Financial Statements and Supplemental Financial Information

New Jersey Housing and Mortgage Finance Agency
(A Component Unit of the State of New Jersey)
December 31, 2006
With Report of Independent Auditors

New Jersey Housing and Mortgage Finance Agency

Financial Statements and
Supplemental Financial Information

December 31, 2006

Contents

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Report of Independent Auditors

To the Agency Members
New Jersey Housing and Mortgage Finance Agency
Trenton, New Jersey

We have audited the accompanying financial statements of the Single Family Mortgage Bond and Obligation Fund, Multi-Family Mortgage Bond and Obligation Fund, the General Fund and the aggregate discretely presented component units of the New Jersey Housing and Mortgage Finance Agency (the Agency), a component unit of the State of New Jersey, as of December 31, 2006 and for the six month period then ended, which collectively comprise the Agency's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Agency's June 30, 2006 financial statements and, in our report dated October 18, 2006 we expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Agency's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Single Family Mortgage Bond and Obligation Fund, Multi-Family Mortgage Bond and Obligation Fund, General Fund and the aggregate discretely presented component units of the Agency, as of December 31, 2006 and June 30, 2006, and the respective changes in financial position and, where applicable, cash flows, thereof for the six month period ended December 31, 2006 in conformity with accounting principles generally accepted in the United States.

Management's Discussion and Analysis, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management of the Agency regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's basic financial statements. The supplemental information included in Schedules 1 through 4, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information, has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Ernst & Young LLP

July 16, 2007

New Jersey Housing and Mortgage Finance Agency

Management's Discussion and Analysis

December 31, 2006

Introduction to the Financial Report

This financial report consists of four parts; Management's Discussion and Analysis, Financial Statements, Notes to the Financial Statements and Supplementary Information. The New Jersey Housing and Mortgage Finance Agency (NJHMFA or Agency) as referred to throughout Management's Discussion and Analysis is for financial reporting purposes, the primary government.

The Financial Statements include:

- The Statements of Net Assets provides information about the nature and amounts of investments in resources (assets) and the obligations to Agency creditors (liabilities).

- The Statements of Revenues Expenses and Changes in Net Assets account for all of the current year's revenue and expenses, measure the success of the Agency's operations over the past year and can be used to determine how the Agency has funded its costs.

- The Statements of Cash Flows provides information about the Agency's cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities

The Notes to the Financial Statements provide:

- Information that is essential to understanding the basic financial statements, such as the Agency's accounting methods and policies.

- Details of contractual obligations, future commitments and contingencies of the Agency.

- Any other events or developing situations that could materially affect the Agency's financial position.

Supplementary Information:

- Provides presentations of the Agency's financial information in accordance with the requirements of the various Bond Resolutions.

Management's Discussion and Analysis

This section of the Agency's financial statements, the Management's Discussion and Analyses (MD&A), presents an overview of the Agency's financial performance for the six-month period ended December 31, 2006. It provides an assessment of how the Agency's position has improved or deteriorated and identifies the factors that, in management's view, significantly affected the Agency's overall financial position. It may contain opinions, assumptions or conclusions by the Agency's management that should not be considered a replacement for, and must be read in conjunction with, the financial statements described above.

The Agency's Business

The Agency was created to provide a strong unified advocate for housing production, financing and improvement. The Agency is established under, but is not a part of, the Department of Community Affairs, and is constituted as a body politic and corporate and an instrumentality of the State exercising public and essential governmental functions. Included in the Agency's powers is the ability, *inter alia,* to provide to housing sponsors, through eligible loans or otherwise, financing, refinancing or financial assistance for fully completed, as well as partially completed projects; to issue negotiable bonds and to secure the payment thereof; and to make and enter into and enforce all contracts and agreements necessary, convenient or desirable to the performance of its duties and the execution of its powers.

NJHMFA has two subsidiaries that are discretely presented as component units in the financial statements. The Statewide Acquisition and Redevelopment Corporation (STAR) was formed to act as a housing service Agency under the Shore Easy Program, the AFL-CIO Demonstration Program and/or any other project or program as authorized by the Agency. A Better Camden Corporation (ABC) was formed to stimulate and encourage the construction, rehabilitation and improvement of adequate and affordable housing in the City of Camden. Financial statements for ABC and STAR may be obtained by contacting NJHMFA.

Overall Financial Highlights – Six Month Period Ended December 31, 2006:

- The Agency has changed its fiscal year end from June 30 to December 31. The period reported herein is for the six-months ended December 31, 2006.

- During the six-month period ended December 31, 2006, the Agency issued a total of $74.25 million in bonds to finance 10 new multi-family developments that contain 1,595 housing units.

- The Agency originated 775 new single-family mortgage loans in the six-month period ended December 31, 2006.

- The Agency had an operating income of $9.76 million for the six-month period ended December 31, 2006. In addition, there was an overall increase in net assets of $35.3 million.

- The Agency's total assets and liabilities remained relatively flat for December 31, 2006 compared to June 30, 2006.

- The Agency's mortgage loan receivable increased by 7.6% due in large part to the 14.9% increase in Single-Family mortgage loan receivable during the six-month period.

- Investment income of $24.6 million was robust for the six-month period ended December 31, 2006

Overview of the Financial Statements

The Agency is a self-supporting entity and follows enterprise fund reporting. An enterprise fund reports activity that is financed with debt that is secured solely by a pledge of the net revenue from that activity as well as activity that is not supported by taxes or similar revenues. NJHMFA's financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. The accrual basis of accounting matches revenues and expenses to the time period in which they are earned or attributable, respectively, which may differ from the period in which the associated cash is received or expended.

Enterprise fund statements offer short-term and long-term financial information about the Agency's activities. While detailed sub-fund information is not presented in the Agency's financial statements, separate accounts are maintained for each bond issue and component unit, as well as the Agency's general operating fund, known as the General Fund. These sub-funds permit NJHMFA to control and manage money for particular purposes and to determine that the Agency is properly using specific resources.

Financial Analysis

The following sections will discuss the Agency's financial position at December 31, 2006 as compared to June 30, 2006 and the changes in financial position for the six month period ended December 31, 2006. Additionally, an examination of major economic factors that have contributed to the Agency's operations is provided. It should be noted that for purposes of this MD&A, summaries of the financial statements and the various exhibits presented are in conformity with the Agency's financial statements, which are presented in accordance with accounting principles generally accepted in the United States. All amounts are in thousands.

NJHMFA's Assets and Liabilities

The Statements of Net Assets in the financial statements presents the Agency's assets, liabilities, and net assets as of December 31, 2006. The following table represents the comparison of net assets as of December 31, 2006 and June 30, 2006 and June 30, 2005. The change between December 31, 2006 and June 30, 2006 should be read in conjunction with the financial statements.

The Agency's total assets and liabilities remained relatively unchanged for December 31, 2006 when compared to balance at June 30, 2006.

Condensed Statement of Net Assets
(In Thousands)

	December 31, 2006	June 30, 2006	June 30, 2005	% Change Dec /Jun 2006	% Change 2006/2005
Current and other assets	$ 3,421,014	$ 3,403,854	$ 3,417,916	.50%	(0.4)%
Capital assets	12,798	13,222	11,226	(3.21)	17.8
Total assets	3,433,812	3,417,076	3,429,142	.49	(0.4)
Current liabilities	334,947	336,131	412,420	(.35)	(18.5)
Long term liabilities	2,248,216	2,265,598	2,274,590	(.77)	(0.4)
Total liabilities	2,586,163	2,601,729	2,687,010	(.71)	(3.2)
Net assets:					
Invested in capital assets, net of related debt	12,798	13,222	11,226	(3.20)	17.8
Restricted	272,544	259,978	240,184	4.83	8.2
Restricted for Special Needs	41,588	48,833		(14.84)	100.00
Unrestricted	523,720	493,314	490,722	6.16	0.5
Total net assets	$ 850,650	$ 815,347	$ 742,132	4.33	9.9

Net assets restricted increased due to net income on the bond issues. Net assets - Restricted for Special Needs net assets decreased as a result of loan originations, and unrestricted net assets increased primarily due to net excess general fund revenue.

<u>NJHMFA's Revenues and Expenses</u>

The Statements of Revenues, Expenses and Changes in Fund Net Assets reports revenues recognized and expenses incurred for the six-months ended December 31, 2006. The table below summarizes the Agency's revenues and expenses for the six-months ended December 31, 2006. It should be read in conjunction with the financial statements.

The Agency had an increase in net assets of $35.3 million for the six-month period ended December 31, 2006 primarily due to the increase in Single Family mortgage originations, robust investment income, and the recognition of previously deferred revenue.

Condensed Statements of Revenues, Expenses and Changes in Net Assets for the Six Month Period Ended December 31, 2006
(In Thousands)

Operating revenues:	
Interest income on mortgage loans	$ 63,662
Fees and charges	15,235
Other	14,139
	93,036
Operating expenses	(83,277)
Operating income	9,759
Non-operating revenues, net	25,544
Increase in net assets	35,303
Total net assets – beginning of year	815,347
Total net assets – end of year	$850,650

Summary of Operating Expenses for the Six Month Period Ended December 31, 2006
(In Thousands)

Operating expenses:	
Interest	$52,838
Insurance costs	1,022
Servicing fees and other	1,561
Salaries and related benefits	8,620
Professional services and financing costs	601
General and administrative expenses	7,718
Provision for loan losses	11,002
Other expenses	(85)
Total operating expenses	$83,277

Debt Administration

At December 31, 2006, the Agency had $2.03 billion of bond principal outstanding, net of deferral on refunding, discount and premium, a decrease of 1% over the prior year. The following table summarizes the Agency's bonds payable outstanding at December 31, 2006, and June 30, 2006, and the changes in bonds payable between December 31, 2006 and June 30, 2006. Dollars are in thousands.

	Dec 31 2006	**June 30 2006**	**% Change Dec/Jun 2006**
Bonds Payable, Net	$2,025,985	$2,045,712	(1%)

Additional information about the Agency's debt is presented in Note 10 of the financial statements.

Single Family Programs

The Agency provides a variety of residential mortgage financing programs that primarily serve low to moderate and middle-income first time homebuyers and homebuyers purchasing in certain designated urban areas. For the most part the programs are funded with Mortgage Revenue Bond proceeds.

Multi-Family Programs

During the six-month period ended December 31, 2006 the Agency issued 2006 Series C, D and E new money bonds totaling $74.25 million to finance 10 new developments that contain 1,595 housing units.

Contacting The Agency's Financial Management

This financial report is designed to provide a general overview of the Agency's business, financial position, and fiscal accountability for the funds it generates and receives. If you have questions about any information in this report, contact the Finance Division of the New Jersey Housing and Mortgage Finance Agency.

New Jersey Housing and Mortgage Finance Agency

Statements of Net Assets

at December 31, 2006
(with comparative summarized financial information as of June 30, 2006)
(In Thousands)

	Primary Government				Discretely Presented Component Units			Reporting Entity	
	Bonds and Obligation Funds								
	Single-Family Mortgage Component	Multi-Family Housing Component	General Fund	Subtotal	STAR Corporation	ABC Corporation	Eliminations	December 31, 2006 Total	June 30, 2006 Total
Assets									
Current assets:									
Cash and cash equivalents	$ 171,032	$ 76,707	$ 439,755	$ 687,494	$ 323	$ 72		$ 687,889	$ 647,922
Investments		38,941	31,017	69,958				69,958	83,556
Accrued interest receivable on investments	1,313	1,384	2,281	4,978				4,978	5,628
Mortgage loans receivable, net	17,910	63,985	3,845	85,740				85,740	85,873
Supplemental mortgages and other loans, net			1,775	1,775				1,775	2,171
Fees and other charges receivable			2,559	2,559				2,559	2,559
Due from loan servicers and insurers	2,401		13	2,414				2,414	1,891
Interfund allocation			4,244	4,244			$ (4,244)		–
Other assets	77	411	583	1,071				1,071	1,589
Total current assets	192,733	181,428	486,072	860,233	323	72	(4,244)	856,384	831,189
Non-current assets:									
Investments	67,330	107,509	224,451	399,290				399,290	525,782
Escrow deposits					172			172	131
Mortgage loans receivable, net	739,447	1,045,420	126,436	1,911,303			(1,770)	1,909,533	1,818,487
Debt service arrears receivable, net	3,288	1,323	88	4,699				4,699	4,095
Interest receivable on construction advances and mortgages			1,675	1,675				1,675	1,675
Supplemental mortgages and other loans, net	8,250		211,790	220,040				220,040	192,874
Deferred charges, bond issuance costs, net	4,113	7,017		11,130				11,130	11,592
Real estate owned	499		7,458	7,957				7,957	7,791
Real estate held for redevelopment						1,366		1,366	1,367
Capital assets, net			12,798	12,798	671			13,469	14,203
Other non-current assets			378	378				378	430
Due from other funds			4,310	4,310			(4,310)	–	–
Total non-current assets	822,927	1,161,269	589,384	2,573,580	843	1,366	(6,080)	2,569,709	2,578,427
Total assets	1,015,660	1,342,697	1,075,456	3,433,813	1,166	1,438	(10,324)	3,426,093	3,409,616

See accompanying notes.

