income, mortgage repayments (including the portion of any government assistance or subsidy payments received by or pledged to the Authority in its capacity as mortgagee or received by or pledged to the trustee under the MFHB Resolution in its capacity as such trustee) and investment earnings on funds and accounts established by the MFHB Resolution and transferred to the bond fund pursuant to the MFHB Resolution, but excluding prepayments, recovery payments, acquired development receipts, escrow payments and any development loan fee received by the Authority at the time of initial issuance of funds to a mortgagor. Although not required by the MFHB Resolution, the Authority has required the owner of each MFHB Development that is the subject of Section 8 housing assistance payments to enter into an agreement to pledge the Section 8 housing assistance payments as security for the mortgage loan on the MFHB Development.

The MFHB Resolution establishes a debt service reserve fund for the purpose of paying principal and redemption price, if any, of and sinking fund installments and interest on bonds maturing and becoming due for the payment of which other moneys are not available under the MFHB Resolution. See "THE MFHB BONDS AND SECURITY AND SOURCES OF PAYMENT FOR THE MFHB BONDS - Debt Service Reserve Fund" in Appendix C for a further discussion of the debt service reserve fund under the MFHB Resolution.

The MFHB Resolution provides for use of prepayments and recovery payments for payment or redemption of bonds of the series that was issued to finance or refinance the MFHB Development with respect to which such amounts are derived, or for the financing of one or more mortgage loans. For information regarding the special redemption of the Acquired MFHB Bonds at par, see "Acquired MFHB Bonds" in Appendix C.

For further information regarding the MFHB Resolution, the security and sources of payment for the Acquired MFHB Bonds, the MFHB Mortgage Loans and the MFHB Developments, see Appendices B and C.

Acquired HDB Bonds. As further described under "PLAN OF FINANCE," the Acquired HDB Bonds will be issued under the HDB Resolution to refund the Refunded HDB Bonds.

Most of the HDB Developments are entitled to interest reduction payments by HUD under Section 236 of the 1937 Housing Act for all or a portion of the units in the development. One HDB Development is subject to Section 8 subsidies. See Appendix F for a description of the Section 236 program and the Section 8 program. This program is material to the Authority's ability to pay debt service on the bonds issued under the HDB Resolution, including the Acquired HDB Bonds.

The Acquired HDB Bonds will be the general obligation of the Authority. Section 26.1 of the Act will not apply to the Acquired HDB Bonds, but does apply to all other series of bonds previously issued under the HDB Resolution. Together with other bonds previously issued and outstanding under the HDB Resolution and bonds that may be issued in the future under the HDB Resolution, the Acquired HDB Bonds are secured on a parity basis by a pledge of the mortgages securing the mortgage loans made from the proceeds of bonds issued under the HDB Resolution and the mortgage repayments received by the Authority with respect to such mortgage loans, the fees and charges imposed by the Authority upon mortgagors pursuant to the mortgages and the Act, all moneys and investments in the funds and accounts established by the HDB Resolution, including the capital reserve fund established and maintained for the benefit of the holders of bonds issued under the HDB Resolution and the Authority Reserve Fund, and all Section 236 Payments received by the Authority on the HDB Developments.

The HDB Resolution establishes a debt service reserve fund for the purpose of paying principal and redemption price, if any, of and sinking fund installments and interest on bonds maturing and becoming due for the payment of which other moneys are not available under the HDB Resolution. See "THE HDB BONDS AND SECURITY AND SOURCES OF PAYMENT FOR THE HDB BONDS - Capital Reserve Fund" in Appendix E for a further discussion of the debt service reserve fund under the HDB Resolution.

The HDB Resolution provides for use of prepayments and recovery payments for payment or redemption of bonds of the series that was issued to finance or refinance the HDB Development with respect to which such amounts are derived, or for the financing of one or more mortgage loans. For information regarding the special redemption of the Acquired HDB Bonds at par, see "Acquired HDB Bonds" in Appendix E.

For further information regarding the HDB Resolution, the security and sources of payment for the Acquired HDB Bonds, the HDB Mortgage Loans and the HDB Developments, see Appendices D and E.

Loans

The Offered Bonds will also be secured on a parity basis 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.

As further described under "PLAN OF FINANCE - Loans" and "- Refunded FRHB Bonds," the Loans financed with proceeds of the Offered Bonds include one new Loan to one of the Financed Developments and one existing Loan that will be pledged under the Indenture as a result of the redemption of the Refunded FRHB Bonds.

Reserve Fund

The Indenture establishes a Reserve Fund to be used to pay debt service on Bonds other than Subordinate Bonds or payments under Derivative Agreements relating to Bonds, other than Subordinate Bonds, to the extent no other funds are available for that purpose. The Reserve Requirement, as of any particular date of calculation, is equal to the sum of all amounts established as Series Reserve Requirements in the Series Supplemental Indentures for all Series of Bonds Outstanding. The Series Reserve Requirement is an amount established by a Series Supplemental Indenture as the reserve requirement for the Bonds of the Series while those Bonds are Outstanding. Series Supplemental Indentures for more than one Series of Bonds may establish a composite Series Reserve Requirement applicable to all those Series of Bonds.

A Series Supplemental Indenture may provide that the Series Reserve Requirement with respect to the applicable Series of Bonds may be funded in whole or in part through Cash Equivalents. 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, unless otherwise provided in the Series Supplemental Indenture.

The Offered Bonds Series Supplemental Indenture establishes a composite Series Reserve Requirement for the Offered Bonds. That Series Reserve Requirement is an amount, from time to time, equal to 1/4th of the maximum annual principal and interest on the Offered Bonds. For purposes of this calculation, a portion of the principal of and interest on the 1999 Series A Bonds will be excluded. The excluded principal and interest is the principal and interest on any 1999 Series A Bonds to the extent that the Trustee holds 1999 Series A Acquired Bonds (as defined herein), the principal of and interest on which are sufficient timely to pay the principal of and interest on the 1999 Series A Bonds to be so excluded. As used herein "1999 Series A Acquired Bonds" means any Acquired Bonds acquired with amounts received upon the sale of the 1999 Series A Bonds or Acquired Bonds acquired with proceeds of any other Series of Bonds, to the extent Acquired Bond Redemption Receipts with respect to Acquired Bonds acquired with proceeds of 1999 Series A Bonds have been used to redeem or purchase the Bonds of that other Series.

See "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – Reserve Fund" for a further discussion of the Reserve Fund.

The Acquired MFHB Bonds and the Acquired HDB Bonds have a claim to debt service reserve funds established under the MFHB Resolution and the HDB Resolution, respectively, on a parity basis with other bonds issued under those resolutions. See "THE MFHB BONDS AND SECURITY AND SOURCES OF PAYMENT FOR THE MFHB BONDS – Debt Service Reserve Fund" in Appendix C for a further discussion of the debt service reserve fund under the MFHB Resolution and "THE HDB BONDS AND SECURITY AND SOURCES OF PAYMENT FOR THE HDB BONDS – Capital Reserve Fund" in Appendix E for a further discussion of the debt service reserve fund under the HDB Resolution. Upon issuance of the Acquired MFHB Bonds and the Acquired HDB Bonds, the respective debt service reserve fund requirements under the MFHB Resolution and the HDB Resolution will be met.

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 as shall be 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 (except no Rating Certificate is required for the initial Series of Bonds);
2. making certain supplements or amendments to a Series Supplemental Indenture including, without limitation, the Series Reserve Requirement, the payment and security for Derivative Payments under a Derivative Agreement, the use of Cash Equivalents in the Reserve Fund, Supplemental Coverage, Permitted Investments or Series Program Determinations;
3. entering into any Derivative Agreement relating to any Series of Bonds after the date of issuance of such Bonds;
4. remarketing any Bonds in connection with a change in tender period except as required at the time of their issuance; or
5. releasing the pledge, assignment, lien or security interest of the Indenture in Loans or Acquired Bonds.

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

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

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

Certain Factors Affecting Multi-Family Loans

The ability of the Authority to pay the principal of and interest on the Bonds is dependent on the revenues derived from Loans (and loans held under the resolutions and indentures pursuant to which Acquired Bonds are issued), including the timely receipt of debt service payments including, without limitation, any Section 8 or Section 236 subsidies and the proceeds of any FHA mortgage insurance. The ability of the owner of a development to make timely debt service payments depends upon a variety of factors, including 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, and changes in laws and governmental regulations which affect the cost of operating the development.

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

With respect to mortgage loans that are the subject of FHA mortgage insurance, under Section 221(d)(4) of the National Housing Act and the regulations promulgated thereunder, upon proper submission of a claim by the Authority and satisfaction of the process required for effecting a due assignment of the mortgage loan to FHA, FHA will pay 99 percent of the outstanding principal amount of the mortgage loan, less certain amounts which may be available to the Authority, plus interest on the insurance benefits at the FHA debenture rate, from the date of default (in the case of a monetary default, the date on which payment should have been received) to the date of the payment of the claim. The FHA debenture rate for a development is fixed at the time of the initial endorsement of the mortgage note by FHA. There can be no assurance that such debenture rate will be equal to or exceed the interest rate on the mortgage note. Payment of insurance benefits will be made in cash unless the mortgagee requests that insurance benefits be paid in debentures. Currently, with respect to the developments described in Appendices B and E that are FHA-insured, the Authority has covenanted in the related series resolutions pursuant to which such FHA-insured developments were financed to request payment in cash. 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 Funds. See Appendix G 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 may be secured by and payable from moneys on deposit in the Debt Service Account and the Subordinate Bond Accounts, on a parity with, or, as provided in a related Series Supplemental Indenture, subordinate to interest payments on related Bonds; provided, however, in no event shall any such Derivative Payment be paid with any amounts drawn under the credit facility or bond insurance policy securing the related Bond or remarketing proceeds derived from the related Bonds. Derivative Payments may include insurance premiums or insurance of the Authority's obligation to make such payments, as provided in the related Series Supplemental Indenture.

Additional Bonds

The Indenture provides that Additional Bonds may be issued subject to certain conditions and limitations. The Authority shall, at the time of issuance of a series of Additional Bonds, determine whether such series of Additional Bonds shall be special, limited obligations of the Authority or shall be 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 a parity with and shall be entitled to the same benefits and security under the Indenture as all other Bonds issued under the Indenture, including the Offered Bonds. Nonetheless, the Authority may issue a Series of Bonds which may be secured by a credit facility or a bond insurance policy securing only such Series of Bonds or a portion of such Series of Bonds as determined by the applicable Series Supplemental Indenture.

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

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

State Certification

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

THE BOND INSURANCE POLICY

The information contained below under this caption "THE BOND INSURANCE POLICY" has been furnished by the Bond Insurer, MBIA Insurance Corporation, and neither the Authority nor the Underwriters have undertaken any independent investigation of the operations of the Bond Insurer. No representation is made herein as to the accuracy or adequacy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof. Neither the Authority nor the Underwriters make any representation as to the ability of the Bond Insurer to make payments in accordance with the Bond Insurance Policy.

The summary of the terms of the Bond Insurance Policy set forth below does not purport to be complete and is qualified in its entirety by reference to the Bond Insurance Policy, the form of which appears in Appendix J. All capitalized terms used under such subcaption and not otherwise defined in this Official Statement are used as defined in the form Bond Insurance Policy.

The Bond Insurance Policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the Authority to the Paying Agent or its successor of an amount equal to (i) the principal of (either at the stated maturity or by an advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Offered Bonds as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed by the Bond Insurance Policy shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner of the Offered Bonds pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an

avoidable preference to such owner within the meaning of any applicable bankruptcy law (a "Preference").

The Bond Insurance Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Offered Bond. The Bond Insurance Policy does not, under any circumstance, insure against loss relating to: (i) optional or mandatory redemptions (other than mandatory sinking fund redemptions); (ii) any payments to be made on an accelerated basis; (iii) payments of the purchase price of any Offered Bonds upon tender by an owner thereof; or (iv) any Preference relating to (i) through (iii) above. The Bond Insurance Policy also does not insure against nonpayment of principal of or interest on any Offered Bonds resulting from the insolvency, negligence or any other act or omission of the Paying Agent or any other paying agent for Offered Bonds.

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Bond Insurer from the Paying Agent or any owner of an Offered Bond the payment of an insured amount for which is then due, that such required payment has not been made, the Bond Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with State Street Bank and Trust Company, N.A., in New York, New York, or its successor, sufficient for the payment of any such insured amounts which are then due. Upon presentment and surrender of such Offered Bonds or presentment of such other proof of ownership of the Offered Bonds, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the Offered Bonds as are paid by the Bond Insurer, and appropriate instruments to effect the appointment of the Bond Insurer as agent for such owners of the Offered Bonds in any legal proceeding related to payment of insured amounts on the Offered Bonds, such instruments being in a form satisfactory to State Street Bank and Trust Company, N.A., State Street Bank and Trust Company, N.A. shall disburse to such owners or the Paying Agent payment of the insured amounts due on such Offered Bonds, less any amount held by the Paying Agent for the payment of such insured amounts and legally available therefor.

The Bond Insurer is the principal operating subsidiary of MBIA Inc., a New York Stock Exchange listed company (the "Company"). The Company is not obligated to pay the debts of or claims against the Bond Insurer. The Bond Insurer is domiciled in the State of New York and licensed to do business in and subject to regulation under the laws of all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, the Virgin Islands of the United States and the Territory of Guam. The Bond Insurer has two European branches, one in the Republic of France and the other in the Kingdom of Spain. New York has laws prescribing minimum capital requirements, limiting classes and concentrations of investments and requiring the approval of policy rates and forms. State laws also regulate the amount of both the aggregate and individual risks that may be insured, the payment of dividends by the Bond Insurer, changes in control and transactions among affiliates. Additionally, the Bond Insurer is required to maintain contingency reserves on its liabilities in certain amounts and for certain periods of time.

Effective February 17, 1998, the Company acquired all of the outstanding stock of Capital Markets Assurance Corporation ("CMAC") through a merger with its parent CapMAC Holdings Inc. Pursuant to a reinsurance agreement, CMAC has ceded all of its net insured risks (including any amounts due but unpaid from third party reinsurers), as well as its unearned premiums and contingency reserves to the Bond Insurer. The Company is not obligated to pay debts of or claims against CMAC.

As of December 31, 1997, the Bond Insurer had admitted assets of \$5.3 billion (audited), total liabilities of \$3.5 billion (audited), and total capital and surplus of \$1.8 billion (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of September 30, 1998, the Bond Insurer had admitted assets of \$6.3 billion (unaudited), total liabilities of \$4.1 billion (unaudited), and total capital and surplus of \$2.2 billion (unaudited) determined in accordance the statutory accounting practices prescribed or permitted by insurance regulatory authorities.

Furthermore, copies of the Bond Insurer's year end financial statements prepared in accordance with statutory accounting practices are available without charge from the Bond Insurer. A copy of the Annual Report on Form 10-K of the Company is available from the Bond Insurer or the Securities and Exchange Commission. The address of the Bond Insurer is 113 King Street, Armonk, New York 10504. The telephone number of the Bond Insurer is (914) 273-4545.

Moody's Investors Service, Inc. ("Moody's") rates the financial strength of the Bond Insurer "Aaa."

Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("S&P") rates the financial strength of the Bond Insurer "AAA."

Fitch IBCA, Inc. (formerly known as Fitch Investors Service, L.P.) ("Fitch") rates the financial strength of the Bond Insurer "AAA."

Each rating of the Bond Insurer should be evaluated independently. The ratings reflect the respective rating agency's current assessment of the creditworthiness of the Bond Insurer and its ability to pay claims on its policies of insurance. Any further explanation as to the significance of the above ratings may be obtained only from the applicable rating agency.

The above ratings are not recommendations to buy, sell or hold the Offered Bonds, and such rating may be 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 guaranty the market price of the Offered Bonds nor does it guaranty that the ratings on the Offered Bonds will not be revised or withdrawn.

THE OFFERED BONDS

General

The Offered Bonds will be dated March 1, 1999, and will bear interest from their date payable semiannually on each January 1 and July 1, with the first interest payment date being January 1, 2000, at the rates per annum, and will mature on the dates and in the amounts, set forth on the inside cover page of this Official Statement. The Offered Bonds are issuable only in registered form in denominations of \$5,000 or any integral multiple thereof ("Authorized Denomination").

The Offered Bonds are issuable only as fully registered bonds initially registered in the name of Cede & Co., as nominee for The Depository Trust Company, which will act as securities depository for the Bonds. For a description of the method of payment of the principal, premium, if any, and interest on the Bonds, and matters pertaining to transfers and exchanges while the Bonds are in book-entry system, see "THE OFFERED BONDS – Book-Entry Only System." For a description of matters pertaining to transfers and exchanges while the Bonds are not in book-entry system, see "THE OFFERED BONDS – Registration, Transfer, Ownership and Exchange of Bonds."

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

Interest payable on the Offered Bonds on each interest payment date will be paid to the Owner appearing on the registration books of the Authority or to the designee of such Owner on such date, by check mailed to the Owner at the Owner's address as it appears on such registration books or, if to the Owner's designee, to the address of such designee. See "THE OFFERED BONDS – Book-Entry Only System."

Registration, Transfer, Ownership and Exchange of Bonds

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

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

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

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

Redemption

Special Redemption

1999 Series A Bonds. The 1999 Series A Bonds 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);
- (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 1999 Series A 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) Acquired Bond Redemption Receipts of any Acquired Bonds (whether financed by Offered Bonds or other Bonds) to the extent permitted by the terms of the Acquired Bonds (but not including any proceeds of a voluntary sale of Acquired Bonds not in default);
- (iv) moneys available from a reduction in the Reserve Requirement as a result of the redemption or repayment of 1999 Series A Bonds;
- (v) any money that the Trustee may pay to the Authority as described in clause (8) under the caption "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE - Revenue Fund," upon filing of a Compliance Certificate or Cash Flow Certificate, as appropriate, as further described under "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE - Rating Certificates, Compliance Certificates and Cash Flow Certificates;"

- (vi) any amounts remaining in the 1999 Series A Account of the Program Fund as of 90 days after the date of issuance of the 1999 Series A Bonds, as a result of a failure to make, in whole or in part, the Loan to Columbia Lakes Apartments as described above under "PLAN OF FINANCE - Loans"; and
- (vii) any money provided by the Authority, if, in the opinion of nationally recognized bond counsel selected by the Authority, the redemption of the 1999 Series A 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 1999 Series A Bonds is or was included in gross income of their owners within the meaning of the Code (except for gross income on 1999 Series A 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.

1999 Series C Bonds. The 1999 Series C Bonds 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 the Loan to Columbia Lakes Apartments as described above under "PLAN OF FINANCE - Loans;"
- (ii) payments made by the Authority to the extent a Loan Prepayment or Recovery Payment of the Loan to Columbia Lakes Apartments as described above under "PLAN OF FINANCE - Loans" is less than the Redemption Price of the 1999 Series A Bonds and 1999 Series C Bonds that financed the Loan;

- (iii) moneys available from a reduction in the Reserve Requirement as a result of the redemption or repayment of 1999 Series C Bonds;
- (iv) any money that the Trustee may pay to the Authority as described in clause (8) under the caption "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – Revenue Fund," upon filing of a Compliance Certificate or Cash Flow Certificate, as appropriate, as further described under "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – Rating Certificates, Compliance Certificates and Cash Flow Certificates;" and
- (v) any amounts remaining in the 1999 Series C Account of the Program Fund as of 90 days after the date of issuance of the 1999 Series C Bonds, as a result of a failure to make, in whole or in part, the Loan to Columbia Lakes Apartments as described above under "PLAN OF FINANCE – *Loans*."

A Loan Prepayment for the Columbia Lakes Loan may include, without limitation, a voluntary prepayment from proceeds of a new loan made by the Authority, including a new loan 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 the Columbia Lakes Loan to the extent it is not in default, including a sale to secure obligations of the Authority other than Bonds.

Under the Loans for Columbia Lakes and Country Club Heights, the borrowers have agreed that without the consent of the Authority they will not make any Loan Prepayment until an agreed upon date. The mortgage loans for the other Financed Developments contain similar agreements or prohibit prepayment. For the dates on and after which those Loans and the mortgage loans for the other Financed Developments can be prepaid without the consent of the Authority, see the table 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, the MFHB Resolution or the HDB Resolution, as applicable). 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, the MFHB Resolution or the HDB Resolution, as applicable).

| <u>Mortgage Loan No.</u> | <u>Name of Development</u> | <u>Current Mortgage Rate ¹</u> | <u>Approximate Unpaid Principal Balance Allocable to the Offered Bonds ¹</u> | <u>Earliest Optional Prepayment Date</u> |
|------------------------------|------------------------------|---|---|--|
| ML-1 | Harper Square | 5.53% | \$ 9,092,447 | 7/1/84 |
| ML-2 | Winfield Village I | 5.53 | 1,652,406 | 3/8/92 |
| ML-3 | Vermilion Gardens | 5.53 | 2,314,337 | ² |
| ML-4 | Huntington Square Apartments | 5.53 | 3,899,971 | ² |
| ML-6 | University Village I | 5.53 | 2,660,194 | ² |
| ML-7 | Lancaster Heights | 5.53 | 2,068,823 | ³ |
| ML-13 | Cumberland Green | 5.53 | 2,792,392 | 11/13/93 |
| ML-209 | HICA Redevelopment Project | 8.30 | 5,069,063 | 12/1/98 |
| ML-216 | Austin Renaissance | 8.30 | 2,781,867 | 11/1/97 |
| ML-28 | Country Club Heights | 5.15 | 3,867,128 | 4/29/96 |
| ML-199 | Columbia Lakes Apartments | 5.95 ⁴ | <u>6,300,000</u> | 5/1/2005 |
| Total | | | <u>\$ 42,498,628</u> | |

1. As of December 31, 1998, except with respect to the interest rates for Country Club Heights and Columbia Lakes Apartments and the principal balance of the Columbia Lakes Apartments Loan, which are as of the date of issuance of the Offered Bonds.
2. The borrower has no right to prepay this loan.
3. The earliest optional prepayment date is the date of redemption of the Refunded HDB Bonds, which will occur on or before July 1, 1999.
4. This interest rate is a composite rate based upon two notes, one of which bears interest only at 5.30 percent with respect to \$5,680,000 in principal amount, and the other of which bears interest at 15.89 percent with respect to \$620,000 in principal amount and amortizes in 61 months. The interest rate on the first note increases to 6.21 percent and commences amortization after 61 months.

Loans in the aggregate outstanding principal amount of \$25,255,303 (as of December 31, 1998) are past their respective earliest optional prepayment dates, and, accordingly, may be prepaid at any time without the consent of the Authority. Such prepayments may result in the special redemption of Offered Bonds at par as described above.

See the information under the caption "PLAN OF FINANCE - Loans" and "- Refunded FRHB Bonds" for certain information regarding the right to prepay the Loans for Columbia Lakes Apartments and Country Club Heights, and the amount that the respective borrowers are required to pay in the event of such a prepayment. See the "THE MFHB BONDS AND SECURITY AND SOURCES OF PAYMENT FOR THE MFHB BONDS - Covenants Relating to Mortgages - Prepayment" and "THE HDB BONDS AND SECURITY AND SOURCES OF PAYMENT FOR THE HDB BONDS - Covenants Relating to Mortgages" for certain information regarding the amount that the borrower is required to pay in the event of a prepayment of a mortgage loan held under the MFHB Resolution and the HDB Resolution, respectively.

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.

Mandatory Sinking Fund Redemption. The 1999 Series A Bonds maturing on July 1, 2018, are subject to mandatory redemption in part by lot, pursuant to Sinking Fund Installments on the dates and in the amounts shown below, at a Redemption Price equal to the principal amount of the 1999 Series A Bonds to be redeemed plus accrued interest to the date of redemption, without premium:

| <u>Redemption Date</u> | <u>Sinking Fund Installment</u> | <u>Redemption Date</u> | <u>Sinking Fund Installment</u> |
|------------------------|-------------------------------------|------------------------|-------------------------------------|
| January 1, 2012 | \$1,460,000 | July 1, 2015 | \$ 750,000 |
| July 1, 2012 | 1,495,000 | January 1, 2016 | 445,000 |
| January 1, 2013 | 1,425,000 | July 1, 2016 | 265,000 |
| July 1, 2013 | 1,565,000 | January 1, 2017 | 275,000 |
| January 1, 2014 | 845,000 | July 1, 2017 | 290,000 |
| July 1, 2014 | 920,000 | January 1, 2018 | 290,000 |
| January 1, 2015 | 670,000 | July 1, 2018 † | 300,000 |

† Final maturity

The 1999 Series A Bonds maturing on July 1, 2030, are subject to mandatory redemption in part by lot, pursuant to Sinking Fund Installments on the dates and in the amounts shown below, at a Redemption Price equal to the principal amount of the 1999 Series A Bonds to be redeemed plus accrued interest to the date of redemption, without premium:

| <u>Redemption Date</u> | <u>Sinking Fund Installment</u> | <u>Redemption Date</u> | <u>Sinking Fund Installment</u> |
|------------------------|-------------------------------------|------------------------|-------------------------------------|
| January 1, 2019 | \$ 70,000 | January 1, 2025 | \$ 95,000 |
| July 1, 2019 | 75,000 | July 1, 2025 | 100,000 |
| January 1, 2020 | 75,000 | January 1, 2026 | 100,000 |
| July 1, 2020 | 75,000 | July 1, 2026 | 105,000 |
| January 1, 2021 | 80,000 | January 1, 2027 | 105,000 |
| July 1, 2021 | 80,000 | July 1, 2027 | 110,000 |
| January 1, 2022 | 80,000 | January 1, 2028 | 115,000 |
| July 1, 2022 | 85,000 | July 1, 2028 | 120,000 |
| January 1, 2023 | 90,000 | January 1, 2029 | 40,000 |
| July 1, 2023 | 90,000 | July 1, 2029 | 40,000 |
| January 1, 2024 | 90,000 | January 1, 2030 | 45,000 |
| July 1, 2024 | 95,000 | July 1, 2030 † | 45,000 |

† Final maturity

The 1999 Series A Bonds maturing on January 1, 2031, are subject to mandatory redemption in part by lot, pursuant to Sinking Fund Installments on the dates and in the amounts shown below, at a Redemption Price equal to the principal amount of the 1999 Series A Bonds to be redeemed plus accrued interest to the date of redemption, without premium:

| <u>Redemption Date</u> | <u>Sinking Fund Installment</u> | <u>Redemption Date</u> | <u>Sinking Fund Installment</u> |
|------------------------|-------------------------------------|------------------------|-------------------------------------|
| January 1, 2019 | \$ 235,000 | July 1, 2025 | \$ 330,000 |
| July 1, 2019 | 245,000 | January 1, 2026 | 340,000 |
| January 1, 2020 | 245,000 | July 1, 2026 | 350,000 |
| July 1, 2020 | 255,000 | January 1, 2027 | 360,000 |
| January 1, 2021 | 265,000 | July 1, 2027 | 370,000 |
| July 1, 2021 | 270,000 | January 1, 2028 | 370,000 |
| January 1, 2022 | 275,000 | July 1, 2028 | 385,000 |
| July 1, 2022 | 285,000 | January 1, 2029 | 140,000 |
| January 1, 2023 | 290,000 | July 1, 2029 | 140,000 |
| July 1, 2023 | 295,000 | January 1, 2030 | 145,000 |
| January 1, 2024 | 305,000 | July 1, 2030 | 145,000 |
| July 1, 2024 | 315,000 | January 1, 2031 † | 200,000 |
| January 1, 2025 | 325,000 | | |

† Final maturity

The 1999 Series C Bonds maturing on July 1, 2003, are subject to mandatory redemption in part by lot, pursuant to Sinking Fund Installments on the dates and in the amounts shown below, at a Redemption Price equal to the principal amount of the 1999 Series C Bonds to be redeemed plus accrued interest to the date of redemption, without premium:

| <u>Redemption Date</u> | <u>Sinking Fund Installment</u> | <u>Redemption Date</u> | <u>Sinking Fund Installment</u> |
|------------------------|-------------------------------------|------------------------|-------------------------------------|
| January 1, 2000 | \$ 75,000 | January 1, 2002 | \$ 80,000 |
| July 1, 2000 | 75,000 | July 1, 2002 | 80,000 |
| January 1, 2001 | 75,000 | January 1, 2003 | 85,000 |
| July 1, 2001 | 75,000 | July 1, 2003 † | 90,000 |

† Final maturity

The Sinking Fund Installments on the Offered Bonds maturing on any date may be reduced by the redemption of those Offered Bonds, other than pursuant to 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 will 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, will specify any Sinking Fund Installments against which the redemption will be credited and the notice of the redemption will also include that information. The Authority will determine the amounts and due dates of the various Sinking Fund Installments against which the principal amount of Offered Bonds will be credited in such manner that there will be no material adverse effect on the ability of the Authority to

continue to pay the principal of and Sinking Fund Installments and interest on Offered Bonds remaining Outstanding.

Optional Redemption. On or after March 1, 2009, the 1999 Series A Bonds may be called for redemption at the option of the Authority, in any order of maturity as determined by the Authority, and by lot within a maturity, in whole or in part at any time, from any moneys available for such purpose, at the applicable Redemption Price (expressed as percentages of the principal amount to be so redeemed) set forth in the table below plus accrued interest, if any, to the date fixed for redemption:

| <u>Redemption Period</u> <u>(both dates inclusive)</u> | <u>Redemption</u> <u>Price</u> |
|---|-----------------------------------|
| March 1, 2009 through February 28, 2010 | 101.00% |
| March 1, 2010 through February 28, 2011 | 100.50 |
| March 1, 2011 and thereafter | 100.00 |

The Authority may also redeem, at par without premium, all or any portion of the Offered Bonds at any time under the circumstances described above under the subheading "*Special Redemption.*" The Authority must file with the Trustee either a Compliance Certificate or a Cash Flow Certificate, as appropriate, prior to the optional redemption of the Offered Bonds in the manner described above.

General Redemption Provisions

As long as the Offered Bonds are held by Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), notice of any redemption will be mailed not less than 30 days and not more than 90 days prior to the date set for redemption. Such notices will be furnished to DTC. The Authority has been informed that DTC will in turn forward the information to Direct Participants (as defined below), which will then provide the appropriate notification to Indirect Participants and Beneficial Owners (as defined below). Failure to so mail any such notice to DTC or any Bondowner (as defined below) will not affect the validity of the proceedings for the redemption of the 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.

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) shall 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 shall 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 shall 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 shall be of no force and effect and such Offered Bonds shall 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 shall not be made and the Trustee (or Master Paying Agent, if one is appointed and serving) shall 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 shall be conclusive and binding upon the Authority and owners of the Offered Bonds. Once notice is sent in accordance with the provisions of the Indenture, it shall 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 shall 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 shall become and be due and payable at their Redemption Price, such Offered Bonds or portions of Offered Bonds shall cease to be Outstanding, interest on the Offered Bonds or portions of Offered Bonds so called for redemption shall cease to accrue, such Offered Bonds or portions of Offered Bonds shall cease to be entitled to any benefit or security under the Indenture and the Owners of such Offered Bonds or portions of Offered Bonds shall have no other rights except to receive payment of the Redemption Price and the accrued interest on such Offered Bonds to the date of redemption and, to the extent applicable, to receive Offered Bonds for any unredeemed portion of Offered Bonds.

If less than all of the Offered Bonds of one Series (and subseries, if applicable) and one maturity bearing the same interest rate (and otherwise of like tenor) are called for redemption, the particular Offered Bonds of such Series (and subseries if applicable) and maturity bearing the same rate of interest (and otherwise of like tenor) to be redeemed shall be selected not later than 45 days prior to the date fixed for redemption or such lesser number of days as shall be 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 shall 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 shall 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) shall 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 shall 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 shall notify the Trustee in writing of its selection of Offered Bonds to be redeemed as provided in this paragraph and the Trustee shall 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. Such new Offered Bond shall be issued in any Authorized Denomination at the option of such Owner or the Owner's agent, shall be of the same maturity and subseries, shall bear interest at the same rate and shall otherwise be of same tenor as the Offered Bond partially redeemed.

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 ownership of one fully registered Offered Bond for each maturity, each in the aggregate principal amount of such maturity, will be registered in the name of Cede & Co., as nominee for DTC. DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants ("Participants") deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a Direct Participant,

either directly or indirectly ("Indirect Participants"). The Rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

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

To facilitate subsequent transfers, all Offered Bonds deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of Offered Bonds with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Offered Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Offered Bonds are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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

While the Offered Bonds are in the book-entry only system, redemption notices shall be sent to Cede & Co. If less than all of the Offered Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to the Offered Bonds. Under its usual procedures, DTC will mail 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 Offered Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Offered Bonds will be made to DTC. DTC's practice is to credit Direct Participants' accounts on the date payable in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on the date payable. 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 to DTC is the responsibility of the Authority or the Trustee, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Offered Bonds 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 Offered Bonds will be printed and delivered.

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

DTC management is aware that some computer applications, systems, and the like for processing data ("Systems") that are dependent upon calendar dates, including dates before, on, and after January 1, 2000, may encounter "Year 2000 problems." DTC has informed its Participants and other members of the financial community (the "Industry") that it has developed and is implementing a program so that its Systems, as the same relate to the timely payment of distributions (including principal and interest payments) to bondholders, book-entry deliveries, and settlement of trades within DTC, continue to function appropriately. This program includes a technical assessment and remediation plan, each of which is complete. Additionally, DTC's plan includes a testing phase, which is expected to be complete within appropriate time frames.

However, DTC's ability to perform properly its services is also dependent upon other parties, including, but not limited to issuers and their agents, as well as third-party vendors on whom DTC relies for information or the provision of services, including telecommunications and electrical utility service providers, among others. DTC has informed the Industry that it is contacting (and will continue to contact) third-party vendors from whom DTC acquires services to: (i) impress upon them the importance of such services being Year 2000 compliant; and (ii) determine the extent of their efforts for Year 2000 remediation (and, as appropriate, testing) of their services. In addition, DTC is in the process of developing such contingency plans as it deems appropriate.

According to DTC, the foregoing information with respect to DTC has been provided to the Industry for informational purposes only and is not intended to serve as a representation, warranty, or contract modification of any kind.

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 OFFERED BOND UNDER OR THROUGH DTC OR ANY PARTICIPANT, OR ANY OTHER PERSON WHICH 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 OFFERED BOND, ANY NOTICE WHICH 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 OFFERED BONDS, OR ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC OR ITS NOMINEE AS THE REGISTERED OWNER OF THE OFFERED BONDS.

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 The First National Bank of Chicago, 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.

The First National Bank of Chicago, 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.

SOURCES AND USES OF FUNDS

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

Sources

| | |
|----------------------------|-----------------------------|
| Offered Bond Proceeds | \$ 46,810,000 |
| Other Sources ¹ | <u>1,430,312</u> |
| Total Sources | \$ <u><u>48,240,312</u></u> |

Uses

| | |
|---|-----------------------------|
| Loan | \$ 6,300,000 |
| Acquired MFHB Bonds | 10,135,000 |
| Acquired HDB Bonds | 26,335,000 |
| Refund Refunded FRHB Bonds | 4,190,000 |
| Deposit to Reserve Fund | 210,000 |
| Deposit to Debt Service Account for Capitalized Interest | 41,240 |
| Costs of Issuance ² | 526,328 |
| Underwriters' Fee | <u>502,744</u> |
| Total Uses | \$ <u><u>48,240,312</u></u> |

1. Other sources include amounts made available under the MFHB Resolution, the HDB Resolution and the FRHB Resolution (such as, for example, discounts on the purchase of Acquired Bonds and reserve fund reductions) as a result of the redemption of the Refunded MFHB Bonds, the Refunded HDB Bonds and the Refunded FRHB Bonds.
2. Includes a portion of the premium for the Bond Insurance Policy.

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. The 11 Financed Developments will be financed directly or indirectly through the issuance of the Offered Bonds. A schedule of these Developments is set forth below.

Description of Financed Developments

The following table sets forth for each such Financed Development the Mortgage Loan number, the name, the location, the number of rental units, the number of units subject to Section 8 assistance, the unpaid principal amount of the Mortgage Loan, the percentage of occupancy, the maturity dates of the respective Mortgage Loans, and the latest expiration dates of the respective Section 8 contracts.

FINANCED DEVELOPMENTS

| Mortgage Loan No. | Name of Development | Location | Total Number of Units/ Subsidized Units ¹ | Unpaid Principal Balance ¹ | Occupancy (Stated as a %) ¹ | Maturity Date of Mortgage Loan | Interest Rate ¹ | Earliest Optional Prepayment Date | Latest Expi- ration Date of Section 8 Contract |
|----------------------|---|--------------|---|---|--|---|-------------------------------|--|---|
| ML-1 | Harper Square ² | Chicago | 591/365 ³ | \$ 9,092,447 | 99% | 7/1/2015 | 5.53% | 7/1/84 | n/a |
| ML-2 | Winfield Village I ² | Savoy | 160/160 ³ | 1,652,406 | 93 | 7/1/2015 | 5.53 | 3/8/92 | n/a |
| ML-3 | Vermilion Gardens ² | Danville | 240/240 ³ | 2,314,337 | 91 | 7/1/2015 | 5.53 | " | n/a |
| ML-4 | Huntington Square Apartments ² | Mt. Prospect | 324/108 ³ | 3,899,971 | 100 | 7/1/2015 | 5.53 | " | n/a |
| ML-6 | University Village I ² | DeKalb | 246/246 ³ | 2,660,194 | 86 | 7/1/2015 | 5.53 | " | n/a |
| ML-7 | Lancaster Heights ² | Normal | 198/198 ³ | 2,068,823 | 92 | 7/1/2015 | 5.53 | " | n/a |
| ML-13 | Cumberland Green ² | St. Charles | 204/204 ³ | 2,792,392 | 100 | 7/1/2015 | 5.53 | 11/13/93 | n/a |
| ML-209 | HICA Redevelopment Project ^{3,4} | Chicago | 120/120 ³ | 5,069,063 | 100 | 12/1/2030 | 8.30 | 12/1/98 | 12/27/2005 |
| ML-216 | Austin Renaissance ^{3,4} | Chicago | 71/71 ³ | 2,781,867 | 96 | 5/1/2029 | 8.30 | 11/1/97 | 7/31/2003 |
| ML-28 | Country Club Heights ⁵ | Quincy | 200/200 ³ | 3,867,128 | 93 | 9/1/2015 | 5.15 | 4/29/96 | n/a |
| ML-199 | Columbia Lakes Apartments ⁶ | Columbia | 138/0 | 6,300,000 | 97 | 5/1/2030 | 5.95 ¹¹ | 5/1/2005 | n/a |
| | Total | | 2,492/1,912 | \$42,498,628 | | | | | |

- As of December 31, 1998, except with respect to the interest rates for Country Club Heights and Columbia Lakes Apartments and the principal balance of the Columbia Lakes Apartments loan, which are as of the date of issuance of the Offered Bonds.
- The mortgage loan for this Financed Development will be held under the HDB Resolution. See Appendix D for additional information about this Financed Development.
- The mortgage loan for this Financed Development will be held under the MFHB Resolution. See Appendix B for additional information about this Financed Development.
- The mortgage loan for this Financed Development is subject to FIA Insurance.
- The mortgage loan for this Financed Development was made under the FRHB Resolution but will be held as a Loan under the Indenture. This Financed Development was initially financed by the Authority as new construction. Its tenancy is a mix of family and elderly. Its annual Section 236 subsidy as of December 31, 1998 was \$285,299.
- This Loan will be made with proceeds of the Offered Bonds and held under the Indenture.
- Section 236.
- Section 8.
- The borrower has no right to prepay this loan.
- The earliest optional prepayment date is the date of redemption of the Refunded HDB Bonds, which will occur on or about June 1, 1999.
- This interest rate is a composite rate based upon two notes, one of which bears interest only at 5.30 percent with respect to \$5,680,000 in principal amount, and the other of which bears interest at 15.89 percent with respect to \$620,000 in principal amount and amortizes in 61 months. The interest rate on the first note increases to 6.21 percent and commences amortization after 61 months.

OTHER PROGRAMS

Other Multi-Family Mortgage Loan Programs

Information regarding the Authority's other multi-family mortgage loan programs is provided below for purposes of general reference only. Many of the developments financed under these programs depend upon subsidies by the United States Department of Housing and Urban Development ("HUD") under Section 8 ("Section 8") of the United States Housing Act of 1937, as amended (the "1937 Housing Act") to meet their mortgage loan payments to the Authority. There are several proposals currently being discussed by HUD and members of Congress that could reduce or eliminate Section 8 subsidies. The Authority is unable to predict the outcome of these discussions or their impact on developments financed under these programs. For a further discussion of the multi-family mortgage loan programs, see "FINANCIAL STATEMENTS - Note D - Program Loans Receivable," "- Note E - Bonds and Notes Payable" and "- Note H - Other Liabilities" attached as Appendix A.

Multi-Family Program Bonds. Under this program the Authority issues Multi-Family Program Bonds in series to make mortgage loans for the purpose of: (i) financing the acquisition, construction, equipping, installation, renovation or rehabilitation of multi-family rental housing developments for persons and families of low and moderate income in the State of Illinois, (ii) preserving the availability of low and moderate income housing in existing developments, (iii) retiring outstanding Multi-Family Program Bonds and (iv) retiring other indebtedness of the Authority or other Persons issued for the purpose of financing or refinancing a development. The developments financed from the proceeds of the outstanding Multi-Family Program Bonds are fully or partially subsidized by HUD under Section 8 of the 1937 Housing Act, although it is not a requirement of this program that such developments or developments to be financed under this program in the future be subsidized. The bonds issued under this program (other than the two series issued in 1996) are general obligations of the Authority, but are not subject to certification pursuant to Section 26.1 of the Act. The two most recent series of these bonds are not general obligations of the Authority or subject to certification pursuant to Section 26.1 of the Act. However, there is a partial pledge of the Authority's general obligation to secure the Authority's reimbursement obligations to the provider of the bond insurance insuring such series of bonds.

Multi-Family Housing Bonds. Under this program, the Authority finances multi-family housing mortgage loans to provide for the construction or rehabilitation and permanent financing of rental multi-family housing developments through the issuance of Multi-Family Housing Bonds and Multi-Family Housing Bond Anticipation Notes. Housing developments so financed are designed primarily for occupancy by persons and families of low and moderate income and, generally, the multi-family housing mortgage loans are made for developments which are or are expected to be the subject of future housing assistance payments by HUD under Section 8 of the 1937 Housing Act, for all or a portion of the units therein, or FHA mortgage insurance under Section 221(d)(4) of the National Housing Act of 1934, as amended. All but a series of these bonds issued in 1995 are general obligations of the Authority and subject to certification pursuant to Section 26.1 of the Act. However, there is a partial pledge of the Authority's general obligation to secure the Authority's reimbursement obligations to the provider of the bond insurance insuring such series of these bonds issued in 1995. The Acquired MFHB Bonds will be issued and secured under this program and will be 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.

Housing Development Revenue Bonds. Under this program, the Authority finances housing development mortgage loans to provide for the permanent financing of multi-family housing developments through the issuance of Housing Development Revenue Bonds. Developments so financed are designed primarily for occupancy by persons and families of low and moderate income and the mortgage loans are the subject of FHA mortgage insurance under Section 221(d)(4) of the National Housing Act of 1934. The Authority does not plan to issue additional Housing Development Revenue Bonds. These bonds are general obligations of the Authority and subject to certification pursuant to Section 26.1 of the Act.

Housing Development Bonds. Under this program, housing development mortgage loans provide for the construction or rehabilitation and permanent financing of rental multi-family housing developments through the issuance of Housing Development Bonds and Housing Development Bond Anticipation Notes. Housing developments so financed are designed primarily for occupancy by persons and families of low and moderate income and, generally, the housing development mortgage loans are made for developments which are entitled to interest reduction payments by HUD under Section 236 of the 1937 Housing Act for all or a portion of the units in the development. These bonds are general obligations of the Authority and subject to certification pursuant to Section 26.1 of the Act. The Acquired HDB Bonds will be issued and secured under this program and will be the general obligations of the Authority, but not subject to certification pursuant to Section 26.1 of the Act.

Fixed Rate Housing Bonds. These bonds provided permanent financing for and financed mortgage loan increases for developments designed primarily for occupancy by persons and families of low and moderate income. These bonds are general obligations of the Authority and subject to certification pursuant to Section 26.1 of the Act. The Refunded FRHB Bonds were issued under this program. See "PLAN OF FINANCE."

Multi-Family Variable Rate Demand Bonds. The Authority established this new 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. These bonds are general obligations of the Authority but are not subject to certification pursuant to Section 26.1 of the Act.

Risk Sharing Program. In June 1994, the Authority entered into a Risk Sharing Agreement with HUD which permits the Authority to participate in HUD's Pilot Risk Sharing Program. Under the Risk Sharing Program, HUD will insure certain mortgage loans on multi-family housing developments ("Risk Sharing Loans"). HUD has authorized the Authority to make Risk Sharing Loans for multi-family housing developments with, in the aggregate, up to 1,470 units. Under the Risk Sharing Agreement, the Authority will underwrite Risk Sharing Loans following its underwriting guidelines. HUD will insure these Risk Sharing Loans and will bear ten to 50 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 has made six Risk Sharing Loans, and elected that HUD assume 50 percent of the loss with respect to those loans. The Authority is currently reviewing a number of other applications for Risk Sharing Loans, and anticipates entering into a commitments for, and closing, other Risk Sharing Loans in 1999.

Single Project Financings. The Authority issues from time to time special limited obligation bonds to finance single projects as further described in "FINANCIAL STATEMENTS - Note E - Bonds and Notes Payable - Other Financings" and "- Note K - Subsequent Events" 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 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 "FINANCIAL STATEMENTS - Note D - Program Loans Receivable," "- Note E - Bonds and Notes Payable," "- Note H - Other Liabilities" and "- Note K - 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 created this program 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 under this program. The Authority does not anticipate issuing additional bonds under this program. All of these bonds are general obligations of the Authority subject to certification pursuant to Section 26.1 of the Act.

Owner Occupied Housing Revenue Bonds. Pursuant to the Authority's Owner Occupied Housing Revenue Bonds General Resolution, the Authority from time to time issues bonds and uses the proceeds to refund the Authority's outstanding 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 issued and 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 - 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. 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 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 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 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, 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 initially The First National Bank of Chicago, 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 then existing Rating on the Bonds, other than Subordinate Bonds, or are rated in the highest rating category assigned by each such Rating Agency (without regard to any refinement or gradation of rating category by numerical modifier or otherwise) for short-term obligations if the investment is for a period not exceeding one year;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

"Series 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. Series Supplemental Indenture includes any supplemental indenture of the Authority amending a Series Supplemental Indenture as provided in the 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.

"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.

General

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

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 and the full faith and credit of the Authority, subject to the present or future pledge, assignment or grant of a security interest or lien on specific property or amounts, assets or revenues to the payment of other obligations of the Authority, are pledged for the payment of the principal and Redemption Price of and interest and Sinking Fund Installments on the Bonds. 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, 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 shall be deposited with the Trustee. The Trustee shall have no duty to examine any of these instruments and documents but only to retain them on deposit or apply them as provided in the Indenture. Loans, and the security for them, are subject to release by the Trustee to the Authority upon

an Authority Request in connection with a sale, a disposition, an enforcement action, a restructuring of a Loan by the Authority as provided in the following paragraph.

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

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

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

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

Issuance of Bonds

Each Series of Bonds shall be authorized and issued under and secured by the Indenture pursuant to the authorization contained in a Series Supplemental Indenture. The Bonds of each Series shall be designated as provided by the Series Supplemental Indenture. The Bonds shall be in such subseries (if

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

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

- (i) the authorized principal amount of such Series of Bonds;
- (ii) the purposes for which such Series of Bonds are being issued, which shall be one or more of the following purposes: (a) the acquisition, construction, renovation, rehabilitation, improvement, expansion or equipping of any Development, including any Acquired Development and including providing reserves for those purposes, (b) the purchase, acquisition or making of Loans, (c) the purchase or acquisition of Acquired Bonds, (d) the making of such deposits in amounts, if any, required by the Indenture or the Series Supplemental Indentures to be paid into various Funds and Accounts, (e) the refunding of Bonds including prior to their redemption or maturity dates, (f) the acquisition, purchase, redemption or refunding of Obligations or (g) other lawful purposes of the Authority as specified in the Series Supplemental Indenture;
- (iii) the maturity date or dates, the amounts of each maturity, and the interest payment dates of the Bonds of such Series;
- (iv) the interest rate or rates of the Bonds of such Series (which may be a variable rate or rates) or method of determining the rate or rates;
- (v) the denomination or denominations of, and the manner of dating, numbering and lettering the Bonds of such Series;
- (vi) in the case of Term Bonds, if any, provision for Sinking Fund Installments;
- (vii) in the case of Deferred Interest Bonds, the provisions as to accrual and compounding of interest;
- (viii) the Redemption Price or Redemption Prices, if any, the time or times and the terms and conditions upon which the Bonds of such Series may be redeemed prior to their maturities, including without limitation the method of selection for redemption as among maturities;
- (ix) the amounts to be deposited from the proceeds of such Series of Bonds in the Funds and Accounts created and established by the Indenture and the Series Supplemental Indenture;

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

(xi) the Series Program Determinations, if any;

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

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

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

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

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

Funds and Accounts

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

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

Additional Funds and Accounts may be created and designated in Series Supplemental Indentures. The full designation of each such Fund and Account shall include the term "Illinois Housing Development Authority Housing Bonds," which term shall precede the designation as set forth above. Each such Fund and Account shall be held by the Trustee (other than the Acquired Development Fund), in trust, separate

and apart from all other funds of the Authority, for the purposes provided in the Indenture. In Series Supplemental Indentures, the Authority may provide for the deposit of amounts in Funds and Accounts, which amounts shall be subject to the pledge, assignment, lien and security interest of the Indenture in the amounts and for the purposes and period of time set forth in the applicable Series Supplemental Indenture.

Program Fund. For each Series of Bonds there shall be 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 shall 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 shall immediately transfer all Revenues received by it, other than Acquired Development Operating Income, to the Trustee. Acquired Development Operating Income shall be deposited in the Revenue Fund as described below under the subcaption "*Acquired Development Fund.*" All Revenues received by the Trustee shall 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 (except no Rating Certificate is required for the initial 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, shall deem most effectual to protect and enforce such rights.

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

Pro Rata Application of Funds

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

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

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

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

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

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

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

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

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

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

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

Restrictions Upon Actions by Individual Bondowner

No Owner of any of the Bonds shall have any right to institute any suit, action or proceeding in equity or at law on any Bond or to enforce the Indenture or any Series Supplemental Indenture unless such Owner previously has given to the Trustee written notice of the Event of Default on account of which such suit, action or proceeding is to be instituted, and unless also the Owners of not less than 15 percent in aggregate principal amount of the Bonds then Outstanding (other than Subordinate Bonds) have made written request of the Trustee after the right to exercise such powers or right of action, as the case may be, has accrued, and have afforded the Trustee a reasonable opportunity either to proceed to exercise the powers granted by the Indenture or to institute such action, suit or proceeding in its or their name, and unless, also, there shall have been offered to the Trustee reasonable security and indemnity against the costs, expenses and liabilities to be incurred as a result, and the Trustee has refused or neglected to comply with such request within a reasonable time. Such notification, request and offer of indemnity are declared in every such case, at the option of the Trustee, to be conditions precedent to the execution of the powers and trusts of the Indenture or to any other remedy under it. However, notwithstanding the foregoing described provision, the Owners of not less than 25 percent in aggregate

principal amount of the Bonds then Outstanding may institute any such suit, action or proceeding in their own names for the benefit of all Owners of Bonds. Except as otherwise above provided, no one or more Owners of the Bonds secured by the Indenture shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the Indenture, or to enforce any right under it except in the manner provided in the Indenture. All suits, actions and proceedings at law or in equity shall be instituted and maintained in the manner provided and for the benefit of all Owners of such Outstanding Bonds. Any individual right of action or other right given to one or more of such Owners by law is restricted by the Indenture to the rights and remedies provided.