New Jersey Housing and Mortgage Finance Agency

Statements of Net Assets (continued)

at December 31, 2006
(with comparative summarized financial information as of June 30, 2006)
(In Thousands)

	Primary Government				**Discretely Presented Component Units**			**Reporting Entity**	
	Bonds and Obligation Funds								
	Single-Family Mortgage Component	**Multi-Family Housing Component**	**General Fund**	**Subtotal**	**STAR Corporation**	**ABC Corporation**	**Eliminations**	**December 31, 2006 Total**	**June 30, 2006 Total**
Liabilities									
Current liabilities:									
Bonds and obligations, net	$ 31,610	$ 57,240		$ 88,850				$ 88,850	$ 85,505
Accrued interest payable on bonds and obligations	9,478	11,002		20,480				20,480	19,962
Subsidy payments received in advance			$ 9,770	9,770				9,770	15,688
Advances from the State of New Jersey for bond and housing assistance			19,300	19,300				19,300	20,948
Other current liabilities			371	371	$ 221	$ 66		658	736
Mortgagor escrow deposits		6,946	184,986	191,932				191,932	189,217
Interfund allocation	1,337	2,907		4,244			$ (4,244)	–	–
Total current liabilities	42,425	78,095	214,427	334,947	221	66	(4,244)	330,990	332,056
Non-current liabilities:									
Bonds and obligations, net	788,617	1,148,518		1,937,135				1,937,135	1,960,207
Minimum escrow requirement		8,909	743	9,652				9,652	9,568
Funds held in trust for mortgagor		12,479	261,190	273,669				273,669	259,770
Deferred revenues			6,099	6,099				6,099	17,770
Other non-current liabilities	1,245	1,215	14,891	17,351	595	3		17,949	14,450
Due to HUD									306
Due to other funds	3,418	892		4,310	1,770		(6,080)	–	–
Total non-current liabilities	793,280	1,172,013	282,923	2,248,216	2,365	3	(6,080)	2,244,504	2,262,071
Total liabilities	835,705	1,250,108	497,350	2,586,163	2,586	69	(10,324)	2,575,494	2,594,127
Net assets:									
Invested in capital assets, net of related debt			12,798	12,798	671			13,469	14,203
Restricted under Bond and Obligation Resolutions	179,955	92,589		272,544				272,544	259,978
Restricted for Special Needs Housing			41,588	41,588				41,588	48,833
Restricted for Redevelopment						1,369		1,369	1,339
Unrestricted (deficit)			523,720	523,720	(2,091)			521,629	491,136
Total net assets (deficit)	$ 179,955	$ 92,589	$ 578,106	$ 850,650	$ (1,420)	$ 1,369	$ –	$ 850,599	$ 815,489

See accompanying notes.

New Jersey Housing and Mortgage Finance Agency

Statements of Revenues, Expenses and Changes in Fund Net Assets

For the Six Month Period Ended December 31, 2006
(with comparative summarized financial information for the year ended June 30, 2006)
(In Thousands)

	Primary Government				Discretely Presented Component Units			Reporting Entity	
	Bonds and Obligation Funds								
	Single-Family Mortgage Component	Multi-Family Housing Component	General Fund	Subtotal	STAR Corporation	ABC Corporation	Eliminations	December 31, 2006 Total	June 30, 2006 Total
Operating revenues									
Interest income on mortgage loans	$ 20,638	$ 39,410	$ 3,614	$ 63,662				$ 63,662	$ 124,487
Fees and charges		4,072	11,163	15,235				15,235	28,367
Other income-net		46	14,093	14,139	$ 120	$ 342	$ (342)	14,259	2,079
Gain on sale of real estate owned									536
Total operating revenues	20,638	43,528	28,870	93,036	120	342	(342)	93,156	155,469
Operating expenses									
Interest and amortization of bond premiums and discounts	20,035	32,733	70	52,838	14			52,852	109,212
Insurance costs	234	463	325	1,022				1,022	2,356
Servicing fees and other	1,376	149	36	1,561				1,561	2,959
Salaries and related benefits	953	2,011	5,656	8,620				8,620	16,938
Professional services and financing costs	85	166	350	601				601	1,345
General and administrative expenses	309	586	6,823	7,718		312	(342)	7,688	18,085
Loss on sale of real estate owned	(85)			(85)				(85)	238
Other expenses					24			24	249
Provision for loan losses	72	6,335	4,595	11,002	310			11,312	19,452
Total operating expenses	22,979	42,443	17,855	83,277	348	312	(342)	83,595	170,834
Operating income (loss)	(2,341)	1,085	11,015	9,759	(228)	30		9,561	(15,365)
Nonoperating revenues/(expenses)									
Contribution from State of New Jersey			1,189	1,189				1,189	50,000
Investment income	8,390	5,715	10,529	24,634	5			24,639	38,903
Loss on early extinguishment of old debt	(15)	(264)		(279)				(279)	(537)
Total nonoperating revenues, net	8,375	5,451	11,718	25,544	5			25,549	88,366
Income (loss) before transfers	6,034	6,536	22,733	35,303	(223)	30		35,110	73,001
Transfers	(1)	(3)	4						–
Increase (decrease) in net assets	6,033	6,533	22,737	35,303	(223)	30		35,110	73,001
Net assets, beginning of year	173,922	86,056	555,369	815,347	(1,197)	1,339		815,489	742,488
Increase (decrease) in net assets, during period	6,033	6,533	22,737	35,303	(223)	30		35,110	73,001
Net assets, end of period	$ 179,955	$ 92,589	$ 578,106	$ 850,650	$ (1,420)	$ 1,369	$ –	$ 850,599	$ 815,489

See accompanying notes.

New Jersey Housing and Mortgage Finance Agency

Statements of Cash Flows

For the Six Month Period Ended December 31, 2006
(with comparative summarized financial information for the year ended June 30, 2006)
(In Thousands)

	Primary Government				
	Bonds and Obligation Funds				
	Single-Family Mortgage Component	Multi-Family Housing Component	General Fund	Total December 31, 2006	Total June 30, 2006
Cash flows from operating activities					
Receipts from interest on mortgages and loans	$ 19,389	$ 37,081	$ 4,759	$ 61,229	$ 123,414
Receipts from fees, charges and other	(1,908)	4,003	13,579	15,674	45,753
Receipts from principal payments on mortgage receivables	41,739	50,988	76,524	169,251	321,224
Payments to vendors and employees	(1,874)	(543)	(18,759)	(21,176)	(42,811)
Payments for mortgage purchases and advances	(140,395)	(68,954)	(67,879)	(277,228)	(410,584)
Payments for cost of issuance		(348)		(348)	(1,278)
Payments for funds held in trust		1,037	8,770	9,807	19,076
Net cash provided by (used in) operating activities	(83,049)	23,264	16,994	(42,791)	54,794
Cash flows from non-capital financing activities					
Receipts from proceeds of sale of bonds and obligations		74,423		74,423	195,725
Payments for retirement of bonds	(36,315)	(57,943)		(94,258)	(309,655)
Payments for interest	(20,333)	(31,283)		(51,616)	(105,534)
Contribution			1,189	1,189	50,000
Transfers and other	(1,303)	(2,636)	1,244	(2,695)	–
Net cash provided by (used in) non-capital financing activities	(57,951)	(17,439)	2,433	(72,957)	(169,464)
Cash flows from capital financing activities					
Additions to capital assets			(400)	(400)	(3,435)
Net cash used in capital financing activities			(400)	(400)	(3,435)
Cash flows from investing activities					
Purchases of investments	(47,449)	(134,915)	(11,550)	(190,948)	(515,403)
Sales/maturities of investments	175,617	151,341	717	327,675	672,390
Earnings on investments	9,324	5,255	7,769	19,382	38,357
Net cash provided by (used in) investing activities	137,492	21,681	(3,064)	156,109	195,344
Net increase (decrease) in cash	(3,508)	27,506	15,963	39,961	77,239
Cash and cash equivalents, beginning of period	174,540	49,201	423,792	647,533	570,294
Cash and cash equivalents, end of period	$ 171,032	$ 76,707	$ 439,755	$ 687,494	$ 647,533

See accompanying notes.

New Jersey Housing and Mortgage Finance Agency

Statements of Cash Flows (continued)

For the Six Month Period Ended December 31, 2006
(with comparative summarized financial information for the year ended June 30, 2006)
(In Thousands)

	Primary Government				
	Bonds and Obligation Funds				
	Single-Family Mortgage Component	**Multi-Family Housing Component**	**General Fund**	**Total December 31, 2006**	**Total June 30, 2006**
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities					
Operating income (loss)	$ (2,341)	$ 1,085	$ 11,015	$ 9,759	$ (15,146)
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation expense			715	715	1,488
Provision for loan losses, net	72	6,335	4,595	11,002	19,452
Gain on sale of real estate owned	(86)			(86)	(181)
Amortization of premium/discount, refunding costs, bond issue costs	6	326		332	947
Net cash provided by nonoperating activities	20,333	31,283		51,616	105,534
Changes in operating assets and liabilities:					
Loans- net	(101,346)	(17,768)	661	(118,453)	(85,497)
Fees and other charges receivable					(604)
Due from loan servicers and insurers	(537)		14	(523)	927
Deferred charges – bond issuance costs – net	201	261		462	(46)
Change in accrued interest receivable	1,031	(229)	(152)	650	574
Other assets	6	765	(201)	570	(700)
Due to/from other funds	100	(104)	4	–	–
Accrued interest payable on bonds	(257)	775		518	2,124
Advance from the State of New Jersey			(1,648)	(1,648)	(2,459)
Funds held in trust for mortgagor		1,110	12,789	13,899	14,874
Minimum escrow requirement		78	6	84	(2)
Mortgagor escrow deposits		(287)	3,002	2,715	(1,320)
Subsidy payments received in advance			(5,918)	(5,918)	(970)
Deferred revenue			(11,671)	(11,671)	12,240
Other liabilities	(231)	(366)	3,783	3,186	3,559
Net cash provided by (used in) operating activities	$ (83,049)	$ 23,264	$ 16,994	$ (42,791)	$ 54,794

See accompanying notes.

1. Description of the Agency

Authorizing Legislation and Organization – The New Jersey Housing and Mortgage Finance Agency (the Agency), which is established in, but not part of, the Department of Community Affairs, is a body, corporate and politic, created by the New Jersey Housing and Mortgage Finance Agency Law of 1983, constituting Chapter 530, Laws of New Jersey, 1983 (the Act), which combined the New Jersey Housing Finance Agency and the New Jersey Mortgage Finance Agency into a single agency.

The initial legislation and subsequent amendment grant the Agency the power to issue debt to finance the construction and rehabilitation of housing projects for families of low and moderate income by providing mortgage loans to qualified housing sponsors or to increase the funds available for residential mortgage and rehabilitation or improvement loans. In addition, the Agency is authorized to make loans to boarding home operators for life safety improvements.

The Agency is governed by nine members: the Commissioner of the Department of Community Affairs who serves as Chair, the State Treasurer, the Attorney General, the Commissioner of Banking and Insurance, and the Commissioner of the Department of Human Services who are members of the New Jersey Housing and Mortgage Finance Agency ex officio, and four persons appointed by the Governor with the advice and consent of the State Senate for terms of three years.

Certain bonds and other obligations issued under the provisions of the Act are general obligations of the Agency to which its full faith and credit are pledged. Certain mortgages issued from the proceeds of Multi-Family Housing Revenue Bonds are insured by the Federal Housing Administration and one of these issues is Government National Mortgage Association (GNMA) backed. The Agency has no taxing power, however, certain bonds issued are separately secured, special and limited obligations of the Agency. See Note 10 to the financial statements for a more detailed discussion of the Agency's bonds, notes and obligations.

Federal Subsidy Programs – Many of the Agency-financed Multi-Family Housing projects (the projects) have entered into subsidy contracts with the U.S. Department of Housing and Urban Development (HUD) under Section 236 of the National Housing Act, as amended, or under Section 8 of the United States Housing act of 1937, as amended (Note 5). The subsidies, paid to the Agency for the account of the respective projects, have been pledged, under the terms of the bond resolutions, for the security of the bondholders.

(In Thousands)

1. Description of the Agency (continued)

The Section 8 program provides for payment of housing assistance payments to or for the account of the owners of projects assisted under such program. The housing assistance payments represent the difference between the total contract rents (an average of 141% of fair market rents as determined by HUD) for such developments and the eligible tenants' rental payments, which are up to 30% of each such tenant's adjusted income. The housing assistance payments, as adjusted from time to time by HUD to reflect changing economic conditions and subject to the limitations of the Section 8 program, together with the tenants' rental payments, are used to pay all operating costs of the project and debt service on the project's mortgage.

The Section 8 Housing Assistance Payments (HAP) received by the projects amounted to approximately $89,440 for the 6 months ended December 31, 2006.

The Section 236 program provides for interest reductions on mortgages of projects assisted under the program. HUD subsidizes the difference between the actual amortization schedule on the mortgages and an amortization schedule based upon a 1% interest rate. Several Section 236 projects also receive additional rental assistance for eligible tenants. The payments represent the difference between contract rent (as defined above) and the tenants' eligible rental payments.

The Section 236 Interest Reduction Payments (IRP) received by the Agency amounted to approximately $9,224 for the 6 months ended December 31, 2006.

2. Reporting Entity

The financial statements include the accounts of the Agency, STAR and ABC. All significant interfund accounts and transactions have been eliminated.

Component Unit – The Agency is a component unit of the State of New Jersey as described in Government Auditing Standards Board Statement (GASB) No. 14, as amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*. These financial statements are discretely presented as part of the State's financial statements.

(In Thousands)

2. Reporting Entity (continued)

Discretely Presented Component Units – Discretely presented component units are entities which are legally separate from the Agency, but are financially accountable to the Agency, or whose relationship with the Agency is such that exclusion would cause the Agency's financial statements to be misleading or incomplete. GASB Statement No. 14, as amended by GASB Statement No. 39 also provides guidance that all entities associated with a primary government are potential component units and should be evaluated for inclusion in the financial reporting entity. A primary government is financially accountable not only for the organizations that make up its legal entity, but also for legally separate organizations that meet the criteria established by GASB Statement No. 14, as amended by GASB Statement No. 39. The component units' columns in the financial statements include the financial data of the component units of the Agency. They are reported in separate columns. Because of the nature of the services they provide and the Agency's ability to impose its will on them, the following component units are discretely presented in accordance with GASB Statement No. 14, as amended by GASB Statement No. 39.

STAR

On April 29, 1996, the Board Members of the Agency approved the formation of a wholly-owned subsidiary corporation, the Statewide Acquisition and Redevelopment Corporation (STAR). The Board of Trustees and the officers of STAR are Agency employees. The Agency Board has authorized STAR to act as interim owner of certain multi-family projects including Amity Village I and II and Phase II of the Scattered Site AIDS Program

STAR was formed to act as a housing service corporation to purchase, finance, own, operate, maintain, develop, rehabilitate, construct, transfer, or resell properties under the Shore Easy Program, the AFL-CIO Demonstration Program and/or any other project or program as authorized by the Agency, particularly any project or program where the Agency administers Section 8 or other federal subsidies.

ABC

On April 17, 1997, the Board Members of the Agency approved the formation of a wholly-owned subsidiary corporation, the A Better Camden Corporation (ABC). The Board consists of four State Directors and three Camden Directors as follows: The Commissioner of the New Jersey Department of Community Affairs, ex officio, or his or her designee; the Executive Director of the Agency, ex officio, or his or her designee; two employees of the Agency

(In Thousands)

2. Reporting Entity (continued)

appointed by, and serving at the pleasure of the Executive Director of the Agency; the Mayor of the City of Camden, ex officio, or his or her designee; the Executive Director of the Camden Redevelopment Agency, ex officio, or his or her designee; and one resident of Camden appointed by a majority of the other directors to serve for a term of two years. ABC was formed to stimulate and encourage the construction, rehabilitation and improvement of adequate and affordable housing in Camden, particularly for persons of low and moderate income.

Separate financial statements are issued for each of the component units and can be obtained by contacting the New Jersey Housing and Mortgage Finance Agency, 637 South Clinton Avenue, P.O. Box 18550, Trenton, New Jersey 08650-2085.

3. Summary of Significant Accounting Policies

Basis of Accounting

The financial statements of the Agency and its component units are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, regardless of when the cash flow takes place. Operating costs and expenses are charged to expense as incurred, except those directly related to mortgage loan or program originations, which are deferred, netted against fee income for mortgage loans originated, and amortized over the contractual life of the related mortgage loan or program.

The Agency is required to follow all statements of the GASB. GASB Statement No. 20, *Accounting and Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, was issued to give guidance in determining Generally Accepted Accounting Principles (GAAP) for governmental proprietary funds. It provides that all proprietary fund activities follow all Financial Accounting Standards Board (FASB) Statements issued prior to November 30, 1989, unless they conflict with GASB standards. It also provides that the governmental unit must elect whether to follow FASB Statements after that date.

The Agency has elected not to follow any FASB pronouncements issued after November 30, 1989.

(In Thousands)

3. Summary of Significant Accounting Policies (continued)

Descriptions of Funds

The accounts of the Agency are organized on the basis of separate enterprise funds, each of which is considered to be a separate accounting entity with a separate set of self balancing accounts that comprise its assets, liabilities, net assets, and revenues and expenses. Within each fund there are accounts required by the respective bond resolutions. Assets under the respective bond resolutions are restricted and are not available for any other purpose other than as provided.

General Fund – The General fund is utilized to record transactions which are not directly related to a specific bond resolution. All Agency expenses are recorded in this fund except provisions for potential loan losses, and specific program expenses which are charged to the loan-related funds.

Multi-Family Program – The Multi-Family Program transactions relate to the construction, rehabilitation and permanent financing of multi-family rental housing developments generally designed for persons and families of low and moderate income or the elderly. The Multi-Family Program also provides funds for the bridge loan program. This program provides funds to multi-family construction projects, to be used as owner's equity. These funds assist the construction project to finance pre-construction costs.

Single Family Program – The Single Family Program transactions relate to the purchase of mortgage loans for owner-occupied single family residences for persons and families of low and moderate income.

The financial statements include the accounts of the Agency, STAR and ABC. All significant interfund accounts and transactions have been eliminated.

Cash and Cash Equivalents

Cash equivalents are considered highly liquid investments with a maturity of three months or less when purchased and include short-term highly liquid money market funds, overnight repurchase agreements and amounts held in a tax-free cash management fund, all of which are readily convertible to known amounts of cash.

(In Thousands)

3. Summary of Significant Accounting Policies (continued)

Investments

Investments are accounted for in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*. Therefore, United States Government and Agency securities, asset-backed securities, corporate notes and commercial paper are reported at fair value.

Capital Assets and Related Depreciation

The Agency capitalizes all assets at cost. Depreciation and amortization are provided using the straight-line method over the estimated useful lives of the assets as follows:

Asset Class	Useful Lives
Buildings and building improvements	25
Automobiles	4
Machinery and equipment	4-10
Furniture and equipment	5

Expenses for maintenance and repairs are charged to operating expenses. Renewals and betterments are capitalized. At the time properties are retired or otherwise disposed of, their cost and related accumulated depreciation are eliminated from the accounts and the gains or losses from such disposals are credited or charged to operations.

Funds and Deposits Held for Projects

Certain funds and deposits are held by the Agency's General Fund for projects in interest-bearing accounts. Such interest accrues to the benefit of the projects and is not recorded as Agency revenue.

(In Thousands)

3. Summary of Significant Accounting Policies (continued)

Debt Issuance Costs, Bond Discount and other Bond Related Costs

Debt issuance costs are deferred and amortized over the life of the related bonds using a method approximating the effective interest method. Discount and premium on bonds are deferred and amortized to interest expense using a method approximating the effective interest method. Deferred bond refunding costs are amortized over the shorter of the life of the refunding bonds or the refunded bonds.

Operations

Fees and charges income in the Multi-Family Housing Component includes an annual servicing fee on the mortgages, which generally range from zero to 0.65 of 1% of the original mortgage. These fees are amortized into income over the lives of the loans by the use of a method that approximates the level yield method and accrued as due monthly.

The Housing Finance Fund requirements receivable represents fees and charges due, but not collected, from projects originally funded under the Multi-Family General Housing Loan Bond Resolutions. The fees and charges are due over the life of the bonds to fund the Housing Finance Fund requirements related to these bond resolutions. The housing finance fees past due have been recorded as receivables with revenues offset by reserves until they are collected.

The Agency periodically reviews its mortgage loans receivable, debt service arrears receivables, supplemental mortgages and other loans and provides for possible losses. Loans are considered delinquent when principal and interest payments are 30 days past due.

Mortgage Loans

Mortgage loans are stated at principal amounts outstanding, net of unearned discount. Interest income on first mortgage loans is accrued and credited to interest income as earned. Loan origination costs and commitment fees are deferred and recognized over the life of the mortgage loan as an adjustment to the loan’s yield. The Agency is involved in foreclosure proceedings

(In Thousands)

3. Summary of Significant Accounting Policies (continued)

relating to both single and multi-family mortgages. For single-family mortgages, the Agency allows its outside servicers to represent them in Agency-approved foreclosure proceedings. The Agency enacts foreclosure proceedings against Multi-Family loans at the direction of its executive director with the approval of the Agency's Board. The Agency is the first lien holder for all supplemental mortgages. Interest income on supplemental mortgages is not accrued, but is credited to income as collected.

Allowance for Loan Losses

Certain projects have not generated sufficient cash flow to meet both operating expenses and debt service payments as a result of delays in attaining full occupancy levels, rising operating costs, or a combination thereof. The Agency has developed programs designed to provide adequate cash flow for these projects by obtaining additional rental assistance subsidies from HUD, rent increases, additional contributions by limited-dividend sponsors, the State of New Jersey Bond and Housing Assistance Funds and the Agency's General Fund. The Agency has provided allowances for loan losses aggregating $233,900 and $172,055 as of December 31, 2006 and June 30, 2006, respectively, against mortgage loans receivable, debt service arrears receivable, supplemental mortgages, other loans, and fees and charges including provision for negative cash flows and cost overruns for these projects. The allowance is an amount that management believes will be adequate to absorb possible losses on existing loans that may become uncollectible, based on evaluations of the collectibility of the loans. The evaluations take into consideration such factors as changes in the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans and current economic conditions that may affect the borrowers' ability to pay. Economic conditions may result in the necessity to change the allowance quickly in order to react to deteriorating financial conditions of the Agency's borrowers. As a result, additional provisions on existing loans may be required in the future if borrowers' financial conditions deteriorate or if real estate values decline.

Advances from the State of New Jersey for Bond and Housing Assistance

Pursuant to the provisions of agreements with the State of New Jersey Department of Community Affairs, the Agency has received funds from the 1968 and 1976 State of New Jersey General Obligation Bond Assistance Funds. These funds have been pledged as security for the bonds of certain bond resolutions and to provide supplemental financing to certain housing projects (Note 7).

(In Thousands)

3. Summary of Significant Accounting Policies (continued)

Advances from the State of New Jersey for Affordable Housing

Pursuant to the provisions of an agreement with the State of New Jersey Department of Community Affairs, the Agency has received funds to facilitate the building of low income projects. The outstanding balance was $3,081 as of December 31, 2006 and June 30, 2006.

Compensated Absences

Agency employees are granted vacation, sick and personal leave in varying amounts under the Agency's personnel policies. Upon termination employees are reimbursed for unused vacation and personal time accrued at their current hourly rate of pay. Unused sick time is reimbursed to employees only upon retirement. It is based upon their current hourly rate of pay and limited to one-half of the total amount up to a maximum of $15. The liability for compensated absences has been recorded in the Other Non-Current Liabilities section in the Statement of Net Assets.

Minimum Escrow Requirement

In accordance with the bond resolutions and/or deed and regulatory agreements, substantially all permanently financed projects are required to deposit with the Agency one month's principal and interest on their mortgage loans as security against the late payment of subsequent remittances.

Net Assets

Net assets comprise the excess of revenues over expenses from operating income, non-operating revenues, expenses and capital contributions. Net assets are classified in the following three components:

Invested in Capital Assets, Net of Related Debt – This component of net assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.

Restricted – Net assets are reported as restricted when constraints placed on net asset use either: (1) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (2) imposed by law through constitutional provisions or enabling legislation.

(In Thousands)

3. Summary of Significant Accounting Policies (continued)

Unrestricted – This component of net assets consists of net assets that do not meet the definition of restricted or invested in capital assets, net of related debt. This component includes net assets that may be designated for specific purposes by the Board.

When both restricted and unrestricted resources are available for use, it's the Agency's policy to use restricted resources first and unrestricted resources as needed.

Operating and Non-Operating Revenues and Expenses

Operating revenues consist primarily of all revenues derived from interest income on mortgage loans, fees and charges on mortgages and loans issued and gains on the sale of real estate owned. Investment income, which consists of interest income earned on various interest-bearing accounts and on investments in debt securities is reported as non-operating revenues.

Operating expenses include general and administrative expenses of the Agency; 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 other costs associated with the Agency's various loan programs. Non-operating expenses principally include loss on early extinguishment of debt.

Tax Status

The Agency is exempt from federal income taxes under the Internal Revenue Code Section 115 and from state income taxes under N.J.S.A. 27-25-16. Accordingly, no provision is recorded for federal and state income taxes.

Change in Fiscal Year Note

The Agency has elected to change its fiscal year-end from June 30 to December 31 and, accordingly, the accompanying financial statements include its financial activities and cash flows for the six month period ended December 31, 2006. The Agency changed its fiscal year-end in order to enhance its operational efficiency. The financial statements for the year ended June 30, 2006 should be read in order to enhance the readers understanding of the accompanying December 31, 2006 financial statements.

(In Thousands)

4. Early Extinguishment of Debt

During the six months ended December 31, 2006, as a result of the prepayment of certain mortgages, the Agency repurchased or redeemed, prior to their scheduled maturity, the principal amount of certain of its bonds, totaling approximately $46,700. Net losses of $279 for the period ended December 31, 2006 on early extinguishment of debt have been recorded as a non-operating expense. These losses arise as a result of immediate recognition of deferred bond issuance costs, bond discounts that would have been amortized over the life of the applicable bond issues had they not been retired, and call premiums as required by the bond resolutions.

5. Investments and Deposits

Investment Policy – Agency General Fund

The Agency has established an investment policy, which pertains to assets of the Agency, such as the General Fund assets, which are held outside of the Agency's Bond Resolutions. The primary investment objectives of the Agency's investment activities are to preserve principal, meet liquidity needs, further purposes of the Agency and provide a suitable return in relationship to current market conditions and the established investment policy. The Agency's investment policy includes guidelines as to liquidity and duration, eligible investments, concentration limits, credit quality and currency. The Agency's General Fund cash and equivalents are managed by BlackRock pursuant to an agreement between the Agency and BlackRock. Blackrock has been instructed to the follow the Agency's aforementioned investment policy.

The investment policy permits investments in obligations issued by U.S. Treasury or guaranteed by the U.S. government as well as obligations issued by or guaranteed by U.S. federal agencies, commercial paper, repurchase agreements having maximum maturities of seven days or less that and which are fully collateralized by U.S. government and/or agency securities, money market mutual funds and commercial bank obligations including time deposits, bank notes and bankers' acceptances.