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

Limitations on Remedies for Series of Bonds

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

Trustee Entitled to Indemnity

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

Limitation of Obligations and Responsibilities of Trustee

The Trustee shall be under no obligation (i) to effect or maintain insurance or to renew any policies of insurance or to inquire as to the sufficiency of any policies of insurance carried by the Authority, (ii) to report, or make or file claims or proof of loss for, any loss or damage insured against or which may occur or (iii) to keep itself informed or advised as to the payment of any taxes or assessments, or to require any such payment to be made. The Trustee shall be under no obligation to record or file the Indenture, or any other security instruments and financing statements, or continuation statements with respect to it, except pursuant to directions from the Authority, in form and substance satisfactory to the Trustee, set forth in an Authority Request. The Trustee and the Master Paying Agent shall have no responsibility in respect of the validity, sufficiency, due execution or acknowledgment by the Authority

of the Indenture, or in respect of the validity of the Bonds or their due execution or issuance. The Trustee shall be under no obligation to see that any duties imposed upon the Authority or any party other than itself, or any covenants on the part of any party other than itself to be performed, are done or performed, and the Trustee shall be under no obligation for failure to see that any such duties or covenants are so done or performed. The Trustee and the Master Paying Agent may execute any of the trusts or powers of the Indenture and perform any of its duties by or through attorneys, agents, receivers or employees but shall be answerable for the conduct of the same in accordance with the standard specified above and the Trustee and the Master Paying Agent shall be entitled to advice of counsel concerning all matters of trusts and duties under the Indenture, and may pay reasonable compensation to any lawyer or agent retained by it under the Indenture. The Trustee and the Master Paying Agent may act upon the opinion or advice of an attorney, surveyor, engineer or accountant selected by it in the exercise of reasonable care or, if selected or retained by the Authority, approved by the Trustee in the exercise of such care. The Trustee and the Master Paying Agent shall not be responsible for any loss or damage resulting from any action or nonaction based on its good faith reliance upon such opinion or advice.

Compensation and Indemnification of Trustee

Subject to the provisions of any contract between the Authority and the Trustee relating to the compensation of the Trustee, the Authority shall pay, from the Trust Estate, to the Trustee reasonable compensation for all services performed by it and also all its reasonable expenses, charges and other disbursements and those of its attorneys, agents and employees incurred in and about the administration and execution of the trusts created and the performance of its powers and duties, and from such source only, shall indemnify and save the Trustee harmless against any liabilities, losses, damages, costs and expenses (including reasonable 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 shall 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, shall be removed, be dissolved or otherwise become 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 shall supersede any Trustee appointed by the Authority prior to that filing. Facsimile copies of each such instrument shall 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 shall 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 aggregate 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 shall be a Master Paying Agent (i) the Master Paying Agent shall perform all duties of the Trustee under the Indenture with respect to the authentication, registration, transfer, exchange, and delivery of Bonds, the disposition of Bonds upon payment and the payment to Bondowners of principal and redemption price of and interest on Bonds, and (ii) all references in the Indenture and the Official Statement to the Trustee with regard to any such duties shall refer instead to the Master Paying Agent and in that regard reference to an office of the Trustee shall refer instead to the comparable office of the Master Paying Agent. The Trustee and Master Paying Agent shall cooperate to carry out their respective duties under the Indenture and shall provide the other with copies of all notices, reports and information necessary to the other.

Successor Master Paying Agent

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

Modifications of Resolutions and Outstanding Bonds

The Indenture provides procedures whereby 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 Owner 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, of 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, of 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

The Authority covenants to the Bond Insurer, as follows:

(i) The Authority shall provide copies of all notices given to Bondowners and Rating Agencies under the Indenture and related Series Supplemental Indentures.

(ii) The Authority shall provide the Bond Insurer with a copy of each Cash Flow Certificate submitted to the Trustee.

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

(iv) The Bond Insurer shall receive written notice of the resignation or removal of the Trustee or appointment of a successor Trustee.

(v) 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.

(vi) The Bond Insurer shall be a party in interest in the Indenture and Series Supplemental Indentures, along with the Authority, the Trustee and the Bondholder.

(vii) No acceleration of any Offered Bonds may be made without the consent of the Bond Insurer.

(viii) No Additional Bonds may be issued except in compliance with the Indenture.

CERTAIN TAX CONSEQUENCES

Summary of Bond Counsel Opinion – 1999 Series A Bonds

In the opinion of Schiff Hardin & Waite, Bond Counsel, interest on the 1999 Series A Bonds under present law is excludable from the gross income of their Owners for federal income tax purposes and thus is exempt from federal income taxes based on gross income, if there is continuing compliance by the Authority and the owners of the Financed Developments with their respective covenants described below.

That opinion, to be based on an examination of a certified copy of the record of proceedings relating to the 1999 Series A Bonds and accompanying certificates of officials of the Authority, is to be delivered at the time of the initial issuance of the 1999 Series A Bonds. The form of that opinion is attached as Appendix H to this Official Statement.

Bond Counsel is also of the opinion that interest on the 1999 Series A Bonds is not an item of tax preference for purposes of computation of the alternative minimum tax for individuals or corporations. Interest on the 1999 Series A Bonds may be subject to certain federal taxes not based on gross income and ownership of the Bonds may result in certain other federal income tax consequences to certain owners; Bond Counsel express no opinion as to these matters.

Bond Counsel expresses no opinions as to the exclusion from gross income for federal income tax purposes of interest of any 1999 Series A Bond for any period during which such 1999 Series A Bond is held by a person who is a "substantial user" of any Financed Development or a "related person" (as defined in Section 103(b)(13) of the Internal Revenue Code of 1954, as amended).

Under the Act, in its present form, interest on the 1999 Series A Bonds is exempt from Illinois income tax.

Continuing Legal Requirements

Federal income tax law imposes a number of continuing requirements in order for the interest on the 1999 Series A Bonds not to be included in gross income for federal income tax purposes. Among these are the following:

Rental Occupancy and Use Requirements. The Financed Developments must meet various rental, occupancy and use requirements. These include requirements that for specified periods the Financed Developments remain available for rental housing and that at least 20 percent of the units in each Development be occupied by persons of low or moderate income (not in excess of 80 percent of area median income).

Investment Limitations. Various limitations are imposed on the yield which may be earned by the Authority on certain investments treated as proceeds of the 1999 Series A Bonds, including the Mortgage Loans.

Rebate. Earnings from the investment of certain amounts treated as proceeds of the 1999 Series A Bonds in excess of the earnings that would have been realized if such investments had been made at a yield equal to the yield on the 1999 Series A Bonds are required to be paid to the United States of America at periodic intervals.

Covenants

The Authority has covenanted in the Series Supplemental Indenture to take all steps within its power that are required to maintain the status of interest on the 1999 Series A Bonds as not included in the gross income of their owners under federal income tax law existing as of the date of initial issuance of the 1999 Series A Bonds. The Authority's covenant does not require it to prevent interest on the 1999 Series A Bonds from becoming subject to an alternative minimum tax or any similar tax. In addition, the Authority has covenanted in the Series Supplemental Indenture that it will: (i) impose such occupancy, rental and use requirements with respect to the Financed Developments as may be necessary under applicable federal income tax law to establish and maintain the exclusion of interest on the 1999 Series A Bonds from gross income; (ii) to the extent practicable, from time to time impose such other or additional occupancy, rental and use requirements with respect to the Financed Developments as may subsequently become necessary for the interest on the 1999 Series A Bonds to be and remain excludable from gross income; and (iii) review regularly compliance with those requirements and take promptly all necessary steps to enforce the requirements and require prompt correction of any non-compliance which comes to its attention.

The Authority has included in certain of its documents relating to the Financed Developments provisions restricting the occupancy, rental and use of these Developments. The Authority believes these provisions, if complied with by the owners of these Developments, will satisfy the occupancy, rental and use requirements of federal income tax law. However, the applicable ability of the Authority to enforce such requirements may be limited by laws affecting the enforcement of creditors' rights generally or by general principles of law or equity applicable to those remedies.

Risk of Non-Compliance

IF THE AUTHORITY OR ANY OWNER OF A FINANCED DEVELOPMENT FAILS TO COMPLY WITH SUCH REQUIREMENTS OF THE CODE, INTEREST ON THE 1999 SERIES A BONDS MAY BECOME INCLUDIBLE IN THE GROSS INCOME OF THEIR OWNERS FOR FEDERAL INCOME TAX PURPOSES FROM THE DATE OF ISSUANCE OF THE 1999 SERIES A BONDS.

Other Federal Income Tax and Illinois Tax Consequences

Interest on the 1999 Series A Bonds may also be taken into account in calculating federal taxes, including the branch profits tax, the environmental tax and the tax on certain passive income of Subchapter S corporations, to the extent based on measures other than "gross income," such as "earnings and profits" for certain corporations. Ownership of the 1999 Series A Bonds may result in other federal income tax consequences to certain taxpayers, including, without limitation, certain financial institutions, certain property or casualty insurance companies and health insurance organizations, individual recipients of Social Security or Railroad Retirement benefits and taxpayers who may be deemed to have incurred (or continued) indebtedness to purchase or carry tax-exempt obligations. Ownership of the 1999 Series A Bonds may result in other Illinois tax consequences to certain taxpayers.

Prospective purchasers of the 1999 Series A Bonds should consult their tax advisors as to applicability of any of those taxes or consequences. Bond counsel expresses no opinion as to those taxes or consequences.

Summary of Bond Counsel Opinion – 1999 Series C Bonds

In the opinions of Schiff Hardin & Waite, Bond Counsel, interest on the 1999 Series C Bonds under present law is NOT excludable from the gross income of their Owners for federal income tax purposes. Bond Counsel is also of the opinion that, under the Act, in its present form, interest on the 1999 Series C Bonds is exempt from Illinois income tax.

Those opinions, to be based on an examination of a certified copy of the record of proceedings relating to the 1999 Series C Bonds and accompanying certificates of officers of the Authority, are to be delivered at the time of the initial issuance of the 1999 Series C Bonds. The form of this opinion is attached as Appendix H to this Official Statement.

LEGAL MATTERS

The approving opinions of Schiff Hardin & Waite, Chicago, Illinois, Bond Counsel, will be delivered with the 1999 Series A Bonds and the 1999 Series C Bonds. The proposed forms of those opinions are included in this Official Statement as Appendix H. The approving opinions of Bond Counsel will also be delivered with the Acquired MFHB Bonds and the Acquired HDB Bonds. The proposed forms of those opinions are also included in this Official Statement as Appendix H. Certain legal matters in connection with the issuance of the Offered Bonds and the Acquired Bonds will be passed upon for the Authority by its Acting General Counsel, Ellen F. Distelheim, Esq., and by its counsel, Hopkins & Sutter, Chicago, Illinois, and for the Underwriters by their counsel, Bell, Boyd & Lloyd, Chicago, Illinois.

YEAR 2000

Computer programs written using two digits rather than four to define the applicable year may not function properly beginning in the year 2000 (the "Year 2000 Issue"). The Authority maintains computer systems and relies on suppliers and vendors who maintain computer systems which may not be compliant with year 2000 ("Year 2000 Compliant"). The Authority is currently assessing its technological transition needs with the coming of the year 2000. Based on its analysis to date, the

Authority believes that its internal systems and systems supplied by third parties are Year 2000 Compliant or will be Year 2000 Compliant by no later than December 31, 1999 and that the costs to the Authority of assessing the impact of the Year 2000 Issue and taking what, if any, actions are necessary to make those information systems Year 2000 Compliant will be approximately \$2 million. The Authority is also working with its suppliers and customers to assess the impact of the Year 2000 Issue on their computer programs and what, if any, effect their compliance or non-compliance may have on the Authority. There can be no assurance that the Authority's operations will not be adversely affected by the Year 2000 Issue. The Authority does not, however, anticipate any adverse effect on its ability to pay principal and interest on the Offered Bonds.

Consistent with the recommendations of the Comptroller of the Currency, all financial institutions were required to have their year 2000 conversions and unit testing associated with such conversions completed by December 31, 1998, thereby allowing internal and external interface testing, including testing with customers, during 1999 to ensure that all systems are working properly and reliably. The Trustee has completed unit testing for major systems which support the services of the Trustee being contemplated in this Official Statement related to the year 2000 century date change. This effort is part of a vigorous and comprehensive project to inventory, assess, renovate or replace and test affected systems. The system(s) which support the services of the Trustee described in this Official Statement are part of that effort.

See "THE OFFERED BONDS – Book-Entry Only System" for a discussion of the Year 2000 Issue and DTC.

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 a long term rating of "AAA" from S&P and a long term rating of "Aaa" from Moody's, with the understanding that upon delivery of the Offered Bonds, the Bond Insurance Policy insuring the payment when due of the principal of and interest on the Offered Bonds will be issued by the Bond Insurer. 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 which 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 (other than the 1999 Series A Bonds maturing January 1, 2031 (the "Placed Bonds"), which are not being reoffered) are being purchased by the Underwriters listed on the cover page of this Official Statement. The Underwriters will agree to purchase the Offered Bonds (other than the Placed Bonds) at a purchase price (expressed as a percentage of the aggregate initial principal amount of such Bonds) of 100 percent, plus accrued interest pursuant to the terms of one or more purchase contracts. 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 a fee of \$424,606 in connection with the sale of the Offered Bonds (other than the Placed Bonds), to be paid by the Authority. In addition, the Underwriters will receive a fee of \$78,138 in connection with the placement of the Placed Bonds, to be paid by the Authority. The Underwriters may offer and sell the Offered Bonds (other than the Placed Bonds) offered to the public to certain dealers (including dealers depositing the such Bonds into unit investment trusts, certain of which may be sponsored or managed by the Underwriters) and others at prices lower than the public offering prices stated on the inside cover page hereof.

FINANCIAL STATEMENTS

Attached as Appendix A are the audited financial statements of the Authority at, and for the year ended, June 30, 1998, together with the report thereon dated October 2, 1998, of Arthur Andersen LLP, independent public accountants.

INVESTMENT POLICY

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

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

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

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

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

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

For additional information regarding the Authority's investments as of June 30, 1998, see "FINANCIAL STATEMENTS - Note C - Cash and Investments" attached as Appendix A.

CONTINUING DISCLOSURE

In order to assist the Underwriters in complying with certain amendments to Rule 15c2-12 of the Securities and Exchange Commission, the Authority has agreed in the Offered Bonds Series Supplemental Indenture to provide to certain parties certain annual financial information and operating data and notices of certain material events. A summary of that portion of the Offered Bonds Series Supplemental Indenture containing the Authority's undertaking in this regard is included as Appendix I 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.

Dated: March 29, 1999

ILLINOIS HOUSING DEVELOPMENT AUTHORITY

/s/ Michael P. Rose
Acting Executive Director

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APPENDIX A

FINANCIAL STATEMENTS

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

Financial Statements As of and For the Year Ended June 30, 1998

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ARTHUR ANDERSEN LLP

INDEPENDENT AUDITORS' REPORT

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

As Special Assistant Auditors of the Auditor General, we have audited the accompanying general-purpose financial statements 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, 1998. These general-purpose financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits in *Government Auditing Standards (1994 Revision)* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general-purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general-purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general-purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 1998, and the results of its operations and the cash flows of its proprietary funds for the year then ended, in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 2, 1998 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

As explained in Note B in The Notes to Financial Statements, the Authority, effective July 1, 1997 has adopted Statement No. 31 of the Governmental Accounting Standards Board, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools" and has restated the beginning fund balance/retained earnings as of June 30, 1996.

The combining financial statements listed in the table of contents are presented for purposes of additional analysis and are not a required part of the general-purpose financial statements of the Authority. Such information has been subjected to the auditing procedures applied in the audit of the general-purpose financial statements and, in our opinion, is fairly presented in all material respects in relation to the general-purpose financial statements taken as a whole.


ARTHUR ANDERSEN LLP

Chicago, Illinois
October 2, 1998

ILLINOIS HOUSING DEVELOPMENT AUTHORITY
(A Component Unit of the State of Illinois)
COMBINED BALANCE SHEET—ALL FUND TYPES

As of June 30, 1998
(with comparative totals as of June 30, 1997)

| ASSETS | Governmental Funds— Special Revenue Funds | Proprietary Funds— Enterprise Funds | Total (Memorandum Only) | |
|---|--|--|----------------------------|---------------|
| | | | 1998 | 1997 |
| Current assets: | | | | |
| Cash and cash equivalents | \$ 2,518,609 | 6,904,132 | 9,422,741 | 2,452,082 |
| Funds held by State Treasurer | 34,840,218 | | 34,840,218 | 25,389,575 |
| Investments: | | | | |
| Obligations of U.S. government and other governmental entities | 15,459,238 | 398,823,984 | 414,283,222 | 370,524,656 |
| Demand repurchase agreements | | 531,984,735 | 531,984,735 | 426,892,967 |
| Total investments | 15,459,238 | 930,808,719 | 946,267,957 | 797,417,623 |
| Investment income receivable | 96,776 | 13,003,620 | 13,100,396 | 14,840,391 |
| Program loans receivable | 4,374,000 | 31,568,000 | 35,942,000 | 33,519,000 |
| Interest receivable on program loans | | 8,834,033 | 8,834,033 | 10,731,932 |
| Interfund accounts receivable (payable) | (1,184,398) | 1,184,398 | | |
| Total current assets | 56,104,443 | 992,302,902 | 1,048,407,345 | 884,350,603 |
| Noncurrent assets: | | | | |
| Program loans receivable, net of current portion | 107,901,806 | 1,492,142,204 | 1,600,044,010 | 1,621,233,248 |
| Less allowance for estimated losses | (6,500,000) | (18,100,000) | (24,600,000) | (22,490,000) |
| Net program loans receivable | 101,401,806 | 1,474,042,204 | 1,575,444,010 | 1,598,743,248 |
| Unamortized bond issuance costs | | 29,259,343 | 29,259,343 | 29,791,052 |
| Real estate held for sale, net | | 40,152,441 | 40,152,441 | 38,459,072 |
| Equipment and leasehold improvements, net | | 1,386,712 | 1,386,712 | 1,319,409 |
| Other | 443,369 | 5,484,484 | 5,927,853 | 4,431,196 |
| Total noncurrent assets | 101,845,175 | 1,550,325,184 | 1,652,170,359 | 1,672,743,997 |
| Total assets | \$157,949,618 | 2,542,628,086 | 2,700,577,704 | 2,557,094,580 |
| LIABILITIES AND FUND EQUITY | | | | |
| Current liabilities: | | | | |
| Bonds and notes payable | \$ | 141,040,000 | 141,040,000 | 84,560,000 |
| Accrued interest payable | | 47,993,195 | 47,993,195 | 52,365,091 |
| Deposits held in escrow | | 129,248,587 | 129,248,587 | 126,741,692 |
| Accrued liabilities and other | | 45,142,029 | 45,142,029 | 31,169,074 |
| Amounts due brokers for securities purchased | | 43,825,805 | 43,825,805 | |
| Total current liabilities | | 407,249,616 | 407,249,616 | 294,835,857 |
| Noncurrent liabilities: | | | | |
| Bonds and notes payable, net of current portion | | 1,919,206,297 | 1,919,206,297 | 1,942,943,025 |
| Total liabilities | | 2,326,455,913 | 2,326,455,913 | 2,237,778,882 |
| Fund equity: | | | | |
| Fund balance: | | | | |
| Reserved for loans receivable | 101,401,806 | | 101,401,806 | 79,833,795 |
| Unreserved | 56,547,812 | | 56,547,812 | 49,275,884 |
| Total fund balance | 157,949,618 | | 157,949,618 | 129,109,679 |
| Retained earnings: | | | | |
| Restricted by bond resolutions | | 121,659,917 | 121,659,917 | 101,850,409 |
| Reserved by bond resolution | | 8,499,480 | 8,499,480 | 7,545,955 |
| Designated by resolution of the Authority | | 67,500,000 | 67,500,000 | 67,500,000 |
| Undesignated | | 18,512,776 | 18,512,776 | 13,309,655 |
| Total retained earnings | | 216,172,173 | 216,172,173 | 190,206,019 |
| Total fund equity | 157,949,618 | 216,172,173 | 374,121,791 | 319,315,698 |
| Total liabilities and fund equity | \$157,949,618 | 2,542,628,086 | 2,700,577,704 | 2,557,094,580 |

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

ILLINOIS HOUSING DEVELOPMENT AUTHORITY
(A Component Unit of the State of Illinois)
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUNDS—SPECIAL REVENUE FUNDS

For the Year Ended June 30, 1998
(with comparative totals for the year ended June 30, 1997)

| | Total | |
|--|----------------------|--------------------|
| | 1998 | 1997 |
| Revenues: | | |
| Real estate transfer taxes | \$ 23,450,608 | 19,471,247 |
| Federal HOME funds | 17,560,764 | 11,355,729 |
| Interest and investment income | 2,964,062 | 2,560,080 |
| Private donation | 500,000 | 500,000 |
| Application fees | 56,250 | 63,795 |
| Total revenues | <u>44,531,684</u> | <u>33,950,851</u> |
| Expenditures: | | |
| Grants | 6,695,023 | 7,975,873 |
| General and administrative | 2,196,722 | 2,218,243 |
| Provision for estimated losses on program loans receivable | 1,500,000 | 2,405,520 |
| Total expenditures | <u>10,391,745</u> | <u>12,599,636</u> |
| Excess of revenues over expenditures | 34,139,939 | 21,351,215 |
| Operating transfer out | (5,300,000) | (5,500,000) |
| Fund balance at beginning of year | 129,109,679 | 113,258,464 |
| Fund balance at end of year | <u>\$157,949,618</u> | <u>129,109,679</u> |

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

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

COMBINED STATEMENT OF INCOME, EXPENSES AND CHANGES IN RETAINED EARNINGS
ALL PROPRIETARY FUNDS—ENTERPRISE FUNDS

For the Year Ended June 30, 1998
(with comparative totals for the year ended June 30, 1997)

| | Total | |
|--|----------------------|--------------------|
| | 1998 | 1997 |
| Interest and investment income: | | |
| Interest earned on program loans | \$117,148,668 | 117,139,258 |
| Investment income | 43,261,938 | 39,765,662 |
| Total interest and investment income | 160,410,606 | 156,904,920 |
| Interest expense | 142,236,137 | 141,907,726 |
| Interest and investment income over interest expense | 18,174,469 | 14,997,194 |
| Other income: | | |
| Federal assistance programs | 158,314,158 | 158,188,990 |
| Service fees | 7,182,201 | 7,020,162 |
| Development fees | 149,336 | |
| HUD savings | 1,088,751 | 1,361,228 |
| Other | 10,556,730 | 4,820,229 |
| Total other income | 177,291,176 | 171,390,609 |
| Operating expenses: | | |
| Federal assistance programs | 158,314,158 | 158,188,990 |
| Salaries and benefits | 6,996,604 | 7,025,123 |
| Professional fees | 1,360,009 | 1,185,982 |
| Other general and administrative | 3,956,606 | 4,134,245 |
| Financing costs | 1,649,983 | 1,158,646 |
| Write down of real estate held for sale | 1,960,856 | 549,650 |
| Provision for estimated losses on program loans receivable | 561,275 | 496,161 |
| Total operating expenses | 174,799,491 | 172,738,797 |
| Operating income | 20,666,154 | 13,649,006 |
| Operating transfer in | 5,300,000 | 5,500,000 |
| Net income | 25,966,154 | 19,149,006 |
| Retained earnings at beginning of year | 190,206,019 | 171,057,013 |
| Retained earnings at end of year | <u>\$216,172,173</u> | <u>190,206,019</u> |

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

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

COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUNDS—ENTERPRISE FUNDS

For the Year Ended June 30, 1998
(with comparative totals for the year ended June 30, 1997)

| | Total | |
|--|-----------------------|----------------------|
| | 1998 | 1997 |
| Cash flows from operating activities: | | |
| Cash received from interest, service fees, and principal on program loans | \$ 325,212,529 | 229,373,571 |
| Cash payments for loaned amounts | (153,666,380) | (173,412,131) |
| Cash received from federal assistance programs | 158,314,158 | 158,188,990 |
| Cash payments for federal assistance programs | (159,923,391) | (158,902,847) |
| Cash payments for operating expenses | (15,275,553) | (15,782,621) |
| Other | 12,373,083 | 12,273,875 |
| Net cash provided by operating activities | <u>167,034,446</u> | <u>51,738,837</u> |
| Cash flows from noncapital financing activities: | | |
| Proceeds from sale of revenue bonds and notes | 386,305,000 | 197,865,000 |
| Principal paid on revenue bonds and notes | (357,935,011) | (194,067,490) |
| Interest paid on revenue bonds and notes | (137,246,577) | (132,540,937) |
| Operating transfers in | 5,300,000 | 5,500,000 |
| Other | (4,095,955) | (2,584,305) |
| Net cash used in noncapital financing activities | <u>(107,672,543)</u> | <u>(125,827,732)</u> |
| Cash flows from investing activities: | | |
| Purchase of investment securities | (2,204,286,912) | (1,724,489,452) |
| Proceeds from sales and maturities of investment securities | 2,100,134,857 | 1,752,427,694 |
| Interest on investments | 42,842,540 | 37,880,205 |
| Developer escrow and other interest | 8,234,902 | 7,590,724 |
| Net cash provided by (used in) investing activities | <u>(53,074,613)</u> | <u>73,409,171</u> |
| Net increase (decrease) in cash and cash equivalents | 6,287,290 | (679,724) |
| Cash and cash equivalents at beginning of year | 616,842 | 1,296,566 |
| Cash and cash equivalents at end of year | <u>\$ 6,904,132</u> | <u>616,842</u> |
| Reconciliation of operating income to net cash provided by operating activities: | | |
| Operating income | \$ 20,666,154 | 13,649,006 |
| Adjustments to reconcile operating income to net cash: | | |
| Investment income | (43,261,938) | (39,765,662) |
| Interest expense | 142,236,137 | 141,907,726 |
| Depreciation | 1,295,454 | 1,162,915 |
| Provision for estimated losses on program loans receivable | 561,275 | 496,161 |
| Changes in assets and liabilities: | | |
| Decrease (increase) in program loan and interest receivable | 45,074,148 | (67,470,081) |
| Change in interfund accounts | (162,069) | (364,115) |
| Increase in other liabilities | 16,479,999 | 9,947,653 |
| Decrease (increase) in other assets | (3,453,707) | 951,252 |
| Other | (12,401,007) | (8,776,018) |
| Total adjustments | <u>146,368,292</u> | <u>38,089,831</u> |
| Net cash provided by operating activities | <u>\$ 167,034,446</u> | <u>51,738,837</u> |

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

ILLINOIS HOUSING DEVELOPMENT AUTHORITY

(A Component Unit of the State of Illinois)

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 1998

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, 1998 as shown on the Authority's financial statements, are general obligations of the Authority with the exception of Homeowner Mortgage Revenue Bonds, Affordable Housing Program Trust Fund Bonds, Multi-Family Variable Rate Demand Bonds, and certain Multi-Family Housing and Multi-Family Program Bonds, which are special limited obligations of the Authority (see Note E). 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, 1998, amounts outstanding against this limitation were approximately \$2,301,000,000.

NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following summarizes the significant accounting policies of the Authority.

Reporting Entity

As defined by generally accepted accounting principles 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 to impose will by the primary government, 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. Except for a portion of the Affordable Housing Trust Fund and HOME Program Funds, all funds are held outside of the State Treasury in various banks and financial institutions.

NOTES TO FINANCIAL STATEMENTS—(Continued)

For the Year Ended June 30, 1998

Fund Structure

The following financial activities of the Authority are classified as proprietary funds:

Administrative and Other Funds

Development fee and financing fee income related to multi-family mortgage loans, service fee income and operating expenses of the Authority are accounted for in the Administrative Funds. In addition, the Administrative Funds have provided for supplemental financing of certain developments through residual income loans and below market financing for various developments through its Housing Partnership Program (see Note D), 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 J).

The designations of the Authority's Administrative Funds' retained earnings are as follows:

| | |
|---|---------------------|
| Housing Partnership Program | \$14,000,000 |
| To pay expenses for programs under commitment or contract | 3,500,000 |
| Multi-Family development taxable financing program | 6,000,000 |
| To pay possible losses arising in the Multi-Family Bond Fund Program attributable, but not limited to, delinquencies or defaults on uninsured or unsubsidized loans .. | 24,000,000 |
| Provide reserves to support the Authority's Multi-Family Housing Risk-Sharing Program | 10,000,000 |
| Provide funds to support future taxable bond financing programs | 10,000,000 |
| | <u>\$67,500,000</u> |

The designation of the Administrative Funds' retained earnings may be amended or rescinded by the Members of the Authority.

Other Funds account for advances (generally non-interest bearing) made to qualified non-profit entities to defray preconstruction costs of proposed developments.

Mortgage Loan Program Funds

The Mortgage Loan Program Funds account 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, Housing Development Revenue Bonds, Multi-Family Variable Rate Demand Bonds, and Multi-Family Housing Revenue Bonds, and for the retirement of such obligations. First mortgage liens are held by the Authority on such developments.

Single Family Mortgage Revenue Program Funds

The Single Family Mortgage Program Revenue Funds account for 1) the proceeds of Residential and Homeowner Mortgage Revenue Bonds issued to provide funds for the purchase from lending institutions of mortgage loans on owner-occupied, one to four unit dwellings acquired by eligible buyers and 2) the proceeds of the Authority's taxable Owner Occupied Housing Revenue Bonds, which were issued to refund on a replacement basis certain bonds issued under the Authority's Residential Mortgage Revenue Bond General Resolution which were redeemed from prepayments of mortgage loans.

NOTES TO FINANCIAL STATEMENTS—(Continued)

For the Year Ended June 30, 1998

The use of the 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 Funds.

Affordable Housing Program Trust Fund Bond Funds

The Affordable Housing Program Trust Fund Bond Funds account for the financing of multi-family construction or rehabilitation from the proceeds of Affordable Housing Trust Fund Bonds, together with certain other available moneys, including a transfer of funds from the Affordable Housing Trust Fund. First mortgage liens are held by the Authority on such developments.

The following are classified as special revenue funds:

Illinois Affordable Housing Trust Fund

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 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 directs funds to make grants, 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 Program

The Authority is designated as the statewide administrator of the HOME Program, 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.

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 equity. State statute restricts the use of the Illinois Affordable Housing Trust Fund and the HOME Program as noted above. Fund balances in the Trust Fund and the HOME Program are reserved for loans not due within one year.

Basis of Accounting

The Authority maintains its accounting records and prepares its financial statements for its proprietary funds using the accrual basis of accounting and for its special revenue funds using the modified accrual basis.

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 (FASB), Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARBs) of the Committee on Accounting Procedure.

NOTES TO FINANCIAL STATEMENTS—(Continued)

For the Year Ended June 30, 1998

Investments

The Authority, effective July 1, 1997, has adopted Statement No. 31 (Statement) of the Governmental Accounting Standards Board (GASB), *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, and has restated prior year financial statements to retroactively reflect the changes required by the Statement. The Statement requires governmental entities to report investments at fair value in the balance sheet, with certain exceptions as noted below, and that all investment income, including changes in the fair value of investments, be reported as revenue in the operating statement.

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

The investment of funds is restricted by various bond and note resolutions of the Authority and the Act, generally, to direct obligations of the U.S. 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 which 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.

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 and is carried at the lower of cost or fair market value. Real estate held for sale of the Single Family Mortgage Revenue Program Funds is recorded at the unpaid principal balance of the loans. Since substantially all such loans are within pool insurance coverage, 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 Multi-Family Housing Bond Funds represents the Authority's net carrying value of Lakeshore Plaza ("ML-181"), for which the Authority acquired a deed in lieu of foreclosure on April 27, 1990, and Camelot Apartments, formerly known as Ivanhoe Apartments, ("ML-226"). The Authority assumed management control of ML-226 on July 1, 1996 and, on January 8, 1997, received from the former owners of ML-226 all of their rights, title and interest in the property.

The real estate held for sale is carried at the lower of cost or fair market value. 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. As of June 30, 1998, the net carrying values of ML-181 and ML-226 were \$31,654,717 and \$7,711,794 respectively, and accumulated depreciation of ML-181 was \$3,811,000. The Authority does not record depreciation against ML-226 as it does not intend to hold the property over a long term.

NOTES TO FINANCIAL STATEMENTS—(Continued)

For the Year Ended June 30, 1998

The determination of fair market value is based upon periodic valuations that consider changes in market conditions, development and disposition costs, and the estimated holding period. Operating income of ML-181 and ML-226, which are applied primarily toward the Authority's debt service obligations of the bonds issued to refinance the developments, are recorded as other income of the Multi-Family Housing Bond Funds and Multi-Family Housing Revenue Bond Funds, respectively.

It is the intent of the Authority to continue to own and operate ML-181 and ML-226 until the Authority determines that a sale or other disposition of these developments would be in the best interests of the Authority. No prediction can be made at this time as to the dates on which, or the circumstances pursuant to which, such determinations might be made.

Bond discount

Discount on bonds is deferred and amortized using a method approximating the interest method.

Operations

Development fee and financing fee income are deferred and amortized over the contractual life of the loan as a yield adjustment using the interest method. Such amortized fees are recognized as interest income. Fees earned on loans which the Authority does not originate are recognized as income in the Administrative Funds 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 Funds 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 Affordable Housing Trust Fund and the HOME program are absorbed by these programs. Similarly, related resolutions of bonds issued in various Program Funds allow for the funds to absorb a certain level of operating expenses. Expenses of the funds in excess of the allowable ceilings set forth in the resolutions are charged to the Administrative Funds.

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.

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

Provision for estimated losses on program loans

The Authority provides for estimated losses on program loans in its proprietary funds and its governmental funds based upon the periodic review and evaluation of the loan portfolio on an individual loan basis and provides additional amounts, if it deems necessary, for estimated losses for all other loans in such funds. In

NOTES TO FINANCIAL STATEMENTS—(Continued)

For the Year Ended June 30, 1998

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.

Fund Transfers

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.

The Authority records all transfers, other than equity contributions and fund closings, between program funds as operating transfers in the accompanying combined statement of income, expenses and changes in retained earnings. Equity contributions and fund closings are recorded as equity fund transfers.

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 Funds. Such transfers are recorded as operating transfers. The amounts transferred during the year ended June 30, 1998 totalled \$5,300,000.

During fiscal year 1998, the Authority used a portion of the proceeds of the issuance of the Homeowner 1997 Series C Bonds to redeem various bonds outstanding in the Residential Mortgage Revenue Bond Funds. Upon the redemption of these bonds, certain mortgage loans originally purchased with the proceeds of the refunded bonds, along with certain excess reserves, were transferred to the Homeowner Mortgage Revenue Bond Funds and resulted in a net operating transfer of \$3,645,297 to these funds.

Cash and Cash equivalents

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

"Memorandum Only" Total columns

"Memorandum Only" captions on combined statement total columns indicate that totals are presented for overview information purposes only. They do not purport to present financial position or results of operations for the Authority as a whole. Neither are such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of these data.

Reclassifications

Certain amounts in the 1997 financial statements have been reclassified to conform with the 1998 presentation.

NOTE C—CASH AND INVESTMENTS

Statutes of the State and resolutions of the Authority authorize the Authority to invest in obligations of the U.S. Government, agencies and instrumentalities of the Federal Government, 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.

The Authority's cash deposits are categorized into three levels to provide an indication of risk assumed. These categories are as follows:

Category 1—includes deposits that are insured or collateralized for which the securities are held by the Authority or its agents in the Authority's name.

NOTES TO FINANCIAL STATEMENTS—(Continued)

For the Year Ended June 30, 1998

Category 2—includes deposits that are collateralized with securities which are held by the financial institution's trust department or agent in the Authority's name.

Category 3—includes deposits that are uncollateralized or collateralized, but for which the securities are held by the financial institution, or by its trust department or agent but not in the Authority's name.

| Type | Category | | | Bank Balance | Carrying Amount |
|-------------------------------------|--------------------|------------|--------------------|---------------------|---------------------|
| | 1 | 2 | 3 | | |
| Cash and Cash Equivalents | <u>\$1,144,682</u> | <u>\$—</u> | <u>\$6,070,971</u> | \$ 7,215,653 | \$ 6,904,132 |
| Funds Held by State Treasurer | | | | 33,871,115 | 34,840,218 |
| Trust Funds Held in Escrow | | | | 2,518,609 | 2,518,609 |
| | | | | <u>\$43,605,377</u> | <u>\$44,262,959</u> |

The Authority's investments are categorized into three levels to provide an indication of risk assumed. These categories are as follows:

Category 1—includes investments that are insured, registered, or collateralized, or for which the securities are held by the Authority or its agent in the Authority's name.

Category 2—includes investments that are uninsured, unregistered, or uncollateralized for which the securities are held by the broker's or dealer's trust department or agent in the Authority's name.

Category 3—includes investments that are uninsured, unregistered, or uncollateralized for which the securities are held by the broker or dealer, or by its trust department or agent but not in the Authority's name.

| Type | Category | | | Carrying Amount |
|--|----------------------|--------------------|------------|----------------------|
| | 1 | 2 | 3 | |
| Demand Repurchase Agreements | \$530,143,159 | \$1,841,576 | \$— | \$531,984,735 |
| U.S. Government Obligations | 130,671,920 | — | — | 130,671,920 |
| Federal National Mortgage Association | 131,379,206 | — | — | 131,379,206 |
| Federal Home Loan Mortgage Association | 79,056,615 | — | — | 79,056,615 |
| Federal Home Loan Bank | 42,089,879 | — | — | 42,089,879 |
| Federal Farm Credit Bank | 29,119,108 | — | — | 29,119,108 |
| Municipal Obligations | 1,966,494 | — | — | 1,966,494 |
| | <u>\$944,426,381</u> | <u>\$1,841,576</u> | <u>\$—</u> | <u>\$946,267,957</u> |

The preponderance of the Authority's investments are fixed rate demand repurchase agreements collateralized by obligations of the United States or its agencies, or direct investments of such obligations. The demand repurchase agreements 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. At June 30, 1998, approximately \$286 million was invested in such short-term agreements having various maturity dates out to July 1, 2001, primarily at rates ranging from 5.29% to 5.75% and approximately \$246 million was invested in such long-term agreements having maturity dates ranging from January 31, 2015 to September 1, 2031, primarily at rates ranging from 5.0% to 8.0%.

NOTES TO FINANCIAL STATEMENTS—(Continued)

For the Year Ended June 30, 1998

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.

The above carrying amounts are stated at fair value. The net impacts from the adoption of GASB Statement No. 31 and the resulting restatement of prior year combined financial statements were to increase retained earnings by \$5,096,395 as of July 1, 1996, to increase investments and deposits held in escrow by \$5,786,819 and \$149, respectively as of June 30, 1997, and to increase investment income by \$690,275 for the year ended June 30, 1997. The net impacts on investments presented above include Authority investments held as deposits from developers, the income or losses from which are reported as changes to deposits held in escrow and which are not income of the Authority. The Authority's funds primarily impacted by the restatements were the Multi-Family Housing Bond Funds and Residential Mortgage Revenue Bond Funds.

NOTE D—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 Funds and the Affordable Housing Program Trust Fund Bond Funds 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 F 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, agreements have been entered into among the Authority, HUD and the owners of the developments, whereby HUD will make, under its Section 8 Program, housing assistance payments for the developments. With respect to Housing Development Bonds and Fixed Rate Housing Bonds, the Authority has made loans to finance developments entitled to interest reduction payments by HUD under Section 236 of the National Housing Act for all or a portion of the dwelling units in the developments. Such federal subsidies, together with the rents to be paid by the tenants, are estimated by the Authority, prior to its issuing an initial mortgage loan commitment, to provide sufficient funds to pay the costs of operation, maintenance, administration, mortgage payments, and Authority fees with respect to each of the developments.

During the year ended June 30, 1998, HUD subsidy payments were received and disbursed as follows:

| <u>Program</u> | <u>Received</u> | <u>Disbursed</u> |
|-------------------|-----------------|------------------|
| Section 8 | \$151,131,043 | \$152,740,276 |
| Section 236 | 7,183,115 | 7,183,115 |

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

At June 30, 1998, for loans financed under the Mortgage Loan Program Funds, there were no amounts in arrears equal to more than two months debt service payments, required deposits to tax and insurance and/or replacement reserves. At June 30, 1998, for loans financed under the Affordable Housing Program Trust Fund Bond Funds, amounts in arrears equal to more than two months debt service payments and required deposits to replacement reserves were \$152,018 and \$13,833, respectively.

NOTES TO FINANCIAL STATEMENTS—(Continued)

For the Year Ended June 30, 1998

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 which 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 Funds or mortgage loan increases from the related program funds 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 correction of the developments' physical defects and has instituted foreclosure proceedings for certain developments.

On September 21, 1990, pursuant to a workout agreement, the Authority authorized commitments for additional loans not to exceed \$2,750,000 for Kensington Place, ML-16. The funds were used to bring the debt service current, make repairs and capital improvements to the Development and to ensure the payment of operating deficits during the repair and capital improvement time period. Payments of principal and accrued interest are made from surplus earnings of the development.

The Authority has a second mortgage agreement relating to a \$7.6 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 Funds, is obligated to subsidize debt service payments related to the first mortgage to a maximum of \$6.2 million. The development is obligated to reimburse the Administrative Funds from a portion of residual receipts generated from the development. These payments are applied to receivables of the Housing Development Bond Funds, Fixed Rate Housing Bond Funds and the Administrative Funds in that order of priority. Through June 30, 1998, approximately \$5.8 million of such advances had been made.

The accrual of interest and service fee income has been suspended on approximately \$7.4 million of mortgage loans at June 30, 1998 for which allowances for estimated losses have been provided, and such income is being recognized only as received. Interest and service fee income due but not accrued was \$15,014 at June 30, 1998. In addition, the Authority does not accrue interest income on \$12.3 million of loans recorded in its Administrative and Other Funds. Payments made on such loans, which generally are payable from residual receipts, if any, of the affected development, are recognized only as received. The annual amount of interest on these loans is approximately \$790,000.

In November, 1997, the Authority received prepayments of all mortgage and debt service obligations of Arbor Trails, ML-8 and Shadowood Village, ML-18. These developments, in addition to first mortgage obligations financed under the Housing Development Bond Funds and Fixed Rate Bond Funds, had additional obligations primarily due to the Authority's Administrative Funds payable from surplus cash generated from development operations. These obligations arose from the transfer of ownership of these properties to the current owners in 1986 and 1988, respectively. Interest on these obligations, which has been paid in full, was not previously accrued by the Authority due to uncertainty of their collection.

NOTES TO FINANCIAL STATEMENTS—(Continued)

For the Year Ended June 30, 1998

Due to the payment of the above obligations, the Authority has recorded interest earned on program loans amounts of \$1,322,224, \$1,801,185 and \$256,738 in the Administrative and Other Funds, Housing Development Bond Funds, and Fixed Rate Housing Bond Funds, respectively, and has recorded \$3,619,282 of other income in its Administrative and Other Funds.

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 and Other Funds of the Authority. At June 30, 1998 loans receivable under this program were approximately \$8,979,000.

In June, 1994, the Authority entered into a Risk Sharing Agreement ("Agreement") with HUD which permits the Authority to participate in HUD's Pilot Risk Sharing Program. Under this program, HUD will partially insure certain mortgage loans on multi-family housing developments ("Risk Sharing Loans"). HUD has authorized the Authority to make Risk Sharing Loans for such developments with, in the aggregate, up to 1,170 units. Under the Agreement, the Authority will underwrite Risk Sharing Loans following its underwriting guidelines. HUD will insure the Risk Sharing Loans and will bear ten to 50 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, 1998, has entered into six Risk Sharing Loans totalling \$25,657,205 and elected that HUD assume 50 percent of the loss. The Authority sold 100 percent participation interests in the loans to outside parties. The program's activities are recorded in the Administrative and Other Funds of the Authority.

With respect to the Residential Mortgage Revenue Bond Funds, substantially all delinquent mortgage loans receivable at June 30, 1998 were within pool insurance coverage, which provides for loss coverage to an aggregate limit equal to at least ten percent of the aggregate original principal amount of the mortgage loans so covered. With respect to the Homeowner Mortgage Revenue Bond Funds, substantially all delinquent mortgage loans receivable at June 30, 1998 were within pool insurance coverage, which provides for an aggregate limit equal to 3.5% of the aggregate original principal amount of mortgage loans so covered, less a deductible equal to one percent of the aggregate of the original amount of all mortgage loans covered.

Loans made through the Illinois Affordable Housing Program 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 and have ranged from 0% to 7.5%, with most rates set at 2.0% or below. Loan maturities are up to 40 years, with some loans carrying deferred payment terms. The approximate aging of these receivables as of June 30, 1998, is as follows:

| Interest Rate - % | Principal Due By | | | | |
|----------------------|-------------------|----------------|-----------------|------------------|-----------------|
| | 6/30/99 | 6/30/04 | 6/30/14 | After 6/30/14 | Total |
| | (\$ in thousands) | | | | |
| 0 - .99 | \$2,181 | \$5,505 | \$5,802 | \$15,219 | \$28,707 |
| 1 - 1.99 | 1,345 | 2,860 | 7,028 | 14,914 | 26,147 |
| 2 - 3.99 | 582 | 757 | 2,467 | 4,698 | 8,504 |
| 4 - 7.50 | 27 | 144 | 441 | 144 | 756 |
| | <u>\$4,135</u> | <u>\$9,266</u> | <u>\$15,738</u> | <u>\$34,975</u> | <u>\$64,114</u> |

NOTES TO FINANCIAL STATEMENTS—(Continued)

For the Year Ended June 30, 1998

The approximate aging of the receivables of the HOME program as of June 30, 1998, is as follows:

| Interest Rate - % | Principal Due By | | | | Total |
|----------------------|-------------------|----------------|----------------|------------------|-----------------|
| | 6/30/99 | 6/30/04 | 6/30/14 | After 6/30/14 | |
| | (\$ in thousands) | | | | |
| 0 - .99 | \$ 43 | \$ 214 | \$ 701 | \$17,109 | \$18,067 |
| 1 - 1.50 | 196 | 1,196 | 3,120 | 25,583 | 30,095 |
| | <u>\$239</u> | <u>\$1,410</u> | <u>\$3,821</u> | <u>\$42,692</u> | <u>\$48,162</u> |

The Authority has reviewed each program loan receivable, including those for developments in the construction or rent-up phases, for the purpose of determining ultimate collectibility. The Authority believes that the allowances for estimated losses at June 30, 1998 in the accompanying combined statements of assets, liabilities and fund equity are adequate to cover estimated losses of the various funds.

Scheduled receipts of principal on proprietary fund program loans receivable in the five years subsequent to June 30, 1998 are as follows:

| | Year Ending June 30, |
|------------|-------------------------|
| 1999 | \$31,568,000 |
| 2000 | 33,511,000 |
| 2001 | 35,479,000 |
| 2002 | 38,222,000 |
| 2003 | 41,201,000 |

NOTE E—BONDS AND NOTES PAYABLE

Bond and notes outstanding are general obligations of the Authority with the exception of Homeowner Mortgage Revenue Bonds, Affordable Housing Program Trust Bonds, Multi-Family Variable Rate Demand Bonds, Multi-Family Housing Bonds, 1995 Series A and Multi-Family Program Bonds, Series 7 and 8, which are special limited obligations 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, 1998 are as follows:

Mortgage Loan Program Funds

Outstanding Housing Development, Multi-Family Housing, Fixed Rate Housing, Multi-Family Program, Housing Development Revenue, Multi-Family Variable Rate Demand and Multi-Family Housing Revenue Bonds are as follows:

| | Effective Interest rate | Amount |
|---|-------------------------------|----------------------|
| Housing Development Bonds: | | |
| 1972 Series A, 1998 to 2015, interest at 5.40% to 5.60% | 5.53% | \$ 27,455,000 |
| 1993 Series A, 1998 to 2018, interest at 4.60% to 6.00% | 6.04 | 89,060,000 |
| | | <u>116,515,000</u> |
| Less unamortized discount thereon | | 235,322 |
| | | <u>\$116,279,678</u> |

NOTES TO FINANCIAL STATEMENTS—(Continued)

For the Year Ended June 30, 1998

| | Effective Interest Rate | Amount |
|--|--|----------------------|
| Multi-Family Housing Bonds: | | |
| 1976 Series A, 1998 to 2018, interest at 7.40% | 7.61% | \$ 9,570,000 |
| 1976 Series B, 1998 to 2012, interest at 7.00% | 7.11 | 4,100,000 |
| 1978 Series A, 1998 to 2016, interest at 6.00% to 6.75% | 6.73 | 9,645,000 |
| 1979 Series B, 2019 to 2023, interest at 6.00% | 8.53 | 275,000 |
| 1982 Series B, 2011 to 2017, interest at 7.00% | 13.27 | 18,840,000 |
| 1982 Series C, 2015 to 2025, interest at 5.00% | 10.78 | 29,705,000 |
| 1983 Series A, 2006 to 2025, interest at 10.75% | 10.37 | 13,278,213† |
| 1987 Series A, 1998 to 2028, interest at 6.40% to 7.30% | 7.34 | 16,220,000 |
| 1990 Series A, 1998 to 2027, interest at 6.60% to 7.80% | 7.69 | 60,366,475†† |
| 1991 Series A, 1998 to 2016, interest at 7.80% to 8.25% | 8.43 | 72,505,000 |
| 1991 Series C, 1998 to 2023, interest at 6.35% to 7.40% | 7.40 | 23,160,000 |
| 1991 Series D, (Taxable), 1998 to 2000, interest at 9.35% | 9.54 | 1,440,000 |
| 1992 Series A, 1998 to 2026, interest at 6.00% to 7.10% | 6.92 | 46,360,000 |
| 1993 Series A, 2004 to 2005, interest at 6.05% to 6.125% | 6.31 | 42,935,000 |
| 1993 Series B (Taxable), 1998 to 2003, interest at 5.625% to 6.85% | 7.08 | 4,535,000 |
| 1993 Series C, 2003 to 2028, interest at 5.80% to 6.10% | 6.41 | 12,010,000 |
| 1993 Series D (Taxable), 1998 to 2003, interest at 6.80% | 7.78 | 990,000 |
| 1994 Series A and B, 1998 to 2020, interest at 5.80% to 7.60% | 7.45 | 22,030,000 |
| 1995 Series A, 1998 to 2021, interest at 4.15% to 5.95% | 5.98 | 30,860,000 |
| | | <u>418,824,688</u> |
| Less unamortized discount thereon | | <u>17,265,319</u> |
| | | <u>\$401,559,369</u> |

† Capital appreciation term bonds which were originally issued in the amount of \$2,900,000, and which are scheduled for redemption in part, on a semi-annual basis from July 1, 2006 through July 1, 2025, at accreted values aggregating \$59,509,500.

†† Includes capital appreciation bonds at their accreted value of \$4,976,475 at June 30, 1998 which were originally issued in the amount of \$2,731,852, and which are scheduled for redemption in part, on an annual basis from July 1, 2021 through July 1, 2027, at accreted values aggregating \$35,964,220.

NOTES TO FINANCIAL STATEMENTS—(Continued)

For the Year Ended June 30, 1998

| | Effective Interest rate | Amount 1998 |
|---|--|------------------------|
| Fixed Rate Housing Bonds: | | |
| 1984 Series A, 1998 to 2021, interest at 7.25% | 7.41% | \$ 9,495,000 |
| 1984 Series B, 1998 to 2015, interest at 7.25% | 7.43 | 4,315,000 |
| 1984 Series D, 1998 to 2015, interest at 7.25% | 7.43 | 3,595,000 |
| | | <u>\$ 17,405,000</u> |
| Multi-Family Program Bonds: | | |
| Series 1, 2005 to 2021, interest at 6.625% to 6.75% | 6.92% | \$ 45,715,000 |
| Series 2, (Taxable), 1998 to 2005, interest at 7.85% | 8.28 | 15,820,000 |
| Series 3, 2009 to 2023, interest at 6.05% to 6.20% | 6.41 | 98,135,000 |
| Series 4, (Taxable), 1998 to 2008, interest at 5.80% to 7.80% | 7.57 | 42,430,000 |
| Series 5, 2007 to 2023, interest at 6.65% to 6.75% | 6.95 | 74,725,000 |
| Series 6, (Taxable), 1998 to 2006, interest at 7.36% to 8.28% | 8.11 | 25,040,000 |
| Series 7, 2019 to 2029, interest at 6.25% | 6.40 | 18,415,000 |
| Series 8, (Taxable), 1998 to 2031, interest at 7.19% to 8.52% | 8.43 | 27,085,000 |
| | | <u>\$347,365,000</u> |
| Housing Development Revenue Bonds: | | |
| 1990 Series A, 1998 to 2026, interest at 6.90% to 8.00% | 8.15% | \$ 12,515,000 |
| Multi-Family Variable Rate Demand Bonds: | | |
| Series 1996A (Taxable), due 2026, (1)(2) | | <u>\$ 21,535,000</u> |
| Multi-Family Housing Revenue Bonds: | | |
| Series 1997 (1)(3) | | <u>\$ 14,170,000</u> |

- (1) Interest rates on the bonds are determined weekly at a rate established by the Remarketing Agents on each Rate Determination Date. The Authority has agreements with liquidity providers to purchase any bonds tendered for purchase in accordance with the indentures with respect to which the Trustee does not, on the date any such tendered bonds are required to be purchased, have sufficient funds to make such purchase. Payment of the principal of and interest on the bonds when due are insured by a financial guarantee insurance policy. The Authority has a general obligation to reimburse the insurer for any such payments made.
- (2) The Authority has entered into three interest rate swap agreements totaling \$18,335,000 in connection with these bonds. The swap agreements, which are in an amount equal to the real estate mortgages securing the Bond Funds, have maturities in the years 2001, 2003 and 2005. The weighted fixed rate of the swap agreements is 6.70%. In return, the counterparty pays interest based on a variable rate index. Only the net difference in interest payments is actually exchanged with the counterparty. No bond principal is exchanged. The Authority continues to pay interest to the bondholders at the variable rate of the bonds. However, during the term of the swap agreements, the Authority effectively pays a fixed rate on the debt, as do the holder's of the underlying mortgages. The Authority will be exposed to variable rates if a counterparty to the swap defaults or if the swap is terminated.
- (3) With respect to these bonds, the Authority has entered into an interest rate cap agreement with a rate cap provider. The agreement effectively limits the Authority's cost of borrowing to 5.75% but does not affect the rates paid to bondholders.