Investment Policy – Bond Resolutions

The Agency's Single Family and Multi Family Bond Resolutions govern the investment of assets and funds held under the Resolutions and, as such, establish permitted investments in which funds held under the Resolutions may be invested. The Agency currently has two Single Family Bond Resolutions and five Multi-Family Resolutions, all of which govern the types of

(In Thousands)

5. Investments and Deposits (continued)

investments in which moneys held under each resolution may be invested. Generally, the Agency's Bond Resolutions permit the deposit of funds with commercial banks and the investment of funds in, time deposits and certificates of deposits, U.S. government obligations, obligations of certain U.S Government Agencies or obligations that are guaranteed by the U.S. Government. Additionally, certain of the Agency's Resolutions also permit the investment in money market funds with stipulated rating and maturity levels, as well as repurchase agreements, certain federal funds, commercial paper, banker's acceptances and funds of which the N.J. treasurer is custodian.

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a bank failure, the Agency's deposits may not be returned to it. The Agency has no formal policy as to custodial credit risk as to cash and equivalents held outside of its Bond Resolutions. Certain of the Agency's Bond Resolutions have varying provisions which relate to custodial credit risk including requirements that certain moneys and certain deposits of funds held under Resolutions be insured by federal deposit insurance or collateralized or secured by the U.S. government, or U.S. government agency obligations. In some cases, the Trustee or paying agent is excluded from these requirements related to funds held by them in trust. In some cases certain of the Agency's Bond Resolutions require that the holders (banks and other entities) of certain deposits have certain minimum long term or short-term credit rating levels. All funds are deposited in public depositories protected from loss under the provisions of the Governmental Unit Deposit Protection Act (GUDPA).

As of December 31, 2006, the carrying value of the Agency's deposits was $52,848 and the bank balance was $58,235, of which $57,472 was uninsured and uncollateralized.

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Agency will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the Agency, and are held by either the counterparty or the counterparty's trust department or agent but not in the Agency's name. At December 31, 2006, the Agency was not exposed to custodial credit risk.

(In Thousands)

5. Investments and Deposits (continued)

New Jersey Cash Management Fund and Merrill Lynch Cash Management Fund

During the year, the Agency invested certain funds in the New Jersey Cash Management Fund. The Fund is governed by regulations of the State Investment Council, who prescribe standards designed to insure the quality of investments in order to minimize risk to the Funds participants. Investments with the New Jersey Cash Management Fund are not subject to custodial credit risk as defined above. The Fund does not have a credit rating. The Agency also utilizes Merrill Lynch Cash Management Funds for certain project escrow accounts. These funds are invested in government securities and NJ municipal securities. At December 31, 2006 and June 30, 2006, the Agency's investment in Cash Management Funds amounted to $838,037 and $593,003, respectively.

Investment Type and Interest Rate Risk Disclosure

The Agency holds various investments, outside of the Bond Resolutions, within the Agency's General Fund. As discussed, these investments are currently managed by BlackRock. In addition to the eligible investments permitted by the Agency's Investment Policy discussed above, the aforementioned Investment Policy also permits corporate bonds, notes and medium term notes. Also permitted are asset backed securities, mortgage backed securities and collateralized mortgage obligations, however, these securities must be rated triple A by at least one of the national rating agencies. Equity investments in project-specific housing and housing-related developments which further the purposes of the Agency are also permitted with approval from the Agency Board. However, these investments may not exceed $10 million. Further, excluding the aforementioned equity investments, the Agency's Investment Policy indicates that the average effective duration of the portfolio is not to exceed 2.5 years and the maximum effective duration of any individual security is not to exceed 6 years.

In addition to those investments discussed above, certain of the Agency's Bond Resolutions also permit guaranteed investment contracts or investment agreements, obligations or notes of certain U.S. government agencies which are not backed by the U.S. government, certain short term and long term debt providing the issuers fall within permissible rating categories, direct and general obligations of the State of New Jersey guaranteed by the State, obligations of states and municipalities which are fully secured by contributions contracts with the U.S. government, certain stripped U.S. Treasury securities, shares of open-end, diversified investment companies having certain minimum credit ratings and Federal Housing Administration debentures.

(In Thousands)

5. Investments and Deposits (continued)

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Agency's investment policy as to moneys held outside the bond resolutions does impose concentration limits on certain types of investments which may limit the Agency's exposure to market interest rate risk. Certain investment types may evidence varying sensitivity to changes in interest rates. Corporate Bonds and notes and Medium term Notes may not exceed 50% of the aggregate market value of the portfolio. Asset Backed Securities may not exceed 30% of the aggregate market value of the portfolio and mortgage backed securities and collateralized mortgage obligations may not exceed 30% of the aggregate market value of the portfolio.

The average effective duration of the General Fund investment portfolio is not to exceed 2.5 years.

Within the Agency's Bond Resolutions, the Agency generally manages overall exposure to interest rate risk by the use of derivative instruments. In this regard, the Agency has utilized both interest rate swap agreements and interest rate cap agreements within the Multi-Family Revenue Bond Resolution, the Multi-Family Housing Revenue Bond Resolution and the Single Family Housing Revenue Bond Resolution. For a further discussion of the Agency's use of derivatives, please refer to Note 20 – Derivatives.

(In Thousands)

5. Investments and Deposits (continued)

As of December 31, 2006 and June 30, 2006, the Agency had the following investments, maturities and credit quality.

	Fair Value		Weighted-Average Maturity (years)		Credit Ratings	
	December 31, 2006	**June 30, 2006**	**December 31, 2006**	**June 30, 2006**	**S&P**	**Moody's**
Investment Type						
Guaranteed Investment Contracts	**$ 210,092**	$ 338,969	**19.22**	20.03	Unrated	Unrated
U.S. Treasury Securities	**28,056**	20,137	**4.15**	0.03	AAA	Aaa
Federal Agency Notes	**2,953**	2,979	**25.56**	26.06	AAA	Aaa
U.S. Government and Agency-Backed Securities	**89,069**	111,639	**1.77**	2.40	AAA	Aaa
Non-Agency Mortgage-Backed Securities	**6,304**	969	**1.31**	1.10	AAA	Aaa
Commercial Paper	**7,329**	6,396	**0.04**	0.01	A1 to A2	P-1 to P-2
Asset Backed Securities	**24,460**	28,709	**1.45**	0.99	AAA	Aaa
Corporate Notes	**100,620**	99,540	**1.88**	2.23	AAA to A-	Aaa to A3
New Jersey Cash Management Fund and Merrill Lynch CMA	**838,037**	593,003			Unrated	Unrated
Certificates of Deposit	**200**		**0.18**		Unrated	Unrated
Other Short-Term Instruments	**164**		**0.01**		Unrated	Unrated
Subtotal	**1,307,285**	1,202,341				
Less amount reported as cash equivalents	**(838,037)**	(593,003)				
Total investments	**$ 469,248**	$ 609,338				

Credit Risk

Credit risk is the risk that an issuer or counterparty to an investment will not fulfill its obligations. The Agency's investment policy specifies minimum rating levels for certain types of eligible investments. Asset backed securities, mortgage backed securities and collateralized mortgage obligations must have a minimum rating of triple A. Further, the minimum short term debt rating of money market instruments or other instruments with maturities of less than one year is Tier Two while the minimum long-term debt rating for all other instruments, excluding the permitted equity investments, is single A.

The Agency's Bond Resolutions establish varying minimum rating levels for different types of investments. Generally, commercial paper must be rated in the highest rating category or A-1 / P-1 and money market funds must be rated in the highest rating category or in some cases must be rated at least the unenhanced rating on the bonds. Also, certain resolutions require that certain deposits or various short term investments or cash equivalents may only be held by providers in either the highest or two highest rating categories. In some cases, certain debt obligations and

(In Thousands)

5. Investments and Deposits (continued)

state obligations must be rated in either the highest or the two highest rating categories. The Agency's guaranteed investment contracts which are permitted by certain of the Agency's Bond Resolutions are not rated, however, the Bond Resolutions which allow guaranteed investment contracts require either that the provider of such contracts have either a long term rating of double A or in some cases A-1 if the agreement term is less than one year or be rated within the two highest credit rating categories by two national credit rating agencies, must not affect the rating of the bonds or must be rated at least the unenhanced rating on the bonds.

Concentration of Credit Risk

The Agency's aforementioned investment policy does place limits on the amounts that may be invested in any one issuer relating to certain types of investments. There are no concentration limits on obligations of the U.S. government and U.S. federal agencies however, obligations of all other issuers are limited such that those with any one issuer may not exceed 5% of the aggregate market value of the portfolio.

The following table shows investments in issuers that represent 5 percent or more of total investments at December 31, 2006 and June 30, 2006:

	Percentage of Total Investments			
Issuer	**December 31, 2006**		**June 30, 2006**	
IXIS Funding Corporation	**$ 109,605**	**23.36%**	$ 224,419	36.83%
Federal National Mortgage Association	**36,804**	**7.84%**	33,209	5.45
US Treasury Notes	**28,056**	**5.98%**	–	–
GE Capital Corporation	**28,045**	**5.98%**	–	–
Federal Home Loan Mortgage Corporation	**24,921**	**5.31%**	–	–

The Agency also purchases U.S. Government securities from certain financial institutions under agreements whereby the seller has agreed to repurchase the securities at cost plus accrued interest. During the six month period ended December 31, 2006 and the year ended June 30, 2006, the maximum amount invested in repurchase agreements by the Agency was $-0- and $66,225, respectively. All repurchase agreements were invested overnight.

(In Thousands)

5. Investments and Deposits (continued)

Pursuant to most bond resolutions, the Agency is required to maintain certain invested debt service reserves with the Trustees to fund potential deficiencies in principal and interest required to be paid in succeeding fiscal years. These debt service reserve investments for the Multi-Family Component (funded by bond proceeds) are included in the investment balances above and aggregate a fair value of approximately $7,898 and $8,739 as of December 31, 2006 and June 30, 2006, respectively. The debt service reserve for several of the Multi-Family issues is called the Housing Finance Fund. The debt service reserve investments for the Single-Family Component (funded by bond proceeds or contributed cash) are included above and aggregate a fair value of approximately $14,991 and $14,853 as of December 31, 2006 and June 30, 2006, respectively. In addition to the above investments, the debt service reserves may be satisfied with a Surety Bond issued by a qualified insurer. The Multi-Family component had $135,087 and $130,638 and the Single-Family component had $14,762 and $15,895 of Surety Bonds outstanding as of December 31, 2006 and June 30, 2006, respectively.

Investment Income

Investment income is comprised of the following elements described below:

Interest Income – is the return on the original principal amount invested and the amortization of premium/discount on short term investments.

Unrealized Gain (Loss) on Investments – takes into account all changes in fair value that occurred during the year.

The Agency's investment income for the six months ended December 31, 2006 is:

Issuer	December 31, 2006
Interest income on investments	$ 21,376
Unrealized gain (loss) on investments	3,263
	$ 24,639

(In Thousands)

6. Mortgage Loans Receivable

Single-Family Mortgage Component

Mortgage loans held by the Single-Family Mortgage Component of the Agency have stated interest rates and are secured by first liens on the related real property. The outstanding balances by type of loan as of December 31, 2006 and June 30, 2006 are as follows:

	December 31, 2006	**June 30, 2006**
Mortgage loans receivable	**$ 754,395**	$ 658,978
Unearned discounts – net	**(61)**	(84)
Loan origination costs – net	**10,426**	7,732
Commitment fees – net	**(3,311)**	(3,638)
Allowance for loan losses	**(4,092)**	(3,751)
Mortgage receivable – net	**757,357**	659,237
Less current portion	**(17,910)**	(16,575)
Long term portion	**$ 739,447**	$ 642,662

Multi-Family Housing Component

The Multi-Family Housing Component of the Agency's mortgage loans receivable as of December 31, 2006 and June 30, 2006 consisted of the following:

	December 31, 2006	**June 30, 2006**
Mortgage loans subject to subsidy contracts under Section 8 of the United States Housing Act	**$ 266,080**	$ 271,180
Mortgage loans subject to subsidy contracts under Section 236 of the National Housing Act	**216,354**	225,846
Unsubsidized mortgage loans	**695,768**	572,026
Government National Mortgage Association, 9.95%, maturity November 15, 2020	**–**	4,932
Subtotal	**1,178,202**	1,073,984
Allowance for loan losses	**(67,267)**	(64,515)
(Undisbursed)/construction advances	**(1,530)**	82,206
Mortgage receivable – net	**1,109,405**	1,091,675
Less current portion	**(63,985)**	(46,648)
Long term portion	**$ 1,045,420**	$1,045,027

(In Thousands)

6. Mortgage Loans Receivable (continued)

General Fund Component

The General Fund mortgage loans receivable as of December 31, 2006 and June 30, 2006 consisted of the following:

	December 31, 2006	**June 30, 2006**
Mortgage loans subject to subsidy contracts under Section 8 of the United States Housing Act	**$ 27,982**	$ 31,026
Mortgage loans subject to subsidy contracts under Section 236 of the National Housing Act	**19,673**	19,873
Unsubsidized mortgage loans	**134,560**	164,343
Unearned discounts – net	**(77)**	(79)
Loan origination costs – net	**132**	121
Subtotal	**182,270**	215,284
Allowance for loan losses	**(51,401)**	(47,956)
Undistributed mortgage proceeds	**(588)**	(12,110)
Mortgage receivable – net	**130,281**	155,218
Less current portion	**(3,845)**	(22,650)
Long term portion	**$126,436**	$132,568

These Multi-Family Housing Component mortgage loans are repayable over terms originally up to 48 years and bear interest at rates from 0% to 13.25% per annum. Substantially all mortgage loans receivable are collateralized by first mortgages on the property of the housing sponsors and contain exculpatory clauses with respect to the liability of the principals of such housing sponsors.

Construction advances made from the proceeds of the sale of bonds and obligations are recorded as mortgage loans receivable. These funds are disbursed for construction costs, interest, carrying fees, working capital advances and other project-related expenses. Upon substantial completion and occupancy of the project, amortization of the loan will commence.

(In Thousands)

7. Debt Service Arrears Receivable

Debt service arrears consist of mortgage principal, interest payments and fees in arrears on permanently financed loans, net of the allowance for loan losses as described in Note 2. The debt service arrears receivable was $60,081 and $56,108 at December 31, 2006 and June 30, 2006. The debt service allowance for loan losses was $56,705 and $53,295 as of December 31, 2006 and June 30, 2006. A subsidy payment receivable of $1,323 and $1,285 was due at December 31, 2006 and June 30, 2006.

The Agency requires FHA guarantees, VA insurance, private mortgage insurance, pool insurance and other features to increase the security of Single-Family mortgage loans depending on the individual bond resolution and individual mortgages.

For the Single-Family component, the Agency's allowance is based on historical loss percentages applied to all mortgage loan principal balances. Accrued interest in excess of 180 days is fully reserved. On home improvement loans, the Agency provides an allowance for 10% of the principal in arrears and all interest in arrears over 90 days not deemed reimbursable from FHA Title One Insurance.

For the Multi-Family Housing Component, the Agency's policy is to provide an allowance for substantially all interest receivable on first mortgage loans when interest payments become past due, except for Section 8 program loans for which no allowance is recorded. An allowance of approximately $32,442 and $30,152 against interest receivable was recorded at December 31 and June 30, 2006. The balances of loans included in mortgage loans receivable for which an allowance has been recorded against interest receivable amounted to $273,971 and $271,035 as of December 31, 2006 and June 30, 2006.

8. Supplemental Mortgages and Other Loans

Certain projects have received supplemental mortgages and other loans from the Agency's General Fund and/or from the State of New Jersey Bond and Housing Assistance Funds. An allowance for loan losses has not been provided on supplemental mortgages funded from the State Bond and Housing Assistance Funds because the Agency is not obligated to repay the State until the projects repay the Agency.

(In Thousands)

8. Supplemental Mortgages and Other Loans (continued)

The supplemental mortgages and other loans receivable as of December 31, 2006 and June 30, 2006, consisted of the following:

	December 31, 2006	**June 30, 2006**
Mortgage loans subject to subsidy contracts under Section 8 of the United States Housing Act	**$ 2,261**	$ 2,332
Mortgage loans subject to subsidy contracts under Section 236 of the National Housing Act	**8,115**	6,487
Agency supplemental mortgages	**226,262**	154,013
HUD supplemental mortgages	**881**	881
Loans to projects	**15,274**	19,948
State of New Jersey supplemental mortgages	**12,947**	13,052
Other	**18,375**	57,511
Subtotal	**284,115**	254,224
Allowance for loan losses	**(54,435)**	(55,833)
Undisbursed supplemental mortgage proceeds	**(16,115)**	(9,160)
Supplemental mortgages and other loans receivable – net	**213,565**	189,231
Less current portion	**(1,775)**	(2,171)
Long term portion	**$211,790**	$187,060

(In Thousands)

9. Capital Assets

Capital assets are summarized as follows:

	Balance July 1, 2006	Additions	Deletions	Balance Dec 31, 2006
Non-depreciable capital assets:				
Land	$ 1,345			**$ 1,345**
Depreciable capital assets:				
Building and building improvements	21,156	$ 15		**21,171**
Motor vehicles	537	(16)		**521**
Machinery and equipment	4,899	236	$ (94)	**5,041**
Furniture and fixtures	233	56		**289**
Total	26,825	291	(94)	**27,022**
Less accumulated depreciation:				
Building and building improvements	(10,074)	(609)		**(10,683)**
Motor vehicles	(350)	(36)		**(386)**
Machinery and equipment	(3,339)	(371)	94	**(3,616)**
Furniture and fixtures	(204)	(9)		**(213)**
Total	(13,967)	(1,025)	94	**(14,898)**
Total capital assets – net	$ 14,203	$ (734)	$ –	**$ 13,469**

Depreciation expense was $1,025 and $2,017, for the six-months ended December 31, 2006 and the fiscal year ended June 30, 2006, respectively.

(In Thousands)

10. Bonds and Obligations

The Agency obtains funds to finance its various mortgage programs through the sale of bonds and other obligations. Interest on Agency bonds and obligations is generally payable monthly, quarterly or semiannually. Generally, bond principal is due in annual or semiannual installments. Term bonds are subject to redemption by application of sinking fund installments. Pursuant to the related bond and obligation resolutions, the Agency has authorized and issued as of December 31, 2006 the following bonds and obligations:

Description of Bonds as Issued	Bonds Outstanding June 30, 2006	Issued	Matured/ Called/ Redeemed	Bonds Outstanding December 31, 2006	Amount Due Within One Year
Single Family					
Home Buyer Revenue Bonds:					
1995 Series N, 4.95% to 6.00%, due 2004 to 2016	$ 21,675		$ (1,055)	$ 20,620	$ 2,190
1995 Series O, 6.125% to 6.35%, due 2021 to 2027	1,730		(735)	995	
1996 Series P, 4.75% to 5.60%, due 2004 to 2013	9,105		(865)	8,240	1,660
1996 Series R, 5.00% to 5.60%, due 2006 to 2013	14,935		(1,235)	13,700	2,560
1996 Series S, 5.00% to 6.00%, 2004 to 2021	13,430			13,430	
1997 Series T, 4.90% to 5.60%, 2007 to 2017	4,300			4,300	590
1997 Series U, 4.90% to 5.85%, 2004 to 2029	81,155		(1,975)	79,180	3,510
1998 Series V, 4.75% to 5.25%, 2009 to 2026	23,340			23,340	
1998 Series W, 4.30% to 4.75%, 2004 to 2017	12,140		(2,210)	9,930	2,310
1998 Series X, 5.25% to 5.35%, 2012 to 2029	10,055		(1,980)	8,075	
1999 Series Z, 5.25% to 5.70%, 2010 to 2017	15,365			15,365	
1999 Series AA, 4.80% to 5.45%, 2004 to 2026	55,775		(10,410)	45,365	7,715
2000 Series BB, 4.35% to 5.30%, 2004 to 2017	27,035		(1,295)	25,740	2,690
2000 Series CC, 4.90% to 5.875%, 2017 to 2031	51,260		(2,685)	48,575	
2003 Series FF, variable rate, 2009 to 2025	53,865		(3,010)	50,855	
Total Home Buyer Revenue Bonds	395,165		(27,455)	367,710	23,225
Housing Revenue Bonds:					
2003 Series C, 1.65% to 5.00%, due 2005 to 2033	18,880		(1,360)	17,520	865
2003 Series D-1, variable rate, due 2014 to 2023	13,565			13,565	
2003 Series D-2, variable rate, due 2024 to 2034	24,015			24,015	

(In Thousands)

10. Bonds and Obligations (continued)

Description of Bonds as Issued	Bonds Outstanding June 30, 2006	Issued	Matured/ Called/ Redeemed	Bonds Outstanding December 31, 2006	Amount Due Within One Year
Single Family					
Housing Revenue Bonds (continued):					
2004 Series G, 1,.60% to 4.25%, due 2005 to 2015	$ 16,685		$ (1,645)	$ 15,040	$ 3,345
2004 Series H, 3,.95% to 5.25%, due 2011 to 2034	25,525		(1,780)	23,745	
2004 Series I, variable rate, due 2025 to 2034	91,700		(2,025)	89,675	500
2005 Series L, 2.625% to 4.35%, due 2006 to 2017	13,405		(820)	12,585	845
2005 Series M, 4.87% to 5.00%, due 2026 to 2036	17,770			17,770	
2005 Series N, variable, due 2017	38,050		(1,230)	36,820	2,830
2005 Series O, variable, due 2026 to 2031	79,950			79,950	
2005 Series P, variable, due 2008 to 2025	22,320			22,320	
2005 Series Q, variable, due 2010 to 2032	64,070			64,070	
2005 Series R, variable, due 2031 to 2038	33,610			33,610	
Total Housing Revenue Bonds	459,545		(8,860)	450,685	8,385
Total Single Family	854,710		(36,315)	818,395	31,610
Net premium on bonds payable	2,255			2,027	
Deferred bond refunding costs	(201)			(195)	
Total Single Family Bonds Payable (net)	856,764			820,227	
Multi Family					
General Housing Loan Bonds:					
1970 Series A, 4.50%, due 2004 to 2019	2,615		(140)	2,475	145
1971 Series A, 5.35% to 5.40%, due 2004 to 2019	18,475		(1,525)	16,950	1,435
1972 Series A, 5.70% to 5.80%, due 2004 to 2013	14,680		(1,965)	12,715	2,075
1972 Series B, 5.20% to 5.25%, due 2004 to 2021	26,190		(1,320)	24,870	1,390
Subtotal General Housing Loan Bonds	61,960		(4,950)	57,010	5,045
Section 11(b) Multi-Family Housing Revenue Bonds:					
1983 Series A (Highview Terrace) 10.375%, due 2004 to 2025	2,735		(2,735)	–	
Multi-Family Housing Revenue:					
1991 Series I, (Presidential Plaza) 6.50% to 7.00%, due 2004 to 2030	122,240		(1,060)	121,180	2,235

(In Thousands)

10. Bonds and Obligations (continued)

Description of Bonds as Issued	Bonds Outstanding June 30, 2006	Issued	Matured/ Called/ Redeemed	Bonds Outstanding December 31, 2006	Amount Due Within One Year
Multi Family (continued)					
Multi-Family Housing Revenue Bonds					
1995 Resolution:					
1997 Series A, 4.45% to 5.65%, due 2004 to 2040	$ 64,690		$ (440)	$ 64,250	$ 900
1997 Series B, 4.30% to 5.40%, due 2004 to 2028	10,310		(125)	10,185	260
1997 Series C, 6.47% to 7.42%, due 2004 to 2040	17,340		(470)	16,870	975
1999 Series A, 3.95% to 5.15%, due 2004 to 2030	18,570		(385)	18,185	410
1999 Series B, 3.85% to 4.70%, due 2004 to 2013	1,205		(155)	1,050	160
1999 Series C, 5.97% to 7.12%, due 2004 to 2030	5,335		(45)	5,290	100
2000 Series A1, 5.10% to 6.35%, due 2004 to 2032	14,625		(245)	14,380	250
2000 Series A2, 5.10% to 6.35%, due 2004 to 2029	2,715		(50)	2,665	55
2000 Series B, 5.00% to 6.25%, due 2004 to 2026	49,540		(2,170)	47,370	2,400
2000 Series C,1 8.38%, due 2004 to 2032	40,780		(235)	40,545	510
2000 Series C2, variable rate, due 2004 to 2032	5,725		(35)	5,690	70
2000 Series E1, 4.65% to 5.75%, due 2004 to 2025	53,885		(3,205)	50,680	3,360
2000 Series E2, 4.65% to 5.75%, due 2004 to 2025	2,995		(110)	2,885	115
2000 Series F, 7.93%, due 2004 to 2031	15,935		(100)	15,835	215
2000 Series G, 4.65% to 5.35%, due 2004 to 2013	2,195		(230)	1,965	240
2001 Series A, 3.10% to 5.05%, due 2004 to 2034	24,165		(705)	23,460	1,450
2001 Series B, 6.64%, due 2004 to 2032	13,045		(100)	12,945	215
2001 Series C, variable rate, due 2007 to 2033	48,425			48,425	10
2002 Series A, 2.40% to 4.25%, due 2004 to 2010	20,915		(2,280)	18,635	4,690
2002 Series B, variable rate, due 2004 to 2023	15,800		(300)	15,500	625
2002 Series C, 2.90% to 4.95%, due 2004 to 2015	44,800		(6,990)	37,810	4,630
2002 Series D, 5.50%, due 2004 to 2022	1,735		(40)	1,695	75
2002 Series E, 7.00%, due 2004 to 2022	3,900		(70)	3,830	140
2002 Series F, 3.75% to 5.40%, due 2004 to 2016	63,235		(5,555)	57,680	11,240
2002 Series G, variable rate, due 2004 to 2025	5,705		(85)	5,620	180
2003 Series A, 1.40% to 5.05%, due 2004 to 2044	30,500		(645)	29,855	705
2003 Series B, variable rate, due 2004 to 2033	34,500		(1,350)	33,150	1,000

(In Thousands)