NOTES TO FINANCIAL STATEMENTS—(Continued)

For the Year Ended June 30, 1998

Single Family Mortgage Revenue Program Funds

Outstanding Residential Mortgage Revenue and Homeowner Mortgage Revenue Bonds are as follows:

| | <u>Effective Interest Rate</u> | <u>Amount</u> |
|---|--|----------------------|
| Residential Mortgage Revenue Bonds: | | |
| 1983 Series A, 2015, interest at 10.872% | 10.21% | \$ 864 |
| 1983 Series B, 2015, interest at 10.746 | 10.50 | 881 |
| 1984 Series A, 2001, interest at 10.872% | 10.77 | 3,804 |
| 1984 Series B, 2016, interest at 11.275% | 10.64 | 729 |
| 1985 Series A, 2017, interest at 10.75% | 9.30 | 715 |
| 1987 Series A, 1998 to 2017, interest at 6.30% to 7.00% | 6.79 | 23,875,000 |
| 1987 Series B, 2014, interest at 8.125% | 8.29 | 100,000 |
| 1987 Series C, 2014, interest at 7.50% | 7.49 | 100,000 |
| 1987 Series D, 2017, interest at 8.65% | 8.94 | 100,000 |
| 1988 Series A and B, 1999 to 2002, interest at 7.20% to 7.70% | 7.77 | 3,985,000 |
| 1988 Series C, 1998 to 2022, interest at 7.125% to 8.10% | 7.98 | 15,295,000 |
| 1989 Series A and B, 1998 to 2022, interest at 6.90% to 7.40% | 7.50 | 27,135,000 |
| 1989 Series C and D, 1998 to 2018, interest at 6.70% to 7.65% | 7.76 | 37,782,850 |
| 1990 Series B and C, 1998 to 2017, interest at 6.60% to 7.50% | 7.77 | 19,466,391 |
| 1990 Series E, 2015 to 2019, interest at 7.75% | 7.99 | 20,615,000 |
| 1991 Series A and B, 1998 to 2024, interest at 6.40% to 7.45% | 7.32 | 35,195,000 |
| 1991 Series C and D, 1998 to 2018, interest at 5.80% to 6.10% | 7.22 | 45,185,000 |
| 1992 Series A, 2024 to 2025, interest at 5.95% | 6.11 | 2,320,000 |
| 1993 Series A and B, 1998 to 2024, interest at 4.30% to 5.90% | 5.59 | 34,390,000 |
| | | <u>\$265,551,234</u> |

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

| <u>Series</u> | <u>Redemption Basis and Period</u> | <u>Original Issue Amount (1)</u> | <u>Accreted Value</u> | <u>Aggregate Value to be Redeemed</u> |
|---------------------------|--|--|-----------------------|---|
| 1983 Series A | Maturity 2/1/15 | \$ 180 | \$ 864 | \$ 5,000 |
| 1983 Series B | Maturity 2/1/15 | 193 | 881 | 5,000 |
| 1984 Series A | Maturity 2/1/01 | 884 | 3,804 | 5,000 |
| 1984 Series B | Maturity 2/1/16 | 166 | 729 | 5,000 |
| 1985 Series A | Maturity 2/1/17 | 190 | 715 | 5,000 |
| 1989 Series C and D | Semi-Annual 2/1/00-8/1/06 | 6,244,453 | 11,572,850 | 16,430,000 |
| 1990 Series B and C | Semi-Annual 2/1/01-8/1/06 | 3,468,870 | 6,151,391 | 9,185,000 |

(1) Amounts reflect original issue amounts of capital appreciation bonds outstanding as of June 30, 1998.

NOTES TO FINANCIAL STATEMENTS—(Continued)

For the Year Ended June 30, 1998

| | Effective interest rate | Amount |
|---|-------------------------------|----------------------|
| Homeowner Mortgage Revenue Bonds: | | |
| 1994 Series A, 1998 to 2026, interest at 4.90% to 6.70% | 6.58% | \$ 52,490,000 |
| 1994 Series B, 1998 to 2026, interest at 5.60% to 7.15% | 7.10 | 24,050,000 |
| 1994 Series C, 2026, interest at 6.625% | 6.77 | 2,200,000 |
| 1995 Series A, 1998 to 2026, interest at 5.40% to 7.125% | 7.01 | 34,350,000 |
| 1995 Series B, 1998 to 2026, interest at 5.00% to 6.625% | 6.52 | 38,160,000 |
| 1995 Series B-3 (Taxable), 1999 to 2026, interest at 7.85% to 8.35% | 8.49 | 8,570,000 |
| 1995 Series C, 1998 to 2018, interest at 4.15% to 6.20% | 6.05 | 18,110,000 |
| 1995 Series D, 1998 to 2027, interest at 4.40% to 6.625% | 6.52 | 47,940,000 |
| 1995 Series E, 2023 to 2028, interest at 6.17% | 6.32 | 7,965,000 |
| 1996 Series A, 1998 to 2027, interest at 4.10% to 6.15% | 5.99 | 46,785,000 |
| 1996 Series B, 2006 to 2028, interest at 6.30% to 6.45% | 6.41 | 39,080,000 |
| 1996 Series C, 1998 to 2028, interest at 5.625% to 7.58% | 6.63 | 25,280,000 |
| 1996 Series E, 1998 to 2027, interest at 4.00% to 6.125% | 6.13 | 25,710,000 |
| 1996 Series E-3 (Taxable), 2001 to 2027, interest at 7.43% | 7.94 | 10,845,000 |
| 1996 Series F, 1999 to 2028, interest at 3.95% to 5.65% | 5.55 | 31,000,000 |
| 1997 Series A, 1999 to 2028, interest at 4.25% to 6.15% | 5.70 | 39,955,000 |
| 1997 Series A-3 (Taxable), 1999 to 2028, interest at 7.35% | 7.60 | 4,820,000 |
| 1997 Series B (remarketed April 30, 1998), 1999 to 2028, interest at 3.70% to 5.50% | 5.31 | 29,000,000 |
| 1997 Series B (remarketed June 29, 1998), 1999 to 2028, interest at 3.90% to 5.40% | 5.39 | 31,500,000 |
| 1997 Series C, 1998 to 2028, interest at 3.90% to 6.00% | 5.59 | 52,105,000 |
| 1997 Series C-5 (Taxable), 1999 to 2029, interest at 6.72% to 7.74% | 7.49 | 22,460,000 |
| 1997 Series D, 1999 to 2028, interest at 3.95% to 5.65% | 5.53 | 20,500,000 |
| 1997 Series D-3 (Taxable), 1999 to 2028, interest at 6.60% | 7.05 | 5,000,000 |
| 1997 Series E, 1998, interest at 3.80% to 3.85% | | 24,855,000 |
| 1998 Series A (Taxable), 1999 to 2028, interest at 6.45% to 7.16% | 6.97 | 20,000,000 |
| 1998 Series B (1) | | 11,215,000 |
| 1998 Series C (Taxable), 2000 to 2029, interest at 6.28% to 7.00% | 7.53 | 16,500,000 |
| 1998 Series D (2) | | 70,320,000 |
| | | 760,765,000 |
| Plus unamortized premium thereon | | 646,016 |
| | | <u>\$761,411,016</u> |

- (1) These bonds were issued at an interest rate of 3.85% subject to periodic adjustments. The bond proceeds were deposited into an escrow subject to mandatory tender for purchase in connection with conversion to a fixed rate from October 29, 1998 through April 28, 1999. The final maturity date for these bonds will not extend beyond August 1, 2026.
- (2) These bonds were issued at interest rates of 3.65% to 3.70% subject to periodic adjustments. The bond proceeds were deposited into an escrow subject to mandatory tender for purchase in connection with conversion to a fixed rate from September 30, 1998 through June 26, 1999. The final maturity date for these bonds will not extend beyond February 1, 2029.

NOTES TO FINANCIAL STATEMENTS—(Continued)

For the Year Ended June 30, 1998

Affordable Housing Program Trust Fund Bond Funds

Outstanding Affordable Housing Program Trust Fund Bonds are as follows:

| | Effective interest rate | Amount |
|--|-------------------------------|----------------------|
| Series 1994A, 1998 to 2021, interest at 7.28% to 8.64% | 8.77% | \$ 59,865,000 |
| Series 1995A, 1998 to 2022, interest at 6.40% to 7.82% | 7.89 | 42,590,000 |
| | | <u>\$102,455,000</u> |

The following summarizes the debt activity for the Authority's proprietary funds for fiscal year 1998.

| Funds | 06/30/97 | Issuance | Accretion | Retirement | 06/30/98 |
|--|------------------------|----------------------|--------------------|------------------------|------------------------|
| Housing Development Bond | \$ 131,445,000 | | | (\$ 14,930,000) | \$ 116,515,000 |
| Multi-Family Housing Bond | 450,793,076 | | 1,686,612 | (33,655,000) | 418,824,688 |
| Fixed Rate Housing Bond | 24,685,000 | | | (7,280,000) | 17,405,000 |
| Multi-Family Program Bond | 354,025,000 | | | (6,660,000) | 347,365,000 |
| Housing Development Revenue Bond | 12,625,000 | | | (110,000) | 12,515,000 |
| Multi-Family Variable Rate Demand Bond | 21,535,000 | | | | 21,535,000 |
| Multi-Family Housing Revenue Bond | — | 14,170,000 | | | 14,170,000 |
| Residential Mortgage Revenue Bond | 446,045,143 | | 1,806,102 | (182,300,011) | 265,551,234 |
| Homeowner Mortgage Revenue Bond | 500,075,000 | 372,135,000 | | (111,445,000) | 760,765,000 |
| Owner Occupied Housing Revenue Bond | — | 27,825,000 | | (27,825,000) | — |
| Affordable Housing Program Trust Fund Bond | 104,010,000 | | | (1,555,000) | 102,455,000 |
| Total Proprietary Funds | <u>\$2,045,238,219</u> | <u>\$414,130,000</u> | <u>\$3,492,714</u> | <u>(\$385,760,011)</u> | <u>\$2,077,100,922</u> |

Other Financings

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

As of June 30, 1998, there were eleven series of such bonds outstanding, with an aggregate principal amount payable of \$224,255,000.

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:

| Fund | Requirement |
|---|---|
| Housing Development Bonds, Fixed Rate Housing Bonds, Affordable Housing Program Trust Fund Bonds | Maximum amount of principal and interest due in any succeeding year |

NOTES TO FINANCIAL STATEMENTS—(Continued)

For the Year Ended June 30, 1998

| <u>Fund</u> | <u>Requirement</u> |
|--|--|
| 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 A and 1979 Series B Bonds, for which the percentage is 120%) of the maximum annual debt service on such bonds for the current or any succeeding year until July 1 of the year preceding the final maturity of the bonds of such series |
| 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, Multi-Family Housing Revenue Bonds | Three months of adjusted debt service requirements |
| Housing Development Revenue Bonds | 66⅔% of the maximum annual debt service on the bonds in the current or any future bond year |
| Homeowner 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 |
| Residential Mortgage Revenue Bonds | |

The amounts of such reserves are valued at par, or, if purchased at less than par, at their cost to the Authority. At June 30, 1998, these amounts, which were not less than the amounts required, are as follows:

| | |
|--|----------------------|
| Housing Development Bond Funds | \$ 10,448,350 |
| Multi-Family Housing Bond Funds | 55,903,070 |
| Fixed Rate Housing Bond Funds | 1,693,155 |
| Multi-Family Program Bond Funds | 31,385,000 |
| Housing Development Revenue Bond Funds | 876,196 |
| Multi-Family Variable Rate Demand Bond Funds | 361,060 |
| Multi-Family Housing Revenue Bond Funds | 203,694 |
| Residential Mortgage Revenue Bond Funds | 26,648,275 |
| Homeowner Mortgage Revenue Bond Funds | 21,846,946 |
| | <u>\$149,365,746</u> |

NOTES TO FINANCIAL STATEMENTS—(Continued)

For the Year Ended June 30, 1998

Other Maturity Information

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

| <u>Issue</u> | <u>Maturity on or after</u> | <u>Redemption price</u> |
|--|---------------------------------|-----------------------------|
| Housing Development Bonds: | | |
| 1972 Series A | July 1, 1998 | 102 % to 100% |
| 1993 Series A | July 1, 2004 | 102 to 100 |
| Multi-Family Housing Bonds: | | |
| 1976 Series A and B | July 1, 1998 | 101 to 100 |
| 1987 Series A | July 1, 1998 | 102 to 100 |
| 1990 Series A | July 1, 2000 | 102 to 100 |
| 1991 Series A and C | July 1, 2001 | 102 to 100 |
| 1992 Series A | July 1, 2002 | 102 to 100 |
| 1993 Series A and C | July 1, 2003 | 102 to 100 |
| 1994 Series A and B | Jan 1, 2005 | 102 to 100 |
| 1995 Series A | July 1, 2005 | 102 to 100 |
| Fixed Rate Housing Bonds, 1984 Series, A, B, C and D | July 1, 1998 | 102.5 to 100 |
| Multi-Family Program Bonds: | | |
| Series 1 | Mar. 1, 2003 | 102 to 100 |
| Series 3 | Sept. 1, 2003 | 102 to 100 |
| Series 5 | Sept. 1, 2004 | 102 to 100 |
| Housing Development Revenue Bonds, 1990 Series A | Dec. 1, 2000 | 102 to 100 |
| Residential Mortgage Revenue Bonds: | | |
| 1987 Series A, B, C and D | July 1, 1998 | 103 to 100 |
| 1988 Series A and B | Aug. 1, 1998 | 103 to 100 |
| 1988 Series C | Aug. 1, 1998 | 102 to 100 |
| 1989 Series A and B | Aug. 1, 1999 | 102 to 100 |
| 1989 Series C and D | Feb. 1, 2000 | 102 to 100 |
| 1990 Series B, C and E | Aug. 1, 2000 | 102 to 100 |
| 1991 Series A and B | Aug. 1, 2001 | 102 to 100 |
| 1991 Series C | Feb. 1, 2002 | 104 to 100 |
| 1991 Series D | Feb. 1, 2002 | 103 to 100 |
| 1992 Series A | Aug. 1, 2002 | 102 to 100 |
| 1993 Series A and B | Feb. 1, 2004 | 102 to 100 |
| Homeowner Mortgage Revenue Bonds: | | |
| 1994 Series A | Aug. 1, 2004 | 102 to 100 |
| 1994 Series B and 1995 Series A | Feb. 1, 2005 | 102 to 100 |
| 1994 Series C | Aug. 1, 2005 | 102 to 100 |
| 1995 Series B | May 1, 2005 | 102 to 100 |
| 1995 Series C | Oct. 1, 2006 | 102 to 100 |
| 1995 Series D | Aug. 1, 2005 | 102 to 100 |
| 1995 Series E | Jan. 1, 2007 | 102 to 100 |
| 1996 Series A and B | Feb. 1, 2006 | 102 to 100 |
| 1996 Series C and E | Aug. 1, 2006 | 102 to 100 |

NOTES TO FINANCIAL STATEMENTS—(Continued)

For the Year Ended June 30, 1998

| <u>Issue</u> | <u>Maturing on or after</u> | <u>Redemption price</u> |
|---|---------------------------------|-----------------------------|
| 1997 Series A | Feb. 1, 2007 | 102 % to 100% |
| 1997 Series B (remarketed April 30, 1998) | May 1, 2008 | 102 to 100 |
| 1997 Series B (remarketed June 29, 1998) | July 1, 2008 | 102 to 100 |
| 1997 Series C | Aug. 1, 2007 | 102 to 100 |
| 1997 Series D and 1996 Series F | Jan. 1, 2008 | 102 to 100 |
| 1998 Series A | April 1, 2008 | 101 to 100 |
| 1998 Series C | June 1, 2008 | 101 to 100 |
| Affordable Housing Program Trust Fund Bonds: | | |
| Series 1994A | Aug. 1, 2004 | 102 to 100 |
| Series 1995A | June 1, 2005 | 102 to 100 |

Bonds maturing in the five years subsequent to June 30, 1998 are as follows:

| | <u>Year Ending June 30,</u> |
|------------|---------------------------------|
| 1999 | 141,040,000(1) |
| 2000 | 38,722,720 |
| 2001 | 40,198,658 |
| 2002 | 41,964,448 |
| 2003 | 43,626,483 |

(1) \$81,535,000 of this amount is expected to be refinanced as long-term debt.

NOTE F—DEPOSITS HELD IN ESCROW

Deposits from developers, which are held in escrow in the Administrative Funds, 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 D). 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 G—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 rent of \$530,656 beginning August 1, 1996 and escalates by \$23,072 annually throughout the lease period, plus estimated payments totaling \$640,000 annually for the Authority's 6.66% share of ownership taxes and operating expenses which also are subject to adjustment, based on the actual costs incurred by the Lessor.

NOTE H—OTHER LIABILITIES

Included in Other Liabilities at June 30, 1998 is \$18,991,726 held for Housing Assistance Payments.

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

NOTES TO FINANCIAL STATEMENTS—(Continued)

For the Year Ended June 30, 1998

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, 1998 is an estimated rebate liability of \$4,470,295.

NOTE I—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 15% (within a maximum dollar limit) of their salaries to the plan. 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 1998 was \$7,063,930. The Authority's contributions were calculated using the base salary amount of \$6,988,900. The Authority contributed \$419,334, or 6% of the base salary amount, in fiscal year 1998. Employee contributions amounted to \$494,611 in fiscal year 1998, or 7.1% of the base salary amount.

NOTE J—COMMITMENTS

At June 30, 1998, unexpended bond proceeds held by the Authority in the form of cash and investments amounting to \$278,199,234 in the Homeowner Mortgage Revenue Bond Funds were identified for the purpose of purchasing various mortgage loans and \$1,260,967 in the Affordable Housing Program Trust Fund Bond Funds were identified for the purpose of making various mortgage loans.

At June 30, 1998, the Members of the Authority had authorized commitments for loans and grants totaling \$12,700,999, and \$2,066,251, respectively, of the Illinois Affordable Housing Trust Fund.

Under the HOME program, \$109.8 million and \$20.8 million for federal fiscal years 1992 through 1997 and 1998, respectively, have been allocated to the State, to be administered by the Authority, under the HOME 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, 1998, the Members of the Authority had authorized commitments for loans and grants of \$8,373,692 and \$4,181,035, respectively, for this 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 by 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 and Other Funds. At June 30, 1998, loans receivable under this program were approximately \$5.0 million.

NOTES TO FINANCIAL STATEMENTS--(Continued)

For the Year Ended June 30, 1998

NOTE K--SUBSEQUENT EVENTS

On July 9, 1998, the Authority issued its Homeowner Mortgage Revenue Bonds, 1998 Series D-3, in the aggregate principal amount of \$28,120,000, at an initial interest rate of 3.70%. These bonds are convertible option bonds subject to mandatory redemption no later than June 29, 1999.

On August 27, 1998, the Authority issued its Section 8 Elderly Housing Refunding Revenue Bonds, Series 1998 (Morningside North Development), in the aggregate principal amount of \$21,350,000. These bonds are special limited obligations of the Authority and do not constitute an indebtedness or an obligation of the Authority or the State of Illinois. They do, however, apply toward the Authority's authorized debt limitation.

On October 7, 1998, the Authority issued its Homeowner Mortgage Revenue Bonds, 1998 Series E, in the aggregate principal amount of \$20,000,000, maturing in 2000 through 2029, at initial interest rates of 5.66% to 6.31%, and 1998 Series F-1 and F-2, in the aggregate principal amount of \$20,305,000, at initial interest rates of 3.40% to 3.45%. The Series F bonds are convertible option bonds subject to mandatory redemption no later than October 6, 1999.

On December 17, 1998, the Authority issued its Homeowner Mortgage Revenue Bonds, 1998 Series G-1 and G-2, in the aggregate principal amount of \$31,500,000, maturing in 2000 through 2029, at initial interest rates of 3.65% to 5.25%.

On January 20, 1999, the Authority issued its Homeowner Mortgage Revenue Bonds, 1999 Series A-1 and A-2, in the aggregate principal amount of \$25,740,000, at initial interest rates of 3.00% to 3.10%. These bonds are convertible option bonds subject to mandatory redemption no later than January 20, 2000.

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

SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET

As of June 30, 1998

| <u>ASSETS</u> | <u>Illinois Affordable Housing Trust Fund</u> | <u>HOME Program</u> | <u>Total</u> |
|---|---|-------------------------|--------------------|
| Current assets: | | | |
| Cash | \$ 2,518,609 | | 2,518,609 |
| Funds held by State Treasurer | 34,833,917 | 6,301 | 34,840,218 |
| Obligations of U.S. government and other governmental entities | 15,459,238 | | 15,459,238 |
| Investment income receivable | 96,776 | | 96,776 |
| Program loans receivable | 4,135,000 | 239,000 | 4,374,000 |
| Interfund accounts payable | (741,029) | (443,369) | (1,184,398) |
| Total current assets | <u>56,302,511</u> | <u>(198,068)</u> | <u>56,104,443</u> |
| Noncurrent assets: | | | |
| Program loans receivable, net of current portion | 59,979,027 | 47,922,779 | 107,901,806 |
| Loss allowance for estimated losses | (5,500,000) | (1,000,000) | (6,500,000) |
| Net program loans receivable | 54,479,027 | 46,922,779 | 101,401,806 |
| Other | | 443,369 | 443,369 |
| Total noncurrent assets | <u>54,479,027</u> | <u>47,366,148</u> | <u>101,845,175</u> |
| Total assets | <u>\$110,781,538</u> | <u>47,168,080</u> | <u>157,949,618</u> |
| <u>LIABILITIES AND FUND EQUITY</u> | | | |
| Fund equity: | | | |
| Fund balance: | | | |
| Reserved for loans receivable | \$ 54,479,027 | 46,922,779 | 101,401,806 |
| Unreserved | 56,302,511 | 245,301 | 56,547,812 |
| Total fund balance | <u>110,781,538</u> | <u>47,168,080</u> | <u>157,949,618</u> |
| Total liabilities and fund equity | <u>\$110,781,538</u> | <u>47,168,080</u> | <u>157,949,618</u> |

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

ILLINOIS HOUSING DEVELOPMENT AUTHORITY
(A Component Unit of the State of Illinois)
SPECIAL REVENUE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES

For the Year Ended June 30, 1998

| | Illinois Affordable Housing Trust Fund | HOME Program | Total |
|--|---|-------------------|--------------------|
| Revenues: | | | |
| Real estate transfer taxes | \$ 23,450,608 | | 23,450,608 |
| Federal HOME funds | | 17,560,764 | 17,560,764 |
| Interest and investment income | 2,821,115 | 142,947 | 2,964,062 |
| Private donation | 500,000 | | 500,000 |
| Application fees | 56,250 | | 56,250 |
| Total revenues | <u>26,827,973</u> | <u>17,703,711</u> | <u>44,531,684</u> |
| Expenditures: | | | |
| Grants | 3,718,731 | 2,976,292 | 6,695,023 |
| General and administrative | 1,276,114 | 920,608 | 2,196,722 |
| Provision for estimated losses on program loans receivable | 500,000 | 1,000,000 | 1,500,000 |
| Total expenditures | <u>5,494,845</u> | <u>4,896,900</u> | <u>10,391,745</u> |
| Excess of revenues over expenditures | 21,333,128 | 12,806,811 | 34,139,939 |
| Operating transfer out | (5,300,000) | | (5,300,000) |
| Fund balance at beginning of year | 94,748,410 | 34,361,269 | 129,109,679 |
| Fund balance at end of year | <u>\$110,781,538</u> | <u>47,168,080</u> | <u>157,949,618</u> |

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

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

ENTERPRISE FUNDS
COMBINING BALANCE SHEET

As of June 30, 1998

| ASSETS | Mortgage Loan Program Funds | | | | | |
|---|--------------------------------------|--------------------------------------|---------------------------------------|-------------------------------------|---------------------------------------|---|
| | Administrative and Other Funds | Housing Development Bond Funds | Multi-Family Housing Bond Funds | Fixed Rate Housing Bond Funds | Multi-Family Program Bond Funds | Housing Development Revenue Bond Funds |
| Current assets: | | | | | | |
| Cash and Cash Equivalents | \$ 4,308,995 | 57,800 | 117,146 | 48,473 | 5,206 | |
| Investments: | | | | | | |
| Obligations of U.S. government and other governmental entities | 236,337,555 | 16,118,397 | 111,258,185 | 6,899,332 | 3,090,978 | |
| Demand repurchase agreements | 1,153,105 | 16,673,852 | 52,648,197 | | 44,904,220 | 2,166,609 |
| Total investments | 237,490,660 | 32,792,249 | 163,906,382 | 6,899,332 | 47,995,198 | 2,166,609 |
| Investment income receivable | 2,839,868 | 290,721 | 2,448,503 | 119,638 | 885,361 | 13,545 |
| Program loans receivable | 1,055,000 | 3,169,000 | 5,702,000 | 341,000 | 7,168,000 | 103,000 |
| Interest receivable on program loans | 560,630 | 1,763,951 | 658,910 | 615,749 | 185,640 | 86,154 |
| Interfund accounts receivable (payable) | (11,263,961) | 2,824,164 | (1,338,136) | 545,833 | 8,491,800 | 176,773 |
| Total current assets | 234,991,192 | 40,897,885 | 171,494,805 | 8,570,025 | 64,731,205 | 2,546,081 |
| Noncurrent assets: | | | | | | |
| Program loans receivable, net of current portion .. | 22,157,221 | 104,692,873 | 278,300,378 | 16,160,884 | 298,085,641 | 11,821,483 |
| Less allowance for estimated losses | (8,485,000) | (3,815,000) | (3,500,000) | (1,100,000) | | |
| Net program loans receivable | 13,672,221 | 100,877,873 | 274,800,378 | 15,060,884 | 298,085,641 | 11,821,483 |
| Unamortized bond issuance costs | | 1,267,765 | 9,251,354 | 365,105 | | |
| Real estate held for sale, net | | | 31,654,717 | | | |
| Equipment and leasehold improvements, net | 1,386,712 | | | | | |
| Other | 4,766,675 | | 581,618 | | | |
| Total noncurrent assets | 19,825,608 | 102,145,638 | 316,288,067 | 15,425,989 | 298,085,641 | 11,821,483 |
| Total assets | \$254,816,800 | 143,043,523 | 487,782,872 | 23,996,014 | 362,816,846 | 14,367,564 |
| LIABILITIES AND FUND EQUITY | | | | | | |
| Current liabilities: | | | | | | |
| Bonds and notes payable | \$ | 3,480,000 | 9,050,000 | 385,000 | 7,225,000 | 120,000 |
| Accrued interest payable | | 3,331,551 | 13,820,912 | 425,204 | 8,045,899 | 82,150 |
| Deposits held in escrow | 129,248,587 | | | | | |
| Accrued liabilities and other | 29,926,465 | | 4,923,504 | | 2,027,650 | 91,645 |
| Amounts due brokers for securities purchased ... | 1,129,492 | | 42,696,313 | | | |
| Total current liabilities | 160,304,544 | 6,811,551 | 70,490,729 | 810,204 | 17,298,549 | 293,795 |
| Noncurrent liabilities: | | | | | | |
| Bonds and notes payable, net of current portion .. | | 112,799,678 | 392,509,369 | 17,020,000 | 340,140,000 | 12,395,000 |
| Total liabilities | 160,304,544 | 119,611,229 | 463,000,098 | 17,830,204 | 357,438,549 | 12,688,795 |
| Fund equity: | | | | | | |
| Retained earnings (deficit): | | | | | | |
| Restricted by bond resolutions | | 23,432,294 | 24,782,774 | 6,165,810 | 5,378,297 | 1,678,769 |
| Reserved by bond resolution | 8,499,480 | | | | | |
| Designated by resolution of the Authority ... | 67,500,000 | | | | | |
| Undesignated | 18,512,776 | | | | | |
| Total retained earnings (deficit) | 94,512,256 | 23,432,294 | 24,782,774 | 6,165,810 | 5,378,297 | 1,678,769 |
| Total liabilities and fund equity | \$254,816,800 | 143,043,523 | 487,782,872 | 23,996,014 | 362,816,846 | 14,367,564 |

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

| Mortgage Loan Program Funds | | Single Family Mortgage Revenue Program Funds | | | Affordable Housing Program Trust Fund Bond Funds | Total |
|--|---|--|---------------------------------------|---|--|---------------|
| Multi-Family Variable Rate Demand Bond Funds | Multi-Family Housing Revenue Bond Funds | Residential Mortgage Revenue Bond Funds | Homeowner Mortgage Revenue Bond Funds | Owner Occupied Housing Revenue Bond Funds | | |
| 1,222,031 | 278,309 | 366,063 | 365,357 | | 134,752 | 6,904,132 |
| 3,662,167 | 526,676 | 12,606,732 | 7,063,842 | | 1,260,120 | 398,823,984 |
| | 1,049,426 | 59,552,448 | 340,119,853 | | 13,717,025 | 531,984,735 |
| 3,662,167 | 1,576,102 | 72,159,180 | 347,183,695 | | 14,977,145 | 930,808,719 |
| 22,218 | 16,543 | 1,604,447 | 4,697,948 | | 64,828 | 13,003,620 |
| | | 5,573,000 | 5,512,000 | | 2,945,000 | 31,568,000 |
| 143,160 | | 1,734,692 | 2,742,569 | | 342,578 | 8,834,033 |
| (286,164) | 4,339,953 | (521,702) | (913,988) | (178,351) | (691,823) | 1,184,398 |
| 4,763,412 | 6,210,907 | 80,915,680 | 359,587,581 | (178,351) | 17,772,480 | 992,302,902 |
| 17,747,294 | | 226,878,064 | 419,129,677 | | 97,168,689 | 1,492,142,204 |
| (200,000) | | | | | (1,000,000) | (18,100,000) |
| 17,547,294 | | 226,878,064 | 419,129,677 | | 96,168,689 | 1,474,042,204 |
| 380,175 | 477,135 | 3,297,838 | 12,186,444 | | 2,033,527 | 29,259,343 |
| | 7,711,794 | 541,287 | 244,643 | | | 40,152,441 |
| | 136,191 | | | | | 1,386,712 |
| | | | | | | 5,484,484 |
| 17,927,469 | 8,325,120 | 230,717,189 | 431,560,764 | | 98,202,216 | 1,550,325,184 |
| 22,690,881 | 14,536,027 | 311,632,869 | 791,148,345 | (178,351) | 115,974,696 | 2,542,628,086 |
| | | 5,900,000 | 113,210,000 | | 1,670,000 | 141,040,000 |
| 101,053 | 43,054 | 5,977,357 | 15,475,524 | | 690,491 | 47,993,195 |
| | | | | | | 129,248,587 |
| 289,220 | 322,973 | 3,809,410 | 3,514,942 | 33,160 | 203,060 | 45,142,029 |
| | | | | | | 43,825,805 |
| 390,273 | 366,027 | 15,686,767 | 132,200,466 | 33,160 | 2,563,551 | 407,249,616 |
| 21,535,000 | 14,170,000 | 259,651,234 | 648,201,016 | | 100,785,000 | 1,919,206,297 |
| 21,925,273 | 14,536,027 | 275,338,001 | 780,401,482 | 33,160 | 103,348,551 | 2,326,455,913 |
| 765,608 | | 36,294,868 | 10,746,863 | (211,511) | 12,626,145 | 121,659,917 |
| | | | | | | 8,499,480 |
| | | | | | | 67,500,000 |
| | | | | | | 18,513,776 |
| 765,608 | | 36,294,868 | 10,746,863 | (211,511) | 12,626,145 | 216,172,173 |
| 22,690,881 | 14,536,027 | 311,632,869 | 791,148,345 | (178,351) | 115,974,696 | 2,542,628,086 |

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

ENTERPRISE FUNDS
COMBINING STATEMENT OF INCOME, EXPENSES AND
CHANGES IN RETAINED EARNINGS (DEFICIT)

For the Year Ended June 30, 1998

| | Mortgage Loan Program Funds | | | | | |
|--|--------------------------------------|--------------------------------------|---|-------------------------------------|---|---|
| | Administrative and Other Funds | Housing Development Bond Funds | Multi- Family Housing Bond Funds | Fixed Rate Housing Bond Funds | Multi- Family Program Bond Funds | Housing Development Revenue Bond Funds |
| Interest and investment income: | | | | | | |
| Interest earned on program | | | | | | |
| loans | \$ 2,062,587 | 9,522,903 | 25,830,742 | 1,774,037 | 22,392,408 | 1,007,704 |
| Investment income | 4,870,518 | 1,717,148 | 8,345,502 | 721,491 | 3,126,448 | 182,926 |
| Total interest and investment | | | | | | |
| income | 6,933,105 | 11,240,051 | 34,176,244 | 2,495,528 | 25,518,856 | 1,190,630 |
| Interest expense | | 7,227,322 | 31,200,526 | 1,703,213 | 24,060,739 | 996,440 |
| Interest and investment income | | | | | | |
| over (under) interest expense .. | 6,933,105 | 4,012,729 | 2,975,718 | 792,315 | 1,458,117 | 194,190 |
| Other income: | | | | | | |
| Federal assistance programs | 151,131,043 | 6,150,692 | | 1,032,423 | | |
| Service fees | 7,182,201 | | | | | |
| Development fees | 149,336 | | | | | |
| HUD savings | 1,088,751 | | | | | |
| Other | 6,877,874 | | 3,136,088 | | | |
| Total other income | 166,429,205 | 6,150,692 | 3,136,088 | 1,032,423 | | |
| Operating expenses: | | | | | | |
| Federal assistance programs | 151,131,043 | 6,150,692 | | 1,032,423 | | |
| Salaries and benefits | 5,862,586 | | | | | |
| Professional fees | 1,360,009 | | | | | |
| Other general and | | | | | | |
| administrative | 3,157,930 | | | | | |
| Financing costs | 584,694 | 18,582 | 45,519 | | 22,189 | 3,168 |
| Write down of real estate held for | | | | | | |
| sale | | | | | | |
| Provision for (reversal of) | | | | | | |
| estimated losses on program | | | | | | |
| loans receivable | 361,275 | | (1,000,000) | | | |
| Total operating expenses | 162,457,537 | 6,169,274 | (954,481) | 1,032,423 | 22,189 | 3,168 |
| Operating income (loss) | 10,904,773 | 3,994,147 | 7,066,287 | 792,315 | 1,435,928 | 191,022 |
| Operating transfers in (out) | (4,748,127) | | 3,085,920 | | | |
| Net income (loss) | 6,156,646 | 3,994,147 | 10,152,207 | 792,315 | 1,435,928 | 191,022 |
| Retained earnings (deficit) at beginning | | | | | | |
| of year | 88,355,610 | 19,438,147 | 14,630,567 | 5,373,495 | 3,942,369 | 1,487,747 |
| Retained earnings (deficit) at end of | | | | | | |
| year | \$ 94,512,256 | 23,432,294 | 24,782,774 | 6,165,810 | 5,378,297 | 1,678,769 |

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

| Mortgage Loan Program Funds | | Single Family Mortgage Revenue Program Funds | | | | Total |
|---|--|--|---|---|--|--------------------|
| Multi- Family Variable Rate Demand Bond Fund | Multi- Family Housing Revenue Bond Funds | Residential Mortgage Revenue Bond Funds | Homeowner Mortgage Revenue Bond Fund | Owner Occupied Housing Revenue Bond Funds | Affordable Housing Program Trust Fund Bond Funds | |
| 1,705,695 | | 22,984,382 | 26,704,680 | | 3,163,530 | 117,148,668 |
| <u>110,901</u> | <u>96,532</u> | <u>4,388,011</u> | <u>18,588,761</u> | <u>127,035</u> | <u>986,665</u> | <u>43,261,938</u> |
| 1,816,596 | 96,532 | 27,372,393 | 45,293,441 | 127,035 | 4,150,195 | 160,410,606 |
| <u>1,520,788</u> | <u>337,035</u> | <u>26,045,532</u> | <u>40,524,768</u> | <u>139,139</u> | <u>8,480,635</u> | <u>142,236,137</u> |
| 295,808 | (240,503) | 1,326,861 | 4,768,673 | (12,104) | (4,330,440) | 18,174,469 |
| | | | | | | 158,314,158 |
| | | | | | | 7,182,201 |
| | | | | | | 149,336 |
| | | | | | | 1,088,751 |
| | <u>542,768</u> | | | | | <u>10,556,730</u> |
| | 542,768 | | | | | 177,291,176 |
| | | | | | | 158,314,158 |
| | | 86,239 | 1,047,779 | | | 6,996,604 |
| | | | | | | 1,360,009 |
| | | 711,941 | 86,735 | | | 3,956,606 |
| 73,918 | | <u>307,967</u> | <u>321,273</u> | | 272,673 | 1,649,983 |
| | 1,960,856 | | | | | 1,960,856 |
| 200,000 | | | | | 1,000,000 | 561,275 |
| <u>273,918</u> | <u>1,960,856</u> | <u>1,106,147</u> | <u>1,455,787</u> | | <u>1,272,673</u> | <u>174,799,491</u> |
| 21,890 | (1,658,591) | 220,714 | 3,312,886 | (12,104) | (5,603,113) | 20,666,154 |
| | <u>1,658,591</u> | <u>(4,726,413)</u> | <u>4,730,029</u> | | <u>5,300,000</u> | <u>5,300,000</u> |
| 21,890 | | (4,505,699) | 8,042,915 | (12,104) | (303,113) | 25,966,154 |
| <u>743,718</u> | | <u>40,800,567</u> | <u>2,703,948</u> | <u>(199,407)</u> | <u>12,929,258</u> | <u>190,206,019</u> |
| <u>765,608</u> | | <u>36,294,868</u> | <u>10,746,863</u> | <u>(211,511)</u> | <u>12,626,145</u> | <u>216,172,173</u> |

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

ENTERPRISE FUNDS
COMBINING STATEMENT OF CASH FLOWS

For the Year Ended June 30, 1998

| | Mortgage Loan Program Funds | | | | | |
|---|--------------------------------------|--------------------------------------|---|--|--|---|
| | Administrative and Other Funds | Housing Development Bond Funds | Multi- Family Housing Bond Funds | Fixed Rate Housing Bond Funds | Multi- Family Program Bond Funds | Housing Development Revenue Bond Funds |
| Cash flows from operating activities: | | | | | | |
| Cash received from interest, service fees, and principal on program loans | \$ 11,116,231 | 24,244,837 | 52,730,632 | 8,236,956 | 29,141,773 | 1,101,690 |
| Cash payments for loaned amounts | (1,016,644) | (309,180) | | | | |
| Cash received from federal assistance programs | 151,131,043 | 6,150,692 | | 1,032,423 | | |
| Cash payments for federal assistance programs | (152,740,276) | (6,150,692) | | (1,032,423) | | |
| Cash payments for operating expenses | (12,958,529) | (7,082) | | | | |
| Other | 18,020,919 | 562 | 9,531,860 | | 130 | (3,417) |
| Net cash provided by (used in) operating activities | 13,552,744 | 23,929,137 | 62,262,492 | 8,236,956 | 29,141,903 | 1,098,273 |
| Cash flows from noncapital financing activities: | | | | | | |
| Proceeds from sale of revenue bonds and notes | | (14,930,000) | (33,655,000) | (7,280,000) | (6,660,000) | (110,000) |
| Principal paid on revenue bonds and notes | | (7,467,741) | (29,676,516) | (1,691,624) | (24,213,001) | (997,065) |
| Interest paid on revenue bonds and notes | | | 3,085,920 | | | |
| Operating transfers in (out) | (4,748,127) | (116,700) | | | | |
| Other | | | | | | |
| Net cash provided by (used in) noncapital financing activities | (4,748,127) | (22,514,441) | (60,245,596) | (8,971,624) | (30,873,001) | (1,107,065) |
| Cash flows from investing activities: | | | | | | |
| Purchase of investment securities | (739,427,969) | (128,805,017) | (231,976,264) | (30,972,343) | (29,337,177) | (1,131,743) |
| Proceeds from sales and maturities of investment securities | 722,491,054 | 125,810,377 | 223,542,626 | 31,222,580 | 28,320,161 | 960,463 |
| Interest on investments | 4,059,985 | 1,592,288 | 6,344,213 | 452,190 | 2,745,110 | 180,072 |
| Developer escrow and other interest | 8,234,902 | | | | | |
| Net cash provided by (used in) investing activities | (4,642,028) | (1,402,352) | (2,089,425) | 702,427 | 1,728,094 | 8,792 |
| Net increase (decrease) in cash and cash equivalents | 4,162,589 | 12,344 | (72,529) | (32,241) | (3,004) | |
| Cash and cash equivalents at beginning of year | 146,406 | 45,456 | 189,675 | 80,714 | 8,210 | |
| Cash and cash equivalents at end of year | \$ 4,308,995 | 57,800 | 117,146 | 48,473 | 5,206 | |
| Reconciliation of operating income to net cash provided by operating activities: | | | | | | |
| Operating income (loss) | \$ 10,904,773 | 3,994,147 | 7,066,287 | 792,315 | 1,435,928 | 191,022 |
| Adjustments to reconcile operating income to net cash: | | | | | | |
| Investment income | (4,870,518) | (1,717,148) | (8,345,502) | (721,491) | (3,126,448) | (182,926) |
| Interest expense | | 7,227,322 | 31,200,526 | 1,703,213 | 24,060,739 | 996,440 |
| Depreciation | 495,454 | | 800,000 | | | |
| Provision for (reversal of) estimated losses on program loans receivable | 361,275 | | (1,000,000) | | | |
| Changes in assets and liabilities: | | | | | | |
| Decrease (increase) in program loan and interest receivable | 1,856,580 | 14,665,384 | 26,527,820 | 6,517,767 | 6,335,306 | 94,120 |
| Changes in interfund accounts | 4,011,466 | (381,154) | (561,375) | (67,131) | 436,378 | (383) |
| Increase in other liabilities | 11,893,100 | | 2,870 | | | |
| Decrease (increase) in other assets | (2,251,798) | | 6,550,882 | | | |
| Other | (8,847,588) | 140,586 | 20,984 | 12,283 | | |
| Total adjustments | 2,647,971 | 19,934,990 | 55,196,205 | 7,444,641 | 27,705,975 | 907,251 |
| Net cash provided by (used in) operating activities | \$ 13,552,744 | 23,929,137 | 62,262,492 | 8,236,956 | 29,141,903 | 1,098,273 |

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

| Mortgage Loan Program Funds | | Single Family Mortgage Revenue Program Funds | | | | |
|--|---|--|---------------------------------------|---|--|------------------------------|
| Multi-Family Variable Rate Demand Bond Funds | Multi-Family Housing Revenue Bond Funds | Residential Mortgage Revenue Program Funds | Homeowner Mortgage Revenue Bond Funds | Owner Occupied Housing Revenue Bond Funds | Affordable Housing Program Trust Fund Bond Funds | Total |
| 4,918,418 | | 116,580,936 | 71,001,772 (146,615,451) | | 6,139,284 (5,725,105) | 325,212,529 (153,666,380) |
| | | | | | | 158,314,158 (159,923,391) |
| | | (1,102,658) | (1,207,284) | | | (15,275,553) |
| | (13,770,157) | (1,092,989) | (310,476) | 12,104 | (15,453) | 12,373,083 |
| 4,918,418 | (13,770,157) | 114,385,289 | (77,131,439) | 12,104 | 398,726 | 167,034,446 |
| | 14,170,000 | | 372,135,000 | | | 386,305,000 |
| | | (182,300,011) | (111,445,000) | | (1,555,000) | (357,935,011) |
| (1,226,573) | (284,012) | (25,736,409) | (37,455,083) | (139,139) | (8,359,414) | (137,246,577) |
| | 1,658,591 | (4,726,413) | 4,730,029 | | 5,300,000 | 5,300,000 |
| (174,926) | | | (3,806,664) | | 2,335 | (4,095,955) |
| (1,401,499) | 15,544,579 | (212,762,833) | 224,158,282 | (139,139) | (4,612,079) | (107,672,543) |
| (3,276,703) | (16,527,399) | (206,549,254) | (774,897,299) | (27,824,965) | (13,560,779) | (2,204,286,912) |
| 859,718 | 14,952,486 | 297,302,187 | 609,941,179 | 27,824,965 | 16,907,061 | 2,100,134,857 |
| 77,414 | 78,800 | 7,924,899 | 18,261,810 | 127,035 | 998,724 | 42,842,540 |
| | | | | | | 8,234,902 |
| (2,339,571) | (1,496,113) | 98,677,832 | (146,694,310) | 127,035 | 4,345,006 | (53,074,613) |
| 1,177,348 | 278,309 | 300,288 | 332,533 | | 131,653 | 6,287,290 |
| 44,683 | | 65,775 | 32,824 | | 3,099 | 616,842 |
| 1,222,031 | 278,309 | 366,063 | 365,357 | | 134,752 | 6,904,132 |
| 21,890 | (1,658,591) | 220,714 | 3,312,886 | (12,104) | (5,603,113) | 20,666,154 |
| (110,901) | (96,532) | (4,388,011) | (18,588,761) | (127,035) | (986,665) | (43,261,938) |
| 1,520,788 | 337,035 | 26,045,532 | 40,524,768 | 139,139 | 8,480,635 | 142,236,137 |
| | | | | | | 1,295,454 |
| 200,000 | | | | | 1,000,000 | 561,275 |
| 3,126,553 | | 93,341,923 | (104,376,643) | | (3,014,662) | 45,074,148 |
| 160,088 | (4,339,953) | 26,532 | 278,853 | 12,104 | 262,506 | (162,069) |
| | 322,973 | 2,308,973 | 1,952,083 | | | 16,479,999 |
| | (7,847,985) | (61,911) | (102,920) | | 260,025 | (3,453,707) |
| | (487,104) | (3,108,463) | (131,705) | | | (12,401,007) |
| 4,896,528 | (12,111,566) | 114,164,575 | (80,444,325) | 24,208 | 6,001,839 | 146,368,292 |
| 4,918,418 | (13,770,157) | 114,385,289 | (77,131,439) | 12,104 | 398,726 | 167,034,446 |

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APPENDIX B

CERTAIN INFORMATION REGARDING THE MFHB PROGRAM

General

As of December 31, 1998, \$410,682,481 of Multi-Family Housing Bonds were outstanding under the MFHB Resolution which financed a total of 52 developments ("MFHB Development(s)") located throughout the State, and the aggregate outstanding balance of the corresponding mortgage loans ("MFHB Mortgage Loan(s)") was \$312,988,399. A schedule of these MFHB Developments is set forth below. With the exception of two MFHB Mortgage Loans aggregating \$17,010,095 in unpaid principal amount (as of December 31, 1998), each MFHB Development financed from the proceeds of previously issued and outstanding Multi-Family Housing Bonds under the MFHB Resolution is subject to full or partial project-based subsidies by the United States Department of Housing and Urban Development ("HUD") under Section 8 ("Section 8") of the United States Housing Act of 1937, as amended (the "1937 Housing Act"), or is subject of mortgage insurance issued by the Federal Housing Administration ("FHA") under Section 221(d)(4) of the National Housing Act of 1934, as amended (the "National Housing Act"), or the subject of both such subsidy and insurance. See Appendices F and G for descriptions of these programs. The programs are material to the Authority's ability to pay debt service on the Multi-Family Housing Bonds.

Description of Developments Financed by the MFHB Bonds

Of the 52 MFHB Developments currently financed under the Multi-Family Housing Bonds Program (the "MFHB Program"), 41 are 100 percent assisted under the provisions of Section 8. Under the provisions of Section 8, HUD subsidizes the rents payable by qualified low and very low income tenants of eligible rental projects. For a description of the Section 8 program, see Appendix F. These 48 MFHB Developments generally operate at or near full occupancy. The following chart sets forth the total number of 100 percent Section 8 assisted MFHB Developments financed under the MFHB Program, the total number of units in those MFHB Developments and the term of the applicable Section 8 contracts.

100% Assisted Section 8 Developments
Financed under the MFHB Program
as of December 31, 1998

| <u>Section 8 MFHB Program</u> | <u>No. of MFHB Developments</u> | <u>No. of Section 8 Units</u> | <u>Term of Section 8 Contracts</u> |
|---|-------------------------------------|---------------------------------------|--|
| New Construction/ Substantial Rehabilitation | 38 | 5,288 | 20 - 40 years |
| Moderate Rehabilitation | <u>3</u> | <u>233</u> | 15 years; non-renewable |
| Total | <u>41</u> | <u>5,521</u> | |

Of the 52 MFHB Developments financed under the MFHB Program, 7 are partially assisted under the provisions of Section 8. The following chart sets forth the total number of partially assisted Section 8 MFHB Developments financed under the MFHB Program, the total number of units in those MFHB Developments, the number of Section 8 units and the term of the applicable Section 8 contracts.

Partially Assisted Section 8 Developments
Financed under the MFHB Program
as of December 31, 1998

| <u>Section 8 MFHB Program</u> | <u>No. of MFHB Developments</u> | <u>Total No. of Units</u> | <u>No. of Section 8 Units</u> | <u>% Section 8 Units</u> | <u>Term of Section 8 Contracts</u> |
|---|-------------------------------------|-----------------------------------|---------------------------------------|----------------------------------|--|
| New Construction/ Substantial Rehabilitation | 7 | 1,984 | 471 | 23.74% | 20 - 40 years |
| Moderate Rehabilitation | <u>0</u> | <u>0</u> | <u>0</u> | n/a | 15 years; non-renewable |
| Total | <u>7</u> | <u>1,984</u> | <u>471</u> | <u>23.74%</u> | |

Four of the 52 MFHB Developments financed under the MFHB Program, containing approximately 559 units, are not assisted under Section 8. The MFHB Mortgage Loans for two of these four MFHB Developments are insured by FHA under the provisions of the National Housing Act. See Appendix G for a description of the FHA mortgage insurance program. The remaining two MFHB Developments receive no Section 8 assistance and are not insured by FHA. See the table below for further descriptions of these MFHB Developments.

MFHB Mortgage Loan Portfolio

MFHB Mortgage Loans financed under the MFHB Program are not required to be subsidized or insured by the Federal government or the State. However, since the adoption of the General Resolution by the Authority in 1975, with the exception of three MFHB Mortgage Loans, each of the MFHB Mortgage Loans financed by the Authority under the General Resolution has the benefit of Federal assistance pursuant to either Section 8 or FHA mortgage insurance, or both.

The following chart summarizes the MFHB Mortgage Loans financed by the Authority under the MFHB Program:

Summary of Mortgage Loans
Financed under the MFHB Program
as of December 31, 1998

| | No. of MFHB Mortgage Loans | Original Principal Amount | Unpaid Principal Balance | % of the Total Unpaid Principal Balance of MFHB Mortgage |
|--|----------------------------------|---------------------------------|--------------------------------|--|
| <u>FHA Insured</u> | | | | |
| 100% Assisted | | | | |
| Section 8 MFHB Developments | 3 | \$ 9,655,100 | \$ 9,281,541 | 3.00% |
| Partially Assisted | | | | |
| Section 8 MFHB Developments | 0 | 0 | 0 | 0.00 |
| Unassisted MFHB Developments | <u>2</u> | <u>15,470,100</u> | <u>14,636,126</u> | 4.70 |
| Total FHA Insured | 5 | \$ 25,125,200 | \$ 23,917,667 | 7.70% |
| <u>Non-FHA Insured</u> | | | | |
| 100% Assisted | | | | |
| Section 8 MFHB Developments | 38 | \$225,859,692 | \$196,497,649 | 62.80% |
| Partially Assisted | | | | |
| Section 8 MFHB Developments | 6 | 51,818,000 | 44,167,489 | 14.10 |
| Acquired MFHB Development ¹ (Partially Assisted) | 1 | 44,010,000 | 31,395,499 ² | 10.00 |
| Unassisted MFHB Developments | <u>2</u> | <u>17,790,240</u> | <u>17,010,095</u> | <u>5.40</u> |
| Total Non-FHA Insured | <u>47</u> | <u>\$339,477,932</u> | <u>\$289,070,732</u> | <u>92.30%</u> |
| Total | <u>52</u> | <u>\$364,603,132</u> | <u>\$312,988,399</u> | <u>100.00%</u> |

1. The only acquired MFHB Development is Lakeshore Plaza. See "Acquired MFHB Development" below.
2. This amount reflects the carrying value of Lakeshore Plaza as of December 31, 1998.

MFHB Program Financial Information

The Multi-Family Housing Bond Funds recorded operating income of \$7,066,287 and \$6,298,899 for the fiscal years ended June 30, 1998 and 1997, respectively.

As of June 30, 1998, the Multi-Family Housing Bond Funds contained total assets of \$487,782,872 and retained earnings of \$24,782,774. For additional information, see the Financial Statements contained in Appendix A.

As of December 31, 1998, no MFHB Mortgage Loan was delinquent in excess of 60 days.

Acquired MFHB Development

Lakeshore Plaza. The Authority acquired title to Lakeshore Plaza on April 27, 1990, pursuant to a settlement agreement with the then-current owners, which agreement was made to settle foreclosure proceedings initiated by the Authority on the \$44 million MFHB Mortgage Loan for this MFHB Development. Prior to its acquisition by the Authority, this MFHB Development experienced substantial operating deficits resulting in a failure to make scheduled debt service payments or required escrow deposits.

The Authority anticipates issuing in July 2000 an independent series of variable rate demand revenue bonds, the proceeds of which will be used to refund the Multi-Family Housing Bonds associated with Lakeshore Plaza. The Authority has entered into a swap agreement pursuant to which a swap provider will pay the Authority an amount based upon the variable rate of interest payable on the bonds in exchange for the Authority's payment to the swap provider an amount based upon a fixed rate of interest. Until these bonds are issued, Lakeshore Plaza will remain subject to the MFHB Resolution.

The Lakeshore Development is a mixed-use complex consisting of 567 residential apartment units, a four-story parking garage for 255 cars, laundry facilities, an exercise room, 40,631 square feet of office space and 13,427 square feet of retail space. The Lakeshore Development consists of a 38-story tower constructed of reinforced concrete finished in aluminum and glass. Retail space is located on the ground floor of the facility and office space is located on the second, third and fourth floors. The parking garage is connected to the building.

The Lakeshore Development is located on a 1.25 acre site between East Ohio Street and East Grand Avenue in the area of the City of Chicago known as Streeterville, which is bordered generally by Michigan Avenue, Oak Street Beach and East Lake Shore Drive, Lake Michigan and the Chicago River.

The unit breakdown and rent schedule for Lakeshore Plaza (as of December 31, 1998) are as follows:

| Unit Type | No. & Percentage | | Section 8 Units | Market Units | Square Feet | Monthly Section 8 Rent | Monthly Market Rent |
|-----------|------------------|------|-----------------|--------------|-------------|------------------------|---------------------|
| Eff. | 23 | 4% | 0 | 23 | 550-590 | N/A | \$811-954 |
| Conv. | 136 | 24 | 0 | 136 | 660 | N/A | 855-1,112 |
| 1 Bed | 324 | 57 | 68 | 256 | 690-720 | \$826 | 923-1,195 |
| 2 Bed | 78 | 14 | 40 | 38 | 950 | 972 | 1,409-1,588 |
| 3 Bed | 6 | 1 | 6 | 0 | 1260 | 986 | -0- |
| Total | 567 | 100% | 114 | 453 | | | |

A total of 114 of the units in the Lakeshore Development are subsidized under the Section 8 program and 453 of the units are leased at market rate rentals. Residential occupancy has been stable, and as of December 31, 1998, was 94 percent.

The Lakeshore Development has 13,427 square feet of ground-level retail space which was fully occupied as of December 31, 1998. The Lakeshore Development also has 40,631 square feet of office space, of which 6,384 square feet (15 percent) was vacant as of December 31, 1998. As of December 31, 1998, combined retail and office occupancy was 88 percent.

The Authority has received a full exemption from property taxes for Lakeshore Plaza effective as of the date the Authority acquired it. The debt service on the Authority's Multi-Family Housing Bonds, 1990 Series A attributable to the Lakeshore Development is approximately \$3,600,000 per year. The Authority's 1999 operating budget for Lakeshore Plaza projects revenues of \$7,689,108, and a cash surplus of \$30,613 after payment of debt service, operating expenses and capital expenditures. To the extent net operating income from the Lakeshore Development is insufficient to pay attributable debt service on the 1990 Series A Bonds, the Authority will remedy such insufficiency with funds otherwise available under the MFHB Resolution or, if necessary, with transfers from the Authority Administrative Funds.

It is the intent of the Authority to continue to own and operate Lakeshore Plaza until the Authority determines that a sale or other disposition of the MFHB Development would be in the best interest of the Authority. The Authority has implemented a comprehensive management plan for the management of Lakeshore Plaza. In addition, the Authority continues to aggressively monitor both the commercial and residential marketing programs to increase current occupancy levels.

Certain MFHB Mortgage Loan Terms

The following is a description of the underwriting procedures generally followed by the Authority with respect to the initial underwriting of MFHB Mortgage Loans for the MFHB Developments. Certain MFHB Mortgage Loans may have been, and in the future may be, underwritten on a different basis.

General. The Authority makes multi-family housing MFHB Mortgage Loans only to nonprofit or limited-profit entities. The Authority makes multi-family housing MFHB Mortgage Loans to limited-profit entities for the lesser of the maximum supportable mortgage as determined by the Authority's underwriting or 90 percent of total development costs (which costs are computed by including an allowance for builder or sponsor profit/risk of up to ten percent of total development costs). The Authority makes multi-family housing MFHB Mortgage Loans to nonprofit developers for up to 100 percent of total development costs. The Authority's multi-family housing MFHB Mortgage Loans generally include, as part of total development costs, an amount to pay interest, taxes, the Authority's loan origination and service fees, and, in the case of FHA-insured MFHB Mortgage Loans, mortgage insurance premiums during the period of construction of the MFHB Development. Under the General Resolution, MFHB Mortgage Loans may not exceed total development costs. Certain covenants and provisions relating to the making of MFHB Mortgage Loans by the Authority and the enforcement and foreclosure of mortgages securing such MFHB Mortgage Loans are set forth in "THE MFHB BONDS AND SECURITY AND SOURCES OF PAYMENT FOR THE MFHB BONDS" in Appendix C.

The Authority's projections in making estimates of the feasibility of a MFHB Development are based upon, among other things, its experience with similar MFHB Developments, generally accepted underwriting standards and certain assumptions. Although the Authority believes that these assumptions are reasonable, it cannot be certain that these assumptions will prove to be correct. The Authority does not determine feasibility for MFHB Developments which are the subject of FHA mortgage insurance. FHA performs and controls the loan processing and has determined maximum insurable mortgage amounts for such MFHB Developments.

To provide funds to pay its expenses, the Authority generally charges each mortgagor a loan origination fee of two percent of the original principal amount of the MFHB Mortgage Loan (payable upon the initial disbursement of MFHB Mortgage Loan proceeds) and an annual service fee of 1/4 to 3/4 percent of the original principal amount of the MFHB Mortgage Loan. In connection with the MFHB Mortgage Loans which are the subject of FHA mortgage insurance, the Authority charges an annual service fee of 1/4 percent of the unpaid principal amount of the MFHB Mortgage Loan. The loan origination fee is deposited in the Authority Administrative Funds and is not part of the revenues pledged to the payment of its bonds and notes. The service fee is included in the revenues pledged for bonds and notes of the Authority and is recorded as income in the Authority Administrative Funds as earned. In order to increase the feasibility of MFHB Developments, the Authority may initially charge less than its normal loan origination fee and service fee, if it concludes that doing so will not adversely affect the Authority.

Under the Authority's MFHB Mortgage Loan processing procedures, each MFHB Development financed by Outstanding MFHB Bonds is required, prior to initial disbursement of the MFHB Mortgage Loans, to be the subject of a regulatory agreement with the Authority regulating the rents, distributions, use, occupancy, management and operations of the MFHB Development. Under the Act and such regulatory agreement, a limited-profit entity which has received a MFHB Mortgage Loan from the Authority may not make distributions in any year with respect to a MFHB Development financed by the Authority in excess of six percent of its equity (as determined by the Authority pursuant to the Act) in such MFHB Development, unless otherwise authorized by the Authority, except that the right to make such distributions is cumulative. The Authority has previously authorized annual distributions in excess of six percent for certain MFHB Developments. With respect to MFHB Developments subject to a conditional commitment issued by the Authority on or after August 9, 1984, the Authority permits annual distributions in an amount not to exceed 200 percent of the yield paid on 30-year Government National Mortgage Association mortgage certificates as of the date of such conditional commitment. Effective January 1, 1992, the Act was amended to provide that upon certain determinations made by the Authority, the six percent distribution limitation and the amount of MFHB Development equity may be increased by the Authority during the life of the MFHB Mortgage Loan. No such determination has been made with regard to the Financed MFHB Developments. For FHA-insured MFHB Mortgage Loans, the owner of the MFHB Development also enters into a regulatory agreement with FHA which sets forth certain of the owner's obligations with respect to the operation and management of the MFHB Development. See Appendix C for a description of the FHA mortgage insurance program.

MFHB Development Reserves. In an attempt to minimize the risks in making permanent MFHB Mortgage Loans, the Authority has established requirements for development reserves. Such reserves are not pledged to the payment of the MFHB Bonds and may be changed, deferred or waived from time to time by the Authority. Such reserves generally include those described below. In addition, other development reserves which are not described below may be required by FHA on MFHB Developments subject to FHA mortgage insurance. These reserves will be applied as an offset against FHA mortgage insurance benefits in the event of a claim for FHA mortgage insurance benefits. See Appendix C for a description of the FHA mortgage insurance program.

Working Capital Escrow. Except with respect to MFHB Mortgage Loans which are the subject of FHA mortgage insurance, limited-profit developers and, in some cases, nonprofit developers are required at the time of initial closing of multi-family housing MFHB Mortgage Loans to establish and maintain a working capital escrow account funded by the developer with cash or an irrevocable unconditional letter of credit in an amount equal to three percent or more of the MFHB Mortgage Loan amount. This amount may be reduced to two percent when the MFHB Development achieves final closing. The letter of credit is usually for a one year term and must be renewed or replaced by the developer during the required period. To the extent that interim income and rents of the MFHB Development are not available, the escrow can be used by the Authority to cover contingencies during construction and subsequent operating deficits. Funds or letters of credit which have not been used are generally returned to the developer three years after the final closing.

Tax and Insurance Escrows and Replacement Reserves. Developers are required to pay monthly to the Authority or to an escrow account controlled by the Authority the amounts required for payment of estimated real estate taxes and hazard insurance. In addition, the operating budget for each MFHB Development that is not the subject of FHA mortgage insurance generally provides for the funding of a replacement reserve for major components of the MFHB Development in an annual amount of approximately 2.3 percent to 4.3 percent of the estimated revenues of the MFHB Development, provided that the amount to be paid into such reserve in the first year from the date of initial approval of occupancy is not less than 0.6 percent of the construction cost. The funding of these escrow accounts and replacement reserves generally begins at the time of the final closing of the MFHB Mortgage Loan for the MFHB Development.

DESCRIPTION OF MFHB LOANS AND MFHB DEVELOPMENTS FINANCED
BY OUTSTANDING MFHB BONDS
(AS OF DECEMBER 31, 1998)

| MORTGAGE LOAN NO. | DEVELOPMENT NAME | LOCATION (City) | CONSTRUCTION | TYPE(S) (1) | TENANCY (2) | DWELLING UNITS | | MORTGAGE LOAN AMOUNTS | | OCCUPANCY LEVEL AS OF 12/31/98 |
|-------------------------|-------------------------|--------------------|--------------|----------------|----------------|----------------|--------|-----------------------|---------------------|---|
| | | | | | | TOTAL | SEC. 8 | FINANCED PRINCIPAL | UNPAID PRINCIPAL | |
| ML 057 | PEBBLES I | VERNON HILLS | N | F | F | 120 | 24 | \$2,400,000 | \$1,853,152 | 97% |
| ML 062 | WILSHIRE TOWERS | BLOOMINGDALE | N | M | M | 321 | 64 | \$8,045,000 | \$6,347,793 | 90% |
| ML 078 | FOUR LAKES VILLAGE | LISLE | N | M | M | 196 | 78 | \$5,110,000 | \$3,767,250 | 94% |
| ML 095 | VILLAGE GREEN | ROCKTON | N | F | F | 40 | 40 | \$875,000 | \$700,154 | 95% |
| ML 104 | FORTNOF MANORS | STREATOR | N | F | F | 105 | 105 | \$2,880,000 | \$2,304,506 | 99% |
| ML 108 | LUTHER CENTER | ROCKFORD | N | E | E | 201 | 201 | \$5,102,415 | \$4,870,485 | 93% |
| ML 109 | MORNINGSIDE | CHICAGO | N | E | E | 201 | 201 | \$6,055,000 | \$4,722,181 | 90% |
| ML 110 | SUNRISE COURTS | ROSELLE | N | H | H | 22 | 22 | \$735,000 | \$600,815 | 100% |
| ML 112 | WEBSTER HOUSE | CHICAGO | SR | E | E | 186 | 72 | \$8,010,000 | \$6,977,616 | 98% |
| ML 114 | VALLEYVIEW HEIGHTS | DANVILLE | N | E | E | 127 | 127 | \$4,935,000 | \$4,527,171 | 100% |
| ML 116 | SHAWNEE VILLAGE | MARION | N | E | E | 120 | 120 | \$3,520,000 | \$3,076,471 | 100% |
| ML 121 | CEDAR VILLAGE | LAKE VILLA | N | F | F | 80 | 80 | \$3,500,000 | \$3,060,970 | 100% |
| ML 129 | GREEN FARMS TOWNHOMES | BELVIDERE | N | F | F | 50 | 50 | \$1,780,000 | \$1,473,222 | 98% |
| ML 131 | PINES OF EDGEWATER I | CHICAGO | SR | F | F | 279 | 279 | \$10,585,000 | \$8,760,703 | 98% |
| ML 135 | ASBURY PLAZA | CHICAGO | N | F | F | 384 | 77 | \$19,725,000 | \$18,069,960 | 92% |
| ML 138 | SUNRISE APTS | MATTOON | N | F | F | 120 | 120 | \$4,099,692 | \$3,941,065 | 96% |
| ML 142 | LINCOLN-DUGLAS/CARDINAL | QUINCY | NSR | M | M | 133 | 133 | \$5,748,400 | \$5,558,043 | 100% |
| ML 144 | SOUTHERN HILLS/ORLANDO | DECATUR | NSR | M | M | 212 | 212 | \$8,760,000 | \$6,905,043 | 98% |
| ML 146 | TOWNSHIP VILLAGE | EAST ALTON | N | F | F | 122 | 122 | \$4,642,900 | \$4,304,661 | 100% |
| ML 152 | COUNTRYBROOK | CHAMPAIGN | N | F | F | 150 | 150 | \$5,584,100 | \$4,965,439 | 100% |
| ML 154 | LINDEN PLACE | ARLINGTON HTS | N | M | M | 190 | 190 | \$8,930,000 | \$7,214,652 | 98% |
| ML 155 | MORNINGSIDE COURT | CHICAGO | N | E | E | 171 | 171 | \$4,239,177 | \$3,681,651 | 94% |
| ML 157 | LAKE POINTE APT. | EFFINGHAM | N | F | F | 120 | 120 | \$5,508,964 | \$5,266,228 | 100% |
| ML 158 | PARK GLEN | TAYLORVILLE | N | F | F | 125 | 125 | \$7,463,118 | \$6,482,131 | 99% |
| ML 159 | COURT PLACE | PEKIN | N | M | M | 160 | 160 | \$4,300,900 | \$4,158,475 | 100% |
| ML 161 | TOWN AND COUNTRY | GRANITE CITY | N | M | M | 121 | 121 | \$2,039,602 | \$1,771,497 | 98% |
| ML 162 | PIERSON HILLS II | PEORIA | N | F | F | 50 | 50 | \$3,711,176 | \$3,223,369 | 100% |
| ML 163 | HILLCREST APTS. | MCHENRY | N | F | F | 88 | 88 | \$13,143,206 | \$11,415,572 | 100% |
| ML 164 | NORTHPOINT | CHICAGO | SR | F | F | 116 | 116 | \$6,301,593 | \$5,473,292 | 100% |
| ML 165 | VILLAGES/RIARWOOD | CRYSTAL LAKE | N | M | M | 286 | 286 | \$15,432,383 | \$13,407,519 | 98% |
| ML 167 | LAKE VISTA | CHICAGO | SR | E | E | 108 | 108 | \$5,189,639 | \$4,508,500 | 99% |
| ML 168 | CARROLL TOWER | ST. CHARLES | N | F | F | 84 | 84 | \$3,607,764 | \$3,133,555 | 99% |
| ML 169 | LAKEWOOD VILLAGE | ISLAND LAKE | N | F | F | 120 | 120 | \$5,183,900 | \$4,609,577 | 100% |
| ML 170 | HICKORY ROAD MANOR | WAUKEGAN | N | M | M | 104 | 104 | \$4,108,800 | \$3,653,587 | 97% |
| ML 171 | COUNTRY VILLAGE 1,2,3 | METROPOLIS | N | M | M | 90 | 90 | \$4,017,184 | \$3,840,174 | 100% |
| ML 172 | OAKRIDGE VILLAGE | ANTIOCH | N | M | M | 217 | 217 | \$10,722,400 | \$9,534,468 | 100% |
| ML 173 | PINES OF EDGEWATER II | CHICAGO | SR | E | E | 125 | 125 | \$6,073,800 | \$5,400,137 | 100% |
| ML 174 | RIVER WOODS | KANKAKEE | N | M | M | 187 | 187 | \$10,783,800 | \$9,177,651 | 92% |
| ML 175 | PAUL G. STEWART IV. | CHICAGO | N | F | F | 48 | 48 | \$1,935,000 | \$1,615,815 | 94% |
| ML 176 | HEDGEHILL APTS. | PEORIA | N | F | F | 134 | 134 | \$5,980,000 | \$4,993,887 | 98% |
| ML 177 | WALSH PARK | CHICAGO | SR | E | E | 210 | 42 | \$8,528,000 | \$7,121,718 | 91% |
| ML 178 | THE FAIRWAYS | NAPERVILLE | N | F | F | 249 | 249 | \$10,879,779 | \$9,327,417 | 100% |
| ML 180 | CAMPBELL TERRACE | CHICAGO | N | E | E | 130 | 129 | \$6,235,000 | \$5,270,063 | 92% |
| ML 181 | CHARLES COURT | NAPERVILLE | N | F | F | 567 | 114 | \$44,010,000 | \$31,395,499 | 96% |
| ML 187 | LAKE SHORE PLAZA | CHICAGO | N | F | F | 33 | 33 | \$11,490,900 | \$10,813,938 | 96% |
| ML 190 | LINCOLN PLACE | CHICAGO | N | F | F | 162 | 33 | \$1,491,500 | \$1,430,611 | 93% |
| ML 191 | WEST END REHAB | CHICAGO | MR | F | F | 42 | 22 | \$12,225,240 | \$11,642,139 | 100% |
| ML 198 | AMERICAN APTS | HIGHLAND PARK | N | F | F | 108 | 106 | \$3,979,200 | \$3,822,188 | 91% |
| ML 199 | PLAZA ON PARK | CHICAGO | MR | F | F | 151 | 106 | \$5,565,000 | \$5,367,955 | 96% |
| ML 209 | COLUMBIA LAKES | CHICAGO | N | F | F | 138 | 28 | \$5,247,800 | \$5,069,063 | 100% |
| ML 216 | H.I.C.A. REDEV | CHICAGO | MR | F | F | 120 | 120 | \$2,815,700 | \$2,781,957 | 95% |
| ML 216 | AUSTIN/RENAISSANCE | CHICAGO | MR | F | F | 71 | 71 | \$364,603,132 | \$312,988,399 | 85% |

(1) The following symbols are used to designate the type of construction: N = New Construction, SR = Substantial Rehabilitation, MR = Moderate Rehabilitation.

(2) The following symbols are used to designate the primary type of households occupying the development: F = Family, E = Elderly, P/E = both Family & Elderly, H = Handicap.

(3) This MFHB Development is an Acquired Development.

(4) The unpaid principal balance reflects the carrying value of the Mortgage Loan as of December 31, 1998. See "Acquired MFHB Development" in Appendix B.

(5) FHA - Insured Mortgage Loan

APPENDIX C

THE MFHB BONDS AND SECURITY AND SOURCES OF PAYMENT FOR THE MFHB BONDS

The following is a summary of the Acquired MFHB Bonds, the security and sources of payment for the Acquired MFHB Bonds and certain provisions of the MFHB Resolution. This summary does not purport to be comprehensive or definitive and is subject to all of the terms and provisions of the MFHB Resolution, to which reference is hereby made and copies of which are available from the Trustee or the Authority. Other than the terms "Acquired MFHB Bonds," "MFHB Resolution," "MFHB Mortgage Loans," "MFHB Program," and "MFHB Developments," which are defined in the forepart to this Official Statement, all initially capitalized terms used and not otherwise defined in this Appendix have the meanings set forth below.

Acquired MFHB Bonds

General. The Acquired MFHB Bonds will be issued under the MFHB Indenture in the aggregate principal amount of \$10,135,000. The MFHB will be designated as "Multi-Family Housing Bonds, 1999 Series A." Proceeds of the Acquired MFHB Bonds, together with other available moneys, will be used to redeem a portion of the Refunded MFHB Bonds. The Authority will fund the Debt Service Reserve Fund Requirement attributable to the Acquired MFHB Bonds and pay the costs of issuing the Acquired MFHB Bonds and a portion of the costs of issuing the Acquired MFHB Bonds from amounts available to it from Funds established by the MFHB Resolution.

Subject to the limitations contained in this MFHB Resolution, the Acquired MFHB Bonds shall be issued and delivered to the Trustee for the Offered Bonds, upon the issuance and delivery of the Offered Bonds, and the payment to the Trustee for the Acquired MFHB Bonds of an amount equal to their principal amount. The Acquired MFHB Bonds shall be registered in the name of the Trustee of the Offered Bonds.

The Acquired MFHB Bonds shall be initially dated the date of issuance of the Offered Bonds. The Acquired MFHB Bonds authenticated and delivered on or after that initial date, shall be dated the later of the January 1 or July 1 on or preceding the date of authentication and delivery to which interest has been paid, or if no interest has been paid, that initial date. The Acquired MFHB Bonds shall be issued only in fully registered form without coupons in denominations of \$5,000 or any integral multiple of \$5,000. The Acquired MFHB Bonds will bear interest from their date payable semiannually on each January 1 and July 1, with the first interest payment date being July 1, 1999. Interest shall be calculated on the basis of a 360 day year of twelve 30-day months.

The Acquired MFHB Bonds will bear interest at the rates per annum, and will mature on the dates and in the amounts, set forth below.

1999 Series A (non-AMT)

| <u>Maturity</u> | <u>Amount</u> | <u>Interest Rate</u> |
|-----------------|---------------|--------------------------|
| July 1, 2000 | \$ 170,000 | 3.360% |
| July 1, 2001 | 175,000 | 3.760 |
| July 1, 2002 | 185,000 | 3.935 |
| July 1, 2003 | 195,000 | 4.060 |
| July 1, 2004 | 200,000 | 4.185 |
| July 1, 2005 | 205,000 | 4.310 |
| July 1, 2006 | 220,000 | 4.410 |
| July 1, 2007 | 225,000 | 4.460 |
| July 1, 2008 | 240,000 | 4.560 |
| July 1, 2009 | 245,000 | 4.610 |
| July 1, 2010 | 260,000 | 4.710 |
| July 1, 2011 | 270,000 | 4.810 |

\$2,340,000 - 5.185% Term Bonds due July 1, 2018 Price - 100%

\$5,205,000 - 5.310% Term Bonds due July 1, 2028 Price - 100%

(Accrued Interest to be added)

The Acquired MFHB Bonds shall be direct and general obligations of the Authority and 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 Acquired MFHB Bonds, is pledged for payment of the principal and redemption price, if any, of and interest and sinking fund requirements on the Acquired MFHB Bonds. The State shall not be liable on the Acquired MFHB Bonds, and the Acquired MFHB Bonds shall not be a debt of the State. Section 26.1 of the Act shall not apply to the Acquired MFHB Bonds.

The Principal and Redemption Price of and interest on Acquired MFHB Bonds shall be payable at the principal corporate trust office of The First National Bank of Chicago, Chicago, Illinois, as Master Paying Agent. Interest on Acquired MFHB Bonds shall be payable by check or draft mailed to the registered owners, as shown on the registry books of the Authority on the fifteenth day of the month next preceding the applicable interest payment date, at their addresses appearing on the registry books of the Authority or by other method of payment acceptable to the Authority. The Acquired MFHB Bonds shall be transferable at the principal corporate trust offices of the Master Paying Agent in the manner provided in the Resolution.

The Authority covenants and agrees to take all steps within its power with respect to the Acquired MFHB Bonds that are required to maintain the status of interest on the Offered Bonds as not includable in gross income of their owners under existing federal law; provided, however, that this covenant and agreement shall not require the Authority to prevent interest on the Offered Bonds from becoming subject to an alternative minimum tax or similar tax.

Redemption

The Acquired MFHB Bonds are subject to redemption at the option of the Authority, on any date on or after March 1, 2009, in whole or in part, in any order of maturity, and by lot within a maturity, from any money available for that purpose, at the applicable redemption prices (expressed as percentages of the principal amount so to be redeemed) set forth in the table below, plus accrued interest, if any, to the date fixed for redemption:

| <u>Redemption Period</u> <u>(both dates inclusive)</u> | <u>Redemption</u> <u>Price</u> |
|---|-----------------------------------|
| March 1, 2009 through February 28, 2010 | 101.00% |
| March 1, 2010 through February 28, 2011 | 100.50 |
| March 1, 2011 and thereafter | 100.00 |

The Acquired MFHB Bonds maturing on July 1, 2018, are subject to mandatory redemption in part by lot, pursuant to Sinking Fund Installments, on the dates and in the amounts shown below, at a Redemption Price equal to their principal amount plus accrued interest to date of redemption:

| <u>Redemption Date</u> | <u>Sinking Fund</u> <u>Installment</u> | <u>Redemption Date</u> | <u>Sinking Fund</u> <u>Installment</u> |
|------------------------|---|------------------------|---|
| January 1, 2012 | \$ 145,000 | July 1, 2015 | \$ 165,000 |
| July 1, 2012 | 140,000 | January 1, 2016 | 175,000 |
| January 1, 2013 | 150,000 | July 1, 2016 | 175,000 |
| July 1, 2013 | 155,000 | January 1, 2017 | 180,000 |
| January 1, 2014 | 155,000 | July 1, 2017 | 190,000 |
| July 1, 2014 | 160,000 | January 1, 2018 | 190,000 |
| January 1, 2015 | 165,000 | July 1, 2018 † | 195,000 |

† Final maturity

The Acquired MFHB Bonds maturing on July 1, 2028, are subject to mandatory redemption in part by lot, pursuant to Sinking Fund Installments, on the dates and in the amounts shown below, at a Redemption Price equal to their principal amount plus accrued interest to date of redemption:

| <u>Redemption Date</u> | <u>Sinking Fund Installment</u> | <u>Redemption Date</u> | <u>Sinking Fund Installment</u> |
|------------------------|-------------------------------------|------------------------|-------------------------------------|
| January 1, 2019 | \$ 200,000 | January 1, 2024 | \$ 260,000 |
| July 1, 2019 | 210,000 | July 1, 2024 | 270,000 |
| January 1, 2020 | 210,000 | January 1, 2025 | 275,000 |
| July 1, 2020 | 215,000 | July 1, 2025 | 280,000 |
| January 1, 2021 | 225,000 | January 1, 2026 | 290,000 |
| July 1, 2021 | 230,000 | July 1, 2026 | 295,000 |
| January 1, 2022 | 235,000 | January 1, 2027 | 305,000 |
| July 1, 2022 | 240,000 | July 1, 2027 | 315,000 |
| January 1, 2023 | 250,000 | January 1, 2028 | 320,000 |
| July 1, 2023 | 250,000 | July 1, 2028 † | 330,000 |

† Final maturity

The Sinking Fund Installments of Acquired MFHB Bonds maturing on any date shall be reduced by the amount of these Bonds of that maturity which have been redeemed, other than by Sinking Fund Installments (or purchased from money otherwise to be used for such a redemption not pursuant to Sinking Fund Installments), as specified by the Authority. The Authority, at the time of giving notice to the Trustee of an election or direction to redeem Acquired MFHB Bonds of a maturity other than from Sinking Fund Installments, shall so specify the dates and amounts of Sinking Fund Installments of Acquired MFHB Bonds of a maturity to be reduced, so that the total reduction shall equal the principal of Acquired MFHB Bonds of that maturity to be redeemed. The notice of redemption shall reflect that information. The Authority shall determine the amounts and dates of Sinking Fund Installments so to be reduced in a manner so 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 the remaining Acquired MFHB Bonds.

The Acquired MFHB Bonds are also 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) Prepayments – (which may include voluntary prepayments financed by proceeds of new loans from the Authority, including as may be financed by Bonds or other obligations of the Authority and which may also include a voluntary sale by the Authority of an MFHB Mortgage Loan not in default including to secure obligations of the Authority, other than, directly or indirectly, the Offered Bonds), or Recovery Payments, in each case with respect to MFHB Mortgage Loans to the extent those MFHB Mortgage Loans are financed by Acquired MFHB Bonds, together with any payments which may be made by the Authority to the extent a Prepayment or Recovery Payment, with respect to an MFHB Mortgage Loan, together with amounts described in the following subparagraph (ii) below, shall be less than the redemption price of the Acquired MFHB Bonds which financed the MFHB Mortgage Loan or portions of an MFHB Mortgage Loan so prepaid or with respect to which a Recovery Payment was received;

- (ii) money available from a reduction in the Debt Service Reserve Fund Requirement as a result of payment or redemption of any Acquired MFHB Bonds; and
- (iii) any money provided by the Authority, if, while all the Acquired MFHB Bonds are registered in the name of the Trustee for the Offered Bonds, in the opinion of nationally recognized bond counsel selected by the Authority, the redemption of the Offered bonds is required to prevent interest on the Offered Bonds from being included in gross income of their owners for federal income tax purposes or if there occurs a final decree or judgment of a federal court, a determination of the Internal Revenue Service or an opinion of such bond counsel, that interest on the Offered Bonds is or was included in gross income of their owners within the meaning of the Code (except for such bonds held by a "substantial user" or "related person" within the meaning of the Code).

Notice of redemption of any Acquired MFHB Bonds shall be given as provided in the Resolution, except that notice need be given only by mail and need not be given by publication. The mailing of such notice shall be a condition precedent to redemption, provided that any notice which is mailed in accordance with the Resolution shall be conclusively presumed to have been duly given whether or not the Holders received such notice, and failure to give notice by mail, or any defect in such notice, to the Holder of any Acquired MFHB Bond designated for redemption in whole or in part shall not affect the validity of the redemption of any Acquired MFHB Bond.

Use of Proceeds. The proceeds received by the Authority from the sale of the Acquired MFHB Bonds to the Indenture, together with other available moneys, will be used to (i) redeem (or pay at maturity) on or before July 1, 1999 \$9,980,000 principal amount of the Authority's Multi-Family Housing Bonds, 1987 Series A (the "Refunded MFHB Bonds"), and (ii) pay other costs of the redemption of the Refunded MFHB Bonds, including any redemption premium on the Refunded MFHB Bonds and accrued interest on the Refunded MFHB Bonds to the redemption date from the date of delivery of the Acquired MFHB Bonds.

There shall be transferred from the Debt Service Reserve Fund under the MFHB Resolution to the Revenue Fund under the MFHB Resolution all amounts by which the Debt Service Reserve Requirement under the MFHB Resolution is reduced as a result of the redemption of the Refunded MFHB Bonds, net of any Debt Service Reserve Requirement for the Acquired MFHB Bonds. These amounts may be withdrawn by the Authority to reimburse itself for costs incurred in the redemption of the Refunded MFHB Bonds or costs of issuance of the Offered Bonds.

All amounts received upon the sale of the Acquired MFHB Bonds and to be used to redeem the Refunded MFHB Bonds, together with the other funds, shall be paid to the trustee under the MFHB Resolution, to be held in trust by such trustee for the payment of the redemption price of the Refunded MFHB Bonds and the interest on them to the redemption date. Amounts in the Interest Account of the Debt Service Fund under the MFHB Resolution equal to the accrued interest on the Refunded MFHB Bonds to the date of delivery of the Acquired MFHB Bonds shall also be held in trust for and be used to pay interest on the Refunded MFHB Bonds on their redemption date. Amounts so held in trust may be invested by the trustee under the MFHB Resolution, upon the direction of the Authority in Permitted Obligations within the meaning of the MFHB Resolution, payable in full not later than June 30, 1999. Interest and other investment earnings on those amounts so held in trust, if not required for paying the redemption price, and accrued interest to the redemption date, on the Refunded MFHB Bonds shall be paid to the Debt Service Fund under the MFHB Resolution and applied to the first interest payment on the Acquired MFHB Bonds.

Debt Service Reserve Fund Requirement. The Debt Service Reserve Fund Requirement for the Acquired MFHB Bonds is established as that percentage of the principal amount of the Acquired MFHB Bonds so that the product of that percentage and the original amount of the Acquired MFHB Bonds equals 100 percent of the maximum Annual Debt Service Requirements for any Fiscal Year on the Acquired MFHB Bonds.

Certain Covenants. The Authority covenants with the Holders of the Acquired MFHB Bonds that (a) it will take all action reasonably necessary to maintain (and refrain from taking any action inconsistent with maintaining) during the period in which it is the mortgagee, any FHA Mortgage Insurance for any MFHB Mortgage Loan which is financed by the Acquired MFHB Bonds and which is the subject of FHA Mortgage Insurance, including, if necessary, paying the insurance premiums and providing all notices of defaults to FHA so that the ability to file a claim in a timely manner shall not be lost, (b) upon settlement of any claim against FHA under FHA mortgage Insurance for any such MFHB Mortgage Loan it will request settlement in cash, (c) upon becoming eligible to receive FHA mortgage Insurance benefits from FHA for any Development financed with the proceeds of the Acquired MFHB Bonds it will promptly elect to assign and will assign the MFHB Mortgage to the FHA under 24 C.F.R. § 207.258(b), or, in the event the Authority receives title to such a Development, to convey title to the FHA as soon as practical in settlement of its claim on the FHA Mortgage Insurance.

Authorization of MFHB Bonds

The MFHB Resolution creates an issue of bonds of the Authority to be designated as "Multi-Family Housing Bonds" (the "MFHB 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 MFHB Bonds issued pursuant to the MFHB Resolution. Except as described below, the MFHB Bonds shall be direct and general obligations of the Authority and 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 MFHB Bonds, are pledged for the payment of the principal and Redemption Price of and interest and Sinking Fund Installments on the MFHB Bonds. The State is not liable on the MFHB Bonds, and the MFHB Bonds are not a debt of the State. However, the MFHB Resolution provides that for series of MFHB Bonds authorized by Series Resolutions adopted after November 1, 1995, the MFHB Bonds of those series shall not be general obligations of the Authority and the full faith and credit of the Authority shall not be pledged for the payment of the principal of and redemption price of and interest and Sinking Fund Installments on such series of MFHB Bonds, except as specifically provided in the related Series Resolution. MFHB Bonds that are not general obligations shall be special and limited obligations of the Authority, with a claim for payment solely from Revenues, Prepayments, Recovery Payments, Acquired Development Receipts, Mortgage Loans and moneys and securities held in the Funds and Accounts established by the MFHB Resolution.

Certain Definitions

"Acquired Development" shall mean a Development which the Authority has acquired title to, or taken possession of, through protection and enforcement of its rights conferred by law or the Mortgage upon such Development, but only during the period of ownership or possession.

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

"Acquired Development Expenses" shall mean the costs and expenses incurred by the Authority in connection with the acquisition, ownership or operation of an Acquired Development, including the Mortgage Repayments required to be paid pursuant to the Mortgage on such Acquired Development.

"Acquired Development Operating Income" shall mean the amount by which Acquired Development Receipts from an Acquired Development exceed Acquired Development Expenses for such Acquired Development.

"Acquired Development Receipts" shall mean all moneys received by the Authority in connection with its acquisition, ownership or operation of an Acquired Development.

"Administrative Expenses" shall mean the Authority's expenses of carrying out and administering its powers, duties and functions in connection with the Mortgages and Developments as authorized by the Act, and shall include, without limiting the generality of the foregoing: administrative expenses, legal, accounting and consultant's services and expenses, payments to pension, retirement, health and hospitalization funds, and any other expenses required or permitted to be paid by the Authority under the provisions of the Act or the Resolution or otherwise with respect to the Mortgages and Developments. Administrative Expenses shall not include Acquired Development Expenses.

"Annual Debt Service Requirement" for any Fiscal Year, as applied to the MFHB Bonds or any series of MFHB Bonds, shall mean the interest on such MFHB Bonds which shall be due and payable in such Fiscal Year and the principal of the serial MFHB Bonds and the Sinking Fund Installments on the term MFHB Bonds which shall be due and payable in such Fiscal Year.

"Authority Administrative Fund or Funds" shall mean the fund or funds established by resolution of the Authority and referred to in the MFHB Resolution.

"Authorized Newspaper" shall mean a financial paper, or a newspaper of general circulation in the Borough of Manhattan, City and State of New York, and a newspaper of general circulation in the City of Chicago, Illinois, customarily published at least once a day for at least five days (other than legal holidays) in each calendar week, printed in the English language.

"Bond Fund or Funds" shall mean the fund or funds established in the MFHB Resolution and described under the heading "Bond Fund" below.

"Cost of Development" shall mean, (i) upon final determination of Cost of Development, the total of all costs authorized by law incurred by a Mortgagor with respect to a Development and approved by the Authority, and (ii) prior to the final determination of Cost of Development, the total of all costs authorized by law incurred or to be incurred by the Mortgagor with respect to a Development as estimated and approved by the Authority.

"Debt Service" shall mean, with respect to any particular Fiscal Year and any series of MFHB Bonds, an amount equal to the sum of (a) all interest payable on such MFHB Bonds during such Fiscal Year, plus (b) the principal of the serial MFHB Bonds and Sinking Fund Installments of the term MFHB Bonds payable during such Fiscal Year.

"Debt Service Reserve Fund" shall mean the fund established in the MFHB Resolution and described under the heading "Debt Service Reserve Fund" below.

"Debt Service Reserve Fund Requirement" shall mean, as of any date of calculation, an amount of money equal to the sum of amounts computed for all series of Outstanding MFHB Bonds, each in accordance with the applicable Series Resolution, which amounts shall be computed as a percentage of MFHB Bonds Outstanding with respect to each such series of MFHB Bonds and such percentage shall be not less than the percentage that the maximum amount of principal, Sinking Fund Installment and interest due in any Fiscal Year with respect to all MFHB Bonds of such series is of the principal amount of all MFHB Bonds of such series Outstanding immediately after the issuance of such series of MFHB Bonds. For series of MFHB Bonds issued on or after December 7, 1978, the Debt Service Reserve Fund Requirement may not, at any date of calculation on or prior to the next to the last date on which there is either a Sinking Fund Installment on any term MFHB Bonds of the series or a principal payment on serial MFHB Bonds of the series, be less than a percentage specified by the Series Resolution for such series (not less than 100 percent) of the maximum Annual Debt Service Requirement for the then current or any subsequent Fiscal Year on the MFHB Bonds of that series; and after such date of calculation may not be less than an amount equal to the remaining principal amount of the MFHB Bonds of that series Outstanding.

"Development" shall mean a development as such term is defined in Section 2(f) of the Act, as amended from time to time, in respect of which the Authority is authorized by law to make a Mortgage Loan to an eligible Mortgagor.

"Fiscal Year" shall mean any 12 consecutive calendar months commencing with the first day of July and ending on the last day of the following June.

"MFHB Bond" shall mean a bond issued under the MFHB Resolution, including the Acquired MFHB Bonds.

"Mortgage" shall mean the documents evidencing the mortgage lien securing a Mortgage Loan to a Mortgagor made by the Authority.

"Mortgage Loan" shall mean a loan made by the Authority from the proceeds of MFHB Bonds to a Mortgagor with respect to a Development and secured by a first mortgage lien on the real property or on the interest in the real property of which the Development may now or hereafter consist and a lien on all personal property acquired with the proceeds of such loan and attached to or used or to be used in connection with the construction or operation of the Development. Mortgage Loan shall also mean any lawful participation by the Authority with another party or parties in a loan made to a Mortgagor with respect to a Development and similarly secured so long as the interest of the Authority shall have at least equal priority as to lien in proportion to the amount of the loan secured, but need not be equal as to interest rate, time or rate of amortization or otherwise.

"Mortgage Loan Commitment" shall mean the obligation of the Authority to make a Mortgage Loan to a Mortgagor.

"Mortgage Repayment" shall mean the amounts paid or required to be paid from time to time for principal and interest and any other payments or charges by a Mortgagor or on behalf of a Mortgagor to the Authority on a Mortgage Loan pursuant to a Mortgage, but not including Escrow Payments, Prepayments, Recovery Payments and any development loan fee received by the Authority at the time of initial issuance of funds to a Mortgagor.

"Mortgagor" shall mean a nonprofit corporation, limited profit entity or other entity to which the Authority is now or hereafter authorized by law to make a Mortgage Loan.

"Notes" shall mean any debt obligations issued by the Authority other than MFHB Bonds.

"Outstanding" when used with reference to MFHB Bonds, shall mean, as of any date, MFHB Bonds theretofore or then being delivered under the provisions of the MFHB Resolution, except: (i) any MFHB Bonds cancelled by the Trustee or any Paying Agent at or prior to such date; (ii) MFHB Bonds for the payment or redemption of which moneys equal to the principal amount or Redemption Price thereof, as the case may be, with interest to the date of maturity or redemption date, shall be held by the Trustee or the Paying Agents in trust (whether at or prior to the maturity or redemption date), provided that if such MFHB Bonds are to be redeemed, notice of such redemption shall have been given as provided in the MFHB Resolution or provision satisfactory to the Trustee shall have been made for the giving of such notice; (iii) MFHB Bonds in lieu of or in substitution for which other MFHB Bonds shall have been delivered pursuant to the MFHB Resolution; and (iv) MFHB Bonds deemed to have been paid as provided in the MFHB Resolution.

"Permanently Financed Development" shall mean a Development with respect to which the Authority shall have issued MFHB Bonds for the purpose of obtaining moneys to make a Mortgage Loan or for the purpose of funding Notes or refunding MFHB Bonds issued to obtain such moneys.

"Permitted Investments" shall mean any of the following which at the time are legal investments under the laws of the State for the moneys held under the MFHB Resolution then proposed to be invested therein: (i) direct general obligations of, or obligations the payment of the principal of and interest on which are unconditionally guaranteed by, the United States of America or the State; (ii) bonds or notes of any state within the United States or any agency or authority thereof, or of any political subdivision of the State, provided that at the time of purchase such obligations are rated in either of the two highest rating categories by a nationally recognized bond rating agency; (iii) bonds, debentures, participation certificates or notes issued by any of the following: Bank for Cooperatives, Federal Land Banks, Federal Home Loan Banks, Federal Intermediate Credit Banks, Export-Import Bank of the United States, Federal Financing Bank, Student Loan Marketing Association, Farmers Home Administration, Federal National Mortgage Association or Government National Mortgage Association, or any other agency or corporation which is created by or pursuant to an Act of the Congress of the United States as an agency or instrumentality thereof; (iv) obligations issued by public agencies or municipalities and fully secured as to the payment of both principal and interest by a pledge of annual contributions under an Annual Contributions Contract or Contracts with the United States of America; or Temporary Notes, Preliminary Loan Notes or Project Notes issued by public agencies or municipalities, in each case, fully secured as to the payment of both principal and interest by a requisition or payment agreement with the United States of America. Under the Act and Illinois law, investments are lawful for the Authority, with certain limitations, if they meet the "prudent man" test for fiduciaries.

"Prepayment" shall mean any moneys received from any voluntary payment of principal or interest, including any prepayment penalties or other charges, on any Mortgage Loan more than 60 days prior to the scheduled payments of principal and interest called for thereby, or from the sale of a Mortgage Loan pursuant to the provisions described below in this Appendix in paragraph (1) under *"Covenants Relating to Mortgages - Prepayment,"* other than moneys constituting a Recovery Payment.

"Recovery Payment" shall mean any moneys received or recovered by the Authority, in excess of the expenses necessarily incurred by the Authority in collection thereof, from (i) the sale or other disposition of an Acquired Development; (ii) condemnation of a Development or part thereof; (iii) other proceedings taken in the event of default by the Mortgagor; (iv) the sale or other disposition of a Mortgage Loan in default for the purpose of realizing on the Authority's interest therein, pursuant to the provisions described below in this Appendix in paragraph (2) under *"Covenants Relating to Mortgages - Sale of Mortgages by the Authority,"* or (v) mortgage insurance or guaranty or hazard insurance.

"Redemption Price" shall mean, with respect to any MFHB Bond, the principal amount thereof, plus the applicable premium, if any, payable upon redemption thereof pursuant to the MFHB Resolution and the Series Resolution pursuant to which the same was issued.

"Revenues" shall mean all income to the Authority in its capacity as mortgagee derived from Permanently Financed Developments including, but not limited to, Acquired Development Operating Income, Mortgage Repayments (including the portion of any government assistance or subsidy payments received by or pledged to the Authority in its capacity as mortgagee or received by or pledged to the Trustee in its capacity as Trustee) and investment earnings on Funds and Accounts established by the MFHB Resolution and transferred to the Bond Fund pursuant to the MFHB Resolution, but excluding Prepayments, Recovery Payments, Acquired Development Receipts, Escrow Payments and any development loan fee received by the Authority at the time of initial issuance of funds to a Mortgagor.

"Sinking Fund Installment" shall mean the installment established for a series of MFHB Bonds pursuant to a Series Resolution.

General

The Acquired MFHB Bonds are general obligations of the Authority. The full faith and credit of the Authority, subject to the provisions of resolutions pledging particular moneys, assets or revenues to the payment of notes, bonds or other obligations other than the Acquired MFHB Bonds, is pledged for payment of the principal and redemption price, if any, of and interest and sinking fund requirements on the Acquired MFHB Bonds. None of the MFHB Bonds are a debt of or guaranteed by the State or by the United States or any agency or instrumentality of the United States. **The Authority has no taxing power. The State is not liable on the MFHB Bonds and the MFHB Bonds are not a debt of the State.**

Together with the previously issued and Outstanding MFHB Bonds and MFHB Bonds which may be issued in the future under the MFHB Resolution, the Acquired MFHB Bonds are secured on a parity basis by a pledge of Revenues of the Authority derived from Developments to be financed by the MFHB Bonds and by a pledge of Mortgage Loans relating to the Developments. The Act provides that any pledge, assignment, lien or security interest made pursuant to the Act is valid and binding and immediately effective upon its being made or granted, without any physical delivery, filing, recording or further act, and is valid and binding as against, and superior to any claims of, all 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. The pledge of Mortgages is subject to the right of the Authority to assign, sell or transfer the Mortgages or property acquired upon the enforcement or foreclosure of the Mortgages, the pledge then attaching to the proceeds of the assignment, sale or transfer.

For a description of the Mortgage Loans financed by the Authority from the proceeds of the Outstanding MFHB Bonds, see Appendix B.

"Revenues" is defined by the MFHB Resolution to include all income to the Authority in its capacity as mortgagee derived from Permanently Financed Developments including, but not limited to, Acquired Development Operating Income, Mortgage Repayments (including the portion of any government assistance or subsidy payments received by or pledged to the Authority in its capacity as mortgagee or received by or pledged to the Trustee in its capacity as Trustee) and investment earnings on Funds and Accounts established by the MFHB Resolution and transferred to the Bond Fund pursuant to the MFHB Resolution, but excluding Prepayments, Recovery Payments, Acquired Development Receipts, Escrow Payments and any development loan fee received by the Authority at the time of initial issuance of funds to a Mortgagor.

The MFHB Resolution provides for use of Prepayments and Recovery Payments for payment or redemption of MFHB Bonds of the series which was issued to finance or refinance the Development with respect to which such amounts are derived, or for the financing of one or more Mortgage Loans. Although not required by the MFHB Resolution, the Authority has required the owner of each Development which is the subject of Section 8 housing assistance payments to enter into an agreement to pledge the Section 8 housing assistance payments as security for the Mortgage Loan on the Development. Each series of MFHB Bonds is further secured, subject to disbursement for making the related Mortgage Loans, by any money and investments in the Mortgage Loan Fund established by the Series Resolution authorizing such series of MFHB Bonds.

General Obligation

The full faith and credit of the Authority, subject to the provisions of resolutions pledging particular moneys, assets or revenues to the payment of notes, bonds or other obligations other than the MFHB Bonds, is pledged for payment of the principal and Redemption Price, if any, of and interest and Sinking Fund Installments on all but one series (approximately \$29,880,000 aggregate principal amount outstanding as of December 31, 1998) the Outstanding MFHB Bonds. Resolutions of the Authority which authorize the issuance of the Authority's outstanding bonds and notes (other than the MFHB Bonds) pledge the revenues, assets and moneys of the Authority with respect to the housing facilities and 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 MFHB Bonds. The full faith and credit of the Authority is also pledged for or in connection with the payment of other outstanding notes, bonds and other obligations of the Authority. See "OTHER PROGRAMS" and Note E to the Financial Statements contained in Appendix A. The Authority may use amounts in the Authority Administrative Funds for any lawful purpose and may pledge all or any portion of those funds with priority over the Outstanding MFHB Bonds.

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 MFHB BONDS.

However, Section 26.1 of the Act does apply to all other Outstanding MFHB Bonds other than one series of MFHB Bonds issued in 1995.

Mortgage Loans

The Acquired MFHB Bonds, together with the previously issued and Outstanding MFHB Bonds and Additional MFHB Bonds hereafter issued under the MFHB Resolution, will be secured on a parity basis by a pledge of Revenues of the Authority derived from Developments to be financed by the MFHB Bonds and by a pledge of Mortgage Loans relating to the Developments. The Developments currently financed under the MFHB Resolution are described in Appendix E. The MFHB Resolution requires the Authority, prior to disbursing under any Mortgage Loan, to have a first mortgage lien on the Development for which such loan is made.

Debt Service Reserve Fund

The MFHB Resolution establishes a Debt Service Reserve Fund for the MFHB Bonds for the purpose of paying principal and Redemption Price, if any, of and Sinking Fund Installments and interest on MFHB Bonds maturing and becoming due for the payment of which other moneys are not available under the Resolution. The MFHB Resolution requires money in the Debt Service Reserve Fund to be invested in Permitted Investments having an average maturity of not more than ten years from the date of any investment, provided that at least 10 percent of the money in the Debt Service Reserve Fund must be invested in Permitted Investments having an average maturity of not more than two years from the date of any investment or, alternatively, in certain interest bearing time deposits or other similar arrangements with member banks of the Federal Reserve System, continuously and fully secured by Permitted Investments, or within certain limitations, by uninsured banking arrangements. See "THE MFHB BONDS AND SECURITY AND SOURCES OF PAYMENT FOR THE MFHB BONDS - Funds and Accounts - *Debt Service Reserve Fund*" in this Appendix for a further discussion of the Debt Service Reserve Fund.