10. Bonds and Obligations (continued)

Description of Bonds as Issued	Bonds Outstanding June 30, 2006	Issued	Matured/ Called/ Redeemed	Bonds Outstanding December 31, 2006	Amount Due Within One Year
Multi Family (continued)					
Multi-Family Housing Revenue Bonds					
1995 Resolution:					
2003 Series C, 1.20% to 4.70%, due 2004 to 2033	$ 3,540		$ (60)	$ 3,480	$ 60
2003 Series D, variable rate, due 2004 to 2035	13,250		(100)	13,150	200
2004 Series A, 1.80% to 3.75%, due 2006 to 2014	16,595		(825)	15,770	1,820
2004 Series B, variable rate, due 2007 to 2046	95,510			95,510	4,920
2004 Series C, variable rate, due 2006 to 2037	10,485		(70)	10,415	145
2004 Series D, 1.70% to 5.20%, due 2006 to 2046	28,275		(325)	27,950	665
Total	780,225		(27,500)	752,725	42,790
Multi-Family Housing Revenue Bonds					
2005 Resolution:					
2005 Series A1, 2.20% to 4.95%, due 2005 to 2046	27,280		(150)	27,130	325
2005 Series A2, 4.95%, due 2040 to 2046	5,000			5,000	
2005 Series B, variable, due 2005 to 2039	27,750		(2,500)	25,250	400
2005 Series C, variable, due 2005 to 2045	7,400		(3,100)	4,300	50
2005 Series D, 2.00% to 4.70%, due 2005 to 2030	34,660		(580)	34,080	1,290
2005 Series E, variable, due 2005 to 2029	56,850		(1,150)	55,700	2,400
2005 Series F, variable, due 2005 to 2040	23,745		(4,705)	19,040	325
2005 Series G, variable, due 2007 to 2047	13,620		(8,790)	4,830	15
2006 Series A, variable, due 2006 to 2028	24,790		(220)	24,570	745
2006 Series B, variable, due 2006 to 2028	11,475		(330)	11,145	955
2006 Series C, 4.90% to 5.00% due 2007 to 2026		$ 5,295		5,295	90
2006 Series D, variable, due 2007 to 2048		63,635		63,635	475
2006 Series E, 4.65% to 4.80%, due 2007 to 2036		5,320		5,320	100
Total 2005 Bond Resolution	232,570	74,250	(21,525)	285,295	7,170
Total Multi-Family Bonds Program	1,199,730	74,250	(57,770)	1,216,210	57,240
Net discount on bonds payable	(245)			(240)	
Deferred bond refunding costs	(10,537)			(10,212)	
Total Multi-Family Bonds Payable (net)	1,188,948			1,205,758	
Total Bonds Payable	$ 2,045,712	$ 74,250	$ (94,085)	$2,025,985	$ 88,850

Interest paid on variable-rate tax-exempt bonds is closely correlated with The Bond Market Association (BMA) Municipal Swap Index rate and taxable bond rates are closely correlated with LIBOR on the FHLB Discount Note rate plus a fixed spread. Generally, note resets occur quarterly, monthly, every 35 days, every 28 days, weekly or daily.

(In Thousands)

10. Bonds and Obligations (continued)

The net proceeds of the aforementioned bonds and obligations were used to make qualified mortgage loans, purchase eligible residential mortgage and home improvement loans and/or establish debt service reserve accounts.

As of December 31, 2006 and June 30, 2006, there was $53,188 and $46,443, respectively, of undisbursed proceeds from the sale of bonds and obligations. Such funds represent initial mortgage loan funds committed to Multi-Family Housing sponsors authorized under various resolutions.

Future Principal and Interest Requirements

The approximate principal and interest payments required on outstanding bonds and obligations over the next five years and thereafter are as follows:

	Fixed and Unhedged Variable Rate		Hedged Variable Rate				Total Interest Rate Swaps, Net
Agency Component	**Principal**	**Interest**	**Principal**	**Interest**	**Interest Rate Swaps, Net**	**Principal**	
Single Family							
2007	$ 28,280	$ 23,660	$ 3,330	$ 13,184	$ 1,834	$ 31,610	$ 38,678
2008	29,720	22,338	4,455	13,165	1,829	34,175	37,332
2009	32,060	20,894	5,165	12,803	1,895	37,225	35,592
2010	29,530	19,426	6,690	12,479	2,013	36,220	33,918
2011	29,535	17,883	6,910	12,697	1,654	36,445	32,234
2012-2016	74,990	73,856	45,590	58,050	8,905	120,580	140,811
2017-2021	106,425	48,959	74,415	46,905	7,713	180,840	103,577
2022-2026	58,245	26,187	91,600	31,340	5,723	149,845	63,250
2027-2031	52,205	11,969	73,645	16,121	3,115	125,850	31,205
2032-2036	13,380	2,120	43,750	4,948	1,117	57,130	8,186
2037-2041			8,475	299	57	8,475	356
	$454,370	$267,291	$364,025	$221,991	$ 35,855	818,395	$525,138
Add Unamortized Premium						2,027	
Less Unamortized Deferral on Refunding						(195)	
						$ 820,227	

(In Thousands)

10. Bonds and Obligations (continued)

	Fixed and Unhedged Variable Rate		Hedged Variable Rate			Total	Interest
Agency Component	**Principal**	**Interest**	**Principal**	**Interest**	**Interest Rate Swaps, Net**	**Principal**	**Rate Swaps, Net**
Multi-Family							
2007	$ 45,420	$ 44,433	$ 11,820	$ 16,158	$ 1,185	$ 57,240	$ 61,776
2008	51,825	42,155	7,785	15,240	1,253	59,610	58,649
2009	49,990	39,845	8,370	15,060	1,070	58,360	55,975
2010	44,780	37,500	8,495	14,601	1,194	53,275	53,295
2011	40,765	35,364	9,045	14,271	1,196	49,810	50,831
2012-2016	150,420	148,038	60,460	65,079	6,090	210,880	219,207
2017-2021	133,230	109,713	74,715	52,275	4,591	207,945	166,579
2022-2026	123,800	69,666	75,485	37,702	4,210	199,285	111,577
2027-2031	98,965	33,918	61,350	24,112	1,587	160,315	59,616
2032-2036	38,880	11,445	46,710	13,813	1,136	85,590	26,394
2037-2041	16,905	3,789	27,260	6,732	531	44,165	11,051
2042-2046	6,490	772	22,660	2,240	334	29,150	3,347
2047-2051			585	14		585	14
	$ 801,470	$576,639	$414,740	$ 277,297	$24,375	1,216,210	$ 878,312
Add Unamortized Premium						(240)	
Less Unamortized Deferral on Refunding						(10,212)	
						$ 1,205,758	

11. Conduit Debt Obligations

On September 7, 2006, the Agency closed on $8,350 in Variable Rate Demand Multifamily Housing Revenue Bonds (Meadow Brook Apartments Project) consisting of 2006 Series A Bonds. The bond issue will finance 96 rental units.

During the fiscal year ended June 30, 2005, the Agency issued 2004 Series A Capital Fund Program Bonds. These bonds were issued to provide funds to local Housing Authorities to finance on an accelerated basis certain capital renovations and improvements to each Authority's public housing developments. The bonds are payable from and secured primarily by Capital Fund Program moneys, subject to the availability of appropriations to be paid by the United States Department of Housing and Urban Development (HUD) to each Authority. These bonds are special and limited obligations of the Agency. The bonds, which are considered conduit debt obligations by GASB, do not constitute a debt or pledge of the faith and credit of the Agency and, accordingly, have not been reported in the accompanying financial statements.

At December 31, 2006 and June 30, 2006, Capital Fund Program Bonds outstanding aggregated $76,865 and $78,245, respectively.

(In Thousands)

12. Funds Held in Trust for Mortgagors

Funds held by the Agency for its projects include proceeds from conversion of projects from non-profit to limited-dividend status in the form of development cost and community development escrows and unspent subsidies. These funds are available to absorb initial operating deficits, construction overruns, provide additional amenities to the projects, and for other contingencies.

Funds held in trust for mortgagors as of December 31, 2006 include the following:

	December 31, 2006
Multi-Family Housing Component	$ 12,479
General Fund:	
Community development escrows	4,899
Development cost escrows	10,706
Other funds held in trust	245,585
Total General Fund	261,190
Total	$ 273,699

13. Mortgagor Escrow Deposits

The Agency holds, in escrow, monthly deposits from the projects for payments of property and liability insurance, hazard insurance, payments in lieu of taxes, and major repairs and replacements and undisbursed earnings. Mortgagor escrow deposits as of December 31, 2006 include the following:

	December 31, 2006
Multi-Family Housing Component	**$ 6,946**
General Fund:	
Reserve for repairs and replacements	**149,115**
Tax and insurance escrows	**35,871**
Total General Fund	**184,986**
Total	**$ 191,932**

(In Thousands)

14. Real Estate Held for Redevelopment

The properties were acquired by A Better Camden Corporation (ABC) as part of an overall redevelopment strategy undertaken in conjunction with municipal and/or nonprofit community development initiatives. ABC negotiated the prices to be paid for privately owned properties after ordering and analyzing detailed title work and appraisals. Since the owners were not necessarily prepared to sell their properties prior to ABC's contact with them, ABC often paid a premium for the property. In accordance with advice rendered by the Attorney General's office, no more than 20% over appraised value was paid by ABC for each of these properties. In two cases special permission was granted to exceed this percentage ceiling.

As to the disposition of ABC acquired properties, they are usually transferred to municipal redevelopment agencies, municipalities or nonprofit or for profit developers at a nominal cost in conjunction with community redevelopment plans. The expense is recognized in the year of transfer.

15. Net Assets

Restricted Under Bond and Obligation Resolutions

As described in Note 2, monies within each Bond and Obligation Fund are pledged as security for the respective bondholders, and thus are restricted as to their application.

Restricted for Special Need Housing

During fiscal year June 30, 2006, the Agency received $50,000 from the sale of New Jersey Commission Development Authority Motor Vehicle Surcharge Revenue Bonds to establish as Special Needs Housing Trust and Fund for the sole purpose of providing housing and residential opportunities for individuals with special needs.

(In Thousands)

15. Net Assets (continued)

Appropriated General Fund Net Assets

Appropriated General Fund net assets are unrestricted net assets that have been designated by the Agency's members for the following purposes at December 31, 2006 and June 30, 2006:

	December 31, 2006	**June 30, 2006**
ABC Corporation	**$ 618**	$ 926
Affordable Rental Housing Subsidy Loan Program	**7,481**	9,521
Agency CIAP	**1,119**	957
Aging Out of Foster Care	**1,300**	1,300
Asbury Park Initiative PILOT	**500**	500
At Home Downtown	**4,442**	4,747
Bond Refunding Proceeds	**6,771**	6,771
Camden Initiative	**1,486**	1,486
Carteret Senior Living	**452**	584
CHOICE	**10,000**	
CIAP Loan Program	**2,967**	2,980
City Living	**19,520**	19,520
Community Development Institute – Rutgers	**62**	63
Equity Gap Program	**135**	135
Ex-Offenders Re-Entry Housing Program	**1,000**	1,000
Home Ownership for Permanency Program	**404**	1,599
Homeless Management Information System	**100**	100
HOPE	**500**	500
Information Technology	**840**	1,161
Lanning Square West UHORP #229	**74**	79
Life Safety Rehabilitation	**506**	506
MONI HIF	**21,656**	23,410
Multi-Family Rental Investment Program	**420**	20
NJHMFA portion of Undisbursed Mtg. Proceeds	**1,384**	2,232
Non-Bond Multi-Family Program	**12,506**	6,967
Paragon Village # 1316	**132**	132
PLAN Fund	**5,000**	5,000
Policy and Community Initiatives	**246**	271

(In Thousands)

15. Net Assets (continued)

	December 31, 2006	June 30, 2006
Portfolio Disposition	**$ 48**	$ 69
Portfolio Reserve Balance	**4,223**	5,381
Preservation Initiatives	**25**	25
Public Outreach Initiatives	**191**	171
Reserve for Loan Losses	**5,700**	5,700
Roebling School Renaissance Zone Fund	**100**	100
Royal Court	**497**	497
Shore Easy	**94**	95
Single Family Counseling	**136**	147
Small Rental Project Preservation Loan Program	**17,124**	19,066
Smart Living	**15,000**	15,000
Smart Start	**100**	100
Social Investment Policy	**1,500**	1,500
Spring Street Plaza MM#1		1,221
Strategic Zone Lending Pool	**14,523**	13,547
Transitional Housing Loans	**1,197**	1,006
UHORP HIF	**13,439**	13,661
UHORP Mortgage Commitment	**6,055**	6,745
Urban Statewide Acquisition-NJUSA	**5,770**	8,131
West End Housing Development UHORP #501	**75**	75
Work Force Initiative	**3,000**	3,000
	$ 190,418	$ 188,104

(In Thousands)

15. Net Assets (continued)

Changes in net assets are summarized as follows:

	Invested in Capital Assets, Net of Related Debt	Restricted	Unrestricted	Total
Net assets at June 30, 2005	$ 12,890	$ 238,876	$ 490,722	$ 742,488
Income			73,001	73,001
Acquisition of capital assets	3,480		(3,480)	–
Transfer	(150)	69,096	(68,946)	–
Depreciation on capital assets	(2,017)		2,017	–
Net assets at June 30, 2006	14,203	307,972	493,314	815,489
Income			**35,110**	**35,110**
Acquisition of capital assets	**291**		**(291)**	**-**
Transfer		**7,529**	**(7,529)**	**-**
Depreciation on capital assets	**(1,025)**		**1,025**	
Net assets at December 31, 2006	**$ 13,469**	**$ 315,501**	**$ 521,629**	**$ 850,559**

16. Pension Plan

The Agency contributes to a cost-sharing multiple-employer defined benefit pension plan, the Public Employees' Retirement System, which is administered by the New Jersey Division of Pensions and Benefits. This plan provides retirement, death and disability, and medical benefits to qualified members. Vesting and benefit provisions are established by N.J.S.A. 43:15A and 43:3B. The plan has a Board of Trustees that is primarily responsible for its administration.

The contribution requirements of plan members are determined by State statute. In accordance with Chapter 62, P.L. 1994, plan members enrolled in the Public Employees' Retirement System are required to contribute 5% of their annual covered salary. N.J.S.A. 43:15A-24 authorizes the reduction in member rates based on the existence of surplus pension assets in the retirement system. The contribution rate for PERS members was 3% for calendar year 2004. Effective January 1, 2005, the member contribution rate returned to the normal rate of 5%. The Agency is billed annually for its normal contribution plus any accrued liability.

(In Thousands)

16. Pension Plan (continued)

The Agency's contributions to the plan, equal to the required contributions, were as follows:

Public Employees Retirement System

Period	Normal Contribution	Accrued Liability	Total Liability	Funded by State	Paid by Agency
Six months ended December 31, 2006	**$ 253**	**$ 131**	**$ 384**	**$ 154**	**$ 230**
Fiscal year ended June 30, 2006	459	126	585	351	234 [1]
Fiscal year ended June 30, 2005	414	6	420	336	84
Fiscal year ended June 30, 2004	300	None	300	300	None

[1] Under the provisions of Chapter 108, P.L. 2003 the Agency's share of the total normal contribution and accrued liability increased 20% in 2005 and 40% in 2006. The phase-in will continue through 2007, 2008 and 2009 with 60%, 80% and 100% of the actuarially calculated amounts due for those years respectively. Significant increases in the amount due each year until the phase-in is completed and the Agency returns to making the full contribution on an annual basis is expected.

Early Retirement Incentive Program

The Agency has approved Early Retirement Incentive Programs known as ERI 1 and ERI 3, as, permitted by State legislation for certain members of the Public Employees' Retirement System. These members had to meet certain age and service requirements and had to apply for retirement between certain dates. Three (3) employees participated in ERI 1 and fifteen (15) employees participated in ERI 3. The Agency is assessed annually for the actuarially determined contribution to fund this program. The Agency is obligated to make annual installments with each subsequent year payment increasing by 4% (ERI 1) and 5.95% (ERI 3) every year. Payments for the six-months ended December 31, 2006 and years ended June 30, 2006 and 2005 were $51, $97 and $79, respectively.

(In Thousands)

16. Pension Plan (continued)

Installments due by the Agency at December 31, 2006 are as follows:

2007	$ 99
2008	103
2009	107
2010	112
2011	116
2012-2016	654
2017-2021	795
2022-2026	771
2027-2031	939
2032-2034	658
	$ 4,354

The Division issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to:

State of New Jersey
Division of Pensions and Benefits
P.O. Box 295
Trenton, New Jersey 08625-0295

17. Post Employment Benefits

The Agency is responsible for the cost of health benefits provided to members of PERS who retired from the Agency with 25 years of service. The Agency paid $224 for the six months ended December 31, 2006 towards benefits for 46 eligible retired members and $420 and $382 in each fiscal year toward benefits for forty-one and thirty-nine eligible retired members in fiscal years June 30, 2006 and 2005, respectively.

In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The Statement establishes guidance for the financial reporting of other postemployment benefits (OPEB) cost over a period that approximates employees' years of service and provides information about actuarially calculated liabilities associated with OPEB and whether and to what extent progress is being

(In Thousands)

17. Post Employment Benefits (continued)

made in funding the plan. This Statement is effective for financial statements for periods beginning after December 15, 2006. The Agency is currently evaluating the impact of implementing GASB No. 45.

18. Deferred Compensation Account

The Agency offers its employees a choice of two Deferred Compensation Plans in accordance with Internal Revenue Code Section 457. The Plans, available to all full time employees at their option, permit employees to defer a portion of their salary to future years. The deferred compensation is not available to participants until termination, retirement, death or unforeseeable emergency.

Amounts deferred under Section 457 plans must be held in trust for the exclusive benefit of participating employees and not be accessible by the Agency or its creditors.

19. Reserve for Interest Rebate

The Tax Reform Act of 1986 placed restrictions on the investments of the proceeds of certain tax-exempt bonds issued after December 31, 1986. Specifically, investment earnings which are above arbitrage bond yield are required to be rebated to the United States Treasury Department within sixty days of the end of the fifth bond year. A bond year is defined as ending on the anniversary date of the bond settlement.

The Agency has various issues of bonds outstanding (see Note 9), which also had various settlement dates. Rebate calculations on these bonds are required to be made at least once every five years. However, the Agency prepares annual rebate calculations for purposes of determining any contingent liability for rebate.

The Agency has elected to establish a reserve account in the amount of $214 and $101 for the six months ended December 31, 2006 and the fiscal year ended June 30, 2006, respectively for the Multi-Family Bond Resolution Fund and $930 and $1,114 for the six months ended December 31, 2006 and the fiscal year ended June 30, 2006, respectively for the Single-Family Bond Resolution Fund in case a rebate may be required as the result of the occurrence of future events.

(In Thousands)

20. Derivative Instruments

Objectives of the Swaps and Caps

The agency has several variable rate bond series currently outstanding, in order to protect against the potential of rising interest rates, the Agency entered into various pay-fixed, receive-variable interest rate swaps at a cost anticipated to be less than what the Agency would have paid to issue fixed-rate debt. The notional principal of the swaps in some cases initially increase as the borrowed funds are anticipated to be loaned out. The Agency also entered into various interest rate cap agreements that were anticipated to effectively limit the Agency's interest rate exposure during the period before the swaps fully hedge the exposure. All derivatives are valued at their fair value.

Terms, Fair Values, and Credit Risk

The terms, fair values, and credit ratings of the outstanding swaps and caps as of June 30, 2006, are summarized in the table below. The caps and the swaps are utilized together to hedge the risk from the associated variable rate debt. The Agency's swap agreements contain scheduled reductions to outstanding notional amounts that are expected to approximately follow scheduled or anticipated reductions in the associated bonds payable category. The Agency pays a fixed interest rate on the notional amount that represents the principal amount of the related bonds. The Agency receives either 1-Month LIBOR times the notional amount for the taxable borrowings, or a percentage of 1-Month LIBOR plus a fixed spread or the Bond Market Association (BMA) Index times the notional amount for the tax-exempt borrowings from the counterparty, as listed below. Where possible, only the net difference will be exchanged with the counterparty and the Agency continues to pay interest to the certificate-holders at the variable rate provided on the bonds. The purpose of the swap is to mitigate interest rate risk. The Agency will be exposed to variable rates if the counterparty to the swap defaults or if the swap is terminated.

(In Thousands)

20. Derivative Instruments (continued)

Single Family Bond Component Swaps

Associated Bond Issue	Bond Original Par Amounts	Maximum Swap Notional Amount	Swap Effective Date	Swap Termination Date	Fixed Rate Paid	Variable Rate Received	Fair Values	Counterparty	Counterparty Credit Rating (Moody's/S&P/Fitch)
SHRB* 2003 D-1	$ 13,565	$ 13,565	10/30/2003	10/1/2023	3.919%	67% of 1-Mo LIBOR + 16bp	$ (11)	Goldman Sachs Mitsui Marine Derivative Products, L.P.	Aaa / AAA / -
SHRB* 2003 D-2	24,015	24,015	10/30/2003	10/1/2034	4.379%	67% of 1-Mo LIBOR + 18bp	179	Goldman Sachs Mitsui Marine Derivative Products, L.P.	Aaa / AAA / -
SHRB* 2004 I-1	21,125	21,125	8/5/2004	4/1/2025	4.165%	68.2% of 1-Mo LIBOR + 27bp	(151)	Bear Stearns Financial Products, Inc.	Aaa / AAA / -
SHRB* 2004 I-3	32,225	32,225	8/5/2004	10/1/2034	4.655%	68.2% of 1-Mo LIBOR + 27bp	109	Bear Stearns Financial Products, Inc.	Aaa / AAA / -
SHRB* 2005 N	38,050	18,785	10/1/2006	10/1/2017	4.055%	68% of 1-Mo LIBOR or BMA + 1bp**	(689)	Bear Stearns Financial Products, Inc.	Aaa / AAA / -
SHRB* 2005 O-1 ****	47,025	47,025	4/1/2006	10/1/2026	4.396%	68% of 1-Mo LIBOR or BMA + 8bp***	(662)	Bear Stearns Financial Products, Inc.	Aaa / AAA / -
SHRB* 2005 O-2 *****	32,925	32,925	4/1/2006	4/1/2031	4.332%	68% of 1-Mo LIBOR or BMA + 8bp***	(667)	Bear Stearns Financial Products, Inc.	Aaa / AAA / -
SHRB* 2005 P/Q/R	120,000	90,000	11/1/2006	4/1/2038	4.797%	USD-BMA Muni Swap Index	(4,614)	UBS AG	Aaa / AA+ / AA+
SHRB* 2005 P/Q/R	120,000	30,000	4/1/2007	4/1/2038	3.927%	68% of 1-Mo LIBOR + 18bp	(42)	Goldman Sachs Mitsui Marine Derivative Products, L.P.	Aaa / AAA / -

* Single-Family Housing Revenue Bonds

** If the weighted average of weekly one-month LIBOR rates are equal to or greater than 3.50%, then the variable rate received will be 68% of USD-LIBOR-BBA; otherwise the variable rate received will be BMA + 1bp.

*** If the weighted average of weekly one-month LIBOR rates are equal to or greater than 3.50%, then the variable rate received will be 68% of USD-LIBOR-BBA; otherwise the variable rate received will be BMA + 8bp.

**** This trade combines 3 prior trades which total $47,025,000 and had swap effective dates of 10/1/05, 1/1/06, and 4/1/06

***** This trade combines 3 prior trades which total $32,925,000 and had swap effective dates of 10/1/05, 1/1/06, and 4/1/06

(In Thousands)

20. Derivative Instruments (continued)

Multi-Family Bond Component Swaps

Associated Bond Issue		Bond Original Par Amounts	Maximum Swap Notional Amount	Swap Effective Date	Swap Termination Date	Fixed Rate Paid	Variable Rate Received	Fair Values	Counterparty	Counterparty Credit Rating (Moody's/S&P/Fitch)
MHRB*	2001-C	$ 68,550	$ 47,970	11/1/2002	5/1/2029	5.0388%	USD-BMA Municipal Swap Index	$ (5,167)	Merrill Lynch Capital Services, Inc. (MLCS)	Aa3 / AA- / AA-
MHRB	2002-G	6,240	6,240	10/2/2002	5/1/2025	6.2450%	1-Mo LIBOR	(445)	Merrill Lynch Capital Services, Inc. (MLCS)	Aa3 / AA- / AA-
MHRB	2003-B	51,500	34,850	11/1/2003	5/1/2033	4.3160%	USD-BMA Municipal Swap Index	(1,403)	Goldman Sachs Mitsui Marine Derivative Products, L.P.	Aaa / AAA / -
MHRB	2003-D	23,900	13,450	5/8/2003	5/1/2035	5.2180%	1-Mo LIBOR	166	Bank of America, N.A.	Aaa / AA+ / AA
MHRB	2004-B	110,240	90,590	5/1/2005	11/1/2046	3.9900%	67% of 1-Mo LIBOR + 18bp	(772)	Bank of America, N.A.	Aaa / AA+ / AA
MHRB	2004-C	31,045	10,220	5/1/2004	11/1/2037	5.2700%	1-Mo LIBOR	141	Bear Stearns Financial Products, Inc.	Aaa / AAA / -
MRB**	2005-B	28,000	13,700	5/1/2006	11/1/2039	4.3700%	USD-BMA Municipal Swap Index	(465)	Bear Stearns Financial Products, Inc.	Aaa / AAA / -
MRB	2005-C	19,800	4,300	11/1/2005	5/1/2036	5.3300%	1-Mo LIBOR	41	Bear Stearns Financial Products, Inc.	Aaa / AAA / -
MRB	2005-E	63,950	47,700	2/10/2005	11/1/2029	3.3980%	67% of 1-Mo LIBOR + 18bp	994	Lehman Brothers Derivative Products Inc.	Aaa / AAA / AAA
MRB	2005-F	25,840	13,460	8/10/2005	5/1/2040	4.2190%	USD-BMA Municipal Swap Index + 5bp	(108)	Lehman Brothers Derivative Products Inc.	Aaa / AAA / AAA
MRB	2005-G	13,620	5,020	11/1/2006	11/1/2047	5.4830%	1-Mo LIBOR	79	Bank of America, N.A.	Aaa / AA+ / AA
MRB	2006-A	24,790	24,790	3/15/2006	5/1/2028	3.7150%	63% of 1-Mo LIBOR + 20.5 bp	(102)	Royal Bank of Canada, New York	Aaa / AA+ / AA
MRB	2006-B	11,475	11,475	3/15/2006	5/1/2028	5.4220%	1-Mo LIBOR	(138)	Bank of America, N.A.	Aaa / AA+ / AA
MRB	2006-D	63,635	33,590	11/1/2006	5/1/2046	4.0168%	60.8% of 1-Mo LIBOR 34bp	(1,292)	Bank of America, N.A.	Aaa / AA+ / AA
MRB	2007-A	TBA	26,095	11/1/2007	5/1/2034	4.0100%	63% of 1-Mo LIBOR + 20.5 bp	(816)	Lehman Brothers Derivative Products Inc.	Aaa / AAA / AAA
MRB	2007-C	TBA	10,275	11/1/2007	5/1/2029	5.9100%	1-Mo LIBOR	(382)	Lehman Brothers Derivative Products Inc.	Aaa / AAA / AAA

* Multi-Family Housing Revenue Bonds
** Multi-Family Revenue Bonds

(In Thousands)