The Debt Service Reserve Fund is required to be maintained by the Authority in an amount at least equal to the Debt Service Reserve Fund Requirement. The MFHB Resolution establishes such Requirement as the sum of the various Debt Service Reserve Fund Requirements for all series of MFHB Bonds, and further provides that the amount of Debt Service Reserve Fund Requirement for each series of MFHB Bonds shall be computed as a percentage of MFHB Bonds Outstanding with respect to each such series of MFHB Bonds and such percentage shall be not less than the percentage that the maximum amount of principal, Sinking Fund Installment and interest due in any year with respect to all MFHB Bonds of such series is of the principal amount of all MFHB Bonds of such series Outstanding immediately after the issuance of such series of MFHB Bonds. The MFHB Resolution further provides that for 1978 Series B Bonds and subsequent series of MFHB Bonds, the Debt Service Reserve Fund Requirement must always be at least 100 percent of the maximum Annual Debt Service Requirement for those series of Outstanding MFHB Bonds. In the Series Resolution for the Acquired MFHB Bonds, the

Authority covenants that the Debt Service Reserve Fund Requirement shall not be less than the maximum Annual Debt Service Requirement on all series of Outstanding MFHB Bonds. At January 31, 1999, the Debt Service Reserve Fund contained moneys and securities (valued at the lesser of par or cost to the Authority) in the aggregate amount of \$55,903,070. This amount exceeds the maximum principal payments, Sinking Fund Installments and interest payments to be made in the then current or any subsequent year for debt service on all series of Outstanding MFHB Bonds. See Note E to the Financial Statements contained in Appendix A for a description of assets restricted for capital and debt service reserves.

Pursuant to the Series Resolution for the Acquired MFHB Bonds, a Debt Service Reserve Fund Requirement is established as that percentage of the principal amount of the Acquired MFHB Bonds so that the product of that percentage and the original amount of the Acquired MFHB Bonds equals 100 percent of the maximum Annual Debt Service Requirements for any Fiscal Year on the Acquired MFHB Bonds.

Upon issuance of all of the Acquired MFHB Bonds and the redemption of all of the Refunded MFHB Bonds, the Debt Service Reserve Fund Requirement will be \$49,630,398.25, and moneys and securities in at least that amount will be on deposit in the Debt Service Reserve Fund.

Certain Information as to Revenues and Debt Service

When structuring a series of MFHB Bonds, the Authority makes certain assumptions, including the timing of the origination of Mortgage Loans expected to be financed from the proceeds of such series of MFHB Bonds and the investment income that will be earned on the investment of undisbursed proceeds of the MFHB Bonds, including amounts in the Mortgage Loan Fund and Capitalized Interest Account established with respect to such series of MFHB Bonds, on the receipt and investment of Mortgage Repayments on Mortgage Loans financed by such series of MFHB Bonds, and on the investment of amounts from the proceeds of such series of MFHB Bonds held in the Debt Service Reserve Fund. While the Authority believes that these assumptions are reasonable, there can be no assurance that in all cases they will prove to be correct and, if they are not correct, the Authority may be required to advance amounts from the Authority Administrative Funds to pay debt service on those MFHB Bonds that are secured by the general obligation of the Authority.

In connection with the refunding of MFHB Bonds, the MFHB Resolution requires the Authority to certify that the aggregate Debt Service for the current and each subsequent Fiscal Year with respect to all Outstanding MFHB Bonds subsequent to the issuance of such refunding MFHB Bonds is not greater than the aggregate Debt Service for each such Fiscal Year prior to the issuance of such refunding MFHB Bonds. Such a certification will be made in connection with the issuance of the Acquired MFHB Bonds.

Additional MFHB Bonds

The MFHB Resolution provides that Additional MFHB Bonds may be issued subject to certain conditions and limitations. Such additional series of MFHB Bonds will be on a parity with the Acquired MFHB Bonds with respect to certain of the pledges, liens and security interests described above.

The Authority shall, at the time of issuance of a series of Additional MFHB Bonds, determine whether such series of Additional MFHB Bonds shall be special, limited obligations of the Authority or shall be general obligations of the Authority, to which its full faith and credit are pledged, and whether Section 26.1 of the Act shall apply to such series of Additional MFHB Bonds.

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

Resolution to Constitute Contract

In consideration of the purchase and acceptance of any and all of the MFHB Bonds issued under the MFHB Resolution by those who shall hold the same from time to time, the MFHB Resolution shall be deemed to be and shall constitute a contract between the Authority and the Owners of the MFHB Bonds and coupons, and the pledges made in the MFHB Resolution and the covenants and agreements therein set forth to be performed by the Authority shall be for the equal benefit, protection and security of the Owners of any and all of the MFHB Bonds and coupons, all of which, without regard to the time or times of their issue or maturity, shall be of equal rank without preference, priority or distinction of any of the MFHB Bonds or coupons over any other thereof, except as expressly provided in or permitted by the MFHB Resolution.

Pledge of the MFHB Resolution

The MFHB Resolution provides that the Authority pledges, assigns and grants a lien on and a security interest in the Revenues, Prepayments, Recovery Payments, Acquired Development Receipts and all Funds established by the MFHB Resolution, including the investments thereof and the proceeds of such investments, if any, and (to the extent such a pledge, assignment or grant of a lien or security interest is permitted by federal law) in all governmental assistance or subsidy payments received by the Authority from the United States of America with respect to Developments, up to the amount owed to the Authority with respect to Mortgage Loans for those Developments, for the payment of the principal and Redemption Price of and interest and Sinking Fund Installments on the MFHB Bonds in accordance with the terms and provisions of the MFHB Resolution, subject only to the provisions of the MFHB Resolution permitting the application of those funds, amounts and investments for the purposes and on the terms and conditions set forth in the MFHB Resolution.

The pledge, assignment and grant of a lien and security interest contained in the MFHB Resolution with respect to any portion of any government assistance or subsidy payments received by or pledged to the Trustee in its capacity as Trustee shall not restrict the rights of the Authority to receive or enforce a pledge, assignment or grant of a lien or security interest in such government assistance or subsidy payments; provided, however, that upon the occurrence of an Event of Default under the MFHB Resolution, the Trustee may exercise any or all rights, powers or prohibitions which the Authority may have with respect to such payments pledged, assigned or granted to the Authority, upon the Trustee having given written notice to the Authority of its intent so to exercise those rights. Upon the giving of such a notice, the Authority shall not retain any of its rights, powers or privileges with respect to such payments, pledged, assigned or granted to the Authority except as the notice, or any supplemental notice, allows. The Trustee may at any time by written notice to the Authority revoke any notice of intent to exercise any or all rights, powers or privileges with respect to such payments, and upon such notice of revocation being given, the Authority shall again have all such rights, powers and privileges as to which the notice of revocation relates. Subject to the lien of the Trustee and Paying Agents for reasonable compensation, such pledge, assignment and grant of a lien and security interest shall be valid and binding and immediately effective from and after the date of adoption of the MFHB Resolution (or in respect of amendments to the MFHB Resolution, from and after the date of adoption of the Supplemental Resolution), and the Revenues, Prepayments, Recovery Payments and Acquired Development Receipts as received by the Authority and all other moneys and securities in the Funds and Accounts established

by the MFHB Resolution and the federal subsidy receipts so pledged, assigned and granted shall then immediately be subject to the lien of such pledge, assignment and grant without any physical delivery, filing, recording or further act, and the lien of such pledge, assignment and grant shall be valid and binding as against, and superior to any claims of, all other parties having claims of any kind in tort, contract or otherwise against the Authority, irrespective of whether such parties have notice thereof.

Such pledge, assignment and grant of a lien and security interest means, without limitation, that in furtherance of the interests of the Owners of the MFHB Bonds the Trustee shall have the right to receive and apply all such Funds, amounts and investments to the payment of the MFHB Bonds with priority over being applied to any other claims of any kind against the Authority and shall have the right to require that any such Funds, amounts and investments be paid directly to the Trustee, for that application in accordance with the MFHB Resolution, and not to the Authority. The Authority will not make any pledge, assignment or grant of a lien or security interest in any Funds, accounts or investments except as provided in the MFHB Resolution.

Custody and Application of MFHB Bond Proceeds

Each Series Resolution authorizing the issuance of a series of MFHB Bonds is required to specify the purposes for which such series of MFHB Bonds are being issued. Purposes for which MFHB Bonds may be issued are (i) the establishment of Mortgage Loan Funds and, if required by the Series Resolution, the establishment of Capitalized Interest Accounts and Cost of Issuance Accounts; (ii) payment into the Debt Service Reserve Fund; (iii) the funding of Notes theretofore issued by the Authority to provide funds to make Mortgage Loans on Developments; (iv) the refunding or redemption of MFHB Bonds; (v) the payment of financing costs incurred in connection with the sale of MFHB Bonds; or (vi) any combination thereof.

Mortgage Loan Funds are established with and held by the Trustee. Upon the issuance of each series of MFHB Bonds, the Authority is required to pay into the designated Mortgage Loan Fund the amount of the proceeds derived from the sale of such series of MFHB Bonds, if any, as shall be designated in the Series Resolution authorizing the issuance of such MFHB Bonds. Moneys deposited in such Fund shall be used by the Authority for making Mortgage Loans in the amounts and for the Developments specified in that Series Resolution. Payment from Mortgage Loan Funds to Mortgagors are made by the Trustee upon requisition of the Authority. Subject to the lien of the Trustee and Paying Agents for payment of its reasonable compensation and expenses, moneys deposited to the credit of each Mortgage Loan Fund, including all obligations held as investments thereof and the proceeds of such investments, are assigned and pledged to the Trustee, pending application by the Authority to make Mortgage Loans, for the benefit of the Owners of the MFHB Bonds of the series from which such moneys were derived and for the security of the payment of the principal of and interest and Sinking Fund Installments, on such MFHB Bonds. Surplus moneys derived from Bonds Proceeds, if any, remaining in a Mortgage Loan Fund may be deposited (i) into one or more other Mortgage Loan Funds for the making of one or more other Mortgage Loans, or (ii) into the Bond Fund for the purchase or redemption of MFHB Bonds of the series issued for the purpose of funding such Mortgage Loan Commitment.

Capitalized Interest Accounts are held by the Trustee. Upon the issuance of each series of MFHB Bonds, the Authority may but shall not be required to establish and deposit in a Capitalized Interest Account for such series the amount of the proceeds derived from the sale of such series of MFHB Bonds, if any, as shall be allocated in the Series Resolution to such Capitalized Interest Account. Moneys deposited in a Capitalized Interest Account shall be used, to the extent available, for the purpose

of paying interest on the series of MFHB Bonds in respect to which such moneys have been set aside in such Account prior to or during the period of construction of the Developments applicable to such series. Any moneys on deposit in a Capitalized Interest Account not used to pay interest during the Period of Construction shall, upon written direction of the Authority, be transferred to the Bond Fund.

Cost of Issuance Accounts are held by the Trustee. Upon the issuance of each series of MFHB Bonds, the Authority may but shall not be required to establish and deposit in a Cost of Issuance Account for such series the amount of the proceeds derived from the sale of such series of MFHB Bonds as has been designated in the Series Resolution for the payment of Costs of Issuance of such series of MFHB Bonds. Upon payment of all Costs of Issuance for such series of MFHB Bonds, any amounts remaining in such Account shall be transferred to the Bond Fund.

The Debt Service Reserve Fund is held by the Trustee. Upon the issuance of each series of MFHB Bonds, the Authority is required to deposit in the Debt Service Reserve Fund an amount sufficient, together with the moneys then on deposit therein, to establish such fund in an amount equal to the Debt Service Reserve Fund Requirement calculated upon such issuance. Moneys deposited in the Debt Service Reserve Fund are required to be used and applied in the manner hereinafter described.

The portion of the proceeds of sale of a series of MFHB Bonds allocated in the Series Resolution to the funding of Notes may be applied by the Authority directly to such purpose.

Funds and Accounts

In addition to the Mortgage Loan Funds, Capitalized Interest Accounts and Cost of Issuance Accounts, hereinbefore described, the MFHB Resolution establishes, or provides for the establishment of, the following special Funds held by the Trustee:

- (1) Bond Fund;
- (2) Acquired Development Fund; and
- (3) Debt Service Reserve Fund.

Bond Fund: All Revenues held or collected by the Authority or the Trustee shall be deposited upon receipt in the Bond Fund. Moneys and the proceeds of sale of securities from time to time in the Bond Fund shall be paid out and applied in the following manner:

(1) On or before each interest payment date on the MFHB Bonds, the Trustee shall withdraw from the Bond Fund or reserve in the Bond Fund the following amounts in the following order:

(a) First, the Trustee shall, on or before each interest payment date of the MFHB Bonds, pay out of the moneys then held in the Bond Fund, to itself and the Paying Agents, the amounts required for the payment by it and such Paying Agents of the interest becoming due on the MFHB Bonds on such interest payment date, and such amounts so withdrawn are irrevocably dedicated for and shall be applied to the payment of such interest.

(b) Second, the Trustee shall (i) on or before each principal payment date of the MFHB Bonds, pay out of the moneys then held in the Bond Fund to itself and the Paying Agents, the amounts required for the payment by it and such Paying Agents of the principal becoming due on the MFHB Bonds on such principal payment date, and such amounts so withdrawn are irrevocably dedicated for and

shall be applied to the payment of such principal, and (ii) on or before each interest payment date which is not also a principal payment date, reserve and retain in the Bond Fund an amount equal to one-half of the amount of the principal of the MFHB Bonds falling due on the next succeeding principal payment date. For purposes of (ii) above, if the Authority has provided in the Series Resolution that such portion of the MFHB Bonds of such series maturing on any July 1 shall mature the immediately following January 1, such January 1 maturity date established with respect to a series of MFHB Bonds shall nevertheless be deemed to be an interest payment date which is not also a principal payment date, but the Authority shall not be required to reserve and retain in the Bond Fund on any January 1 maturity date any amounts with respect to the amount of the next succeeding principal payment date on the MFHB Bonds of that series.

(c) Third, the Trustee shall (i) on or before each Sinking Fund Installment date of the MFHB Bonds, pay out of the moneys then held in the Bond Fund to itself and the Paying Agents, the amounts required for the payment by it and such Paying Agents of the principal of, and Redemption Price, if any, on, the term MFHB Bonds then subject to redemption through the operation of Sinking Fund Installments, and such amounts so withdrawn are irrevocably dedicated for and shall be applied to the payment of such term MFHB Bonds, and (ii) on or before each interest payment date which is not also a Sinking Fund Installment date, reserve and retain in the Bond Fund an amount equal to one-half of the amount of the next succeeding Sinking Fund Installment, including the amount of the premium, if any, required to be paid upon the redemption of the term MFHB Bonds through the operation of such Sinking Fund Installment. The Trustee may, at any time, in its sole discretion withdraw moneys from the MFHB Bond Fund and purchase term MFHB Bonds of the series of MFHB Bonds with respect to which a Sinking Fund Installment is to be made or portions of such term MFHB Bonds in the manner provided in the MFHB Resolution, whether or not such term MFHB Bonds or portions thereof shall then be subject to redemption. For purposes of (ii) above, if the Authority has provided in the Series Resolution that a portion of Sinking Fund Installment due on any July 1 shall be due the immediately following January 1, such January 1 Sinking Fund Installment due date established with respect to a series of MFHB Bonds shall nevertheless be deemed to be an interest payment date which is not also a Sinking Fund Installment date, but the Authority shall not be required to reserve and retain in the Bond Fund on any such January 1 Sinking Fund Installment due date any amount with respect to the amount of the next succeeding Sinking Fund Installment on the MFHB Bonds of that series.

(2) On or before each interest payment date, after (i) making the withdrawals from the Bond Fund and reserving and retaining in the Bond Fund the amounts required by paragraph (1) above, and (ii) reserving and retaining in the Bond Fund the amount, if any, of any deposit made into the Bond Fund for the redemption of MFHB Bonds and still needed for the redemption of such MFHB Bonds, the Trustee shall withdraw from the Bond Fund and deposit to the credit of the Acquired Development Fund such amount, if any, as may be specified in a certificate signed by an authorized officer of the Authority as necessary to provide sufficient moneys in the Acquired Development Fund to meet the Acquired Development Expense Requirement for the next succeeding six months.

(3) On or before each interest payment date, after (i) making the withdrawals from the Bond Fund and reserving and retaining in the Bond Fund the amounts required by paragraph (1) above; (ii) reserving and retaining in the Bond Fund the amount, if any, of any deposit made into the Bond Fund for the redemption of MFHB Bonds and still needed for the redemption of such MFHB Bonds; and (iii) providing for the payments into the Acquired Development Fund pursuant to paragraph (2) above; the Trustee shall withdraw from the Bond Fund and deposit in the Debt Service Reserve Fund such amount as shall be required to bring the Debt Service Reserve Fund up to the Debt Service Reserve Fund Requirement.

(4) On or before each interest payment date, after (i) making the withdrawals from the Bond Fund and reserving and retaining in the Bond Fund the amounts required by paragraph (1) above; (ii) reserving and retaining in the Bond Fund the amount, if any, of any deposit made into the Bond Fund for the redemption of MFHB Bonds and still needed for the redemption of such MFHB Bonds; (iii) providing for the payments into the Acquired Development Fund pursuant to paragraph (2) above; and (iv) providing for the payments into the Debt Service Reserve Fund pursuant to paragraph (3) above, the Trustee shall at the written direction of the Authority withdraw from the Bond Fund and deposit to the credit of, or transfer to, the Authority Administrative Fund, the balance of moneys so remaining in the Bond Fund.

(5) In the event there shall be, on any interest payment date, a deficiency in the Bond Fund in the amount needed to make such interest payment, or, in the event there shall be, on any principal payment date, a deficiency in the Bond Fund in the amount needed to make such principal payment, or in the event there shall be, on any Sinking Fund Installment date, a deficiency in the Bond Fund in the amount needed to make such Sinking Fund Installment, the Trustee shall make up such deficiencies from the Debt Service Reserve Fund by the withdrawal of moneys therefrom for that purpose and by the sale or redemption of securities held in the Debt Service Reserve Fund, if necessary, in such amounts as will, at the respective times, provide moneys in the Bond Fund sufficient to make up any such deficiency, and the Trustee shall, in accordance with paragraph (3) above, pay into the Debt Service Reserve Fund from the Bond Fund, to the extent of available moneys, the amounts withdrawn therefrom for the purposes of making up any such deficiencies.

In the event of a deficiency in the Bond Fund as of any interest, principal or Sinking Fund Installment date, including for purposes of a withdrawal from the Debt Service Reserve Fund, the deficiency shall be allocated to the various series of MFHB Bonds in proportion to their respective amounts of interest, principal or Sinking Fund Installments due on that date (before any amounts are paid to the Bond Fund or used to pay interest, principal or Sinking Fund Installments from general funds of the Authority in respect of the Authority's pledge of its full faith and credit for MFHB Bonds or from money available from the State under Section 26.1 of the Act). Amounts transferred to the Bond Fund from the Debt Service Reserve Fund (other than amounts deposited in the Debt Service Reserve Fund from general funds of the Authority in respect of the Authority's pledge of its full faith and credit for MFHB Bonds or from amounts available from the State under Section 26.1 of the Act) shall be treated as available for paying interest, principal or Sinking Fund Installments for the various series of MFHB Bonds in proportion to the deficiency allocated to the various series of MFHB Bonds, as calculated as provided in this paragraph. Any amounts transferred to the Bond Fund from the Debt Service Reserve Fund from general funds of the Authority in respect of the Authority's pledge of its full faith and credit for MFHB Bonds or from amounts available from the State under Section 26.1 of the Act, respectively, shall be used only for purposes of paying interest, principal or Sinking Fund Installments on series of MFHB Bonds other than any series of MFHB Bonds authorized by any Series Resolution adopted after November 1, 1995, that provides that such series of MFHB Bonds are not general obligations of the Authority or that Section 26.1 does not apply to that series of MFHB Bonds, as the case may be.

Acquired Development Fund. All Acquired Development Receipts and moneys, if any, withdrawn from the Bond Fund pursuant to the provisions described above in this Appendix in paragraph (2) under "Bond Fund" shall be deposited in the Acquired Development Fund. Moneys at any time held in the Acquired Development Fund shall be used for and applied solely to the payment of Acquired Development Expenses upon requisition of the Authority; provided that on each interest payment date, the Trustee shall, upon written direction of the Authority, transfer to the Bond Fund any Acquired Development Operating Income and any moneys or investments then in the Acquired Development Fund which have been specified in a certificate of an authorized officer of the Authority as not being necessary to meet the Acquired Development Expense Requirement for the next succeeding six months.

Debt Service Reserve Fund. Under the MFHB Resolution the Authority obligates and binds itself irrevocably to pay, or cause to be paid, directly into the Debt Service Reserve Fund (i) all moneys appropriated and made available by the State to the Authority for the payment of principal of, whether at maturity or Sinking Fund Installment due date, and interest on the MFHB Bonds pursuant to Section 26.1 of the Act, except for series of MFHB Bonds issued pursuant to a Series Resolution adopted after November 1, 1995, that provides that Section 26.1 of the Act shall not apply to that series of MFHB Bonds; (ii) such portion of the proceeds of the sale of MFHB Bonds, if any, as shall be provided by the Series Resolution authorizing the issuance thereof; (iii) such portion of the proceeds of the sale of Notes, if any, as shall be provided by the resolution of the Authority authorizing the issuance thereof; and (iv) any other moneys which may be made available to the Authority for the purposes of the Debt Service Reserve Fund from any other source or sources, except, with respect to general funds of the Authority, for series of MFHB Bonds issued pursuant to a Series Resolution adopted after November 1, 1995, that provides that such series of MFHB Bonds are not general obligations of the Authority. The Trustee shall deposit in and credit to the Debt Service Reserve Fund all moneys transferred from the Bond Fund pursuant to the provisions described above in this Appendix in paragraph (3) under "Bond Fund", and shall transfer moneys from the Debt Service Reserve Fund to the Bond Fund pursuant to the provisions described above in this Appendix in paragraph (5) under "Bond Fund," except that no amounts made available to the Authority from the State under Section 26.1 of the Act and deposited in the Debt Service Reserve Fund shall be transferred to the Bond Fund in respect of a series of MFHB Bonds authorized by a Series Resolution adopted after November 1, 1995, that provides that Section 26.1 does not apply to that series of MFHB Bonds.

Whenever the Trustee shall determine that, on the next to final maturity date of the MFHB Bonds of a series then Outstanding having the next succeeding final maturity date, the moneys and securities in the Debt Service Reserve Fund in excess of the Debt Service Reserve Fund Requirement for all MFHB Bonds, excepting the MFHB Bonds of such series, will be equal to or in excess of the Redemption Price of all of the MFHB Bonds of the final maturity of such series then Outstanding, the Trustee shall, unless the Authority shall otherwise direct, use and apply such excess in the Debt Service Reserve Fund to the redemption, on the next to final maturity date, of all MFHB Bonds of such series then Outstanding maturing on the final maturity date of such series.

Whenever the Trustee shall determine that, on the final maturity date of the MFHB Bonds of a series then Outstanding having the same final maturity date, the moneys and securities in the Debt Service Reserve Fund will be in excess of the Debt Service Reserve Fund Requirement for all MFHB Bonds, excepting such series, the Trustee shall use and apply such excess in the Debt Service Reserve Fund to the payment, on the final maturity date, of the principal of the MFHB Bonds of such series then Outstanding and payments from the Bond Fund may be reduced proportionately.

Whenever a transfer of moneys to the Bond Fund is made requiring or permitting the purchase or redemption of MFHB Bonds which would result in the reduction of the Debt Service Reserve Fund Requirement upon the purchase or redemption of such MFHB Bonds, the Trustee shall, in connection with each such purchase or redemption, withdraw from the Debt Service Reserve Fund and deposit in the Bond Fund an amount of moneys equal to the reduction of the Debt Service Reserve Fund Requirement which would result upon the redemption of such MFHB Bonds upon the next succeeding redemption date. The amount of moneys to be withdrawn from the Debt Service Reserve Fund in each instance pursuant to the provisions described in this paragraph shall be determined by the Authority and the amount thereof certified to the Trustee in writing.

On or before each principal payment date on the MFHB Bonds, the Trustee shall transfer from the Debt Service Reserve Fund to the Bond Fund an amount of moneys equal to the reduction of the Debt Service Reserve Fund Requirement, if any, which would result upon such principal payment date, provided that such transfer does not reduce the amount in the Debt Service Reserve Fund to less than the amount of the Debt Service Reserve Fund Requirement after such principal payment date.

Any income or interest earned by, or increment to, the Debt Service Reserve Fund due to the investment thereof, upon written direction of an authorized officer of the Authority, shall be transferred as earned by the Trustee to the Bond Fund, but only to the extent that any such transfer will not reduce the amount of the Debt Service Reserve Fund below the Debt Service Reserve Fund Requirement.

Certification to the Governor

Pursuant to the MFHB Resolution, the Authority has covenanted that in the event that it makes the determination referred to in Section 26.1 of the Act as in effect on and as of November 8, 1991 or makes a withdrawal from any reserve fund established under the Resolution to pay principal of and interest on any MFHB Bonds, the Authority shall take, or shall cause its officers to take on its behalf, all such actions as are prescribed on its part or on the part of its officers by Section 26.1 of the Act as in effect on and as of November 8, 1991 in the event of any such determination or withdrawal.

However, a prior Series Resolution provides that for series of MFHB Bonds authorized by Series Resolutions adopted after November 1, 1995, the MFHB Bonds of those series shall not be subject to Section 26.1 of the Act, except as specifically provided in the related Series Resolution.

Security for Deposits and Investment of Funds

All moneys held by the Trustee shall be continuously and fully secured for the benefit of the Authority and the Owners of the MFHB Bonds by Permitted Investments or MFHB Bonds or Notes of the Authority of a market value equal at all times to the amount of the deposit so held by the Trustee; provided that it shall not be necessary for the Trustee or any Paying Agent to give security for the deposit of any moneys with them held in trust for the payment of the principal or Redemption Price of or interest and Sinking Fund Installments, if any, on MFHB Bonds, or such amount of moneys as is secured by federal deposit insurance, or for any moneys which shall be represented by obligations purchased as an investment of such moneys pursuant to the MFHB Resolution. All moneys held in the Authority Administrative Funds by the Authority or other depository shall be secured in such manner, if any, as shall be required by the Authority.

Moneys held in the Mortgage Loan Funds, Bond Fund and Acquired Development Fund, upon direction of the Authority confirmed in writing, shall be (1) invested by the Trustee in Permitted Investments so that the maturity date (or redemption date at the option of the holder) of such Permitted Investments shall coincide, as nearly as practicable, with the times at which such moneys will be needed for the purposes of such Fund according to schedules to be furnished by the Authority, or (2) deposited in interest-bearing time deposits continuously and fully secured by a pledge of Permitted Investments or MFHB Bonds or Notes of the Authority of a market value equal at all times to the amount of the deposit or of the other similar banking arrangement, except under the conditions described below.

Moneys held in the Debt Service Reserve Fund, upon direction of the Authority confirmed in writing by an authorized officer of the Authority, shall be (1) invested in Permitted Investments the average maturity of which shall not be more than ten years from the date of any investment, provided, however, that at least 10 percent of the moneys in the Debt Service Reserve Fund shall be invested in Permitted Investments, the average maturity of which shall not be more than two years from the date of any such investment, or (2) deposited in interest-bearing time deposits continuously and fully secured by a pledge of Permitted Investments or MFHB Bonds or Notes of the Authority of a market value at all times equal to the amount of the deposit or of the other similar banking arrangement except under the conditions described below.

In computing the amount of any Fund or Account held by the Trustee under the MFHB Resolution, except the Debt Service Reserve Fund, obligations purchased as an investment of moneys therein shall be valued at the cost or market price thereof, whichever is lower, exclusive of accrued interest. In computing the amount of the Debt Service Reserve Fund, obligations purchased as an investment of moneys therein shall be valued at par, or if purchased at less than par, at their cost to the Authority.

Moneys on deposit in any Fund or Account established by the MFHB Resolution may be deposited in an interest-bearing time deposit or other similar banking arrangement with a bank, trust company or national banking association in the United States without security as described above, subject to the following conditions:

(i) not more than twenty-five percent of the total amount of funds of the Authority as specified by the Authority (including Permitted Investments and secured and unsecured deposits), held in all Funds and Accounts created by the MFHB Resolution shall be deposited in any such deposits or under any such arrangements;

(ii) not more than five percent of such total amount of funds shall be deposited in any such deposits or under any such arrangements with any one bank;

(iii) no such deposits or arrangements shall be made with any bank having a combined capital and surplus of less than \$10,000,000, and which is not a member of the Federal Reserve System, as certified by its authorized officer to the Trustee and the Authority;

(iv) no such deposits or arrangements shall be made in an amount which exceeds five percent of the combined capital and surplus of such bank, as certified by its authorized officer to the Trustee and the Authority; and

(v) no such deposit or arrangement shall be made with any bank until the Trustee has received an authorized officer's certificate stating that the amount thereof is authorized under the provisions of the MFHB Resolution.

Issuance of Additional Obligations

The Authority shall not create or permit the creation of or issue any obligations or create any additional indebtedness which will be secured by a charge and lien on the Revenues or which will be payable from the Bond Fund or Debt Service Reserve Fund, except that (a) a series of MFHB Bonds to refund any MFHB Bonds then outstanding may be issued under the conditions and subject to the provisions and limitations of the MFHB Resolution, and (b) additional series of MFHB Bonds may be issued from time to time for the purposes of (i) the establishment of Mortgage Loan Funds for designated Mortgage Loan Commitments, a Capitalized Interest Account, and a Cost of Issuance Account, if any; (ii) payments into the Debt Service Reserve Fund; (iii) the funding of Notes theretofore issued by the Authority to provide funds to make Mortgage Loans to Developments; (iv) the payment of financing costs, including bond discounts, incurred in connection with such series of MFHB Bonds; and (v) any combination thereof.

No additional series of MFHB Bonds shall be issued under the MFHB Resolution unless:

(a) the principal amount of the additional MFHB Bonds then to be issued, together with the principal amount of the MFHB Bonds and Notes of the Authority theretofore issued and Outstanding, will not exceed in aggregate principal amount any limitation thereon imposed by law;

(b) there is at the time of the issuance of such additional MFHB Bonds no deficiency in the amounts required by the MFHB Resolution or any Series Resolution to be paid into the Bond Fund and into the Debt Service Reserve Fund;

(c) the amount of the Debt Service Reserve Fund, upon the issuance and delivery of such additional MFHB Bonds and the placing in the Debt Service Reserve Fund of any amount provided therefor in the applicable Series Resolution authorizing the issuance of such additional MFHB Bonds, shall not be less than the Debt Service Reserve Fund Requirement;

(d) the Authority shall be obligated pursuant to existing Mortgage Loan Commitments to make Mortgage Loans to Mortgagors under Mortgages in amounts not less than the principal amount of the additional MFHB Bonds then being issued for the purposes of the establishment of, or crediting of moneys to, Mortgage Loan Funds designated in the applicable Series Resolution or the funding of Notes theretofore issued for such purpose;

(e) the Authority shall have theretofore deposited, or from the proceeds of sale of such additional MFHB Bonds shall then deposit, in each Mortgage Loan Fund with respect to which such additional MFHB Bonds are being issued, in the aggregate for each Development to which such Fund relates, an amount of money equal to the outstanding Mortgage Loan Commitment of the Authority with respect to each such Development, or shall have entered into a written agreement, pursuant to which the Authority has agreed to sell and a responsible party or parties have agreed to purchase Notes of the Authority at the time or times and in the amount or amounts required to provide the Authority with moneys sufficient in amount to comply with the outstanding obligations of the Authority under the Mortgage Loan Commitments relating to such Developments; and

(f) the Mortgages under which the Authority will make Mortgage Loans from the proceeds of the additional MFHB Bonds then being issued, or the Mortgages under which the Authority has theretofore made Mortgage Loans from the proceeds of Notes or MFHB Bonds being funded or refunded, as the case may be, by the additional MFHB Bonds then being issued, comply with the terms, conditions, provisions and limitations prescribed for Mortgages made by the Authority, as set forth in the covenant with respect thereto in the MFHB Resolution, and as required by the Act, as amended from time to time, and other applicable provisions of law.

The Authority reserves the right to issue Notes and any other obligations so long as the same are not a charge or lien on the Revenues or payable from the Bond Fund or Debt Service Reserve Fund.

The MFHB Resolution provides that for series of MFHB Bonds authorized by Series Resolutions adopted after November 1, 1995, the MFHB Bonds of those series shall not be subject to Section 26.1 of the Act and shall not be general obligations of the Authority and the full faith and credit of the Authority shall not be pledged for the payment of the principal of and redemption price of and interest and Sinking Fund Installments on these series of MFHB Bonds, except as specifically provided in the related Series Resolution. MFHB Bonds which are not general obligations shall be special and limited obligations of the Authority, with a claim for payment solely from Revenues, Prepayments, Recovery Payments, Acquired Development Receipts, Mortgage Loans and moneys and securities held in the Funds and Accounts established by the MFHB Resolution.

Covenants Relating to Mortgages

Mortgage Provisions. No Mortgage Loan shall be made by the Authority from the proceeds of MFHB Bonds unless the Mortgage and other related documents under which such Mortgage Loan is to be made shall comply with, and no MFHB Bonds shall be issued by the Authority to fund Notes or to refund MFHB Bonds unless the Mortgage and other related documents under which the Mortgage Loan was made from the proceeds of such Notes or MFHB Bonds shall also comply with, the following terms, conditions, provisions and limitations, and shall have been approved by the Authority:

(a) The Mortgagor must be eligible under the Act, as amended from time to time, and the Mortgage shall be executed and recorded in accordance with the requirements of existing laws;

(b) The Mortgage shall constitute and create a first mortgage lien on the real property or the interest therein of the Development with respect to which the Mortgage Loan secured thereby is made and a first security interest in the personal property acquired with proceeds of the Mortgage Loan and attached to or used in connection with the operation of such Development, provided, however, that the Mortgage may also be a participation by the Authority with another party or parties in a Mortgage Loan made with respect to a Development and similarly secured so long as the interest of the Authority shall have at least equal priority as to lien in proportion to the amount of the loan secured, but need not be equal as to interest rate, time or rate of amortization or otherwise;

(c) The amount of the Mortgage Loan to be made by the Authority to the Mortgagor under the Mortgage shall not exceed the then established Cost of Development or any other limitation prescribed by law or regulation, whichever is less;

(d) The scheduled Mortgage Repayments, including fees and charges, pursuant to the Mortgage shall be sufficient to produce moneys which the Authority determines shall be sufficient in amount and time of payment to permit the Authority to pay when due the Authority's estimate of the

Mortgagor's share of its Administrative Expenses and the principal of and Sinking Fund Installments and interest on the MFHB Bonds issued for the purposes described above in this Appendix in the first paragraph of "Custody and Application of MFHB Bond Proceeds" in connection with the Mortgagor's Mortgage Loan or the financing thereof;

(e) The effective yield to maturity to the Authority of each Mortgage Loan (taking into consideration as part of the interest rate on the Mortgage any fees and charges imposed by the Mortgage and determined by reference to a standard table of mortgage yields for monthly level payment self-liquidating mortgages using the percentage that the amount of MFHB Bond proceeds (i) deposited in Mortgage Loan Funds with respect to such Mortgage Loan plus (ii) used for the payment of Notes the proceeds of which were used to make such Mortgage Loan is of the outstanding principal amount of such Mortgage Loan as the price of the Mortgage Loan) is at least one-quarter of one percent greater than the effective cost of the series of MFHB Bonds issued for such Mortgage Loan, or, if such Mortgage Loan is made with the proceeds of more than one series of MFHB Bonds, the weighted average effective interest cost of all such series;

(f) The Mortgagor shall have provided, or will provide in a manner satisfactory to the Authority, in payment of the Cost of Development, an amount equal to the difference between the Cost of Development and the Mortgage Loan Commitment of the Authority;

(g) The Mortgagor shall have acquired title to the site of the Development, or an interest in real property sufficient for the location thereon of the Development, free and clear of all liens and encumbrances which would materially affect the value or usefulness of such site or interest in real property for the intended use thereof;

(h) The Mortgagor shall have obtained all governmental approvals then required by law for the acquisition, construction, ownership and operation of the Development by the Mortgagor;

(i) The Mortgagor shall have obtained the approval by the Authority of preliminary plans and specifications of the Development, and the Mortgage or other related documents under which the Mortgage Loan is to be made shall obligate the Mortgagor to obtain, within a reasonable period of time, the Authority's approval of final plans and specifications;

(j) The Mortgagor shall be prohibited from selling, leasing or otherwise encumbering the Development unless approved by the Authority and a Prepayment is made by the Mortgagor in accordance with the provisions described below in this Appendix under "Prepayment," except that (i) a Mortgagor, with the written consent of the Authority, may grant easements, licenses or rights-of-way over, under or upon the site of a Development, so long as such easements, licenses or rights-of-way do not destroy or diminish the value or usefulness of such site, as determined by the Authority in connection with the provisions of such written consent; (ii) when and to the extent authorized by law, a Mortgagor, with written consent of the Authority, may lease a Development or a portion thereof to a third party for the purposes of operation, such lease to be subject to all of the terms, provisions and limitations of the Mortgage relating to such Development; (iii) a Mortgagor, with the written approval of the Authority, may sell or exchange any land not required for a Development, provided that the proceeds derived by the Mortgagor from the sale of any such lands shall be paid over to the Authority for deposit into the Bond Fund and such moneys shall be used and applied as provided in the MFHB Resolution; and (iv) the Mortgagor may be permitted to sell a Development to another Mortgagor approved by the Authority, which successor Mortgagor shall assume the existing Mortgage. Upon the conveyance of a Development

to, and assumption of the Mortgage thereon by, a successor Mortgagor, the Authority may release the original Mortgagor from its obligations under the Mortgage; and

(k) The Mortgage shall not permit a Prepayment except in a manner which will permit the Authority to comply with the provisions described below in this Appendix under "*Prepayment.*"

Modification of Mortgage Terms. The Authority shall not consent to the modification of, or modify, the rate or rates of interest of, or the amount or time of payment of any installment of principal or interest of any Mortgage Loan or the security for or any terms or provisions of any Mortgage Loan or the Mortgage securing the same in a manner detrimental to Bondholders; provided, however, that the Authority may consent to the modification of and modify such Mortgage Loan and the Mortgage securing the same and the Mortgage Repayments to be made thereunder so long as Revenues after such modification will be sufficient in amount to permit the Authority to comply with Section 910 of the MFHB Resolution.

Sale of Mortgages by the Authority. (1) The Authority shall not sell any Mortgage or other obligation securing a Mortgage Loan made or purchased by the Authority which is not in default unless the sale price thereof received by the Authority shall not be less than the aggregate of (i) the principal amount of the Mortgagor's Mortgage Loan remaining unpaid; (ii) the Mortgagor's proportionate share of the principal amount of the MFHB Bonds of the series issued for such Mortgage Loan issued for the purpose of paying financing costs and making deposits in the Debt Service Reserve Fund, a Cost of Issuance Account or a Capitalized Interest Account and remaining unpaid; (iii) the interest to accrue on all MFHB Bonds to be redeemed by the Authority upon the sale of such Mortgage to the next call date thereof not previously paid by the Mortgagor; (iv) the redemption premium on the MFHB Bonds so to be redeemed; and (v) the costs and expenses of the Authority in effecting the redemption of the MFHB Bonds so to be redeemed, less the amount of applicable moneys in the Bond Fund and the Debt Service Reserve Fund and available for application to the redemption of such MFHB Bonds in accordance with the terms and provisions of the MFHB Resolution, as determined by the Authority and the amount of any other legally available funds of the Authority transferred to the Bond Fund for the purpose of such redemption.

(2) The Authority shall not sell any Mortgage or other obligation securing a Mortgage Loan made or purchased by the Authority which is in default unless the sale price thereof received by the Authority shall not be less than the aggregate of (i) the principal amount of the Mortgagor's Mortgage Loan remaining unpaid; (ii) the Mortgagor's proportionate share of the principal amount of the MFHB Bonds of the series issued for such Mortgage Loan issued for the purpose of paying financing costs and making deposits in the Debt Service Reserve Fund, a Cost of Issuance Account or a Capitalized Interest Account and remaining unpaid; (iii) the interest to accrue on all MFHB Bonds to be redeemed by the Authority upon the sale of such Mortgage to the next call date thereof not previously paid by the Mortgagor; (iv) the redemption premium on the MFHB Bonds so to be redeemed; and (v) the costs and expenses of the Authority in effecting the redemption of the MFHB Bonds so to be redeemed, less the amount of (a) applicable moneys available in the Bond Fund and available for withdrawal from the Debt Service Reserve Fund and application to the redemption of such MFHB Bonds in accordance with the terms and provisions of the MFHB Resolution, as determined by the Authority; (b) any other legally available funds of the Authority transferred to the Bond Fund for the purpose of such redemption; and (c) any future transfers to the Bond Fund for the purpose of such redemption to which the Authority has committed itself or for which it has made provision.

Disposition of Recovery Payments and Prepayments. Recovery Payments and Prepayments less the cost and expenses of the Authority incurred in collecting such Recovery Payments and Prepayments and of effecting the redemption of the MFHB Bonds to be redeemed, if any, shall, in the sole discretion of the Authority, be deposited (i) in one or more Mortgage Loan Funds for the purpose of making, within one year of such deposit, one or more Mortgage Loans, or (ii) in the Bond Fund and applied to the payment, retirement or redemption of the appropriate MFHB Bonds in accordance with the provisions of the MFHB Resolution.

Enforcement and Foreclosure of Mortgages. (1) The Authority shall diligently enforce, and take all reasonable steps, actions and proceedings necessary for the enforcement of, all terms, covenants and conditions of Mortgages securing Mortgage Loans made by the Authority, including the prompt collection of Mortgage Repayments and Revenues.

(2) Whenever it shall be necessary in order to protect and enforce the rights of the Authority under a Mortgage securing a Mortgage Loan and to protect and enforce the rights and interests of Bondholders under the MFHB Resolution, the Authority shall as to each Mortgagor in default under the provisions of a Mortgage either: (i) commence proceedings to deed or otherwise assign the Mortgage on the Development to any government agency or instrumentality that has insured or guaranteed the Mortgage; or (ii) proceed as a mortgagee in possession or commence foreclosure proceedings in protection and enforcement of its rights under such Mortgage and bid at least an amount equal to principal of and Sinking Fund Installments and interest on the then Outstanding MFHB Bonds issued in connection with the Mortgage Loan or the financing thereof for the Development covered by such Mortgage at the foreclosure or other sale thereof and, if its bid is successful, to purchase and acquire and take possession of such Development.

(3) Upon foreclosure or other acquisition of a Development, and so long as the Authority shall have title thereto or be in possession thereof, the Authority shall, as the case may be, construct, operate and administer such Acquired Development in the place and stead of the Mortgagor and in the manner required of such Mortgagor by the terms and provisions of the Mortgage. In so doing, the Authority, to the extent it may have moneys available for such purpose, including any moneys on deposit in the Mortgage Loan Fund relating to such Acquired Development, shall complete the construction and development of any incomplete Acquired Development. The Trustee shall be authorized to pay to the Authority upon its requisition any moneys on deposit in the Mortgage Loan Fund established with respect to an Acquired Development the costs and expenses of operating any Acquired Development, including the Mortgage Repayments which the Mortgagor was obligated to pay pursuant to the terms and provisions of the Mortgage. From moneys withdrawn from the Acquired Development Fund, the Authority shall pay or make provision for payment of the costs and expenses of taxes, insurance, foreclosure fees, including appraisal and legal fees and similar expenses required to preserve or acquire unencumbered title to such Acquired Development prior to the payment of Mortgage Repayments and other costs and expenses of operating such Acquired Development.

(4) Notwithstanding the provisions of the preceding paragraph (3), upon foreclosure or other acquisition of a Development:

(a) The Authority may at any time thereafter sell such Acquired Development to an eligible Mortgagor and make a Mortgage Loan with respect thereto as if such eligible Mortgagor were the original Mortgagor, provided that the Mortgage securing such a Mortgage Loan shall contain the terms, conditions, provisions and limitations described above in this Appendix under "*Mortgage Provisions.*"

(b) The Authority may at any time thereafter sell such Acquired Development to a party other than an eligible Mortgagor, provided that the sales price thereof received by the Authority shall not be less than the aggregate of (i) the principal amount of the Mortgagor's Mortgage Loan remaining unpaid; (ii) the Mortgagor's proportionate share of the principal amount of the MFHB Bonds of the series issued for such Mortgage Loan issued for the purpose of paying financing costs and making deposits in the Debt Service Reserve Fund, a Cost of Issuance Account or a Capitalized Interest Account and remaining unpaid; (iii) the interest to accrue on all MFHB Bonds to be redeemed by the Authority upon the sale of such Mortgage to the next call date thereof not previously paid by the Mortgagor; (iv) the redemption premium on the MFHB Bonds so to be redeemed; and (v) the costs and expenses of the Authority in effecting the redemption of the MFHB Bonds so to be redeemed, less the amount of (a) applicable moneys available in the Bond Fund; (b) applicable moneys available for withdrawal from the Debt Service Reserve Fund and application to the redemption of such MFHB Bonds in accordance with the terms and provisions of the MFHB Resolution, as determined by the Authority; (c) any other legally available funds of the Authority transferred to the Bond Fund; and (d) any future transfers to the Bond Fund to which the Authority has committed itself or for which it has made provision.

(c) In the event such Acquired Development shall not have been completed, the Authority may elect to complete only a portion of such Development and to sell off any lands not required for the portion of the Acquired Development to be completed; provided that, prior to the sale of any such land and any reduction in the scope of the Acquired Development, the Authority shall file with the Trustee its written determination to the effect that the proceeds of sale of such land and the Acquired Development Receipts to be derived from such Acquired Development, as revised in scope, will be sufficient in amount to pay the costs and expenses of operating such Acquired Development, including the Mortgage Repayments which the Mortgagor will be obligated to pay pursuant to the terms and provisions of the Mortgage relating to such Acquired Development. All proceeds received by the Authority from the sale of land pursuant to this subparagraph (c) shall be deposited into the Bond Fund and such moneys shall be used and applied to the purchase or retirement of the MFHB Bonds of the related series as provided by the MFHB Resolution.

(5) Notwithstanding the provisions of paragraphs (3) and (4) above, upon default of a Development under a Mortgage the Authority may at any time thereafter deed or otherwise transfer the Development to any government agency or instrumentality that has insured or guaranteed the payment of the Mortgage, in order to collect the insurance proceeds allowable under the government program providing for such mortgage insurance or guarantee.

Prepayment. (1) Unless required to do so by an agency or instrumentality of the United States guaranteeing, insuring or otherwise assisting in the payment of the Mortgage Loan, the Authority shall not permit a Mortgagor to make a Prepayment unless it shall require, with respect to any such Prepayment so permitted, the same to be in an amount not less than the aggregate of (i) the principal amount of the Mortgagor's Mortgage Loan remaining unpaid; (ii) the Mortgagor's proportionate share of the principal amount of the MFHB Bonds of the series which were issued for such Mortgage Loan issued for the purpose of paying financing costs and making deposits in the Debt Service Reserve Fund, a Cost of Issuance Account or a Capitalized Interest Account and remaining unpaid; (iii) the interest to accrue on all MFHB Bonds to be redeemed by the Authority upon the sale of such Mortgage to the next call date thereof not previously paid by the Mortgagor; (iv) the redemption premium on the MFHB Bonds so to be redeemed; and (v) the costs and expenses of the Authority in effecting the redemption of the MFHB Bonds so to be redeemed, less the amount of applicable moneys in the Bond Fund, the Debt Service Reserve Fund available for application to the redemption of such MFHB Bonds in accordance with the terms and provisions of the MFHB Resolution, as determined by the Authority and the amount of any

other legally available funds of the Authority transferred to the Bond Fund for the purpose of such redemption.

(2) In the event that the Authority shall make a Mortgage Loan guaranteed, insured or otherwise assisted by an agency or instrumentality of the United States and not requiring the payment of the amounts specified in paragraph (1) of this Section upon prepayment and such Mortgage Loan is prepaid, the Authority shall transfer to the Bond Fund from other legally available funds of the Authority the amount, if any, by which the sum of (i) the amount of the prepayment received from the Mortgagor, and (ii) the amount of applicable moneys in the Bond Fund and the Debt Service Reserve Fund and available for application to the redemption of MFHB Bonds as a result of such prepayment in accordance with the terms and provisions of the MFHB Resolution as determined by the Authority is less than the amount which would have been required to be paid by (i), (ii), (iii), (iv) and (v) of paragraph (1) above.

In a supplemental resolution adopted May 9, 1979, the Authority covenanted that, notwithstanding any provision in the MFHB Resolution, the Authority will not make any Mortgage Loan which may require the Authority, under the preceding paragraph (2), to transfer amounts to the Bond Fund (other than from the Debt Service Reserve Fund) from other legally available funds of the Authority upon the prepayment of the Mortgage Loan.

Pledge of Mortgages. To secure the payment of the MFHB Bonds, the Authority pledges and assigns for the benefit of the Bondholders all Mortgages securing Mortgage Loans for Permanently Financed Developments; provided, however, that the pledge of Mortgages shall be subject to the rights of the Authority to assign, sell or otherwise transfer the Mortgages and Developments as set forth in the MFHB Resolution, and in the event of any such assignment, sale or transfer, the pledge shall thereupon attach solely to the proceeds received by the Authority from such assignment, sale or transfer. The pledge of such Mortgages for the benefit of the Bondholders shall be valid and binding from and after the date of adoption of the MFHB Resolution, and such Mortgages shall immediately be subject to the lien of such pledge without any physical delivery thereof or further act. Upon the happening of an event of default specified in the MFHB Resolution, and the written request of the Trustee or of the Owners of not less than twenty-five percent in principal amount of the Outstanding MFHB Bonds, the Authority, in accordance with the provisions of the MFHB Resolution, shall effectuate the assignment of any or all of such Mortgages to the Trustee. In furtherance of this pledge and assignment, the Authority will maintain all of its Mortgages and mortgage notes with regard to Permanently Financed Developments on deposit with the Trustee, which deposit shall not restrict the rights of the Authority to assign, sell or otherwise transfer such Mortgages, mortgage notes or Permanently Financed Developments.

Certain Other Covenants

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

Accounts and Reports. The Authority shall keep proper books and records in which complete and correct entries shall be made of its transactions relating to all Mortgages, Mortgage Loans, Revenues, Prepayments, Recovery Payments, Acquired Developments, Acquired Development Receipts, the Authority Administrative Funds, and all Funds and Accounts established by the MFHB Resolution, which shall at all reasonable times be subject to the inspection of the Trustee and the Owners of an aggregate of not less than ten percent in principal amount of the MFHB Bonds then Outstanding or their representatives duly authorized in writing. The Authority shall annually, within 120 days after the close of each Fiscal Year, file with the Trustee, and otherwise as provided by law, a copy of an annual report

for such year, accompanied by an accountant's certificate, including the following statements in reasonable detail: a statement of assets and liabilities as of the end of such year, a statement of income, expense and changes in fund balances for such year, and a statement of cash receipts and expenditures for such year. A copy of each such annual report and Accountant's certificate shall be mailed by the Authority to each Bondholder who shall have filed his name and address with the Authority for such purpose.

The Authority shall provide the Trustee with a schedule (which may be amended from time to time by the Authority) of the payments required to be made by each Mortgagor in order to meet the Mortgage Repayments, and the Trustee shall be required promptly to advise the Authority of each and every failure of each Mortgagor to make deposits in accordance with such schedule.

Budgets. The Authority shall, at least thirty days prior to the beginning of each Fiscal Year, prepare and file in the office of the Trustee a preliminary budget covering its fiscal operations for the succeeding Fiscal Year which shall be open to inspection by any Bondholder. The Authority shall mail a copy of such preliminary budget to any Bondholder who shall have filed his name and address with the Authority for such purpose.

In the event the Owners of twenty-five percent or more in principal amount of the Outstanding MFHB Bonds shall file with the Authority twenty days or more prior to the beginning of a Fiscal Year a written request for a public hearing on such preliminary budget, the Authority shall call and hold such public hearing in the City of Chicago, State of Illinois, such hearing to be held not later than ten days prior to the beginning of such Fiscal Year. Notice of such public hearing shall be published once in an Authorized Newspaper, not less than five days prior to the date of such hearing, and shall contain a statement of the purpose of the hearing and the place and hour at which the same will be held. At such hearing any Bondholder, or his duly authorized representatives, shall be entitled to be heard on any of the provisions contained in such preliminary budget.

The Authority shall adopt an annual budget covering its fiscal operations for the then current Fiscal Year not later than September 1 of each successive Fiscal Year and file the same with the Trustee. In the event the Authority shall not adopt an annual budget for a Fiscal Year on or before September 1 of such Fiscal Year, the budget for the preceding Fiscal Year shall be deemed to have been adopted and be in effect for such Fiscal Year until the annual budget for such Fiscal Year shall have been adopted as described above and filed with the Trustee.

Personnel and Servicing of Mortgages. The Authority shall at all times appoint, retain and employ competent supervisory personnel for the purpose of carrying out its program of Mortgage Loans, and shall establish and enforce reasonable rules, regulations and standards governing the employment of such personnel at reasonable compensation, salaries, fees and charges and all persons employed by the Authority shall be qualified for their respective positions.

Defaults and Remedies

The MFHB Resolution declares each of the following events an "event of default":

(a) Default in the payment of the principal of, Sinking Fund Installments or interest on any MFHB Bond after the same shall become due, whether at maturity or upon call for redemption, and such default shall continue for a period of thirty days; or

(b) With respect to MFHB Bonds subject to Section 26.1 of the Act, the Authority shall fail or refuse to comply with the provisions of Section 26.1 of the Act, or the State shall fail to apportion and pay to the Authority such sum as shall be certified by the Chairman of the Authority pursuant to such provision of the Act; or

(c) The Authority shall fail or refuse to comply with the provisions of the Act, other than as provided in (b) above, or shall default in the performance or observance of any other of the covenants, agreements or conditions on its part contained in the MFHB Resolution, any Series Resolution, any Supplemental Resolution, or in the MFHB Bonds contained, and continuance of such default for a period of ninety days after written notice thereof by the Owners of not less than five percent in principal amount of the Outstanding MFHB Bonds; provided, however, that an event of default shall not be deemed to exist under the provisions of clause (c) above upon the failure of the Authority to enforce any obligation undertaken by a Mortgagor pursuant to the provisions of a Mortgage, including the making of the stipulated Mortgage Repayments, so long as the Authority may be otherwise permitted by law and so long as the Authority shall be provided with moneys from the State or otherwise, other than withdrawals from or reimbursements of the Debt Service Reserve Fund, sufficient in amount to pay the principal of and interest and Sinking Fund Installments, if any, on all MFHB Bonds as the same shall become due during the period for which the Authority shall be permitted by law to abstain from enforcing the obligations of Mortgagors under the applicable Mortgages.

The MFHB Resolution provides that upon the happening and continuance of any event of default, then, and in each such case, the Trustee may proceed, and upon the written request of the Owners of not less than twenty-five percent in principal amount of the Outstanding MFHB Bonds shall proceed, in its own name, to protect and enforce its rights and the rights of the Bondholders by such of the following remedies, as the Trustee, being advised by counsel, shall deem most effectual to protect and enforce such rights:

(a) by suit, action or proceeding, enforce all rights of the Bondholders, including the right to require the Authority to collect Mortgage Repayments of Mortgage Loans made by it adequate to carry out the covenants and agreements as to, and pledge of, such Mortgage Repayments and other properties, and to require the Authority to carry out any other covenant or agreement with Bondholders and to perform its duties under the Act;

(b) by bringing suit upon the MFHB Bonds;

(c) by action or suit, require the Authority to account as if it were the trustee of an express trust for the Owners of the MFHB Bonds;

(d) by action or suit, enjoin any acts or things which may be unlawful or in violation of the rights of the Owners of the MFHB Bonds; and

(e) in accordance with the provisions of the Act, declare all MFHB Bonds due and payable, and if all defaults shall be made good, then, with the written consent of the Owners of not less than twenty-five percent in principal amount of the Outstanding MFHB Bonds, to annul such declaration and its consequences.

The right to institute suits, actions or other proceedings under or to enforce the MFHB Resolution is vested in the Trustee; Owners of MFHB Bonds may not institute such suits or other proceedings unless the Trustee declines to do so after Owners of not less than twenty-five percent in

principal amount of the Outstanding MFHB Bonds have so requested the Trustee in writing and have offered the Trustee reasonable indemnification and security against the costs to be incurred with respect to the proceedings. Notwithstanding the foregoing, the obligation of the Authority to pay the principal and Redemption Price and interest and Sinking Fund Installment on the MFHB Bonds to respective Owners thereof is absolute and unconditional, and nothing in the MFHB Resolution shall affect or impair the right of action, which is absolute and unconditional, of such Owners to enforce such payment.

Priority of Payments After Default

In the event that the funds held by the Trustee and Paying Agents shall be insufficient for the payment of interest and principal or Redemption Price and Sinking Fund Installments then due on the MFHB Bonds, such funds (other than funds held for the payment upon redemption of particular MFHB Bonds or coupons which have theretofore become due at maturity or by call for redemption) and any other money received or collected by the Trustee acting pursuant to the Act and the MFHB Resolution after making provision for the payment of any expenses necessary in the opinion of the Trustee to protect the interests of the Owners of the MFHB Bonds, and for the payment of the charges and expenses and liabilities incurred and advances made by the Trustee in the performance of its duties under the MFHB Resolution, shall be applied as follows:

(a) Unless the principal of all the MFHB Bonds shall have become or have been declared due and payable.

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

Second: To the payment to the persons entitled thereto of the unpaid principal or Redemption Price of any MFHB Bonds which shall have become due, whether at maturity or by call for redemption, in the order of their due dates and, if the amounts available shall not be sufficient to pay in full all the MFHB Bonds due on any date, then to the payment thereof ratably, according to the amounts of principal or Redemption Price due on such date, to the persons entitled thereto, without any discrimination or preference.

(b) If the principal of all of the MFHB Bonds shall have become or have been declared due and payable, to the payment of the principal and interest then due and unpaid upon the MFHB Bonds without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any other MFHB Bond over any MFHB Bond, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or preference except as to any difference in the respective rates of interest specified in the MFHB Bonds and coupons.

Modifications of Resolutions and Outstanding MFHB Bonds

The MFHB Resolution provides procedures whereby the Authority may amend the Resolution or any Series Resolution by adoption of a Supplemental Resolution. Amendments of the Resolution that may be made without the consent of Bondholders must be for purposes of further securing the MFHB Bonds, imposing further limitations on or surrendering rights of the Authority, curing ambiguities or

providing for the issuance of a series of MFHB Bonds without, in the discretion of the Trustee, adversely affecting or diminishing the rights of the Holders of the MFHB Bonds.

Amendment of the respective rights and obligations of the Authority and the Bondholders may be made with the written consent of the Holders of not less than sixty-six and two-thirds percent in principal amount of the Outstanding MFHB Bonds to which the amendment applies; but no such amendment shall permit a change in the terms of redemption or maturity of the principal of any MFHB Bond or of any installment of interest thereon or a reduction in the principal amount or Redemption Price thereof, or in the rate of interest thereon or shall reduce the percentages or otherwise affect the classes of MFHB Bonds the consent of the Owners of which is required to effect such amendment.

Amendments may be made in any respect with the written consent of the Owners of all of the MFHB Bonds then Outstanding.

Defeasance

If the Authority shall pay or cause to be paid, or there shall otherwise be paid, to the Owners of the MFHB Bonds and coupons then Outstanding, the principal and interest and Redemption Price, if any, to become due thereon, at the times and in the manner stipulated therein and in the MFHB Resolution, then and in that event the covenants, agreements and other obligations of the Authority to the Bondholders shall be discharged and satisfied.

MFHB Bonds or coupons or interest installments for the payment or redemption of which moneys shall then be held by the Trustee or the Paying Agents (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 MFHB Bonds, shall be deemed to have been paid within the meaning and with the effect described in the paragraph above. All Outstanding MFHB Bonds of any series and all coupons appertaining to such MFHB Bonds shall, prior to the maturity or redemption date thereof, be deemed to have been paid within the meaning and with the effect described in the paragraph above if (a) there shall have been deposited with the Trustee either moneys in an amount which shall be sufficient, or Permitted Investments the principal of and interest on which when due will provide moneys which, together with the moneys, if any, deposited with the Trustee at the same time, shall be sufficient to pay when due the principal or Redemption Price, if applicable, and interest due and to become due on those MFHB Bonds on and prior to the redemption date or maturity date thereof, as the case may be, and (b) in case any of the MFHB Bonds are to be redeemed on any date prior to their maturity, the Authority shall have given the Trustee, in form satisfactory to it, irrevocable instructions to publish notice of redemption of such MFHB Bonds as provided in the MFHB Resolution. Neither Permitted Investments nor moneys deposited with the Trustee nor principal or interest payments on any such Permitted Investments shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal or Redemption Price, if applicable, and interest on said MFHB Bonds.

For purposes of defeasance of MFHB Bonds, Permitted Investments means only direct general obligations of, or obligations the payment of the principal and interest on which are unconditionally guaranteed by, the United States of America.

APPENDIX D

CERTAIN INFORMATION REGARDING THE HDB PROGRAM

General

As of December 31, 1998, \$114,260,000 of Housing Development Bonds were outstanding under the HDB Resolution which financed a total of 32 developments ("HDB Development(s)") located throughout the State, and the aggregate outstanding balance of the corresponding mortgage loans ("HDB Mortgage Loan(s)") was \$100,137,349. A schedule of these HDB Developments is set forth below. Pursuant to the HDB Program, the Authority made mortgage loans for the construction or rehabilitation of rental or co-operative multi-family housing for persons and families of low and moderate income. The Act defines persons and families of low and moderate income as persons and families who cannot afford to pay the amounts at which private enterprise, without assisted mortgage financing, is providing a substantial supply of decent, safe and sanitary housing. Those persons or families occupying subsidized dwelling units can have annual incomes at initial occupancy no greater than 80 percent of the median annual income of the metropolitan statistical area.

Description of HDB Developments

With respect to HDB Developments, 5,212 dwelling units are assisted by Section 236 Payments, 59 dwelling units are eligible for Section 8 Payments and 1,503 dwelling units are unsubsidized by any Federal program. Thirty-two HDB Developments were financed in whole or in part by the Authority during the years 1972 through 1976 under the HDB Program. The following chart sets forth for each such HDB Development the HDB Mortgage Loan number, the name, the number of rental units, the number of assisted units, the unpaid principal amount of the HDB Mortgage Loan financed by such Prior Bonds at December 31, 1998, and the percentage of occupancy.

Mortgage Loans and Developments
Financed by HDB Bonds
As of December 31, 1998

| Mortgage Loan No. | Name | Total Rental Units | Total Section 236 Assisted Units | Unpaid Principal of Mortgage Loan Financed by HDB Bonds | Occupancy (Stated as a %) |
|-------------------------|-------------------------|--------------------------|---|--|---------------------------------|
| ML-01 | Harper Square | 591 | 365 | \$10,152,996 ¹ | 99% |
| ML-02 | Winfield Village I | 160 | 160 | 1,935,931 ¹ | 93 |
| ML-03 | Vermilion Garden | 240 | 240 | 2,314,337 | 91 |
| ML-04 | Huntington Square Apts. | 324 | 108 | 3,899,971 | 100 |
| ML-06 | University Village I | 246 | 246 | 2,660,194 | 86 |
| ML-07 | Lancaster Heights | 198 | 198 | 2,068,823 | 92 |
| ML-09 | Jackson Park Terrace | 322 | 322 | 6,259,288 | 84 |
| ML-13 | Cumberland Green | 204 | 204 | 3,291,795 ¹ | 100 |
| ML-15 | Green Meadows | 150 | 60 | 2,280,165 | 100 |
| ML-16 | Kensington Place | 367 | 289 | 5,576,931 | 94 |
| ML-19 | Innsbruck | 475 | 150 | 7,253,946 | 93 |
| ML-20 | Carriage House I | 120 | 120 | 1,550,887 | 99 |
| ML-21 | Cedar Point | 160 | 160 | 2,323,844 | 95 |
| ML-22 | River Run | 100 | 100 | 1,289,726 | 98 |
| ML-24 | Indian Trails | 200 | 66 | 3,667,487 | 97 |
| ML-25 | Westwind Tower | 150 | 149 | 1,779,953 | 86 |
| ML-27 | Brentwood | 216 | 73 | 3,306,626 | 97 |
| ML-29 | Eastcourt Village | 133 | 133 | 1,781,728 | 82 |
| ML-30 | Winfield Village II | 188 | 188 | 2,876,464 | 90 |
| ML-33 | Colony Park | 284 | 284 | 3,333,743 | 99 |
| ML-35 | Lincolnshire | 114 | 114 | 1,561,248 | 94 |
| ML-36 | Edenbridge-In-Tinley | 309 | 222 | 4,628,668 | 98 |
| ML-37 | St. Clair Village | 240 | 79 | 4,088,605 | 78 |
| ML-38 | Constitution House | 232 | 232 | 3,137,580 | 100 |
| ML-39 | University Village II | 168 | 126 | 2,785,167 | 91 |
| ML-40 | Burnham Oaks | 59 | 2 | 881,243 | 95 |
| ML-43 | Valley View | 179 | 179 | 2,508,016 | 93 |
| ML-44 | Leisure Acres | 101 | 101 | 1,735,248 | 100 |
| ML-45 | Westport Village | 121 | 121 | 1,678,153 | 94 |
| ML-49 | Woodcrest Apts. | 92 | 92 | 1,478,283 | 98 |
| ML-56 | Thornwood House | 183 | 183 | 3,484,524 | 98 |
| ML-61 | New Vistas I | 148 | 148 | 2,565,779 | 99 |
| Total | | <u>6,774</u> | <u>5,212</u> | <u>\$100,137,349</u> | |

1. Includes mortgage loan increases financed by HDB Bonds other than the Refunded HDB Bonds.
2. All the units in this HDB Development are subject to Section 8 subsidies.

HDB Program Financial Information

The Housing Development Bond Funds recorded operating income of \$3,994,147 and \$2,542,643 for the fiscal years ended June 30, 1998 and 1997, respectively.

As of June 30, 1998, the Housing Development Bond Funds contained total assets of \$143,043,523 and retained earnings of \$23,432,294. For additional information, including information about issues concerning two of the HDB Developments, see the Financial Statements (including Note D thereto) contained in Appendix A.

As of December 31, 1998, no HDB Mortgage Loan was delinquent in excess of 60 days.

HDB Mortgage Loans

The ability of the Mortgagors to make required payments on the HDB Mortgage Loans depends on achieving and sustaining occupancy levels and rents necessary to generate rental income to meet the required rental payments and to fund operating expenses. For a list of occupancy levels as of December 31, 1998 for the HDB Developments and the location of the HDB Developments see the table set forth above. Given the age of the HDB Mortgage Loan portfolio, it is likely that a number of these HDB Developments will need capital improvements during the remaining term of the HDB Mortgage Loans. No assurance can be given that sufficient amounts will be available to fund these improvements, and the nature of the tenancy in these HDB Developments and HUD requirements may preclude the Authority from increasing rents in an amount sufficient to pay for such improvements.

The HDB Mortgage Loans and HDB Developments being financed by the Outstanding Housing Development Bonds are all subject to regulatory agreements with the Authority regulating the rents, profits, occupancy, management and operation of the HDB Developments. Under the Act and such regulatory agreements, a limited-profit entity which has received a loan from the Authority may not make distributions in any one year with respect to a HDB Development financed by the Authority in excess of six percent of its equity in such HDB Development. The rules and regulations of the Authority provide that it may make HDB Mortgage Loans to limited-profit Mortgagors of up to 90 percent of total development cost, and it may make HDB Mortgage Loans to nonprofit Mortgagors of up to 100 percent of total development cost. Effective January 1, 1992, the Act was amended to provide that upon certain determinations made by the Authority, the six percent distribution limitation and the amount of HDB Development equity may be increased by the Authority during the life of the HDB Mortgage Loan. Covenants and provisions relating to the making of HDB Mortgage Loans by the Authority and the enforcement and foreclosure of mortgages securing such HDB Mortgage Loans are set forth in Appendix D.

Thirty-one of the HDB Mortgage Loans financed from the Outstanding Housing Development Bonds are subject to Section 236 Contracts. None of the HDB Mortgage Loans is insured by FHA. One HDB Mortgage Loan is subject to a housing assistance payment contract with HUD under Section 8 of the 1937 Housing Act pursuant to the Moderate Rehabilitation Program. A description of the Section 236 Contracts and the operation of the Section 236 program as well as a brief description of the Section 8 program are set forth in Appendix F.

Asset Management

The Asset Management Services Department (the "Department") provides oversight of all facets of a HDB Development's operation. HDB Development site visits are made quarterly. Annual reports are prepared following a comprehensive site visit that includes an examination of the administrative, maintenance, physical and financial systems. Results of the annual reports are then communicated to the Department's management. In addition, the Department reviews and approves requests for withdrawals from reserve accounts, reviews budgets, certified audits, contracts and commercial leases, management agreements, monthly financial operating reports, marketing efforts, and certain federal compliance areas and prepares rent schedules.

With the assistance of in-house staff and outside consultants, legal, physical, architectural, marketing and property insurance matters are reviewed by the Department. The Department also provides orientation meetings for both property and Authority staff.

DESCRIPTION OF HDB LOANS AND HDB DEVELOPMENTS FINANCED
BY OUTSTANDING HDB BONDS
(AS OF DECEMBER 31, 1998)

| MORTGAGE LOAN NO. | DEVELOPMENT NAME | LOCATION (City) | TYPE(S) | | DWELLING UNITS | | MORTGAGE LOAN AMOUNTS FINANCED | | ANNUAL HUD(236) SUBSIDY | OCCUPANCY LEVEL AS OF 12/31/98 |
|-------------------------|------------------------|--------------------|--------------|---------|----------------|----------|-----------------------------------|---------------------|-------------------------------|---|
| | | | CONSTRUCTION | TENANCY | TOTAL | SEC. 236 | PRINCIPAL | UNPAID PRINCIPAL | | |
| 001 | HARPER SQUARE COOP. | CHICAGO | N | F | 591 | 365 | \$15,964,000 | \$10,152,996 | \$375,912 | 99% |
| 002 | WINFIELD VILLAGE I | SAVOY | N | F | 160 | 160 | \$3,050,000 | \$1,935,931 | \$118,032 | 93% |
| 003 | VERMILION GARDEN APTS. | DANVILLE | N | F | 240 | 240 | \$3,700,000 | \$2,314,337 | \$137,470 | 91% |
| 004 | HUNTINGTON SQUARE | MT. PROSPECT | N | F | 324 | 108 | \$6,235,000 | \$3,869,971 | \$106,242 | 100% |
| 006 | UNIVERSITY VILLAGE I | DEKALB | N | F | 246 | 246 | \$4,225,000 | \$2,660,194 | \$156,975 | 86% |
| 007 | LACASTER HEIGHTS | NORMAL | N | F | 198 | 198 | \$3,310,000 | \$2,068,823 | \$122,979 | 92% |
| 009 | JACKSON PARK TERRACE | CHICAGO | N | F | 322 | 322 | \$8,080,000 | \$6,259,288 | \$468,271 | 84% |
| 013 | CUMBERLAND GREEN | ST. CHARLES | N | F | 204 | 204 | \$2,982,000 | \$3,291,795 | \$217,064 | 100% |
| 015 | GREEN MEADOWS | BATAVIA | N | F | 150 | 60 | \$2,982,000 | \$2,280,165 | \$90,338 | 100% |
| 016 | KENSINGTON PLACE | SCHAUMBURG | N | F | 367 | 289 | \$7,300,000 | \$5,576,931 | \$429,581 | 94% |
| 019 | INNSBRUCK | BOLINGBROOK | N | F | 475 | 150 | \$9,215,000 | \$7,253,946 | \$180,345 | 93% |
| 020 | CARRIAGE HOUSE I | DECATUR | N | F | 120 | 120 | \$2,065,000 | \$1,550,887 | \$117,040 | 99% |
| 021 | CEDAR POINT | SPRINGFIELD | N | F/E | 160 | 160 | \$3,010,000 | \$2,323,844 | \$173,896 | 95% |
| 022 | RIVER RUN | MACOMB | N | F | 100 | 100 | \$1,710,000 | \$1,289,726 | \$96,961 | 98% |
| 024 | INDIAN TRAILS | ADDISON | N | F | 200 | 66 | \$4,663,930 | \$3,667,487 | \$87,190 | 97% |
| 025 | WESTWIND TOWER | ELGIN | N | E | 150 | 149 | \$2,370,000 | \$1,779,953 | \$134,327 | 86% |
| 027 | BRENTWOOD | PALATINE | N | F | 216 | 73 | \$4,325,000 | \$3,306,626 | \$100,767 | 97% |
| 029 | EASTCOURT VILLAGE | KANKAKEE | N | E | 133 | 133 | \$2,300,000 | \$1,781,728 | \$133,300 | 82% |
| 030 | WINFIELD VILLAGE II | SAVOY | N | E | 186 | 186 | \$3,630,000 | \$2,876,464 | \$217,076 | 90% |
| 035 | COLONY PARK | CAROL STREAM | N | E | 284 | 284 | \$4,235,000 | \$3,333,743 | \$228,081 | 99% |
| 036 | LINCOLNSHIRE | CHARLESTON | N | F | 114 | 114 | \$2,070,000 | \$1,561,248 | \$117,373 | 94% |
| 037 | EDENBRIDGE-IN-TINLEY | TINLEY PARK | N | F/E | 309 | 222 | \$5,880,000 | \$4,628,658 | \$252,315 | 98% |
| 038 | ST. CLAIR VILLAGE | BELLEVOUE | N | F/E | 240 | 79 | \$5,220,000 | \$4,088,605 | \$78,136 | 78% |
| 039 | CONSTITUTION HOUSE | AURORA | N | E | 232 | 232 | \$4,180,000 | \$3,137,580 | \$235,861 | 100% |
| 040 | UNIVERSITY VILLAGE II | DEKALB | N | F | 168 | 126 | \$3,610,000 | \$2,785,167 | \$182,094 | 91% |
| 043 | BURNHAM OAKS | UNIVERSITY PARK | MR | F/E | 59 | 59 | \$1,135,000 | \$881,243 | N/A | 95% |
| 044 | VALLEY VIEW | ROCKFORD | N | E | 179 | 179 | \$3,248,000 | \$2,508,016 | \$188,243 | 93% |
| 045 | LEISURE ACRES | WASHINGTON | N | E | 101 | 101 | \$2,240,000 | \$1,735,248 | \$129,821 | 100% |
| 049 | WESTPORT VILLAGE | FREEMONT | N | F/E | 121 | 121 | \$2,225,000 | \$1,678,153 | \$126,162 | 94% |
| 056 | WOODCREST APTS. | OTTAWA | N | F/E | 92 | 92 | \$1,960,000 | \$1,478,283 | \$120,405 | 98% |
| 061 | THORNWOOD HOUSE | UNIVERSITY PARK | N | E | 183 | 183 | \$4,620,000 | \$3,484,524 | \$261,954 | 98% |
| 061 | NEWVISTAS I | CHICAGO | SR | F | 148 | 148 | \$3,360,000 | \$2,565,779 | \$197,929 | 99% |
| 32 | | | | | 6774 | 5272 | \$137,337,930 | \$100,137,345 | | |

(1) The following symbols are used to designate the type of construction: N = New Construction, SR = Substantial Rehabilitation, MR = Moderate Rehabilitation.

(2) The following symbols are used to designate the primary type of households occupying the development: F = Family, E = Elderly, F/E = both Family & Elderly, H = Handicap.

(3) This Development is 100% subsidized under the Section 8 Program.

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APPENDIX E

THE HDB BONDS AND SECURITY AND SOURCES OF PAYMENT FOR THE HDB BONDS

The following is a summary of the Acquired HDB Bonds, the security and sources of payment for the Acquired HDB Bonds and certain provisions of the HDB Resolution. This summary does not purport to be comprehensive or definitive and is subject to all of the terms and provisions of the HDB Resolution, to which reference is hereby made and copies of which are available from the Trustee or the Authority. Other than the terms "Acquired HDB Bonds," "HDB Resolution," "HDB Mortgage Loans," "HDB Program," and "HDB Developments," which are defined in the forepart to this Official Statement, all initially capitalized terms used and not otherwise defined in this Appendix have the meanings set forth below.

Acquired HDB Bonds

The Acquired HDB Bonds will be issued under the HDB Indenture in the aggregate principal amount of \$26,335,000. The HDB will be designated as "Housing Development Bonds, 1999 Series A." Proceeds of the Acquired HDB Bonds, together with other available moneys, will be used to redeem the Refunded HDB Bonds. The Authority will fund the Debt Service Reserve Fund Requirement attributable to the Acquired HDB Bonds and pay the costs of issuing the Acquired HDB Bonds and a portion of the costs of issuing the Acquired HDB Bonds from amounts available to it from Funds established by the HDB Resolution.

Subject to the limitations contained in this HDB Resolution, the Acquired HDB Bonds shall be issued and delivered to the Trustee for the Offered Bonds, upon the issuance and delivery of the Offered Bonds, and the payment to the Trustee for the Acquired HDB Bonds of an amount equal to their principal amount. The Acquired HDB Bonds shall be registered in the name of the Trustee of the Offered Bonds.

The Acquired HDB Bonds shall be initially dated the date of issuance of the Offered Bonds. The Acquired HDB Bonds authenticated and delivered on or after that initial date, shall be dated the later of the January 1 or July 1 on or preceding the date of authentication and delivery to which interest has been paid, or if no interest has been paid, that initial date. The Acquired HDB Bonds shall be issued only in fully registered form without coupons in denominations of \$5,000 or any integral multiple of \$5,000. The Acquired HDB Bonds will bear interest from their date payable semiannually on each January 1 and July 1, with the first interest payment date being July 1, 1999. Interest shall be calculated on the basis of a 360 day year of twelve 30-day months.

The Acquired HDB Bonds will bear interest at the rates per annum, and will mature on the dates and in the amounts, set forth below.

1999 Series A

| <u>Maturity</u> | <u>Amount</u> | <u>Interest Rate</u> |
|-----------------|---------------|--------------------------|
| July 1, 2000 | \$ 1,345,000 | 3.360% |
| July 1, 2001 | 1,390,000 | 3.760 |
| July 1, 2002 | 1,445,000 | 3.935 |
| July 1, 2003 | 1,505,000 | 4.060 |
| July 1, 2004 | 1,565,000 | 4.185 |
| July 1, 2005 | 1,625,000 | 4.310 |
| July 1, 2006 | 1,705,000 | 4.410 |
| July 1, 2007 | 1,775,000 | 4.460 |
| July 1, 2008 | 1,855,000 | 4.560 |
| July 1, 2009 | 1,940,000 | 4.610 |
| July 1, 2010 | 2,030,000 | 4.710 |
| July 1, 2011 | 2,130,000 | 4.810 |

\$6,025,000 - 5.185% Term Bonds due July 1, 2015 Price - 100%
(Accrued Interest to be added)

The Acquired HDB Bonds shall be general obligations of the Authority, subject to the provisions of resolutions pledging particular moneys, assets or revenues to the payment of notes, bonds or other obligations other than the Acquired HDB Bonds, is pledged for payment of the principal and redemption price, if any, of and interest and sinking fund requirements on the Acquired HDB Bonds. The State shall not be liable on the Acquired HDB Bonds, and the Acquired HDB Bonds shall not be a debt of the State. Section 26.1 of the Act shall not apply to the Acquired HDB Bonds.

The Principal and Redemption Price of and interest on Acquired HDB Bonds shall be payable at the principal corporate trust office of The First National Bank of Chicago, Chicago, Illinois, as Master Paying Agent. Interest on Acquired HDB Bonds shall be payable by check or draft mailed to the registered owners, as shown on the registry books of the Authority on the fifteenth day of the month next preceding the applicable interest payment date, at their addresses appearing on the registry books of the Authority or by other method of payment acceptable to the Authority. The Acquired HDB Bonds shall be transferable at the principal corporate trust offices of the Master Paying Agent in the manner provided in the HDB Resolution.

The Authority covenants and agrees to take all steps within its power with respect to the Acquired HDB Bonds that are required to maintain the status of interest on the Offered Bonds as excludable from gross income of their owners under existing federal law; provided, however, that this covenant and agreement shall not require the Authority to prevent interest on the Offered Bonds from becoming subject to an alternative minimum tax or similar tax.

Redemption

The Acquired HDB Bonds are subject to redemption at the option of the Authority, on any date on or after March 1, 2009, in whole or in part, in any order of maturity as determined by the Authority, and by lot within a maturity, from any money available for that purpose, at the applicable redemption prices (expressed as percentages of the principal amount so to be redeemed) set forth in the table below, plus accrued interest, if any, to the date fixed for redemption:

| <u>Redemption Period</u> <u>(both dates inclusive)</u> | <u>Redemption</u> <u>Price</u> |
|---|-----------------------------------|
| March 1, 2009 through February 28, 2010 | 101.00% |
| March 1, 2010 through February 28, 2011 | 100.50 |
| March 1, 2011 and thereafter..... | 100.00 |

The Acquired HDB Bonds maturing on July 1, 2015, are subject to mandatory redemption in part by lot, pursuant to Sinking Fund Installments, on the dates and in the amounts shown below, at a Redemption Price equal to their principal amount plus accrued interest to date of redemption:

| <u>Redemption Date</u> | <u>Sinking Fund</u> <u>Installment</u> | <u>Redemption Date</u> | <u>Sinking Fund</u> <u>Installment</u> |
|------------------------|---|------------------------|---|
| January 1, 2012 | \$1,100,000 | January 1, 2014 | \$ 450,000 |
| July 1, 2012 | 1,135,000 | July 1, 2014 | 520,000 |
| January 1, 2013 | 1,050,000 | January 1, 2015 | 250,000 |
| July 1, 2013 | 1,185,000 | July 1, 2015 † | 335,000 |

† Final maturity

The Sinking Fund Installments of Acquired HDB Bonds maturing on any date shall be reduced by the amount of these Bonds of that maturity which have been redeemed, other than by Sinking Fund Installments (or purchased from money otherwise to be used for such a redemption not pursuant to Sinking Fund Installments), as specified by the Authority. The Authority, at the time of giving notice to the Trustee of an election or direction to redeem Acquired HDB Bonds of a maturity other than from Sinking Fund Installments, shall so specify the dates and amounts of Sinking Fund Installments of Acquired HDB Bonds of a maturity to be reduced, so that the total reduction shall equal the principal of Acquired HDB Bonds of that maturity to be redeemed. The notice of redemption shall reflect that information. The Authority shall determine the amounts and dates of Sinking Fund Installments so to be reduced in a manner so 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 the remaining Acquired HDB Bonds.

The Acquired HDB Bonds are also 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) Prepayments and Recovery Payments (both as defined herein) with respect to HDB Mortgage Loans to the extent those HDB Mortgage Loans are financed by Acquired HDB Bonds, together with any payments which may be made by the Authority to the

extent a Prepayment or Recovery Payment with respect to a HDB Mortgage Loan, together with amounts described in the following subparagraph (ii) shall be less than the redemption price of the Acquired HDB Bonds which financed the HDB Mortgage Loan or portions of a HDB Mortgage Loan so prepaid or with respect to which a Recovery Payment was received;

- (ii) money available from a reduction in the Capital Reserve Account Requirement as a result of payment or redemption of any Acquired HDB Bonds; and
- (iii) any money provided by the Authority, if, while all the Acquired HDB Bonds are registered in the name of the Trustee for the Offered Bonds, in the opinion of nationally recognized bond counsel selected by the Authority, the redemption of the Offered Bonds is required to prevent interest on them from being included in gross income of their owners for federal income tax purposes or if there occurs a final decree or judgment of a federal court, a determination of the Internal Revenue Service or an opinion of such bond counsel, that interest on the Offered Bonds is or was included in gross income of their owners within the meaning of the Code (except for such bonds held by a "substantial user" or "related person" within the meaning of the Code).

As used in this Appendix:

"Prepayment" means any money (other than money constituting a Recovery Payment) received from any voluntary payment of principal or interest, including any prepayment penalties or other charges, on any HDB Mortgage Loan more than 60 days prior to the scheduled payments of principal and interest, which may include voluntary prepayments financed by proceeds of new loans from the Authority, including as may be financed by Bonds or other obligations of the Authority, or received from the sale of a HDB Mortgage Loan pursuant to the HDB Resolution which may include a voluntary sale by the Authority of a HDB Mortgage Loan not in default including to secure obligations of the Authority (other than, directly or indirectly, the Offered Bonds).

"Recovery Payment" means any money received or recovered by the Authority, in excess of the expenses necessarily incurred by the Authority in its collection, from (i) the sale or other disposition of an Acquired Development; (ii) condemnation in whole or in part of a Development; (iii) other proceedings taken in the event of default by the Mortgagor (including without limitation proceeds received through a refunding of the Acquired HDB Bonds occasioned by proceedings arising from an event of default under a HDB Mortgage Loan); or (iv) mortgage insurance or guaranty or hazard insurance.

Notice of redemption of any Acquired HDB Bonds shall be given as provided in the HDB Resolution, except that notice need be given only by mail and need not be given by publication. The mailing of such notice shall be a condition precedent to redemption, provided that any notice which is mailed in accordance with the HDB Resolution shall be conclusively presumed to have been duly given whether or not the Holders received such notice, and failure to give notice by mail, or any defect in such notice, to the Holder of any Acquired HDB Bond designated for redemption in whole or in part shall not affect the validity of the redemption of any Acquired HDB Bond.

Use of Proceeds. The proceeds received by the Authority from the sale of the Acquired HDB Bonds to the Indenture, together with other available moneys, will be used to (i) redeem (or pay at maturity) on or before July 1, 1999, the entire outstanding amount of the Authority's Housing

Development Bonds, Series 1972A (the "Refunded HDB Bonds"), and (ii) pay other costs of the redemption of the Refunded HDB Bonds, including any redemption premium on the Refunded HDB Bonds and accrued interest on the Refunded HDB Bonds to the redemption date from the date of delivery of the Acquired HDB Bonds.

All amounts received upon the sale of the Acquired HDB Bonds and to be used to redeem the refunded Bonds, together with the other available funds, shall be paid to the trustee under the HDB Resolution, to be held in trust by such trustee for the payment of the redemption price of the Refunded HDB Bonds and the interest on them to the redemption date, anticipated to be on or about June 1, 1999. Amounts in the Interest Account of the Debt Service Fund under the HDB Resolution equal to the accrued interest on the Refunded HDB Bonds to the date of delivery of the Acquired HDB Bonds shall also be held in trust for and be used to pay the interest on the Refunded HDB Bonds on their redemption date. Amounts so held in trust may be invested by the trustee under the HDB Resolution, upon the direction of the Authority in Permitted Obligations within the meaning of the HDB Resolution, payable in full not later than May 31, 1999. Interest and other investment earnings on those amounts so held in trust, if not required for paying the redemption price, and accrued interest to the redemption date, on the Refunded HDB Bonds shall be paid to the Debt Service Fund under the HDB Resolution and applied to the first interest payment on the Acquired HDB Bonds.

Authorization of HDB Bonds

The HDB Resolution creates an issue of bonds of the Authority to be designated as "Housing Development Bonds" (the "HDB 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 HDB Bonds. The HDB Bonds shall be direct and general obligations of the Authority and the full faith and credit of the Authority, subject to the provisions or resolutions or indentures pledging moneys, assets or revenues to the payment of obligations other than the HDB Bonds, are pledged for the payment of the principal and Redemption Price of and interest and Sinking Fund Installments on the HDB Bonds; provided, however, that for Series of HDB Bonds authorized by Series Resolutions adopted after December 1, 1998, the HDB Bonds of those Series shall not be general obligations of the Authority and the full faith and credit of the Authority shall not be pledged for the payment of the principal of and redemption price of and interest and Sinking Fund Installments on those Series of HDB Bonds, if the related Series Resolution so provides. HDB Bonds, to the extent they are not general obligations of the Authority, shall be special and limited obligations of the Authority, with a claim for payment solely from Revenues and moneys and securities held in the Funds and Accounts established by the HDB Resolution. The aggregate principal amount of the HDB Bonds which may be executed and delivered under the HDB Resolution is not limited except as is or may hereafter be provided in the HDB Resolution or as may be limited by law.

Certain Definitions

"Accreted Value" shall mean, with respect to any Discount HDB Bond, the initial principal amount at which such Discount HDB Bond is sold to the initial purchaser thereof at the time of sale thereof by the Authority, without reduction to reflect underwriter's discount or placement agent's fees, compounded from the date of delivery of such Discount HDB Bond semi-annually on each interest payment date prior to the date of calculation (and including such date of calculation if such date of calculation shall be an interest payment date) at the original issue yield to maturity, less, with respect to any Discount HDB Bond with interest payable on a current basis, any interest paid and payable during such period, plus, if such date of calculation shall not be an interest payment date, a portion of the

difference between the Accreted Value as of the immediately preceding interest payment date and the Accreted Value as of the immediately succeeding interest payment date calculated based upon an assumption that Accreted Value accrues during any semi-annual period in equal daily amounts, provided' however, that the calculation of Accreted Value for purposes of actions, requests, notifications, consents or direction of Bondholders under the HDB Resolution shall be based upon the Accreted Value calculated as of the interest payment date immediately preceding such date of calculation (unless such date of calculation shall be an interest payment date, in which case calculated as of the date of calculation).

"Acquired Development" shall mean a Development which the Authority has acquired title to, or taken possession of, through protection and enforcement of its rights conferred by law or the Mortgage upon such Development.

"Acquired Development Expense" shall mean any of the costs and expenses incurred by the Authority in connection with the acquisition, ownership or operation of an Acquired Development for the payment of which the Authority does not have Acquired Development Funds available from such Acquired Development.

"Acquired Development Funds" shall mean the moneys held by the Authority in connection with its acquisition, ownership or operation of an Acquired Development, excepting moneys in the Acquired Development Expense Fund.

"Acquired Development Operating Income" shall mean the net income derived by the Authority from its acquisition, ownership or operation of an Acquired Development and remaining after payment from the gross income derived from such Acquired Development of all Fees and Charges and Mortgage Repayments required to be paid pursuant to the terms and provisions of the Mortgage foreclosed and all costs and expenses arising from the ownership and operation of such Acquired Development.

"Administrative Expenses" shall mean the Authority's expenses of carrying out and administering its powers, duties and functions in connection with the Mortgages and Developments, as defined in the HDB Resolution, as authorized by the Act, and shall include, without limiting the generality of the foregoing: retirement, health and hospitalization funds, and any other expenses required or permitted to be paid by the Authority under the provisions of the Act or the HDB Resolution or otherwise with respect to the Mortgages and Developments. Administrative Expenses shall not include any costs or expenses of the Authority arising from or related to the acquisition, ownership or operation of an Acquired Development.

"Book Entry Depository" shall mean a person designated by the Authority in a Series Resolution to act as depository in connection with a book-entry system established for the HDB Bonds of that Series as provided in the HDB Resolution and in that Series Resolution.

"Cost of Development" shall mean, (i) upon final determination of Cost of Development, the total of all costs authorized by law incurred by a Mortgagor with respect to a Development and approved by the Authority, and (ii) prior to the final determination of Cost of Development, the total of all costs to be incurred by the Mortgagor with respect to a Development, as estimated and approved by the Authority and authorized by law.

"Development" shall mean a development as such term is defined in Section 302(f) of the Act, as amended from time to time, in respect of which the Authority is authorized by law to make a Mortgage Loan to an eligible Mortgagor.

"Discount HDB Bonds" shall mean (i) any HDB Bond or HDB Bonds sold to the initial purchaser thereof at the time of sale thereof by the Authority at an initial reoffering price or initial principal amount of less than 98 percent of the principal amount due at maturity thereof, without reduction to reflect underwriter's discount or placement agent's fees, and (ii) any other HDB Bond or HDB Bonds designated as Discount HDB Bonds by the Series Resolution authorizing the issuance of such Series of HDB Bonds.

"Fees and Charges" shall mean all fees and charges authorized to be collected by the Authority pursuant to Section 7.4 of the Act and collected by the Authority from Mortgagors pursuant to the terms and provisions of the Mortgages. Fees and charges shall be deemed to include that portion of the interest, paid by a Mortgagor to the Authority on a Mortgage Loan pursuant to a Mortgage, that is in excess of the interest paid by the Authority to obtain the funds with which to make the Mortgage Loan to the Mortgagor.

"Fiscal Year" shall mean any 12 consecutive calendar months commencing with the first day of July and ending on the last day of the following June.

"Government Obligations" shall mean obligations of the United States of America (including obligations issued or held in book-entry form on the books of the U.S. Department of the Treasury) or obligations the principal of and interest on which are guaranteed by the United States of America.

"HDB Bonds" means any bonds issued under the HDB Resolution, including the Acquired HDB Bonds.

"Mortgage" shall mean the documents evidencing the mortgage lien security a Mortgage Loan made by the Authority to a Mortgagor.

"Mortgage Advance Amortization Payment" shall mean the payment made by a Mortgagor in full satisfaction of its Mortgage Loan in advance of the due date or dates thereof in accordance with the provisions of the applicable Mortgage and the requirements with respect thereto contained in the HDB Resolution.

"Mortgage Loan" shall mean a loan made by the Authority from the proceeds of HDB Bonds to a Mortgagor with respect to a Development, including the amounts deposited in the Development Capitalized Interest Account relating to such Development and the amounts necessary to make the payments set forth in paragraph (2)(v) of Section 202 of the HDB Resolution, if any, and secured by a mortgage lien on the real property or on the interest in the real property of which the Development may now or hereafter consist and a lien on all personal property acquired or refinanced with the proceeds of such loan and attached to or used or to be used in connection with the construction or operation of the Development; provided, however, that the priority of the mortgage lien and security interest of any Mortgage Loan shall either be a first priority mortgage lien on and security interest in the related Development or be subordinate in priority of payment only to the mortgage lien and security interest of a prior Mortgage Loan. Mortgage Loan shall also mean any lawful participation by the Authority with another party or parties in a loan made to a Mortgagor with respect to a Development and similarly secured so long as the interest of the Authority shall have at least equal priority as to lien in proportion to

the amount of the loan secured, but need not be equal as to interest rate, time or rate of amortization or otherwise.

"Mortgage Loan Commitment" shall mean the obligation of the Authority to make a Mortgage Loan to a Mortgagor.

"Mortgage Repayment" shall mean the amounts paid or required to be paid from time to time for principal and interest, except for that portion of the interest which represents the Fees and Charges required to be imposed by the HDB Resolution, by a Mortgagor to the Authority on a Mortgage Loan pursuant a Mortgage.

"Mortgagor" shall mean a not for profit corporation, limited profit entity or other entity, to which the Authority is now or hereafter authorized by law, to make a Mortgage Loan and which is, or is about to, receive a Mortgage Loan and mortgage a Development to the authority pursuant to the terms and provisions of a Mortgage.

"Mortgagor's Capital Reserve Fund Obligations" shall mean the Mortgagor's proportionate obligation with respect to the payment of the principal of and interest on the Capital Reserve Fund Obligations, as certified to the Trustee by the Authority pursuant to the HDB Resolution.

"Mortgagor's Mortgage Loan Obligations" shall mean the proportionate amount of HDB Bonds issued by the Authority for the purpose of obtaining funds to make the Mortgage Loan to such Mortgagor and to pay the legal, printing and financing costs and all other costs and expenses incurred in connection with the authorization, issuance, sale and delivery of such HDB Bonds to the extent not otherwise provided for, as certified to the Trustee by the Authority pursuant to the HDB Resolution.

"Notes" shall mean any obligations issued by the Authority other than HDB Bonds.

"Outstanding" when used with reference to HDB Bonds, shall mean, as of any date, HDB Bonds theretofore or then being delivered under the provisions of the HDB Resolution, except: (i) any HDB Bonds canceled by the Trustee or any Paying Agent at or prior to such date, (ii) HDB Bonds for the payment or redemption of which moneys equal to the principal amount of Redemption Price thereof, as the case may be, with interest to the date of maturity or redemption date, shall be held by the Trustee or the Paying agents in trust (whether at or prior to the maturity or redemption date), provided that if such HDB Bonds are to be redeemed, notice of such redemption shall been given as provided in the HDB Resolution or provision satisfactory to the Trustee shall have been made for the giving of such notice, (iii) HDB Bonds in lieu of or in substitution for which other HDB Bonds shall have been delivered pursuant to the HDB Resolution, and (iv) HDB Bonds deemed to have been paid as provided in the HDB Resolution.

"Permanently Financed Development" shall mean a Development with respect to which the Authority shall have issued HDB Bonds for the purpose of obtaining moneys to make a Mortgage Loan or for the purpose of funding Notes or refunding HDB Bonds issued to obtain such moneys.

"Permitted Investments" shall mean any of the following which at the time are legal investments under the laws of the State of Illinois for the moneys held under the HDB Resolution then proposed to be invested therein: (i) Government Obligations or obligations of any state of the United States of America or any political subdivision of such a state, payment of which is secured by an irrevocable pledge of such Government Obligations; (ii) notes, bonds, debentures or other obligations issued by Federal Farm Credit

Banks, Federal Home Loan Banks, Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, Tennessee Valley Authority or Student Loan Marketing Association (or other similar agency if such investment does not each adversely affect the then current credit rating assigned to the HDB Bonds by each nationally recognized credit standards rating agency or service that has an outstanding rating on the HDB Bonds) or the Inter-American Development Bank or the International Bank for Reconstruction and Development; provided that such definition shall exclude (a) stripped mortgage securities issued by the Federal National Mortgage Association that are valued at greater than par based on the unpaid portion of the principal amount thereof; and (b) mortgage backed securities of the Federal Home Loan Mortgage Corporation that are not guaranteed as to timely payment of principal and interest by the Federal Home Loan Mortgage Corporation; (iii) any other obligations of an agency controlled or supervised by and acting as an instrumentality of the United States Government pursuant to authority granted by the Congress of the United States which are guaranteed, as to principal and interest, by the full faith and credit of the United States; (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, or federal savings and loan association (as used herein, "deposits" shall mean obligations evidencing deposit liability which rank at least on a parity with the claims of general creditors in liquidation), which are (a) fully secured by any of the obligations described in (i), (ii) or (iii) above or (viii) below having a market value (exclusive of accrued interest) not less than the amount of such deposit so as not to adversely affect the credit rating assigned to the HDB Bonds by each nationally recognized credit standards rating agency or service that has an outstanding rating on the HDB Bonds, or (b) secured to the extent, if any, and in a manner required by the Authority so as not to adversely affect the credit rating then currently assigned to the HDB Bonds by each nationally recognized credit standards rating agency or service that has an outstanding rating on the HDB Bonds and made with an Institution the long-term secured debt securities of which are rated no lower than the rating then currently assigned to the HDB Bonds by each nationally recognized credit standards rating agency or service that has an outstanding rating on the HDB Bonds or, if the deposit is for a period not exceeding one year, with an Institution whose short-term unsecured debt obligations are rated P-1 by Moody's and A-1 by S&P; (v) repurchase agreements, the obligations under which are secured by obligations described in (i), (ii) or (iii) above, (a) with any Institution (I) the long-term unsecured debt securities of which, or of a guarantor guaranteeing such Institution's obligations to the Authority, are rated no lower than the rating then currently assigned to the HDB Bonds by each nationally recognized credit standards rating agency or service that has an outstanding rating on the HDB Bonds or, if the investment is for a period not exceeding one year, whose short-term unsecured debt obligations are rated P-1 by Moody's and A-1 by S&P or (II) which is a member of the Association of Primary Dealers in United States Government Securities, and, in either case, (b) structured and secured in a manner so as not to adversely affect the rating then currently assigned to the HDB Bonds by each nationally recognized credit standards rating agency or service that has an outstanding rating on the HDB Bonds; (vi) investment agreements, secured or unsecured as required by the Authority, (a) with any Institution (I) the long-term unsecured debt securities of which are rated no lower than the rating then currently assigned to the HDB Bonds by each nationally recognized credit standards rating agency or service that has an outstanding rating on the HDB Bonds, or, if the investment agreement is for a period not exceeding one year, with an Institution, the short-term unsecured debt obligations of which are rated P-1 by Moody's and A-1 by S&P or (II) which is a member of the Association of Primary Dealers in United States Government Securities, and, in either case, (b) structured and, if secured, secured in such a manner so as not to adversely affect the rating then currently assigned to the HDB Bonds by each nationally recognized credit standards rating agency or service that has an outstanding rating on the HDB Bonds; (vii) short-term unsecured debt obligations of corporations organized in the United States with assets exceeding \$500,000,000 if (a) such obligations are rated at the time of purchase P-1 by Moody's and A-1 by S&P, (b) such obligations mature not later than 180 days from the date of purchase, and (c)

purchases by the Authority do not exceed 10 percent of the corporation's outstanding obligations; or (viii) obligations of states and municipalities (whether or not interest therefrom is exempt from Federal income tax) if at the time of their purchase (a) the obligations are rated no lower than the rating then currently assigned to the HDB Bonds by each nationally recognized credit standards rating agency or service that has an outstanding rating on the HDB Bonds, and (b) their purchase will not adversely affect the rating then currently assigned to the HDB Bonds by any nationally recognized credit standards rating agency or service that has an outstanding rating on the HDB Bonds. For purposes of this definition, (i) "Institution" means an individual, partnership, corporation, trust or unincorporated organization, or a government or agency, instrumentality, program, account, fund, political subdivision or corporation thereof and (ii) references to credit standards rating agencies or services that have an outstanding rating on the HDB Bonds shall refer only to such agencies or services as have rated the HDB Bonds at the request or with the express prior consent of the Authority.

"Principal" as applied to HDB Bonds shall mean (i) as such term references the principal amount of a Discount HDB Bond, the Accreted Value thereof and (ii) as such term references the principal amount of any other HDB Bond, the principal amount at maturity of such HDB Bond.

"Revenues" shall mean all income to the Authority derived from Permanently Financed Developments including but not limited to Acquired Development Operating Income, Fees and Charges, Mortgage Repayments, the proceeds of mortgage insurance contracts, and payments received from the United States Department of Housing and Urban Development (whether pursuant to the National Housing Act or the United States Housing Act of 1937), but excluding Mortgage Advance Amortization Payments.

General

The HDB Bonds are direct and general obligations of the Authority (unless otherwise provided in a Series Resolution relating to HDB Bonds issued after December 1, 1998), secured by a pledge of (i) the Mortgages securing the Mortgage Loans made from the proceeds of HDB Bonds and the Mortgage Repayments received by the Authority with respect to such Mortgage Loans, (ii) the Fees and Charges imposed by the Authority upon Mortgagors pursuant to the Mortgages and the Act, (iii) all moneys and investments in the Funds and Accounts established by the HDB Resolution, including the Capital Reserve Fund established and maintained for the benefit of the holders of the HDB Bonds and the Authority Reserve Fund, and (iv) all Section 236 Payments received by the Authority on the Developments. The Act provides that any pledge, assignment, lien or security interest made pursuant to the Act is valid and binding and immediately effective upon its being made or granted, without any physical delivery, filing, recording or further act, and is valid and binding as against, and superior to any claims of, all 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. For a description of the HDB Mortgage Loans, see Appendix D. Thirty-one of the 32 Mortgage Loans financed from proceeds of Outstanding HDB Bonds are the subject of interest reduction payment agreements ("Section 236 Contracts") among the Authority, HUD and the respective mortgagor. Each Section 236 Contract provides that HUD, pursuant to Section 236 of the National Housing Act, will make monthly interest reduction subsidy payments to the Authority with respect to the related Mortgage Loan in an amount based upon the amount of the Mortgage Loan attributable to dwelling units that are designated subsidized dwelling units. With respect to certain of the Developments only a portion of the dwelling units are subsidized. See Appendix D. The amount of interest reduction subsidy payments made by HUD with respect to each such Mortgage Loan is equal to the difference between that portion of the monthly scheduled payments for such Mortgage Loan (including principal amortization) attributable

to subsidized dwelling units which would be due if such Mortgage Loan were amortized over a 40-year period and the monthly payment for principal and interest for such Mortgage Loan assuming the Mortgage were to bear interest at the rate of one percent per annum. One of the 32 Mortgage Loans financed from proceeds of the Outstanding HDB Bonds is 100 percent assisted under the moderate rehabilitation program of Section 8 of the 1937 Housing Act and is not eligible for receipt of Section 236 Payments. For a description of the Federal Section 236 Interest Reduction Program (including a description of how rents are determined) and the Section 8 Program see Appendix F.

The full faith and credit of the Authority, subject to the provisions of resolutions pledging particular moneys, assets or revenues to the payment of notes or bonds other than the HDB Bonds, is pledged for payment of the principal and interest on the HDB Bonds; provided, however, that for Series of HDB Bonds authorized by Series Resolutions adopted after December 1, 1998, the HDB Bonds of those Series shall not be general obligations of the Authority and the full faith and credit of the Authority shall not be pledged for the payment of the principal of and redemption price of and interest and Sinking Fund Installments on those Series of HDB Bonds, if the related Series Resolution so provides. HDB Bonds, to the extent they are not general obligations of the Authority, shall be special and limited obligations of the Authority, with a claim for payment solely from Revenues and moneys and securities held in the Funds and Accounts established by the HDB Resolution. Resolutions of the Authority which authorize the issuance of the Authority's outstanding bonds and notes (other than the HDB Bonds) pledge the revenues, assets and moneys of the Authority with respect to the housing facilities and 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 HDB Bonds. The Authority may use amounts in the Authority Administrative Funds for any lawful purpose and may pledge all or any portion of those funds with priority over the HDB Bonds.

The Authority has no taxing power. The State is not liable on the HDB Bonds and the HDB Bonds are not a debt of the State.

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 HDB BONDS.

However, Section 26.1 of the Act does apply to all other series of Outstanding HDB Bonds.

Mortgages and Mortgage Repayments

The Mortgage Loans secured by Mortgages are required to comply with the requirements of the Act and the HDB Resolution. The Act authorizes the Authority to set the interest rates at which it shall make loans. Under the HDB Resolution the Authority is required to make Mortgage Loans in an amount not to exceed its commitment to the Mortgagor and must fix the rate or rates of interest to be paid by a Mortgagor at not less than the rate or rates of interest payable by the Authority on HDB Bonds issued to finance such Mortgage Loan. Mortgage Repayments are scheduled by the Authority with respect to each Mortgage Loan so that, if paid at the times and in the amounts so scheduled, they will provide funds sufficient to pay, when due, the principal of and interest and Sinking Fund Installments on that portion of

the HDB Bonds issued to finance that Mortgage Loan. See Appendix D and "Covenants Relating to Mortgages" in this Appendix.

Fees and Charges

The Authority is authorized by the Act to fix and collect such fees and charges ("Fees and Charges") in connection with the making of Mortgage Loans as it shall determine necessary. The Authority has covenanted in the HDB Resolution to establish, make, maintain and collect Fees and Charges from each Mortgagor and to revise such Fees and Charges whenever necessary so that such Fees and Charges will at all times be at least sufficient to (a) provide the amounts required to pay the principal of and interest and Sinking Fund Installments on HDB Bonds issued to fund the Mortgagor's allocable proportion of the Capital Reserve Fund and to pay all costs and expenses incurred in connection with the authorization, issuance, sale and delivery of HDB Bonds; (b) to pay principal, Sinking Fund Installments and interest on HDB Bonds of the Authority issued to provide for the payment of legal, printing and financing costs and other costs and expenses incurred in connection with the issuance and sale of a Series of HDB Bonds as provided in Section 202(2)(v) of the HDB Resolution; (c) pay the Mortgagor's allocable proportion of the Administrative Expenses of the Authority relating to the Developments financed by the HDB Bonds; (d) pay the costs and expenses of the Authority incurred in connection with the authorization, issuance, sale and delivery of its HDB Bonds and Notes issued with respect to the Development of the Mortgagor and not otherwise provided for by the Authority; and (e) pay the Mortgagor's allocable proportion of the fees and expenses of the Trustee, Depositories and Paying Agents for the HDB Bonds.

Payments of Fees and Charges are included in Revenues under the HDB Resolution and deposited in the General Fund held by the Trustee.

Capital Reserve Fund

In accordance with the Act and as security for the HDB Bonds, the HDB Resolution establishes the Capital Reserve Fund and requires such Fund to be maintained in an amount at least equal to the Capital Reserve Fund Requirement. The HDB Resolution establishes the Capital Reserve Fund Requirement for the HDB Bonds in an amount equal to, as of any date of calculation, the maximum amount of principal, Sinking Fund Installments and interest maturing and becoming due in any succeeding calendar year on all HDB Bonds then Outstanding. Moneys deposited in the Capital Reserve Fund can be used only for transfer to the Debt Service Fund in order to make payments of principal of, Sinking Fund Installments or interest on the HDB Bonds or for transfer to the Redemption Accounts for the retirement of HDB Bonds. Investment income on the Capital Reserve Fund can be transferred to the General Fund only to the extent not needed to meet the Capital Reserve Fund Requirement.

There is presently on deposit, and upon issuance of the Acquired HDB Bonds there will be on deposit in the Capital Reserve Fund an amount at least equal to the then current Capital Reserve Fund Requirement for the Outstanding HDB Bonds.

Resolution to Constitute Contract

In consideration of the purchase and acceptance of any and all of the HDB Bonds issued under the HDB Resolution by those who shall hold the same from time to time, the HDB Resolution shall be deemed to be and shall constitute a contract between the Authority and the Holders of the HDB Bonds and coupons, and the pledges made in the HDB Resolution and the covenants and agreements therein set

forth to be performed by the Authority shall be for the equal benefit, protection and security of the Holders of any and all of the HDB Bonds and coupons, all of which, without regard to the time or times of their issue or maturity, shall be of equal rank without preference, priority or distinction of any of the HDB Bonds or coupons over any other thereof, except as expressly provided in or permitted by the HDB Resolution.

Pledge of the HDB Resolution

The Revenues, and all Funds and Accounts established by the HDB Resolution, including the investments thereof and the proceeds of such investments, if any, are pledged for the payment of the principal and Redemption price of and interest and Sinking Fund Installments on the HDB Bonds in accordance with the terms and provisions of the HDB Resolution, subject only to the provisions of the HDB Resolution permitting the application thereof for the purposes and on the terms and conditions set forth in the HDB Resolution, including the withdrawal of moneys from the Authority Reserve Fund. This pledge shall be valid and binding from and after the date of adoption of the HDB Resolution, and the Revenues as received by the Authority and all other moneys and securities in the Funds and Accounts established by the HDB Resolution so pledged shall immediately be subject to the lien of such pledge without any physical delivery thereof or further act, and the lien of such pledge shall be valid and binding as against all parties having claims of any kind in tort, contract or otherwise against the Authority, irrespective of whether such parties have notice thereof.

Custody and Application of HDB Bond Proceeds

Each Series Resolution authorizing the issuance of a Series of HDB Bonds is required to specify the purposes for which such Series of HDB Bonds are being issued and to provide for the disposition of the proceeds thereof. Purposes for which HDB Bonds may be issued are (i) the establishment or crediting of Development Mortgage Loan Accounts, (ii) the establishment of Development Capitalized Interest Accounts, (iii) payments into the Capital Reserve Fund, (iv) the funding of Notes theretofore issued by the Authority to provide funds to make Mortgage Loans on Developments, (v) the refunding or redemption of HDB Bonds, and (vi) the payment of legal, printing and financing costs incurred in connection with the sale of HDB Bonds.

Mortgage Loan Accounts are established with and held by the Depositories. Upon the issuance of each Series of HDB Bonds, the Authority is required to pay into each Development Mortgage Loan Account the amount of the proceeds of such HDB Bonds as shall be allocated for the purpose of making Mortgage Loans for the Development for which such Account relates. Moneys deposited in such Account may be used by the Authority solely for the purpose of making such Mortgage Loans. Payments from Mortgage Loan Accounts to Mortgagors are made by the Depositories upon requisition of the Authority. Subject to the lien of a Depository for payment of its reasonable compensation and expenses, moneys deposited to the credit of each Development Mortgage Loan Account, including all obligations held as investments thereof and the proceeds of such investments, are assigned and pledged to such Depository, pending application by the Authority to make Mortgage Loans, for the benefit of the Holders of the HDB Bonds of the Series from which such moneys were derived and for the security of the payment of the principal of and interest and Sinking Fund Installments, if any, on such HDB Bonds. Surplus moneys, if any, remaining in a Development Mortgage Loan Account after fulfillment of the Mortgage Loan Commitment with respect to the Development for which such Account was established are required to be transferred by the Depository to the Trustee for deposit in the Redemption Account and applied in accordance with the HDB Resolution.

Development Capitalized Interest Accounts are established with and held by the Trustee. Upon the issuance of each Series of HDB Bonds except a Refunding Issue, the Authority is required to deposit in each Development Capitalized Interest Account the amount of the proceeds derived from the sale of such Series of HDB Bonds as shall be allocated in the Series Resolution to such Development Capitalized Interest Account. Moneys deposited in a Development capitalized Interest Account may be used to the extent available for the purpose of paying interest on the Series of HDB Bonds in respect to which such moneys have been set aside in such Account. Although created under the HDB Resolution, no moneys from the proceeds of the Acquired HDB Bonds shall be deposited in a Development Capitalized Interest Account.

The Capital Reserve Fund is established by the HDB Resolution and held by the Trustee. Upon the issuance of each Series of HDB Bonds, the Authority is required to deposit in the Capital Reserve Fund from the proceeds derived from the sale of such HDB Bonds an amount sufficient, together with the moneys then on deposit therein, to establish such fund in an amount equal to the Capital Reserve Fund Requirement calculated immediately after such issuance. Moneys deposited in the Capital Reserve Fund are required to be used and applied in the manner hereinafter described.

The portion of the proceeds of sale of a Series of HDB Bonds allocated in the Series Resolution to the funding of Notes may be applied by the Authority directly to such purpose.

Funds and Accounts

In addition to the Mortgage Loan Accounts and Development Capitalized Interest Accounts, hereinbefore described, the HDB Resolution establishes, or provides for the establishment of, the following special Funds and Accounts:

- (1) General Fund - held by the Trustee
- (2) Debt Service Fund - held by the Trustee and comprised of:
 - (a) Interest Account
 - (b) Principal Account
 - (c) Sinking Fund Account
 - (d) Redemption Account
- (3) Operating Fund - held by the Authority or as otherwise required or permitted by law
- (4) Acquired Development Expense Fund - held by the Authority or as otherwise required or permitted by law
- (5) Capital Reserve Fund - held by the Trustee
- (6) Authority Reserve Fund - held by the Authority

General Fund

All Revenues, other than moneys appropriated by the State pursuant to Section 26.1 of the Act, shall be deposited upon receipt in the General Fund. There shall also be transferred to and deposited in the General Fund any surplus moneys available in the Redemption Account after the retirement of HDB Bonds, certain excess funds available in the Capital Reserve Fund in excess of the Capital Reserve Fund Requirement and surplus moneys transferred from the Development Capitalized Interest Accounts and Mortgage Loan Accounts. Moneys and the proceeds of sale of securities from time to time in the General Fund shall be paid out and applied for the uses and purposes for which the same are pledged by the provisions of the HDB Resolution in the following manner:

1. *Debt Service Fund.* As of the first day of each calendar month, and not later than the tenth day of each calendar month, the Trustee shall withdraw from the General Fund and deposit to the credit of the following Accounts in the Debt Service Fund the following amounts in the following order:

(a) First, to the Interest Account an amount such that, if the same amounts are so paid and credited to the Interest Account from the same source on the same day of each succeeding calendar month thereafter prior to the next date upon which an installment of interest falls due for each Series of HDB Bonds, the aggregate of the amounts so paid and credited to the Interest Account for such Series of HDB Bonds, when added to the amount then on deposit in the Interest Account for such Series of HDB Bonds, would on such interest payment date be equal to the installment of the interest on such Series of HDB Bonds then falling due; provided however, that moneys contained in the Interest Account which were received from the State pursuant to Section 26.1 of the Act shall not be used to pay interest coming due on any Series of HDB Bonds issued pursuant to a Series Resolution adopted after December 1, 1998, which provides that Section 26.1 of the Act does not apply to that Series of HDB Bonds.

(b) Second, to the Principal Account an amount such that, if the same amounts are so paid and credited to the Principal Account from the same source on the same day of each succeeding calendar month thereafter prior to the next date upon which an installment of principal falls due for each Series of HDB Bonds, the aggregate of the amounts so paid and credited to the Principal Account for such Series of HDB Bonds, when added to the amount then on deposit in the Principal Account for such Series of HDB Bonds, would on such principal payment date be equal to the amount of the principal of such Series of HDB Bonds then falling due; provided however, that moneys contained in the Principal Account which were received from the State pursuant to Section 26.1 of the Act shall not be used to pay principal coming due on any Series of HDB Bonds issued pursuant to a Series Resolution adopted after December 1, 1998, which provides that Section 26.1 of the Act does not apply to that Series of HDB Bonds.

(c) Third, to the Sinking Fund Account an amount such that, if the same amounts are so paid and credited to the Sinking Fund Account from the same source on the same day of each succeeding calendar month thereafter prior to the next date upon which a Sinking Fund Installment falls due for each Series of HDB Bonds, the aggregate of the amounts so paid and credited to the Sinking Fund Account for such Series of HDB Bonds, when added to the amount then on deposit in the Sinking Fund Account for such Series of HDB Bonds, would on such Sinking Fund Installment date be equal to the amount of the unpaid Sinking Fund Installment then falling due, plus the amount required to pay the premium, if any, upon the redemption of the Term HDB Bonds of such Series of HDB Bonds when such Sinking Fund Installment falls due; provided however, that moneys contained in the Sinking Fund Account which were received from the State pursuant to Section 26.1 of the Act shall not be used to pay principal or Redemption Price, if appropriate, coming due on any Series of Term HDB Bonds issued pursuant to a

Series Resolution adopted after December 1, 1998, which provides that Section 26.1 of the Act does not apply to that Series of Term HDB Bonds.

2. *Operating Fund.* After providing for the above payments, the Trustee shall withdraw from the General Fund monthly for deposit in the Operating Fund such amounts requisitioned by the Authority to be used and applied solely to the following purposes:

(a) To pay the estimated Administrative Expenses of the Authority due and to become due during such month;

(b) To pay the costs and expenses of the Authority then due and to become due during such month in connection with the authorization, issuance, sale and delivery of HDB Bonds and not paid out of the proceeds of the HDB Bonds; and

(c) To pay the fees and expenses of the Trustee, Depositories and Paying Agents then due and to become due during such month.

3. *Acquired Development Expense Fund.* After providing for the payments in (1) and (2) above, the Trustee shall withdraw monthly from the General Fund for deposit in the Acquired Development Expense Fund such amount, if any, as may be requisitioned by the Authority for the purpose of paying the estimated Acquired Development Expenses due and to become due during such month.

4. *Capital Reserve Fund.* As of the last day of each Fiscal Year, and not later than the 20th day of the succeeding Fiscal Year, after providing for all payments required above and after setting aside and reserving in the General Fund the amounts estimated by the Authority as required for such payments in the first two months of the succeeding Fiscal Year, the Trustee shall withdraw from the balance of the moneys so remaining in the General Fund and deposit to the credit of the Capital Reserve Fund such amount (or the balance of the moneys so remaining in the General Fund if less than the required amount) as shall be required to bring the Capital Reserve Fund up to the Capital Reserve Fund Requirement.

5. *Authority Reserve Fund.* As of the last day of each Fiscal Year, but not later than the 20th day of the succeeding Fiscal Year, after making all payments and transfers required above and after setting aside the amounts required by (4) above, the Trustee shall withdraw from the General Fund and deposit to the credit of the Authority Reserve Fund the balance of the moneys remaining in the General Fund.

Debt Service Fund

In addition to the payments into the Debt Service Fund from the General Fund above described, and from the Development Capitalized Interest Accounts and Capital Reserve Fund as described below, all moneys appropriated and made available by the State to the Authority pursuant to Section 26.1 of the Act are required to be deposited in the Debt Service Fund. All moneys deposited in the Debt Service Fund shall be disbursed and applied by the Trustee at the times and in the manner provided below.

1. *Interest, Principal and Sinking Fund Accounts.* Moneys are required to be transferred to these Accounts from the General Fund and from the Capital Reserve Fund at the times and in the manner described in this Appendix under "General Fund" and "Capital Reserve Fund," respectively.

Moneys held for the credit of the Interest Account, Principal Account and Sinking Fund Account, respectively, are required to be paid by the Trustee to the Paying Agents for the purpose of paying interest and Sinking Fund Installments on and the principal of the HDB Bonds as the same become due and payable. There is also required to be paid out of the Interest Account the interest on HDB Bonds to be redeemed to the extent not otherwise provided.

2. *Redemption Account.* The Trustee is required to establish in the Redemption Account a separate sub-account for the HDB Bonds of each Series. Deposits in the appropriate sub-accounts are required to be made from (1) certain surplus funds in Mortgage Loan Accounts and Development Capitalized Interest Accounts, (2) Mortgage Advance Amortization Payments, (3) proceeds of sale of Mortgages, (4) proceeds of sale of Developments, and (5) transfers from the Capital Reserve Fund. Moneys so held in each separate sub-account by the Trustee shall be applied to the purchase or retirement of the HDB Bonds of the Series in respect of which such sub-account was created at the times and in the manner provided in the HDB Resolution.

If at any time the moneys on deposit to the credit of the Capital Reserve Fund are less than the Capital Reserve Fund Requirement, and there are then moneys on deposit in any sub-account in the Redemption Account, the Trustee shall transfer the moneys in such sub-accounts specified by the Authority and deposit to the credit of the Capital Reserve Fund the amounts sufficient (or all of the moneys in said sub-accounts if less than the amounts sufficient) to make up such deficiency.

In the event an amount is on deposit in a sub-account in the Redemption Account after the Mortgage Loan with respect to which such sub-account was established has been paid in full and after all HDB Bonds of the Series with respect to which such sub-account was established have been paid and are no longer Outstanding, the Trustee shall, when directed in writing by the Authority, transfer such amount and deposit the same in the General Fund.

Acquired Development Expense Fund

Moneys at any time held for the credit of the Acquired Development Expense Fund shall be used for and applied solely to the payment of Acquired Development Expenses, and such Fund shall not function unless or until the Authority shall have title to or possession of an Acquired Development. Payments from the Acquired Development Expense Fund shall be made by the Authority or other depository of such Fund, upon receipt of a requisition signed by an Authorized Officer of the Authority, setting forth information with respect to the nature and amount of such payment and the persons to whom payment is to be made. Upon receipt of each such requisition, the Authority or other depository, shall pay each such item directly to the person or party entitled thereto as named in such requisition, or shall deliver to the Authority a check, draft or warrant for the payment thereof.

Capital Reserve Fund

The Capital Reserve Fund was established pursuant to the HDB Resolution in accordance with the requirements of the Act.

The Act requires that the Authority shall pay into the Capital Reserve Fund: (a) all moneys specifically appropriated, earmarked or made available by gift, grant, or otherwise, from any source, public or private, for the purposes of meeting expenditures authorized from such Fund; (b) any proceeds of sale of notes or bonds, to the extent provided in the resolution of the Authority authorizing the issuance thereof; (c) any moneys transferred into such Fund by the Authority from any other fund

authorized by the Act, in such amounts and at such times as the Authority deems necessary for the purposes of such Fund; and (d) any other income or moneys available to the Authority for the purpose of such Fund, from any other source or sources.

The Act prohibits the Authority from withdrawing any moneys in the Capital Reserve Fund at any time in such amount as would reduce the amount of such Fund to less than the maximum amount of principal and interest maturing and becoming due in any succeeding calendar year on all HDB Bonds of the Authority then outstanding, except for the purpose of paying principal of and interest on HDB Bonds maturing and becoming due and for the payment of which other moneys of the Authority are not available.

The Resolution prohibits the Authority from issuing any additional Series of HDB Bonds if the amount of money in the Capital Reserve Fund, upon the issuance and delivery of such additional HDB Bonds and the placing in the Capital Reserve Fund of any amount provided therefor in the applicable Series Resolution, is less than the Capital Reserve Fund Requirement.

In the event there shall be, on any interest payment date, principal payment date or Sinking Fund Installment due date, as the case may be, a deficiency in the Interest Account, Principal Account or Sinking Fund Account, the Trustee shall make up such deficiencies from the Capital Reserve Fund and shall pay into the Capital Reserve Fund from the General Fund, to the extent that moneys therein are available for such purposes, an amount equal to the amounts withdrawn from the Capital Reserve Fund. Whenever the assets of the Debt Service Fund and the Capital Reserve Fund shall be sufficient in the aggregate to provide moneys to pay, redeem or retire all HDB Bonds then Outstanding, including such interest thereon as may thereafter become due and payable to maturity or date of redemption, no further payments need be made into the Debt Service Fund or Capital Reserve Fund.

Further, under certain conditions and limitations of the HDB Resolution, and always upon the condition that the Capital Reserve Fund will not be reduced below the Capital Reserve Fund Requirement, withdrawals may be made from the Capital Reserve Fund of surplus moneys resulting from the maturity, purchase or redemption of certain HDB Bonds.

Any income or interest earned by, or increment to, the Capital Reserve Fund due to the investment thereof accruing during a Fiscal Year is required to be transferred by the Trustee, on the last day of such Fiscal Year, to the General Fund, but only to the extent that such transfer will not reduce the Capital Reserve Fund below the Capital Reserve Fund Requirement.

Authority Reserve Fund

Moneys held at any time for the credit of the Authority Reserve Fund may be withdrawn from such Fund, so long as the Authority is not in default on the HDB Bonds as provided in the HDB Resolution, and may be used by the Authority for any of its lawful purposes. Withdrawals from the Authority Reserve Fund shall be made upon the direction of an Authorized Officer of the Authority.

Security for Deposits and Investment of Funds

The Resolution provides that all moneys held by the Trustee and Depositories shall be continuously and fully secured for the benefit of the Authority and the Holders of the HDB Bonds by Permitted Investments (as hereinafter defined) or HDB Bonds or Notes of the Authority of a market value equal at all times to the amount of the deposit so held by the Trustee or Depositories; provided that

it shall not be necessary for the Trustee or any Paying Agent to give security for moneys held in trust for the payment of the principal or Redemption Price of or interest and Sinking Fund Installments, if any, on the HDB Bonds, for any moneys which shall be represented by obligations purchased as an investment of such moneys. ALL moneys held in the Operating Fund and Acquired Development Expense Fund by the Authority or other Depository, shall be secured in such manner, if any, as shall be required by the Authority.

Permitted Investments are specified by the HDB Resolution to be (i) direct general obligations of, or obligations the payment of the principal of and interest on which are unconditionally guaranteed by, the United States of America or the State, (ii) bonds, debentures, participation certificates or notes issued by any of the following: Bank for Cooperatives, Federal Land Banks, Federal Home Loan Banks, Federal Intermediate Credit Banks, Federal National Mortgage Association or Government National Mortgage Association, or any other agency or corporation which is or may hereafter be created by or pursuant to an Act of the Congress of the United States as an agency or instrumentality thereof; (iii) Public Housing Bonds, Temporary Notes or Preliminary Loan Notes, fully secured by contracts with the United States.

The Resolution further provides that moneys held by a Depository in Mortgage Loan Accounts shall be (1) invested in Permitted Investments the maturity dates (or redemption dates at the option of the holder) of which shall coincide as nearly as practicable with the times at which such moneys will be needed for the purposes of such Accounts according to schedules to be furnished by the Authority or, (2) upon direction of the Authority, deposited in interest-bearing time deposits continuously and fully secured by a pledge of Permitted Investments or HDB Bonds or Notes of the Authority of a market value equal at all times to the amount of the deposit.

The Resolution further provides that moneys held by the Trustee (1) in the General Fund, Interest Account, Principal Account, Sinking Fund Account and Development Capitalized Interest Accounts shall be invested in Permitted Investments the maturities (or redemption dates at the option of the holder) of which will coincide as nearly as practicable with the times at which such moneys are needed for the purposes of such Funds or Accounts or for transfer by the Trustee, and moneys held by the Trustee in the Capital Reserve Fund, shall be invested in Permitted Investments the average maturity of which shall not be more than five (5) years from the date of any investment, or (2) upon direction of the Authority, deposited in interest-bearing time deposits continuously and fully secured by Permitted Investments or HDB Bonds or Notes of the Authority of a market value at all times equal to the amount of the deposit.

Any moneys in the Operating Fund, Acquired Development Expense Fund or Authority Reserve Fund may be invested in such manner as is authorized or permitted by law; provided that the maturity dates (or redemption' dates at the option of the holder) of any such investments shall coincide as nearly as practicable with the time or times at which the moneys so invested are needed for the purposes of the Fund from which invested, as determined by the Authority.

The income or interest earned by, or increment to, a Fund or Account held by the Trustee, due to the investment thereof, shall be retained in such Fund or Account, except that the income on interest earned by, or increment to, the Capital Reserve Fund shall be transferred to the General Fund at the times and in the manner hereinbefore described. The income or interest earned by, or increment to, a Development Mortgage Loan Account due to the investment thereof, shall be retained in such Account except to the extent transferred by a Depository to a Development Capitalized Interest Account as provided in the HDB Resolution.

In computing the amount of any Fund or Account held by the Trustee, excepting the Capital Reserve Fund, obligations purchased as an investment of moneys therein shall be valued at the amortized cost or market price, whichever is lower, exclusive of accrued interest. In computing the amount of the Capital Reserve Fund, obligations purchased as an investment of moneys therein shall be valued at par, or if purchased at less than par, at their cost to the Authority.

Issuance of Additional HDB Bonds

Except as described in this Appendix in paragraph (m) under the caption "Covenants Relating to Mortgages – *Mortgage Provisions*" the HDB Resolution provides that the Authority shall not hereafter create or permit the creation of or issue any obligations or create any additional indebtedness which will be secured by a charge and lien on the Revenues or which will be payable from the Debt Service Fund or Capital Reserve Fund, except that (a) a Series of Refunding HDB Bonds may be issued under the conditions and subject to the provisions and limitations of the HDB Resolution, and (b) additional Series of HDB Bonds may be issued from time to time for the purposes of (i) the establishment of or the crediting of money to Mortgage Loan Accounts and Development Capitalized Interest Accounts, (ii) payments into the Capital Reserve Fund, (iii) the funding of Notes theretofore issued by the Authority to provide funds to make Mortgage Loans to Developments, (iv) the payment of legal, printing and financing costs incurred in connection with the sale of HDB Bonds, and (v) any combination thereof.

No additional Series of HDB Bonds shall be issued under the HDB Resolution unless:

(a) the principal amount of the additional HDB Bonds then to be issued, together with the principal amount of the HDB Bonds and Notes of the Authority theretofore issued and Outstanding, will not exceed in aggregate principal amount any limitation thereon imposed by law;

(b) there is at the time of the issuance of such additional HDB Bonds no deficiency in the amounts required by the HDB Resolution or any Series Resolution to be paid into the Debt Service Fund and into the Capital Reserve Fund;

(c) the amount of the Capital Reserve Fund, upon the issuance and delivery of such additional HDB Bonds and the placing in the Capital Reserve Fund of any amount provided thereof in the applicable Series Resolution, shall not be less than the Capital Reserve Fund Requirement;

(d) the Authority shall be obligated pursuant to existing Mortgage Loan Commitments to make Mortgage Loans to Mortgagors under Mortgages in amounts not less than the principal amount of the additional HDB Bonds then being issued for the purposes of the establishment of, or crediting of moneys to, Mortgage Loan Accounts and Development Capitalized Interest Accounts designated in the applicable Series Resolution;

(e) the maturities or Sinking Fund Installments of the additional HDB Bonds then being issued, unless such additional HDB Bonds are being issued to refund Outstanding HDB Bonds in accordance with the HDB Resolution, shall be proportionate to the scheduled payments of principal payable under the Mortgages with respect to which such additional HDB Bonds are to be issued;

(f) the Authority shall have theretofore deposited, or from the proceeds of sale of such additional HDB Bonds shall then deposit, in each Development Mortgage Loan Account and Development Capitalized Interest Account with respect to which such additional HDB Bonds are being issued, in the aggregate for each Development to which such accounts relate, an amount of money equal to the outstanding Mortgage Loan Commitment of the Authority with respect to each such Development, or shall have entered into a written agreement, pursuant to which the Authority has agreed to sell and a responsible party or parties have agreed to purchase Notes of the Authority at the time or times and in the amount or amounts required to provide the Authority with moneys sufficient in amount to comply with the outstanding obligations of the Authority under the Mortgage Loan Commitments relating to such Developments;

(g) the Mortgages under which the Authority will make Mortgage Loans from the proceeds of the additional HDB Bonds then being issued, or the Mortgages under which the Authority has theretofore made Mortgage Loans from the proceeds of Notes or HDB Bonds being funded or refunded, as the case may be, by the additional HDB Bonds then being issued, comply with the terms, conditions, provisions and limitations prescribed for Mortgages made by the Authority, as set forth in the covenant with respect thereto in the HDB Resolution, and as required by the Act, as amended from time to time and other applicable provisions of law; and

(h) the Authority shall have notified each national rating service which then maintains a rating on the HDB Bonds of the proposed issuance of such additional Series of HDB Bonds.

The Authority reserves the right to issue Notes and any other obligations so long as the same are not a charge or lien on the Revenues or payable from the Debt Service Fund or Capital Reserve Fund.

Covenants Relating to Mortgages

Mortgage Provisions. No Mortgage Loan shall be made by the Authority from the proceeds of HDB Bonds unless the Mortgage and other related documents under which such Mortgage Loan is to be made shall comply with, and no HDB Bonds shall be issued by the Authority for the purpose of providing funds with which to make a Mortgage Loan, unless the Mortgage under which such Mortgage Loan is to be made shall comply with, and no HDB Bonds shall be issued by the Authority to fund Notes or to refund HDB Bonds unless the Mortgage and other related documents under which the Mortgage Loan was made from the proceeds of such Notes or HDB Bonds shall also comply with, the following terms, conditions, provisions and limitations, and shall have been approved by the Authority:

(a) The Mortgagor must be eligible under the Act, as amended from time to time, and the Mortgage shall be executed and recorded in accordance with the requirements of existing laws;

(b) The Mortgage shall constitute and create a first mortgage lien on the real property or the interest therein in the real property of the Development with respect to which the Mortgage Loan secured thereby is made and first security interest in the personal property acquired with proceeds of the Mortgage Loan and attached to or used in connection with the operation of such Development, provided, however, (i) that the priority of the mortgage lien and security interest of any Mortgage Loan shall either be a first priority mortgage lien on and security interest in the related Development or be subordinate in priority of payment only to the mortgage lien and security interest of a prior Mortgage Loan and (ii) that the Mortgage may also

be a participation by the Authority with another party or parties in a Mortgage Loan made with respect to a Development and similarly secured so long as the interest of the Authority shall have at least equal priority as to lien in proportion to the amount of the loan secured, but need not be equal as to interest rate, time or rate of amortization or otherwise;

(c) The amount of the Mortgage Loan to be made by the Authority to the Mortgagor under the Mortgage shall not exceed the then established Cost of Development or any other limitation prescribed by law or authorized regulation, whichever is less;

(d) The rate or rates of interest to be paid by the Mortgagor on the Mortgage Loan under such Mortgage shall be not less than the rate or rates the Authority is required to pay on the HDB Bonds issued by the Authority to obtain the funds from which such Mortgage Loan is made;

(e) The payments of principal on the Mortgage to be made by the Mortgagor in repayment of the Mortgage Loan shall be scheduled by the Authority in such manner as to provide funds sufficient to pay the principal of and Sinking Fund Installments on the Mortgagor's Mortgage Loan Obligations as the same mature;

(f) The Mortgagor shall be obligated to pay to the Trustee Fees and Charges at the times and in the amounts which will enable the Authority to comply with its covenant with respect thereto in the HDB Resolution;

(g) The Mortgagor shall be obligated to make the Mortgage Repayments, payments of principal and interest on the Mortgage and Fees and Charges on a monthly basis in such amounts as scheduled by the Authority to pay the principal of and Sinking Fund Installments, if any, and interest on the HDB Bonds issued to provide funds with which to make the Mortgage Loan to the Mortgagor as the same shall fall due;

(h) The Mortgage shall not permit the Mortgagor to make a Mortgage Advance Amortization Payment unless it shall require, with respect to any such Mortgage Advance Amortization Payment that the same be in an amount equal to the aggregate of (i) the principal amount of the Mortgagor's Mortgage Loan Obligations remaining unpaid, (ii) the Mortgagor's Capital Reserve Fund Obligations remaining unpaid, (iii) the interest to accrue on all HDB Bonds to be redeemed upon the making of such Mortgage Advance Amortization Payment to the next call date thereof not previously paid by the Mortgagor, (iv) the redemption premium on the HDB Bonds so to be redeemed, and (v) the costs and expenses of the Authority in effecting the redemption of the HDB Bonds so to be redeemed, less the amount of moneys available in the applicable sub-account or sub-accounts in the Redemption Account and for withdrawal from the Capital Reserve Fund and application to the redemption of such HDB Bonds in accordance with the terms and provisions of the HDB Resolution, as determined by the Authority;

(i) the Mortgagor shall have provided, or will provide in a manner satisfactory to the Authority, in payment of the Cost of Development, an amount equal to the difference between the Cost of Development and the Mortgage Loan Commitment of the Authority;

(j) the Mortgagor shall have acquired title to the site of the Development, or an interest in real property sufficient for the location thereon of the Development, free and clear of all liens and encumbrances which would materially affect the value or usefulness of such site or interest in real property for the intended use thereof;

(k) the Mortgagor shall have obtained all governmental approvals then required by law for the acquisition, construction, ownership and operation (if applicable) of the Development by the Mortgagor;

(l) The Mortgagor shall have obtained the approval by the Authority of preliminary plans and specifications of the Development, and if the Mortgage secures funds advanced or to be advanced to construct or rehabilitate a Development, the Mortgage or other related documents under which the Mortgage Loan is to be made shall obligate the Mortgagor to obtain within a reasonable period of time, the Authority's approval of final plans and specifications; and

(m) The Mortgagor shall be prohibited from selling, leasing or otherwise encumbering the Development, except that (i) a Mortgagor, with the written consent of the Authority, may grant easements, licenses or rights-of-way over, under or upon the site of a Development, so long as such easements, licenses or rights-of-way do not destroy or diminish the value or usefulness of such site, as determined by the Authority in connection with the provisions of such written consent, (ii) when and to the extent authorized by law, a Mortgagor, with the written consent of the Authority, may lease a Development or a portion thereof to a third party for the purposes of operation, such lease to be subject to all of the terms, provisions and limitations of the Mortgage relating to such Development, (iii) a Mortgagor, with the written approval of the Authority, may sell or exchange any land not required for a Development, provided that the proceeds derived by the Mortgagor from the sale of any such lands shall be paid over to the Authority for deposit into the applicable sub-account or sub-accounts in the Redemption Account established with respect to the Series of HDB Bonds last issued for the purpose of financing the Development from which land was sold and such moneys shall be used and applied as provided in subparagraph (c) of paragraph (5) of Section 604 of the HDB Resolution, and (iv) the Mortgagor may be permitted to sell a Development to another Mortgagor approved by the Authority, which successor Mortgagor shall assume the existing Mortgage; provided, however, that (i) a Mortgagor may encumber a Development in favor of the Authority as a mortgagee under a lien junior to the lien of the Mortgage which in the Authority's judgment provides funds which are likely to preserve, maintain or enhance the Development and (ii) a Mortgagor may encumber a Development in favor of a person or party other than the Authority as a mortgagee or secured party so long as (A) the lien of the mortgage or the security interest in the Development granted to such person or party is subordinate in priority to the Mortgage Loan for the Development, (B) the net operating income of the Development, prior to payment of the combined maximum annual debt service on the obligation evidenced by such mortgage or security interest and the Mortgage Loan (but treating any required Development reserve and other expenses as expenses), is at least equal to such combined maximum annual debt service (or such greater amount as required by the Authority) and (C) any such mortgage or security agreement does not contain a provision that would, without obtaining the prior consent of the Authority and the Trustee, permit the mortgagee or secured party thereunder to accelerate the debt evidenced thereby and take actions or commence proceedings to foreclose the mortgage or realize upon the security interest as long as any portion of the Mortgage Loan is outstanding.

Upon the conveyance of a Development to, and assumption of the Mortgage thereon by, a successor Mortgagor, in accordance with the above provision relating thereto, the Authority may release the original Mortgagor from its obligation under the Mortgage.

Modification of Mortgage Terms. The Authority covenants that it will not modify, or consent to the modification of, the rate or rates of interest of, or the amount or time of payment of any installment of principal or interest of any Mortgage Loan, or the amount or time of payment of any Fees and Charges payable with respect to such Mortgage Loan, or the security for or any terms or provisions of any Mortgage Loan or the Mortgage securing the same in a manner detrimental to Bondholders; provided, however, that, in the event the HDB Bonds issued to provide the funds with which the Authority has made a Mortgage Loan are being or have been refunded and the HDB Bonds of the Refunding Issue issued or to be issued for the purpose of refunding such original HDB Bonds are in a principal amount in excess of the principal amount of the HDB Bonds refunded, the Authority may consent to the modification of and modify such Mortgage Loan and the Mortgage securing the same and the Mortgage Repayments to be made thereunder so long as such Mortgage Repayments are sufficient in amount and payable at the times required for the payment of the principal of and Sinking Fund Installments, if any, and interest on such HDB Bonds of the Refunding Issue, and, provided further, that the Authority may consent to the modification of and modify a Mortgage Loan and the Mortgage securing the same in order to reflect and accommodate any change in the size or scope of the Development so long as the Mortgagor shall remain obligated to pay Mortgage Repayments and Fees and Charges in sufficient amounts to comply with the provisions of the HDB Resolution.

Sale of Mortgages by the Authority. The Authority covenants that it will not sell any Mortgage or other obligation securing a Mortgage Loan made by the Authority unless the sale price thereof received by the Authority shall not be less than the aggregate of (i) the principal amount of the Mortgagor's Mortgage Loan Obligations remaining unpaid, (ii) the principal amount of the Mortgagor's Capital Reserve Fund Obligations remaining unpaid, (iii) the interest to accrue on all HDB Bonds to be redeemed by the Authority upon the sale of such mortgage to the next call date thereof not previously paid by the Mortgagor, (iv) the redemption premium on the HDB Bonds so to be redeemed, and (v) the costs and expenses of the Authority in effecting the redemption of the HDB Bonds so to be redeemed, less the amount of moneys available in the applicable sub-account or sub-accounts in the Redemption Account and for withdrawal from the Capital Reserve Fund and for the redemption of such HDB Bonds in accordance with the terms and provisions of the HDB Resolution, as determined by the Authority; provided, however, that, in the event the HDB Bonds issued to provide the funds with which the Authority made the Mortgage Loan under the Mortgage to be sold by the Authority have been refunded and the HDB Bonds of the Refunding Issue issued for the purpose of refunding such original HDB Bonds were issued in a principal amount in excess of the Mortgagor's Mortgage Loan Obligations remaining unpaid at the date of such Refunding Issue, the required amount which the Mortgagor shall be obligated to pay under items (i) above shall be of the principal amount of such HDB Bonds of the Refunding Issue Outstanding.

Enforcement and Foreclosure of Mortgages. The Authority shall diligently enforce, and take all reasonable steps, actions and proceedings necessary for the enforcement of all terms, covenants and conditions of Mortgages securing Mortgage Loans made by the Authority, including the prompt collection of Mortgage Repayments and Fees and Charges and other Revenues.

Whenever it shall be necessary in order to protect and enforce the rights of the Authority under a Mortgage and to protect and enforce the rights and interests of Bondholders under the HDB Resolution, the Authority shall commence foreclosure proceedings against each Mortgagor in default under the

provisions of a Mortgage and, in protection and enforcement of its rights under such Mortgage, shall bid for and purchase the Development covered by such Mortgage at the foreclosure or other sale thereof and acquire and take possession of such Development.

Upon foreclosure of a Development, and so long as the Authority shall have title thereto or be in possession thereof, the Authority shall, as the case may be, construct, operate and administer such Development in the place and stead of the Mortgagor and in the manner required of such Mortgagor by the terms and provisions of the Mortgage. In so doing, the Authority, to the extent it may have moneys available for such purpose, including any moneys on deposit in the Development Mortgage Loan Account relating to such Development, shall complete the construction and development of any incomplete Development, and shall pay from the Acquired Development Funds established by the Authority with respect to such Development, the Mortgage Repayments and Fees and Charges which the Mortgagor was obligated to pay pursuant to the terms and provisions of the Mortgage.

Certain Other Covenants

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

Accounts and Reports. The Authority shall keep proper books of record and account in which complete and correct entries shall be made of its transactions relating to all Mortgages, Mortgage Loans, Revenues, Acquired Developments, and all Funds and Accounts established by the HDB Resolution and with respect to Acquired Developments, which shall at all reasonable times be subject to the inspection of a Depository, the Trustee and the Holders of an aggregate of not less than five percent (5%) in principal amount of the HDB Bonds then Outstanding or their representatives duly authorized in writing. The Authority shall annually, within one hundred twenty (120) days after the close of each Fiscal Year, file with the Trustee a copy of an annual report for such Fiscal Year, accompanied by an Accountant's Certificate, setting forth in complete and reasonable detail: (a) its operations and accomplishments; (b) its receipts and expenditures during such Fiscal Year in accordance with the categories or classifications established by the Authority for its operating and capital outlay purposes; (c) its assets and liabilities at the end of such Fiscal Year, including a schedule of its Mortgage Loans and Mortgage Loan Commitments and the status of reserve, special or other funds and the Funds and Accounts established by the HDB Resolution; and (d) a schedule of its HDB Bonds and Notes Outstanding at the end of such Fiscal Year, together with a statement of the amounts paid, redeemed and issued during such Fiscal Year. A copy of each such annual report and Accountant's Certificate shall be mailed by the Authority to each Bondholder who shall have filed his name and address with the Authority for such purpose.

The Authority shall provide the Trustee with a schedule of payments required to be deposited by each Mortgagor in order to meet the Mortgage Repayments and Fees and Charges and the Trustee shall be required to promptly advise the Authority of each and every failure of each Mortgagor to make deposits in accordance with such schedule.

Budgets. The Authority shall, at least 60 days prior to the beginning of each Fiscal Year, prepare and file in the office of the Trustee a preliminary budget covering its fiscal operations for the succeeding Fiscal Year which shall be open to inspection by any Bondholder. The Authority shall also prepare a summary of such preliminary budget and on or before 45 days prior to the beginning of each Fiscal Year mail a copy thereof to any Bondholder who shall have filed his name and address with the Authority for such purpose.

In the event the Holders of ten percent or more in principal amount of the Outstanding HDB Bonds shall file with the Authority 30 days or more prior to the beginning of a Fiscal Year a written request for a public hearing on such preliminary budget, the Authority shall call and hold such public hearing in the City of Chicago, State of Illinois, such hearing to be held not later than 15 days prior to the beginning of such Fiscal Year. Notice of such public hearing shall be published once in an Authorized Newspaper, not less than ten days prior to the date of such hearing, and shall contain a statement of the purpose of the hearing and the place and hour at which the same will be held. At such hearing any Bondholder, or his duly authorized attorney or representative, shall be entitled to be heard on any of the provisions contained in such preliminary budget.

The Authority shall adopt an annual budget covering its fiscal operations for the then current Fiscal Year not later than September 1 of each successive Fiscal Year and file the same with the Trustee. In the event the Authority shall not adopt an annual budget for a Fiscal Year on or before September 1 of such Fiscal Year, the budget for the preceding Fiscal Year shall be deemed to have been adopted and be in effect for such Fiscal Year until the annual budget for such Fiscal Year shall have been adopted as above provided and filed with the Trustee.

Personnel and Servicing of Mortgages. The Authority shall at all times appoint, retain and employ competent supervisory personnel for the purpose of carrying out its program of Mortgage Loans and shall establish and enforce reasonable rules, regulations and standards governing the employment of such personnel at reasonable compensation, salaries, fees and charges and all persons employed by the Authority shall be qualified for their respective position.

Defaults and Remedies

The Resolution declares each of the following events an "event of default":

(a) Default in the payment of the principal of, Sinking Fund Installments, if any, or interest on any HDB Bond after the same shall become due, whether at maturity or upon call for redemption, and such default shall continue for a period of thirty (30) days; or

(b) except with respect to any Series of HDB Bonds issued pursuant to a Series Resolution adopted after December 1, 1998, which provides that Section 26.1 of the Act does not apply to that Series of HDB Bonds, the Authority shall fail or refuse to comply with the provisions of Section 26.1 of the Act, or the State shall fail to apportion and pay to the Authority such sum as shall be certified by the Chairman of the Authority pursuant to such provision of the Act; or

(c) The Authority shall fail or refuse to comply with the provisions of the Act, other than as provided in (b) above, or shall default in the performance or observance of any other of the covenants, agreements or conditions on its part contained in the HDB Resolution, any Series Resolution, any Supplemental Resolution, or in the HDB Bonds, and continuance of such default for a period of ninety (90) days after written notice thereof by the Holders of not less than five percent (5%) in principal amount of the Outstanding HDB Bonds;

provided, however, that an event of default shall not be deemed to exist under the provisions of clause (c) above upon the failure of the Authority to make and collect Fees and Charges required to be made and collected by the provisions of the HDB Resolution or upon the failure of the Authority to enforce any obligation undertaken by a Mortgagor pursuant to the provisions of a Mortgage, including the making of

the stipulated Mortgage Repayments, so long as the Authority may be otherwise permitted by law and so long as the Authority shall be provided with moneys from the State or otherwise, other than withdrawals from or reimbursements of the Capital Reserve Fund, sufficient in amount to pay the principal of and interest and Sinking Fund Installments, if any, on all HDB Bonds as the same shall become due during the period for which the Authority shall be permitted by law to abstain from making and collecting such Fees and Charges and from enforcing the obligations of Mortgagors under the applicable Mortgages.

The Resolution provides that upon the happening and continuance of any event of default, then, and in each such case, the Trustee may proceed, and upon the written request of the Holders of not less than 25 percent in principal amount of the Outstanding HDB Bonds shall proceed, in its own name, to protect and enforce its rights and the rights of the Bondholders by such of the following remedies, as the Trustee, being advised by counsel, shall deem most effectual to protect and enforce such rights:

- (a) by suit, or proceeding, to enforce all rights of the Bondholders, including the right to require the Authority to make and collect Fees and Charges and Mortgage Repayments of Mortgage Loans made by it adequate to carry out the covenants and agreements as to, and pledge of, such Fees and Charges and Mortgage Repayments, and other properties and to require the Authority to carry out any other covenant or agreement with Bondholders and to perform its duties under the Act;
- (b) by suit upon the HDB Bonds;
- (c) by action or suit, require the Authority to account as if it were the trustee of an express trust for the Holders of the HDB Bonds;
- (d) by action or suit, enjoin any acts or things which may be unlawful or in violation of the rights of the Holders of the HDB Bonds; and
- (e) in accordance with the provisions of the Act, declare all HDB Bonds due and payable, and if all defaults shall be made good, then, with the written consent of not less than 25 percent in principal amount of the Holders of Outstanding HDB Bonds, to annul such declaration and its consequences.

Modifications of Resolutions and Outstanding HDB Bonds

The Resolution provides procedures whereby the Authority may amend the HDB Resolution or any Series Resolution by adoption of a Supplemental Resolution. Amendments of the HDB Resolution that may be made without the consent of Bondholders must be for purposes of further securing the HDB Bonds, imposing further limitations on or surrendering rights of the Authority, curing ambiguities or providing for the issuance of a Series of HDB Bonds.

Amendment of the respective rights and obligations of the Authority and the Bondholders may be made with the written consent of the Holders of not less than 66-2/3 percent in principal amount of the Outstanding HDB Bonds to which the amendment applies; but no such amendment shall permit a change in the terms of redemption or maturity of the principal of any HDB Bond or of any installment of interest thereon or a reduction in the principal amount or Redemption Price thereof, or in the rate of interest thereon or shall reduce the percentages or otherwise affect the classes of HDB Bonds the consent of the Holders of which is required to effect such amendment.

Amendments may be made in any respect with the written consent of the Holders of all of the HDB Bonds then Outstanding.

Defeasance

If the Authority shall pay or cause to be paid, or there shall otherwise be paid, to the Holders of the HDB Bonds and coupons then Outstanding, the principal and interest and Redemption Price, if any, to become due thereon, at the times and in the manner stipulated therein and in the HDB Resolution, then and in that event the covenants, agreements and other obligations of the Authority to the Bondholders shall be discharged and satisfied.

HDB Bonds or coupons or interest installments for the payment or redemption of which moneys shall then be held by the Trustee or the Paying Agents (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 HDB Bonds, shall be deemed to have been paid within the meaning and with the effect expressed in the paragraph above. All Outstanding HDB Bonds of any Series and all coupons appertaining to such HDB Bonds shall, prior to the maturity or redemption date thereof, be deemed to have been paid within the meaning and with the effect expressed in the paragraph above if there shall have been deposited with the Trustee either moneys in an amount which shall be sufficient, or Permitted Investments the principal of and interest on which when due will provide moneys which, together with the moneys, if any, deposited with the Trustee at the same time, shall be sufficient to pay when due the principal or Redemption Price, if applicable, and interest due and to become due on said HDB Bonds on and prior to the redemption date or maturity date thereof, as the case may be, and the Authority shall have given the Trustee irrevocable instructions to publish notice of redemption of such HDB Bonds as provided in the HDB Resolution. Neither Permitted Investments nor moneys deposited with the Trustee nor principal or interest payments on any such Permitted Investments shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal or Redemption Price, if applicable, and interest on said HDB Bonds.

APPENDIX F

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 HDB Developments (the "Section 236 Developments") are subject to the multi-family interest reduction subsidy program administered by HUD, acting through FHA, 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 such fair market rental charge, as represents 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 with corresponding reduction in the subsidy.

An additional "deep subsidy" entitled "Rental Assistance Payments" ("RAP") was introduced by HUD in 1975 under Section 236(f)(2) of the National Housing Act. The RAP program is designed to assist tenants in Section 236 projects who cannot afford to pay basic rent. The owner of an eligible Section 236 rental project may receive RAP payments from HUD on a specified percentage of dwelling units in the project. Such payments may be made in an amount equal to the difference between the basic rental of a dwelling unit and 30 percent of an eligible tenant's monthly income. Tenant eligibility for Rental Assistance Payments is based only on income, which must be less than the applicable HUD designated income limit for the area. RAP payments are limited by contract authority on an individual project basis. Each such contract may or may not be sufficient to fully accommodate increased rents.

Certain Terms of the Section 236 Contracts

The interest reduction payment agreements with HUD (the "Section 236 Contracts") provide for the payment of the Section 236 Payments for a period of not more than 50 years from the date of the initial Section 236 Payments with respect to the applicable Section 236 development. Generally, the

expiration dates of the Section 236 Contracts for the Section 236 Mortgage Loans relating to the Section 236 Developments financed directly or indirectly by the Offered Bonds are approximately coterminous with the maturity of the underlying mortgages.

Reduction and Termination of Section 236 Payments

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

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

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

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

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

Prepayment of Section 236 Mortgages

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

Set-Off Rights of the United States

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

Calculation of Excess Rental Charges

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

Section 236 has been amended to require that, beginning in 1996, "excess rental charges" are to be calculated on a "unit-by-unit" basis (i.e., the sum of all "excess rental charges" collected, without reduction for collection losses on other units). However, developments that are assisted under Section 236 and are (or were) also insured by HUD under that section are permitted to retain some or all of such excess income for project use if authorized to do so by HUD. The Section 236 Mortgage Loans are not FHA insured, and therefore are not eligible to retain such excess income payments. The Authority's cash flow analysis assumes that the "unit-by-unit" rule will be applied.

Recent Developments

HUD's Fiscal Year 2000 Budget released to the public on February 1, 1999 contains a provision that would allow HUD to notify an owner of a development assisted by a Section 236 Contract if HUD determines that the interest rate on the mortgage loan financing such development is two percent or more over a "market interest rate." Under the proposed provision, any owner so notified would be required to refinance its mortgage loan at a market interest rate within one year of the date of such notice. If the owner did not refinance, HUD would reduce the Section 236 subsidy to an amount not exceeding the difference between payments on the mortgage with a market interest rate (plus insurance premiums) and a mortgage with interest rate of one percent. The Authority cannot predict whether this proposal, if enacted in its current form, would have an adverse effect on the amount of subsidy available to certain of the Section 236 Developments, and consequently adversely affect the ability of affected owners to pay debt service on the related Section 236 Mortgage Loans, or increase the likelihood of prepayment of the related Section 236 Mortgage Loans and cause a redemption of Bonds. Under the HDB Program as of December 31, 1998, approximately \$24,480,570 in principal amount of mortgage loans bore interest at 5.53 percent, and approximately \$74,775,236 in principal amount of mortgage loans bore interest between 7.49 and 7.95 percent.

Section 8 Subsidy Program

Some of the developments financed by the Offered Bonds, MFHB Bonds and HDB Bonds (the "Section 8 Developments") are the subject of housing assistance payments on behalf of eligible tenants under the Section 8 Housing Assistance Program for new construction and substantial or moderate rehabilitation (the "Section 8 Program"). The following is a summary of such programs; it does not purport to be comprehensive or definitive, and it is qualified in its entirety by the statutes, regulations and agreements referred to in this summary.

Section 8 of the United States Housing Act of 1937, as amended (the "1937 Housing Act"), provides for the payment by the United States Department of Housing and Urban Development ("HUD") of a federal rental subsidy for the benefit of low income families (defined generally as families whose income does not exceed 80 percent of the median income for the area as determined by HUD) and very-low income families (defined generally as families whose income does not exceed 50 percent of the median income for the area as determined by HUD). Subsidy payments are made to or for the account of the owner of dwelling units occupied by low income and very-low income families. Provision is made under the 1937 Housing Act and HUD regulations thereunder for administration of the Section 8 Programs through state housing finance agencies, including the Authority. Under this arrangement, the state housing finance agency agrees to pay the subsidy to or for the account of the owner and concurrently contracts with HUD for payment of the subsidy by HUD to the state housing finance agency. With respect to the new construction or substantial rehabilitation program, the regulations permit the state agency to exercise a high degree of program responsibility for developments without federal mortgage insurance, such as selection of the developer, approval of design and construction quality, site selection, and determination of economic feasibility and marketability, subject to audit and review by HUD to assure compliance with federal requirements and objectives.

Pursuant to amendments to the 1937 Housing Act effected by the Housing and Community Development Amendments of 1981 (the "1981 Amendments"), not more than ten percent of the dwelling units which were available for occupancy under Housing Assistance Payments Contracts ("HAP Contracts") before the October 1, 1981 effective date of the 1981 Amendments ("Pre-1981 Act Projects") and which are leased thereafter shall be available for leasing by lower income families other than very-low income families; and not more than five percent of the dwelling units which become available for occupancy under HAP Contracts after the effective date of the 1981 Amendments ("Post-1981 Act Projects") shall be available for leasing by lower income families other than very-low income families.

The Housing and Urban-Rural Recovery Act of 1983 (the "1983 Amendments") amended the 1937 Housing Act. Among other things, the 1983 Amendments (i) repealed the Secretary of HUD's authority to enter into Annual Contributions Contracts ("ACCs") for any developments involving new construction or substantial rehabilitation, except for funds obligated prior to January 1, 1984; and (ii) increased to 25 percent from ten percent the number of dwelling units which were available for occupancy under HAP Contracts before the effective date of the 1981 Amendments which may be leased to low income families other than very-low income families.

On March 23, 1994, HUD published a regulation implementing the requirement of Section 151 of the Housing and Community Development Act of 1992 and Section 555 of the Cranston-Gonzalez National Affordable Housing Act of 1990 that any dwelling unit in any housing constructed or substantially rehabilitated pursuant to assistance provided under Section 8(b)(2) of the 1937 Housing Act, as that Section existed before October 1, 1983, and with a contract for assistance under that Section, be reserved for occupancy by low income and very-low income families. This regulation, which became effective as of April 22, 1994, removes the exemption to lease to ineligible families for owners who entered into an agreement to enter into a HAP Contract prior to October 1, 1981.

The "Quality Housing and Work Responsibility Act of 1998" Pub.L. 105-276, has again revised the income eligibility standards for Section 8 developments. For Pre-1981 Act Projects, the rule remains that not more than 25% of the units shall be available for occupancy by low-income families other than very low-income families. For Post-1981 Act Projects, not more than 15 percent of the dwelling units shall be available for occupancy by low-income families other than very low-income families.

Subsidy Contracts. Under the Section 8 Programs, as administered through HUD, three principal contracts are executed. The Authority enters into An Agreement to Enter Into Housing Assistance Payments Contract ("AHAP") with the developer or owner of the development to be constructed or rehabilitated. The AHAP is approved by HUD, except that HUD approval is not required under the Section 8 Program for moderate rehabilitation. Subject to certain conditions, the AHAP commits the owner and HUD to enter into a HAP Contract upon completion and acceptance of the development, providing for payment by the state housing finance agency of housing assistance payments to or for the account of the owner. At the same time that the AHAP is executed, or prior to the execution of the AHAP for the moderate rehabilitation program, the state housing finance agency and HUD execute an ACC which provides for the payment to the Authority by HUD of the subsidy which the Authority is to pay to or for the account of the owner under the proposed HAP Contract. ACCs under the moderate rehabilitation program do not relate to a specific development. The HAP Contract must be submitted to HUD for approval and its effective date may not precede submission to HUD of certification as to completion of the development, except that HUD approval of the HAP Contract is not required under the moderate rehabilitation program. The HAP Contract may be executed with respect to separate stages of a development completed at different times.

Certain Terms of the Subsidy Contracts. A development financed by bonds or notes of the Authority during its construction is not eligible to receive Section 8 subsidy payments with respect to eligible dwelling units until a certification of completion has been furnished. The HAP Contracts provide for the payment of the Section 8 subsidy for a period of not more than 40 years or, in the case of most developments that are the subject of more recently executed HAP Contracts, 30 years and as short a period as 20 years from the date of the initial HAP Contract with respect to the applicable portion of the development. In the case of the Section 8 Program for moderate rehabilitation, the HAP Contracts provide for the payment of the Section 8 subsidy for a period of not more than 15 years from the date of the initial HAP Contracts.

Initial Amount of Subsidy. In connection with any Section 8 Developments, Section 8 subsidies are based upon the Contract Rents applicable to subsidized dwelling units.

The amount of the subsidy payable to the account of the owner under a HAP Contract is the applicable Contract Rent less the payment, if any, required to be made to the owner by the tenant as determined by HUD. The tenant payment is generally equal to 30 percent of family income. Thus, the total rental income from Section 8 housing units payable to or for the account of the owner is equal to the Contract Rent, part being paid by the tenants directly to the owner and the remainder being paid by HUD to the owner in the form of housing assistance payments. The proportion of the Contract Rent actually paid by HUD and that actually paid by tenants will vary depending upon tenant income.

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

A subsidy amounting to 80% of the Contract Rent is payable for a vacancy period of sixty days (a) during the rent-up period following completion of the development or a stage of the development, and (b) upon occurrence of a vacancy in an assisted dwelling unit after it is initially rented, subject in each case to compliance by the owner with certain conditions relating primarily to a diligent effort to rent the subsidized unit. Such payments may continue for an additional 12-month period in an amount equal to the debt service attributable to the unit contingent upon, among other things, the additional conditions

that the unit is in decent, safe and sanitary condition during the vacancy period, that the owner has taken and continues to take all feasible action to fill the vacancy, that the development is not providing the owner thereof with revenues at least equal to the costs incurred by such owner, that the amount of the payments requested is not in excess of that portion of the deficiency which is attributable to the vacant unit for the period of the vacancy and that there is a reasonable prospect that the development can achieve financial soundness within a reasonable time.

Adjustments of Contract Rents. The statute and applicable regulations contain various provisions for review and readjustment of the amount of the Contract Rents upward or downward, subject to the limitations that in no case shall the adjustment lower the Contract Rent below that effective on the date of the HAP Contract and that no adjustment shall result in a material difference between the rents charged for subsidized and comparable non-subsidized dwelling units, as further described below.

Each HAP Contract provides for certain adjustments in Contract Rents. At least annually, HUD publishes an Annual Adjustment Factor ("Annual Adjustment Factor" or "AAF"), which is intended to reflect changes in the fair market rent established in the housing area for similar types and sizes of dwelling units; interim revisions may be made where market conditions warrant. Upon request from an owner to the Authority, the AAF is applied on the anniversary date of the HAP Contract to Contract Rents, *provided* that no adjustment may result in a material difference between the rents charged for subsidized and comparable non-subsidized dwelling units except to the extent that the differences existed with respect to the Contract Rents set forth at the time of the HAP Contract execution or cost certification where applicable. (The difference that existed between the Contract Rent for a unit at HAP Contract execution and the rent on comparable unassisted units is generally referred to by HUD as the "initial difference" in Contract Rents.) In addition, provision is made in the regulations for special additional adjustments to reflect increases in actual and necessary expenses of owning and maintaining the subsidized units that have resulted from substantial general increases in real property taxes, assessments, utility rates and utilities not covered by regulated rates, if the owner demonstrates that the automatic annual adjustments have not provided adequate compensation. Under current law (Section 8(c)(2)(C) of the U.S. Housing Act), "[t]he Secretary may not reduce the Contract Rents in effect on or after April 15, 1987, for newly constructed, substantially rehabilitated, or moderately rehabilitated projects assisted under the section . . . unless the project has been refinanced in a manner that reduces the periodic payments of the owner."

Notwithstanding the foregoing, if the Contract Rents for a development exceed the applicable HUD fair market rents ("FMR's") (plus any initial difference), then Contract Rents cannot be increased beyond comparable market rents (plus the initial difference) as determined by independent appraisals of at least three comparable local developments submitted by the Borrower. In addition, the AAFs for Section 8 units which experienced no turnover in tenants since their preceding HAP Contract anniversary date will be one percentage point less than the AAFs that would otherwise apply.

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

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

owners of Section 8 Developments to maintain the full amount of subsidized units, but has not covenanted with the holders of Bonds to do so.

Funding of Increases in Subsidy. Funds for the payment of increased subsidies which may result from the adjustments described in the second paragraph under "Adjustment of Contract Rents" above are to be obtained in two ways. Provision is made in the 1937 Housing Act for the payment by HUD into a project account in respect of each subsidized development of the amount by which the Contract Rents in effect from time to time exceed the actual subsidy paid by HUD (this amount is, in effect, the equivalent of the amount of rent paid by the tenants). The amount of increases in the subsidy payable by reason of increases in the Contract Rent resulting from the adjustments described in such paragraph will initially be drawn from this account. The regulations provide that when the HUD-approved estimate of required annual subsidy payments exceeds the maximum annual ACC commitment then in effect and would cause the amount in such reserve account to be less than 40 percent of such maximum annual ACC commitment, HUD shall take such additional steps authorized by subdivision (c)(6) of Section 8 (quoted below) as may be necessary to obtain funds to assure that payment will be adequate to cover increases in Contract Rents and decreases in tenant rents. Subdivision (c)(6) of Section 8 provides:

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

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

Foreclosure. The regulations provided that in the event of foreclosure, or assignment or sale of the Section 8 Development in lieu of foreclosure, or in the event of an assignment or sale approved by HUD (which approval shall not be unreasonably delayed or withheld), subsidy payments will continue in accordance with the HAP Contract.

Under each ACC, annual contributions are paid monthly into a special account maintained by the Authority for the receipt of Section 8 payments. To the extent such subsidy payments are sufficient, the Authority retains an amount up to the current payment due from the owner on the mortgage loan and any amounts necessary to fund the reserves required to be maintained by the owner with respect to the development, and disburses any remainder to the owner.

Compliance with Subsidy Contracts. The AHAP, the ACC and the HAP Contract contain numerous agreements on the part of HUD and the owner, including the obligation to maintain the development as decent, safe and sanitary housing and compliance with a number of additional requirements (such as nondiscrimination, equal employment opportunity, relocation, pollution control and labor standards) as to which noncompliance by either the Authority or the owner, or both, might

endanger the payment of the federal subsidy. Reference is made to the complete texts of these agreements, the forms of which are available for inspection at the offices of the Authority.

Prior to any disbursement of a mortgage loan for a development which is to be subsidized under Section 8, the Authority enters into a regulatory arrangement with the owner requiring the owner to take or refrain from taking action as necessary to maintain eligibility for Section 8 subsidies for assisted dwelling units in the development during the term of the mortgage loan.

The regulations which apply to moderate rehabilitation under Section 8 differ, in certain respects, from those for new construction and substantial rehabilitation. Among such differences, the moderate rehabilitation regulations provide that: (1) Fair Market Rent is determined by a different HUD schedule; (2) the initial Contract Rent may exceed Fair Market Rent by a maximum of 20 percent, but only when justified by increased costs during rehabilitation; (3) the HAP Contract must be for a term of not more than 15 years; (4) the ACC is entered into between HUD and the Authority for the overall dollar amount and number of units and does not relate to specific developments; (5) contracts between the owners and the Authority are not subject to HUD approval; (6) only the owner may pledge subsidy payments as security; and (7) with respect to vacancy, the owner may receive a housing assistance payment in the amount of 80 percent of the Contract Rent for a vacancy period not exceeding one month following the month in which the unit is first vacated.

Expiring HAP Contracts and Recent Legislation

In recent years there have been numerous proposals and pronouncements from Members of Congress, the Clinton Administration and HUD Officials which address the future of HUD and the various programs operating pursuant to Section 8 of the 1937 Housing Act. The primary focus on these proposals and pronouncements have been developments that have FHA-insured mortgages with terms ranging from 30 to 40 years and which have Section 8 HAP Contracts with substantially shorter terms. Efforts to address this subject are often referred to, generally and without specific import, as "Portfolio Reengineering" or "Mark-to-Market."

After a series of interim legislative acts and demonstration programs, HUD's Fiscal Year 1998 Appropriations Act, Pub. L. 105-65, was signed into law by the President on October 27, 1997. This legislation includes within it the "Multifamily Assisted Housing Reform and Affordability Act of 1997 (the "1997 Act"). The 1997 Act implements a new "Mark-to-Market" program, beginning in fiscal year 1999, pursuant to which many FHA-insured Section 8 developments with expiring HAP Contracts and above-market rents will be eligible for restructuring plans, and, upon restructuring, may receive continuing Section 8 assistance. These restructuring plans may include refinancing and/or partial prepayment of mortgage debt, intended to permit the reduction of Section 8 rent levels to those of comparable market rate properties or to the minimum level necessary to support proper operations and maintenance.

The restructuring (or expiration and renewal of HAP Contracts) is designed also to result in a change from "project-based" to "tenant-based" Section 8 payments in many cases. In the former circumstance, the Section 8 HAP Contract is associated with a particular development and the units therein, and when a tenant moves from the development, the successor tenant, assuming that he or she is within the applicable income limits, will receive the benefit of the Section 8 payments. With "tenant-based" assistance, the Section 8 subsidy is associated with a particular tenant, and when that tenant moves from the development, the successor tenant will not receive the benefit of Section 8 payments.

The "Mark-to-Market" program contained in the 1997 Act described in the foregoing paragraphs does not apply to HAP Contract renewals and contract rent determination standards for FHA-insured Section 8 developments for which the primary financing or mortgage insurance was provided by a state or local government, or a unit or instrumentality for such government. Press reports and HUD's proposed regulations implementing the 1997 Act suggest that this result reflects a drafting error in the 1997 Act, and that such state- and local-financed developments with FHA-insured mortgages are intended to be eligible for restructuring unless restructuring would conflict with the terms of their financing documents. To date, this reportedly erroneous result has not been corrected. Such state and local government financed Section 8 developments with FHA-insured mortgages are treated in the same manner as uninsured "exception projects" discussed below.

It is impossible to predict if any corrective amendment to the 1997 Act will be made, or how such an amendment may affect treatment of FHA-insured 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.

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 G - Description of FHA Mortgage Insurance Program."

The 1997 Act treats developments financed by a unit of state government (or an agency or instrumentality thereof) and not insured under the National Housing Act as "exception projects," subject to distinct HAP Contract renewal standards. Upon the request of the owner of such an exception project, 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). Renewals are expected to be made for an initial term generally of one year, with initial rents at the lesser of: (1) existing rents adjusted by an Operating Cost Adjustment Factor ("OCAF") established by HUD, or (2) a budget-based rent determined by HUD. Under current law, future rent adjustments (either positive or negative) will be determined using an OCAF or a budget-based adjustment. While it is anticipated that any such adjustment will 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 the 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.

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. If the 1997 Act should be amended so as to include projects financed by a unit of state government (or an agency or instrumentality thereof) within its scope, 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.

Information regarding the HAP Contracts for certain of the Section 8 Developments may be found under "FINANCED DEVELOPMENTS - Description of Financed Developments" and in Appendix D.

APPENDIX G

DESCRIPTION OF FHA MORTGAGE INSURANCE PROGRAM

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

FHA Insurance Processing

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

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

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

Construction and Rent-Up

Construction of the development is required to proceed in accordance with the FHA standard form of Building Loan Agreement. See "The Mortgage Loan Documents - *Building Loan Agreement*" in this Appendix. During construction, a licensed inspecting architect hired by the owner and an FHA inspector make periodic inspections to ensure on-site conformity with FHA-approved plans and specifications. Under the Building Loan Agreement, funds are disbursed on a percentage of completion basis with periodic requisitions for advance of funds. Prior to any disbursement, certain conditions must be satisfied, including the completion of certain inspections of the construction, the submission and approval of certain documentation of construction work progress and compliance with the approved plans and specifications and the provision of updated title evidence satisfactory to the mortgagee and FHA and others. Each advance will be insured by FHA upon disbursement in accordance with FHA regulations. Disbursements of advances continue for only so long as the owner is not in default under the mortgage and otherwise complies with the requirements for disbursements.

Construction Changes. Changes in the plans and specifications originally approved by FHA at initial endorsement must be approved in writing by the owner, the owner's architect, FHA and the mortgagee (as well as the bonding company providing the contractor's payment and performance bond where such bonds are required and the scope of the change warrants prior approval). In the event of a change order which will result in net increases in construction costs, the mortgagee is required to collect the amount of such expected increase from the owner prior to disbursement of the next advance unless FHA waives the requirement. Such funds may be disbursed to the owner and contractor as the additional work contemplated by the change order progresses and is approved by FHA.

Cost-Certification. Prior to final closing and final endorsement, the owner and the contractor must submit cost-certifications prepared by independent public accountants for FHA approval. After reviewing such certified cost, FHA determines the amount of the "maximum insurable mortgage." In the event that the maximum insurable mortgage amount is less than the amount of the mortgage note at initial endorsement, the mortgage note will be reduced. In the event that the maximum insurable mortgage is in excess of the amount of the note at initial endorsement, the mortgage note may under certain circumstances be increased with the consent of the mortgagee and FHA.

Development Rent-Up. As the construction of a development nears completion, the owner begins to market those units which are available for occupancy. In certain developments, it may be possible to rent some of the units which have been completed prior to the completion of the entire development.

FHA regulations require a certificate of occupancy from appropriate local governing bodies and a multi-peril liability insurance policy from the owner prior to the occupancy of any unit in a development.

Final Endorsement for Insurance. Final endorsement of the mortgage note occurs only after cost-certification is completed. Increases in the maximum insurable amount of the mortgage loan approved by FHA and the mortgagee are funded at this time. Amounts remaining to be advanced under the mortgage will be disbursed, contingent upon FHA approval, upon the receipt of acceptable title insurance endorsements and the fulfillment of certain other obligations of the owner. FHA and the mortgagee review the final closing documents and the mortgage note is finally endorsed upon a determination by the mortgagee and FHA that all requirements for final endorsement have been satisfied.

The Mortgage Loan Documents

The FHA-insured Mortgage Loans financed with the proceeds of Outstanding Bonds were made pursuant to certain standard form FHA documents which are hereinafter generally described.

Building Loan Agreement. The standard form FHA Building Loan Agreement which is entered into between a development owner and a mortgagee requires, among other things, that a development be completed in accordance with plans and specifications approved by FHA and the mortgagee, that any changes in the drawings and specifications, and any changes by way of altering or adding to the work contemplated or orders for extra work must be approved by the architect and any changes which will result in a net construction cost increase, or will change the design concept, or will result in a net cumulative construction cost decrease, may be effected only with the prior written approval of the mortgagee and FHA, that under such conditions as either the mortgagee or FHA may establish, advances for construction are to be made only for work completed and accepted by FHA, together with the value of materials and equipment not incorporated in the work but delivered to and suitably stored at the project site, subject to a 10 percent hold back until a final inspection report indicates "substantial" completion of the development, and that all advances are subject to prior approval of the mortgagee and FHA.

Assurance of Completion. Pursuant to FHA regulations, the Authority as mortgagee will require the mortgagor and general contractor for each development to execute a standard form FHA construction contract. Under the contract, the general contractor agrees to complete construction of the development in accordance with plans and specifications approved by FHA. In order to assure completion of construction, the general contractor is required to provide either a payment and performance bond in an amount approved by FHA and the Authority or to enter into a completion assurance agreement with the Authority secured by a deposit of cash or an unconditional, irrevocable letter of credit in favor of the Authority.

Regulatory Agreement. The owner of a development, or, if the owner is a land trust, the owner and the beneficiary of the land trust, enters into a Regulatory Agreement with FHA which sets forth certain of the owner's obligations in connection with the management and operation of a development.

Pursuant to the Regulatory Agreement, the owner must establish a reserve fund for replacements. The reserve fund for replacements will be funded by monthly payments by the owner in the amount established by FHA. Moneys in such fund may be disbursed, with prior FHA approval, to effect replacement of structural elements or mechanical equipment of the development or for any other purpose.

The owner may make dwelling units and services of the development available at charges as from time to time may be mutually agreed upon between the owner and the tenants. Dwelling units may not be rented for a period of less than 30 days.

The owner may not make, receive or retain any distribution of assets or income from the development, except from "Surplus Cash." "Surplus Cash" is defined in the HUD regulations as cash remaining at the end of any semiannual or annual fiscal period after the payment of: (1) all sums due under the mortgage and the mortgage note; (2) all amounts required to be deposited in the reserve fund for replacements; and (3) all obligations of the development other than the mortgage (unless otherwise provided for). Surplus Cash does not include amounts held in special funds required to be maintained for the development or tenant security deposits.

In the event the owner violates any provisions of the Regulatory Agreement and fails to cure the default within 30 days after the mailing of notice from FHA, or such longer period as FHA may determine, the Agreement provides that FHA may declare a default. In the event of a default under the Regulatory Agreement, the Agreement provides that FHA may notify the mortgagee of the default and request the mortgagee to declare a default under the mortgage and mortgage note. The mortgagee is not a party to the Regulatory Agreement and, therefore, may not directly declare the owner in default thereunder.

Mortgage Note. The standard form FHA mortgage note is a nonrecourse obligation, since the maker is not personally liable for the payment of the principal of and interest thereon. Each mortgage note will be in a face amount approved by FHA and will be endorsed for insurance by FHA at the initial closing of the mortgage loan.

Each mortgage note for a development insured under Section 221 (d)(4) of the National Housing Act will provide that prepayment of the principal amount of the Mortgage Loan may be made only with the approval of the Authority and FHA upon giving the Authority at least 30 days written notice. Each mortgage note for a Development financed by the Authority under Section 221 (d)(4) with proceeds of the Bonds will provide that, except for a refunding required by HUD, no prepayment may be made by the mortgagor prior to the date on which the series of Bonds financing the Mortgage Loan are subject to redemption at the option of the Authority, and, in the event that any prepayment of principal is made, the mortgagor must pay to the Authority a premium on the date of such prepayment in an amount equal to (1) the premium to be paid on the Bonds to be redeemed, and (2) such other fees and charges which are reasonable, as determined by FHA, and which are related to the Authority's cost of redeeming the series of Bonds sold to finance the Mortgage Loan. The remaining principal amount, if any, will be reamortized over the remaining portion of the original mortgage term in monthly payments in an amount approved by the Authority, FHA and the Trustee.

Mortgage. In order to secure the payment of the debt evidenced by the mortgage note, the owner of each development will grant, for the benefit of the payee under the mortgage note, a security interest on the project site, together with all buildings, improvements and fixtures to be constructed on the site and all articles of personal property of the owner located on the site (collectively, the "mortgaged property") and, in addition, will assign to the mortgagee all rents, profits and income to be derived from the mortgaged property. Until final payment of the indebtedness, each owner agrees not to encumber the mortgaged property in any way without the consent of the mortgagee and FHA.

In addition to the monthly payments due under the mortgage note, the mortgage obligates the owner to deposit with the mortgagee in escrow on the first day of each month sums sufficient to provide the mortgagee with funds to pay the next annual mortgage insurance premium and to pay the estimated fire and property insurance premiums, taxes and assessments, if any, with respect to the mortgaged property. The standard FHA documents described above have been modified with the consent of FHA to add certain requirements of the Authority. In addition, the Authority expects to enter into its own

regulatory agreements with the mortgagor regulating the rents, distributions, use, occupancy, management and operations of the Developments.

Collection of Insurance Benefits

The mortgagee is required to notify FHA within 60 days after the date of an event of default by the owner under the mortgage note or mortgage which continues for 30 days. Unless extended by FHA, applicable FHA regulations further require that the mortgagee must, within 75 days of the date of the event of default under the mortgage, make an election either to (1) assign the mortgage to FHA, or (2) acquire and convey the property to FHA. If there occurs an event of default during the term a prepayment premium is payable under the mortgage note or during the period when no prepayments are permitted under the mortgage note the mortgagee is required to request from HUD a three-month extension of the deadline for filing a notice of its intention to file an insurance claim and its election to assign the mortgage. If HUD grants an extension the mortgagee is required to assist the mortgagor in arranging a refinancing to cure the default and avert an insurance claim. HUD makes its determination whether to grant the three-month extension of the election notice filing deadline based on its analysis of the project's financial condition and its assessment of the feasibility of arranging a successful refinancing.

Upon the assignment of a defaulted mortgage to FHA, FHA will reimburse the mortgagee an amount equal to the unpaid principal balance of the mortgage loan at the date of default (less one percent), plus interest at the debenture interest rate from the date of default through the date of payment of such benefits, less one percent of the outstanding principal balance of the mortgage as of the date of default from the amount of insurance benefits paid to the mortgagee. FHA also deducts: (1) certain interest losses; (2) any cash, letter of credit or securities held by the mortgagee or its agents or to which it is entitled including deposits made for the account of the mortgagee and which have not been applied in reduction of the principal amount of the mortgage loan indebtedness; (3) any amounts received by the mortgagee after the date of default with respect to such development; and (4) certain other deductions which may be made from insurance benefits paid by FHA.

Under the FHA insurance contract with the mortgagee, FHA agrees to pay interest to the mortgagee from the date of default at the "debenture" rate of interest which is in effect on the date FHA issues its firm commitment or the date of initial endorsement, whichever rate is higher until the date insurance benefits are paid. Payment of insurance benefits will be made in cash unless the mortgagee requests that insurance benefits be paid in debentures. The Authority has covenanted in the series resolutions pursuant to which FHA-insured developments were financed to request payment in cash.

In the case of a monetary default, the date of default is deemed to be the date on which payment originally should have been received. Since interest is paid one month in arrears in FHA mortgage transactions, the mortgagee will not, in the event of a claim for insurance benefits, be reimbursed for interest which had accrued in the previous month and was due and payable on the date of default. FHA will reimburse the mortgagee only for interest at the debenture interest rate commencing on the date of default.

Upon a default by the mortgagor which entitles the mortgagee to assign the mortgage to FHA, the mortgagee must notify FHA of the default and of the mortgagee's intention to assign the mortgage to FHA. Upon receipt of this notification and election, FHA reviews the documentation to determine whether the mortgagee is entitled to assign the mortgage and to receive insurance benefits under the mortgage insurance contract. Prior to actual assignment of the loan to FHA and receipt of insurance

benefits, the mortgagee must also satisfy certain legal requirements including submission of a title policy showing that no liens or encumbrances (except for encumbrances approved by FHA) are superior to the mortgage lien.

The mortgagee is required to submit all required documentation within 45 days from the date the mortgage is assigned to FHA, unless the time is extended by FHA. The documentation required to be supplied to FHA includes credit instruments and other assurances, warrants or bonds requested by FHA. If the election is not made or the documents are not delivered within the 45 days allowed, FHA will not pay the mortgagee interest on sums outstanding from the date the election should have been made or the date the required documents should have been submitted to FHA, whichever is applicable, to the date when the insurance claim is finally paid unless FHA has agreed to extend the period with interest.

The ability of the mortgagee to realize benefits of insurance in the event of a non-monetary default resulting from the failure of a mortgagor to comply with the occupancy, rental and use requirements under applicable Federal tax laws and regulations thereunder has not been conclusively determined, and the mortgagee may have to exercise other remedies, the effectiveness of which may depend on the discretion of a court, to enforce such requirements so as to prevent the interest on obligations issued to finance such developments from becoming subject to Federal income taxes.

Partial Settlement Upon Assignment. FHA may pay a portion of an insurance claim prior to the delivery of required documents, including the mortgage note and the mortgage. If the claim is made in connection with a mortgage loan which has not yet been finally endorsed, FHA may pay 70 percent of the outstanding principal balance of the loan within 30 days of the filing of an assignment of the mortgage loan to FHA, provided that the pertinent data is submitted to FHA in a timely manner. In the case of a mortgage loan which has been finally endorsed, FHA may, but is not obligated to, pay 90 percent of the outstanding principal balance within 30 days of the filing of an assignment of the mortgage loan to FHA provided the pertinent data is submitted to FHA in a timely manner. Any remaining balances are paid to the mortgagee after FHA has received and audited final financial data. Legal clearance is also required before final payment is made and all necessary documents, including but not limited to, the mortgage note, mortgage, applicable assignments and the title policy, are required to be delivered to FHA in acceptable form.

Deposits Held by Mortgagee. The mortgagee is responsible for all deposits under its control, and FHA deducts from any insurance claim the amount of cash held by the mortgagee on behalf of the owner. Where deposits are held by the mortgagee in the form of a letter of credit, it is the mortgagee's responsibility to convert the letter of credit to cash in the event the funds are necessary. For insurance purposes, FHA views a letter of credit held in lieu of a cash deposit as the equivalent of cash. FHA does not review or approve letters of credit. The Authority requires letters of credit to be unconditional and irrevocable.

The mortgagee is responsible for all funds in its custody and must therefore obtain approvals from FHA and others, when required, prior to release of any funds which may be in its possession. Failure properly to protect such funds may result in a deduction from the FHA insurance claim in an amount equal to the funds FHA asserts should properly have been held as a deposit.

Warranties Upon Assignments. In the event of an assignment of a mortgage, FHA requires the mortgagee to warrant that (1) no act or omission of the mortgagee has impaired the validity and priority of the mortgage; (2) the mortgage is prior to all mechanics' and materialmen's liens filed of record subsequent to the recording of the mortgage, regardless of whether such liens attached prior to the

recording date; (3) the mortgage is prior to all liens and encumbrances which may have attached or defects which may have arisen subsequent to the recording of the mortgage except such liens or other matters as may be approved by FHA; (4) the amount stated in the instrument of assignment is actually due under the mortgage and there are no offsets or counterclaims against such amount; and (5) the mortgagee has a good right to assign the mortgage. In assigning its security interest in chattels, including materials, located on the premises covered by the mortgage or its security interest in building components stored either on-site or off-site at the time of the assignment, the mortgagee is required to warrant that (a) no act or omission of the mortgagee has impaired the validity or priority of the lien created by the chattel security instruments; (b) the mortgagee has a good right to assign the security instruments; and (c) the chattel security instruments are a first lien on the items covered by the instruments except for such other liens or encumbrances as may be approved by FHA.

Title Insurance Policy (Mechanics' and Other Liens). The mortgagee will be required to furnish FHA with a title policy which names FHA as the insured party and which assures FHA that the mortgage loan to be assigned constitutes a first lien on the mortgaged premises, subject only to such exceptions as are previously approved by FHA. The mortgagee will be required to remove any intervening liens and to obtain an updated endorsement within the 45-day period during which documents are required to be submitted. FHA will deduct the amount of any liens which have priority over the mortgage lien from the mortgagee's FHA insurance claim.

Tax liens against the property which have priority over the lien of the mortgage must be paid by the mortgagee. Although the mortgagee will be reimbursed for funds it advances to pay real estate taxes on the mortgaged property, failure to pay taxes when due may result in a penalty which will not be reimbursed by FHA in connection with the insurance claim.

Inspections and Hazard Insurance Policy. The mortgagee is required to inspect the mortgaged property at least annually and to advise FHA of its recommendations for actions necessary to protect or maintain the property and to maintain adequate hazard insurance coverage. Failure to maintain adequate coverage is grounds for termination of the FHA insurance contract, unless FHA has been notified in a timely manner of the unavailability of coverage. Losses occurring as a result of a failure properly to insure the mortgaged property will be deducted from the mortgage insurance claim.

Transfer of the Mortgage. In certain circumstances the mortgagee is permitted to transfer some or all of its interest in the mortgage. The transfer, pledge or assignment of a mortgage in a manner which is not in compliance with FHA requirements is grounds for termination of the FHA insurance. Prior to final endorsement, the mortgage note may be assigned only to another FHA-approved mortgagee with the approval of FHA. Subsequent to final endorsement, the mortgage loan may be assigned to another FHA-approved mortgagee after notice to FHA on a prescribed form.

Losses on Advances Other than Mortgage Proceeds. Although the mortgagee will be reimbursed for advances properly made for taxes, insurance premiums and preservation of the property, such reimbursement may not fully compensate the mortgagee for the making of such advances, since the mortgagee will be paid only the rate of debenture interest on such advances from the date of default.

Reimbursement for Maintaining the Mortgaged Property. FHA will reimburse the mortgagee for funds advanced to maintain or preserve the mortgaged property, if the approval of FHA is received prior to the time such funds are advanced.

Funding of Reserves. The funding of a replacement reserve for each development that is the subject of FHA mortgage insurance remains fixed at the initial year level, which is 0.6 percent of the construction cost of a newly constructed development and 0.4 percent of the mortgage loan amount for a rehabilitation development. Withdrawals from the replacement reserves of developments subject to FHA mortgage insurance are subject to FHA approval. An additional working capital reserve of two percent of the mortgage loan amount is required and is released at final endorsement. Draws against the additional working capital reserve can be made only with FHA consent. The reserve is an offset against FHA mortgage insurance benefits in the event of a claim.

HUD Override of Prepayment Prohibition and Penalties. Pursuant to Mortgagee Letter 87-9, dated February 20, 1987 ("Mortgagee Letter 87-9"), prepayment prohibitions and penalties may be included by the mortgage only if the following conditions are satisfied: (1) the mortgage note includes an override provision permitting prepayments of the mortgage loan to be made in whole or in part without penalty prior to the date on which the mortgage note is otherwise permitted to be prepaid with a penalty of 1 percent or less upon HUD's determination that a prepayment will avoid a mortgage insurance claim and therefore be in the best interest of the Federal government; and (2) the mortgagee certifies that, in the event a default occurs prior to the date on which the mortgage note is otherwise permitted to be prepaid with a penalty of 1 percent or less, it will (a) request a three-month extension of the deadline for the filing of an FHA mortgage insurance claim and election to assign the mortgage note to HUD; (b) during the period of extension as approved by HUD, assist the mortgagor in arranging a refinancing to cure the default and avert an insurance claim; (c) report to HUD at least monthly on arrangements relating to the refinancing of the project; (d) cooperate with HUD in taking reasonable steps in accordance with prudent business practices to avoid an insurance claim; and (e) require successors and assigns to the mortgagee's interest in the mortgage loan to be bound by these conditions. The Authority has agreed to be bound by these requirements in connection with mortgage loans originated after the release of Mortgagee Letter 87-9.

Mortgagee Letter 87-9 further states that HUD would consider exercising the override provision described above only if:

- (1) the mortgagor has defaulted and HUD has received notice of such default;
- (2) HUD determines that the project has been experiencing a net income deficiency, which has not been caused solely by management inadequacy or lack of owner interest, and which is of such a magnitude that the mortgagor is currently unable to make required debt service payments, pay all project operating expenses and fund all required HUD reserves;
- (3) HUD finds there is a reasonable likelihood that the mortgagor can arrange to refinance the defaulted loan at a lower interest rate or otherwise reduce the debt service payments through partial prepayment; and
- (4) HUD determines that refinancing the defaulted loan at a lower rate or partial prepayment is necessary to restore the project to a financially viable condition and to avoid an insurance claim.

APPENDIX H-1

Form of Opinion of Bond Counsel -- 1999 Series A Bonds and 1999 Series C Bonds

[Date of Issuance]

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 \$_____ aggregate principal amount of its Housing Bonds, 1999 Series A (the "**1999 Series A Bonds**"), and \$_____ aggregate principal amount of its Housing Bonds, 1999 Series C (Taxable) (the "**1999 Series C Bonds**" and, together with the 1999 Series A Bonds, the "**Bonds**") including the authorization, execution and delivery of the 1999 Series A Supplemental Indenture (the "**1999 Series A Supplemental Indenture**") and the 1999 Series C Supplemental Indenture (the "**1999 Series C Supplemental Indenture**"), each dated as of March 1, 1999, between the Authority and The First National Bank of Chicago, as Trustee (the "**Trustee**"). The 1999 Series A Supplemental Indenture and the 1999 Series C Supplemental Indenture are each issued pursuant to, and supplement, the Trust Indenture, dated as of March 1, 1999, from the Authority to the Trustee, (as so supplemented, the "**Trust Indenture**"). We have also examined copies, certified by the Authority, of its authorizing resolutions with respect to the Trust Indenture, the Bonds and the respective Series Supplemental Indentures, and certified copies of the proceedings of the Members of the Authority at which such resolutions were adopted.

The 1999 Series A Bonds are being issued to redeem a portion of the Authority's Housing Development Bonds, Multi-Family Housing Bonds and Fixed Rate Bonds previously issued to finance mortgage loans for rental housing developments for persons and families of low and moderate income (the "**Developments**") in the State of Illinois. The Series 1999 C Bonds are being issued to finance a mortgage loan increase for a certain Development.

The Internal Revenue Code of 1954, as amended (the "**1954 Code**") and the Internal Revenue Code of 1986, as amended, to the extent applicable, establish certain continuing

requirements which must be met in order that interest on the 1999 Series A Bonds not be included in gross income for federal income tax purposes. These include requirements as to the use and investment of proceeds of the 1999 Series A Bonds, the payment of certain amounts to the United States and the use and occupancy of the Developments. In the Trust Indenture the Authority has made various covenants with respect to these requirements and the Authority has included various covenants with respect to these requirements relating to the Developments financed by the 1999 Series A Bonds in documents related to the mortgage loans for those Developments.

Based upon this examination, we are of the opinion that:

1. The Authority is a legally existing body politic and corporate of the State of Illinois.
2. Under the Illinois Housing Development Act, as amended to the date of this opinion (the "Act"), the Authority has the right and power to adopt the Trust Indenture, the 1999 Series A Supplemental Indenture and the 1999 Series C Supplemental Indenture. The Trust Indenture, the 1999 Series A Supplemental Indenture and the 1999 Series C Supplemental Indenture have each been duly authorized, executed and delivered by the Authority, are in full force and effect and are valid and binding upon the Authority and enforceable in accordance with its terms.
3. The Bonds are secured by a valid pledge of Revenues (as defined in the Indenture), including all monies received by or on behalf of the Authority or the Trustee representing (i) principal and interest payments and related payments on the Loans and the Acquired Bonds (in each case as defined in the Trust Indenture), and (ii) Acquired Development Operating Income (as defined in the Trust Indenture), and all other monies and investments in all Funds and Accounts established by the Trustee, all as to the extent provided in the Resolution. The Bonds will be on a parity with any additional bonds (other than Subordinate Bonds, as defined in the Trust Indenture, to which the Bonds are superior) issued in the future under the Trust Indenture with respect to such pledge of Revenues and of moneys in the Funds and Accounts under the Trust Indenture.
4. The Bonds are valid and legally binding direct and general obligations of the Authority as provided in the Resolution, enforceable in accordance with their terms and the terms of the Trust Indenture and the applicable Series Supplemental Indenture and entitled to the benefits of the Trust Indenture, the applicable Series Supplemental Indenture and the Act. The full faith and credit of the Authority (subject to the provisions of resolutions or indentures pledging particular moneys, assets or revenues of the Authority to the payment of notes, bonds or other obligations of the Authority other than the Bonds), is validly pledged for the payment of the principal of and premium, if any, and interest on the Bonds.

5. Under existing law, interest on the 1999 Series A Bonds is not includible in the gross income of their owners for federal income tax purposes, if there is continuing compliance by the Authority and the owners of the Developments with their respective covenants described above. No opinion is expressed, however, as to the exclusion from gross income for federal income tax purposes of interest on any 1999 Series A Bond for any period during which such 1999 Series A Bond is held by a person who is a "substantial user" of any Development or a "related person" (as defined in Section 103(b)(13) of the 1954 Code). Interest on the 1999 Series A Bonds will not be treated as a preference item for purposes of computing the federal alternative minimum tax for individuals or corporations. That interest is, however, includible in the earnings and profits of corporations and may be required to be taken into account when computing the alternative minimum tax for certain corporations.

6. The Authority has no taxing power. The Bonds are not a debt of the State of Illinois and the State of Illinois is not liable on the Bonds. The Bonds are not subject to Section 26.1 of the Act.

7. Under the Act, interest on the Bonds is exempt from Illinois income tax.

The rights of the owners of the Bonds and the enforceability of the Bonds, the Trust Indenture, the 1999 Series A Supplemental Indenture and the 1999 Series C Supplemental Indenture may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights. Enforcement of provisions of the Bonds, the Trust Indenture, the 1999 Series A Supplemental Indenture or the 1999 Series C Supplemental Indenture by an equitable or similar remedy is subject to general principles of law or equity governing such a remedy, including the exercise of judicial discretion whether to grant any particular form of relief.

Very respectfully yours,

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APPENDIX H-2

Form of Opinion of Bond Counsel -- Acquired MFHB Bonds

[Date of Issuance]

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 \$_____ aggregate principal amount of its Multi-Family Housing Bonds, 1999 Series A (the "**Acquired MFHB Bonds**"). The record of proceedings includes the Authority's Multi-Family Housing Bond General Resolution, adopted February 26, 1975, as amended and restated as of November 17, 1995 (as further amended from time to time, the "**General Resolution**"), and a Series Resolution pertaining to the Acquired MFHB Bonds, adopted December 18, 1998, including a written determination of officers of the Authority (the "**Series Resolution**" and, together with the General Resolution, the "**Resolution**").

The Acquired MFHB Bonds mature on the dates and in the principal amounts and bear interest as set forth in the Series Resolution. The Acquired MFHB Bonds are issuable only as fully registered bonds in the denomination of \$5,000, or authorized multiples of that amount. The Acquired MFHB Bonds are subject to redemption prior to their maturity as provided in the Acquired MFHB Bonds. We have also examined an executed and authenticated Acquired MFHB Bond.

Based upon this examination, we are of the opinion that:

1. The Authority is a legally existing body politic and corporate of the State of Illinois.
2. Under the Illinois Housing Development Act, as amended to the date of this opinion (the "**Act**"), the Authority has the right and power to adopt the Resolution. The Resolution has been duly and lawfully adopted by the Authority, is in full force and effect, is valid and binding upon the Authority and is enforceable in accordance with its terms. No authorization of the Resolution is required in addition to that which the record of proceedings evidences has been taken.

3. The Acquired MFHB Bonds have been duly and validly authorized by the Authority and issued in accordance with law and the Resolution.

4. The Acquired MFHB Bonds are secured by a valid pledge of mortgages securing the Mortgage Loans (as defined in the Resolution) which have been or are subsequently made by the Authority and which have been or will be financed by the issuance of outstanding bonds previously issued under the General Resolution, of the Acquired MFHB Bonds and of additional bonds which may be issued under the General Resolution (together, the "**Bonds**"). The Acquired MFHB Bonds are also secured by a valid pledge of the Revenues defined in the Resolution and certain other receipts of the Authority derived from the developments with respect to which such Mortgage Loans have been or will be made and of the moneys and securities in funds and accounts established by the Resolution (including the Debt Service Reserve Fund), all as to the extent provided in the Resolution. The Acquired MFHB Bonds are on a parity with outstanding Bonds previously issued under the General Resolution and additional series of Bonds which may be issued under the General Resolution in the future with respect to such pledge of mortgages, Revenues and of moneys and securities in the Debt Service Reserve Fund.

5. The Acquired MFHB Bonds are valid and legally binding direct and general obligations of the Authority as provided in the Resolution, secured by a pledge of Revenues, Prepayments, Recovery Payments, Acquired Development Receipts (as these terms are defined in the Resolution), Mortgage Loans and monies and securities held in the Funds and Accounts established by the Resolution, and enforceable in accordance with their terms and the terms of the Resolution and entitled to the benefits of the Resolution and the Act.

6. The Authority has no taxing power. The Acquired MFHB Bonds are not a debt of the State of Illinois and the State of Illinois is not liable on the Acquired MFHB Bonds. The Acquired MFHB Bonds are not subject to Section 26.1 of the Act.

The rights of the owners of the Acquired MFHB Bonds and the enforceability of the Acquired MFHB Bonds and the Resolution may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights. Enforcement of provisions of the Acquired MFHB Bonds or the Resolution 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.

Very respectfully yours,

APPENDIX H-3

Form of Opinion of Bond Counsel -- Acquired HDB Bonds

[Date of Issuance]

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 \$_____ aggregate principal amount of its Housing Development Bonds, 1999 Series A (the "**Acquired HDB Bonds**"). The record of proceedings includes the Authority's Housing Development Bond General Resolution, adopted by Members of the Authority on April 17, 1970, as amended and restated as of November 19, 1993 (as further amended from time to time, the "**General Resolution**"), and a Series Resolution for the Acquired HDB Bonds, adopted by Members of the Authority on December 18, 1998, including a written determination of officers of the Authority (the "**Series Resolution**" and, together with the General Resolution, the "**Resolution**"). We have also examined an executed and authenticated Acquired HDB Bond.

The Acquired HDB Bonds are being issued for the purpose of redeeming certain outstanding Series of Housing Development Bonds of the Authority issued pursuant to the General Resolution. The Acquired HDB Bonds mature on the dates and in the principal amounts and bear interest as set forth in the Series Resolution. The Acquired HDB Bonds are issuable only as fully registered bonds in the denomination of \$5,000 or a multiple thereof. The Acquired HDB Bonds are subject to redemption prior to their maturity as provided in the Acquired HDB Bonds.

Based upon this examination, we are of the opinion that:

1. The Authority is a legally existing body politic and corporate of the State of Illinois.

2. Under the Illinois Housing Development Act, as amended to the date of this opinion (the "Act"), the Authority has the right and power to adopt the Resolution and perform its obligations thereunder. The Resolution has been duly and lawfully adopted by the Authority, is in full force and effect, is valid and binding upon the Authority and is enforceable in accordance with its terms. No authorization of the Resolution is required in addition to that which the record of proceedings evidences has been taken.

3. The Acquired HDB Bonds have been duly and validly authorized by the Authority and issued in accordance with law and the Resolution, and constitute valid and legally binding direct and general obligations of the Authority as provided in the Resolution, enforceable in accordance with their terms and the terms of the Resolution and entitled to the benefits of the Resolution and the Act. The full faith and credit of the Authority (subject to the provisions of resolutions pledging particular moneys, assets or revenues to the payment of notes, bonds or other obligations of the Authority other than the Acquired HDB Bonds) is validly pledged for the payment of the principal of and premium, if any, and interest on the Acquired HDB Bonds.

4. The Acquired HDB Bonds, together with all bonds (collectively, the "Bonds") heretofore and hereafter issued and outstanding on a parity therewith under the General Resolution, are secured by a valid pledge of (i) the Revenues (as defined in the Resolution) and (ii) moneys and investments in the funds and accounts established by the General Resolution. Section 26.1 of the Act does not apply to the Acquired HDB Bonds. The Authority has no taxing power. The Acquired HDB Bonds are not a debt of the State of Illinois and the State of Illinois is not liable on the Acquired HDB Bonds.

The binding effect and enforceability of the Acquired HDB Bonds and the Resolution are subject to the effect of any applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the enforcement of creditors' rights. Enforcement of provisions of the Acquired HDB Bonds or the Resolution by an equitable or similar remedy is subject to governing such a remedy, including the exercise of judicial discretion as to whether to grant any particular form of relief. Furthermore, we express no opinion as to the binding effect or enforceability of any mortgage loan made by the Authority from the proceeds of bonds issued under the General Resolution.

Very respectfully yours,

APPENDIX I

SUMMARY OF CONTINUING DISCLOSURE COVENANT

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

2. Each year the Authority shall provide annual financial information concerning the Offered Bonds to each nationally recognized municipal securities information repository and to any entity designated by the State of Illinois as a state information depository for purposes of Rule 15c2-12(b)(5). A copy of the annual financial information shall also be provided to the Trustee. The annual financial information shall be so provided within 180 days after the end of the Authority's fiscal year, beginning with the fiscal year ending June 30, 1999. 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 generally accepted accounting principles as in effect from time to time. The annual financial information shall also include the financial and operating information of the type set forth in the final Official Statement for the Offered Bonds, including the following information:

- (a) Information concerning the Financed Developments set forth under the captions "THE OFFERED BONDS - Redemption - *Special Redemption*" and "FINANCED DEVELOPMENTS - Description of Financed Developments."
- (b) Information concerning the MFHB Developments set forth under the captions "CERTAIN INFORMATION REGARDING THE MFHB PROGRAM - General," "- Description of Developments Financed by the MFHB Bonds," "- MFHB Mortgage Loan Portfolio," "- MFHB Program Financial Information," and "- Acquired MFHB Development" in Appendix B.
- (c) Information concerning the HDB Developments set forth under the captions "CERTAIN INFORMATION REGARDING THE HDB PROGRAM - General," "- Description of HDB Developments," and "- HDB Program Financial Information" in Appendix D.
- (d) Information regarding the principal amount, interest rate, optional prepayment date and maturity for the Loans.
- (e) Information regarding the principal amount, interest rate, maturity and redemption provisions for the Acquired Bonds.
- (f) Information concerning amounts on deposit in the Reserve Fund in respect of Bonds issued under the Indenture, in the Debt Service Reserve Fund in respect of the MFHB Bonds and in the Capital Reserve Fund in respect of the HDB Bonds.

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

3. Upon the occurrence of any of the following events with respect to the Offered Bonds, if material, the Authority shall report the event in a timely manner to the state information depository, if any, and either to each of the national information repositories described above or to the Municipal Securities Rulemaking Board:

- i. principal and interest payment delinquencies;
- ii. non-payment related defaults;
- iii. unscheduled draws on debt service reserves reflecting financial difficulties;
- iv. unscheduled draws on credit enhancements reflecting financial difficulties;
- v. substitution of credit or liquidity providers or their failure to perform;
- vi. adverse tax opinions or events affecting tax-exempt status;
- vii. modifications to rights of Owners of the Offered Bonds;
- viii. non-scheduled redemptions;
- ix. defeasances;
- x. release, substitution, or sale of property securing repayment of the Offered Bonds; and
- xi. rating changes.

The Authority will give a copy of each such report to the Trustee. The Authority will give notice in a timely manner to the Trustee, to the state information depository, if any, and either to each of the national information repositories or to the Municipal Securities Rulemaking Board of any failure timely to provide the annual financial information as provided in this Section.

4. The undertaking of the Authority described in this summary is a contract between the Authority and the beneficial and registered owners from time to time of the Offered Bonds. It may be enforced by any beneficial or registered owner of Offered Bonds. The sole remedy with respect to the Authority's compliance with its undertaking described in this summary shall be to require compliance. The undertaking described in this summary shall be solely for the benefit of the beneficial or registered owners of the Offered Bonds from time to time, and shall create no right in anyone else. The Trustee shall have no powers or duties with respect to the undertaking described in this summary. No violation by the Authority of any provision described in this summary shall constitute any Event of Default or a default under the Indenture or under the Act.

5. The obligation of the Authority described in this summary shall end upon the Offered Bonds being paid or treated as paid as provided in the Indenture, except for the obligations to give notice under 3(vi) and 3(viii) above.

6. The Authority may by resolution amend the undertakings described in this summary at any time to the extent and in the manner allowed by Rule 15c2-12(b)(5), as amended from time to time, if the Authority's undertaking described in this summary, as amended, shall continue to comply with the Rule, the amendment to be effective upon receipt by the Authority of an opinion of bond counsel, selected by it with significant federal securities law expertise, to that effect. Any such amendment shall be described in the next annual financial information.

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APPENDIX J

FORM OF BOND INSURANCE POLICY



FINANCIAL GUARANTY INSURANCE POLICY

MBIA Insurance Corporation
Armonk, New York 10504

Policy No. [NUMBER]

MBIA Insurance Corporation (the "Insurer"), in consideration of the payment of the premium and subject to the terms of this policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the Issuer to [PAYING AGENT/TRUSTEE] or its successor (the "Paying Agent") of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations" shall mean:

[PAR]
[LEGAL NAME OF ISSUE]

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of an Obligation the payment of an Insured Amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with State Street Bank and Trust Company, N.A., in New York, New York, or its successor, sufficient for the payment of any such Insured Amounts which are then due. Upon presentment and surrender of such Obligations or presentment of such other proof of ownership of the Obligations, together with any appropriate instruments of assignment to evidence the assignment of the Insured Amounts due on the Obligations as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Obligations in any legal proceeding related to payment of Insured Amounts on the Obligations, such instruments being in a form satisfactory to State Street Bank and Trust Company, N.A.; State Street Bank and Trust Company, N.A. shall disburse to such owners, or the Paying Agent payment of the Insured Amounts due on such Obligations, less any amount held by the Paying Agent for the payment of such Insured Amounts and legally available therefor. This policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Obligation.

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Issuer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Issuer constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancellable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

IN WITNESS WHEREOF, the Insurer has caused this policy to be executed in facsimile on its behalf by its duly authorized officers, this [DAY] day of [MONTH, YEAR].

MBIA Insurance Corporation

President

Attest:

Assistant Secretary

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