20. Derivative Instruments (continued)

Multi-Family Rate Lock Swaps/Swaptions

Associated Bond Issue	Maximum Swap Notional Amount	Swap/ Swaption Trade Date	Swap Effective Date	Swap Expiration Date	Swap Termination Date	Fixed Rate Paid	Variable Rate Received	Fair Values	Counterparty	Counterparty Credit Rating (Moody's/S&P/Fitch)
HMFA# 1429 – Chuck Costello Ind. Living	2,065	10/18/2005	5/1/2007	4/18/2007	5/1/2037	5.557%	1-Mo LIBOR	3	Lehman Brothers Derivative Products Inc.	Aaa / AAA / AAA
HMFA# 1437 – Trenton Prospect House	1,550	2/1/2006	8/1/2008		11/1/2038	5.566%	1-Mo LIBOR + 25bp	(11)	Lehman Brothers Derivative Products Inc.	Aaa / AAA / AAA
HMFA #1352 King Plaza Apartments	8,575	12/14/2006	11/1/2008		11/1/2038	5.516%	1-Mo LIBOR + 25bp	(21)	Lehman Brothers Derivative Products Inc.	Aaa / AAA / AAA
HMFA #1426 Heritage Village at Manalapan	3,115	12/15/2006	1/1/2009		11/1/2038	4.450%	USD-BMA Muni Swap Index + 33bp	(23)	Lehman Brothers Derivative Products Inc.	Aaa / AAA / AAA

(In Thousands)

20. Derivative Instruments (continued)

The Agency has also entered into interest rate cap agreements to protect against rising interest rates in the initial years of the bonds listed on the chart below. The swaps and the caps work together to hedge the interest rate risk associated with the variable rate bonds. The caps' notional amounts decrease in size as the swaps' notional amounts increase, and finally the caps mature, as the size of the swaps is sufficient to hedge the bonds. Under the cap agreement, the counterparty will make payments to the Agency if interest rates based on the LIBOR Index or BMA Index exceed the strike rate, as listed below. In exchange, the Agency paid an upfront premium to the counterparty upon entering the agreement. The terms of the caps are as follows:

Multi-Family Bond Component Caps

Associated Bond Issue	Bond Original Par Amounts	Maximum Cap Notional Amount	Cap Effective Date	Cap Maturity Date	Strike Rate	Variable Rate Index	Fair Values	Counterparty	Counterparty Credit Rating (Moody's/S&P/Fitch)
MHRB 2004-B due 11/1/2034	$ 19,650	$ 19,650	3/23/2004	5/1/2007	4.5000%	USD-BMA Municipal Swap Index	$ –	Merrill Lynch Capital Services, Inc. (MLCS)	Aa3 / AA- / AA-
MRB** 2005-B	28,000	27,714	2/10/2005	5/1/2008	4.5000%	USD-BMA Municipal Swap Index	1	Bear Stearns Financial Products, Inc.	Aaa / AAA / -
MRB 2005-E	63,950	16,250	2/10/2005	11/1/2007	4.5000%	USD-BMA Municipal Swap Index	–	Bear Stearns Financial Products, Inc.	Aaa / AAA / -
MRB 2005-F	25,840	13,700	8/10/2005	5/1/2009	4.5000%	USD-BMA Municipal Swap Index	2	Lehman Brothers Derivative Products Inc.	Aaa / AAA / AAA
MRB 2006-D	63,635	63,635	8/3/2006	5/1/2009	5.5000%	USD-BMA Municipal Swap Index	–	Lehman Brothers Derivative Products Inc.	Aaa / AAA / AAA

(In Thousands)

20. Derivative Instruments (continued)

Credit Risk

As of December 31, 2006, the Agency was exposed to credit risk on the outstanding swaps and caps, which had positive fair values.

The swap agreements contain varying collateral agreements with the counterparties. Each swap counterparty is required to post collateral to a third party when their credit rating, as determined by the specified nationally recognized credit rating agencies, falls below a trigger level as defined in the swap agreements. This protects the agency by mitigating the credit risk, and therefore termination risk, inherent in the swap. Collateral on all swaps is to be in the form of U.S. government securities held by a third-party custodian.

Although the Agency executes swap transactions with various counterparties, approximately 25 percent of the notional amount of swaps outstanding is held with a single counterparty. That counterparty is rated Aaa/AAA/-. All other swaps are held with separate counterparties. Those counterparties are rated Aa3/AA-/AA- or better.

Basis Risk

Basis risk exists to the extent the Agency's variable-rate bond coupon payments do not exactly equal the index on the swap. The Agency's tax-exempt bonds are hedged with tax-exempt BMA based swaps and percentage of LIBOR swaps. The Agency's taxable bonds are hedged with taxable, LIBOR-based swaps. In this way, basis risk should be minimized.

Interest Rate Risk

The Agency's interest rate swaps serve to guard against a rise in variable interest rates associated with its outstanding variable rate bonds. The Agency's interest rate caps serve to eliminate interest rate risk above the strike rate on each contract. In addition, certain bond proceeds are invested in variable rate Guaranteed Investment Contracts (GICs) in order to further mitigate interest rate risk on the variable rate bonds.

(In Thousands)

20. Derivative Instruments (continued)

Termination Risk

The Agency retains the right to terminate any swap agreement at the market value prior to maturity, and the Agency was granted the right to cancel certain agreements, in whole or in part, at Par. The Agency has termination risk under the contract particularly if an Additional Termination Event (ATE) as defined in the swap documents were to occur. An ATE occurs if either the credit rating of the bonds associated with a specific swap, or the credit rating of the swap counterparty falls below a threshold defined in each swap agreement. The Agency has purchased termination payment insurance on certain swap contracts, which acts as a buffer against a portion of potential termination payments if an ATE was to occur. As long as the swap insurer maintains at least a minimal rating as defined in the swap documents, the insurance policy will allow the agency to avoid termination due to a decline in the credit rating of the agency bonds. If at the time of termination the swap has a negative fair value, the Agency would be liable to the counterparty for a payment equal to the swap's fair value.

21. Interfund Receivables, Payables and Transfers

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund services are provided or reimbursement occurs, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Payable fund	
Single-Family Housing Revenue Bond Resolution	$ 969
Single-Family Home Buyer Revenue Bond Resolution	3,785
Multi-Family Revenue Bond Resolution	522
Multi-Family Housing Revenue Bond Resolution	3,124
Other Multi-Family Bond Resolutions	154
	$ 8,554

(In Thousands)

21. Interfund Receivables, Payables and Transfers (continued)

Receivable fund	
General fund	$ 8,544

Interfund transfers:

Transfers in:	
General fund	$ 4
Single-Family Housing Revenue Bond Resolution	7
Multi-Family Revenue Bond Resolution	21
	$ 32
Transfers out:	
Single-Family Home Buyer Revenue Bond Resolution	$ 8
Multi-Family Housing Revenue Bond Resolution	24
	$ 32

Transfers are used to move revenues that the Agency must account for in other funds in accordance with various bond and obligation resolutions.

22. Commitments and Contingencies

On March 15, 1994, the Agency entered into an Advances, Collateral Pledge and Security Agreement (the Agreement) with the Federal Home Loan Bank of New York. As of December 31, 2006, the available line of credit was $10,445 of which $2,802 was outstanding as a fixed rate amortizing advance. Repayments on the advance are amortized over a 10-year period, payable monthly at a rate of 4.88% with a final maturity of January 2016.

The Agency is a defendant in various legal actions arising in the ordinary course of business. The Agency is represented in these actions by the Attorney General of the State of New Jersey, acting as general counsel to the Agency, and by counsel to the Agency's various insurers. In the opinion of management and legal counsel, the ultimate disposition of these legal actions will not have a material adverse effect on the Agency's financial position.

(In Thousands)

23. Subsequent Events

On April 18, 2007 the Agency closed on $53,055 in Multi-Family Revenue Bonds consisting of Series A, Fixed Rate (AMT), Series B, Fixed Rate (Federally Taxable), Series C, Variable Rate (AMT), and Series D, Variable Rate (Federally Taxable). This bond issue will finance 1,060 rental units.

On March 29, 2007 the Agency closed on $198,410 in Single Family Housing Revenue Bonds consisting of Series S, Fixed (Non-AMT) and Series T, Fixed (AMT). These bonds economically refunded Home Buyer Revenue Bond Resolution 1995 Series N, 1996 Series P, and 1996 Series R&S at a net present value savings of $2,404. These bonds also created $156,598 in new money for single-family loans.

Supplemental Financial Information

New Jersey Housing and Mortgage Finance Agency

Schedule of Net Assets – Single Family Housing Program

As of December 31, 2006 and June 30, 2006
(In Thousands)

	December 31, 2006			
	Home Buyer Revenue Bond Resolution	**Housing Revenue Bond Resolution**	**Total**	**June 30, 2006 Total**
Assets				
Current assets:				
Cash and cash equivalents	**$ 132,543**	**$ 38,489**	**$ 171,032**	$ 174,540
Accrued interest receivable on investments	**666**	**647**	**1,313**	2,344
Mortgage loans receivable – net	**10,438**	**7,472**	**17,910**	16,575
Due from loan servicers and insurers	**695**	**1,706**	**2,401**	1,864
Other assets	**77**		**77**	83
Total current assets	**144,419**	**48,314**	**192,733**	195,406
Non–current assets:				
Investments	**51,194**	**16,136**	**67,330**	195,359
Mortgage loans receivable – net	**304,577**	**434,870**	**739,447**	642,662
Debt service arrears receivable – net	**1,591**	**1,697**	**3,288**	2,728
Supplemental mortgages and other loans – net	**1,711**	**6,539**	**8,250**	5,814
Deferred charges – bond issuance costs – net	**1,415**	**2,698**	**4,113**	4,314
Real estate owned	**499**		**499**	269
Total non–current assets	**360,987**	**461,940**	**822,927**	851,146
Total assets	**505,406**	**510,254**	**1,015,660**	1,046,552
Liabilities				
Current liabilities:				
Bonds and obligations – net	**23,225**	**8,385**	**31,610**	29,300
Accrued interest payable on bonds and obligations	**5,029**	**4,449**	**9,478**	9,735
Other current liabilities				65
Interfund allocation	**368**	**969**	**1,337**	1,383
Total current liabilities	**28,622**	**13,803**	**42,425**	40,483
Non–current liabilities:				
Bonds and obligations – net	**344,485**	**444,132**	**788,617**	827,464
Other non–current liabilities	**130**	**1,115**	**1,245**	1,411
Due to other funds	**3,418**		**3,418**	3,272
Total non–current liabilities	**348,033**	**445,247**	**793,280**	832,147
Total liabilities	**376,655**	**459,050**	**835,705**	872,630
Net assets:				
Restricted under bond and obligation resolutions	**128,751**	**51,204**	**179,955**	173,922
Total net assets	**$ 128,751**	**$ 51,204**	**$ 179,955**	$ 173,922

New Jersey Housing and Mortgage Finance Agency

Schedule of Revenues, Expenses and Changes in Fund Net Assets – Single Family Housing Program

Six months ended December 31, 2006 and fiscal year ended June 30, 2006
(In Thousands)

	December 31, 2006			
	Home Buyer Revenue Bond Resolution	**Housing Revenue Bond Resolution**	**Total**	**June 30, 2006 Total**
Operating revenues				
Interest income on mortgage loans	**$ 10,608**	**$ 10,030**	**$ 20,638**	$ 37,731
Total operating revenues	**10,608**	**10,030**	**20,638**	37,731
Operating expenses				
Interest and amortization of bond premiums and discounts	**10,523**	**9,512**	**20,035**	41,684
Insurance costs	**160**	**74**	**234**	429
Servicing fees and other	**635**	**741**	**1,376**	2,494
Salaries and related benefits	**259**	**694**	**953**	1,977
Professional services and financing costs	**23**	**62**	**85**	258
General and administrative expenses	**90**	**219**	**309**	625
Loss on sale of real estate owned	**(85)**		**(85)**	238
Other expenses				93
Provision for loan losses	**(651)**	**723**	**72**	(1,311)
Total operating expenses	**10,954**	**12,025**	**22,979**	46,487
Operating loss	**(346)**	**(1,995)**	**(2,341)**	(8,756)
Nonoperating revenues/(expenses)				
Investment income	**4,900**	**3,490**	**8,390**	16,479
Loss on early extinguishment of old debt	**(8)**	**(7)**	**(15)**	(252)
Total nonoperating revenues, net	**4,892**	**3,483**	**8,375**	16,227
Income (loss) before transfers	**4,546**	**1,488**	**6,034**	7,471
Transfers	**(8)**	**7**	**(1)**	1
Increase in net assets	**4,538**	**1,495**	**6,033**	7,472
Net assets, beginning of year	**124,213**	**49,709**	**173,922**	166,450
Increase in net assets, during year	**4,538**	**1,495**	**6,033**	7,472
Net assets, end of year	**$ 128,751**	**$ 51,204**	**$ 179,955**	$ 173,922

New Jersey Housing and Mortgage Finance Agency

Schedule of Net Assets – Multi-Family Housing Program

As of December 31, 2006 and June 30, 2006
(In Thousands)

	December 31, 2006						
	General Housing Loan Bond Funds	**1983-A Highview Terrace**	**1991-I**	**1995**	**2005**	**Total**	**June 30, 2006 Total**
Assets							
Current assets:							
Cash and cash equivalents	$ 23,913		$ 5	$ 44,927	$ 7,862	$ 76,707	$ 49,201
Investments	1			1,299	37,641	38,941	36,464
Accrued interest receivable on investments	53		76	742	513	1,384	1,155
Mortgage loans receivable – net	3,682		2,235	31,853	26,215	63,985	46,648
Due from loan servicers and insurers				96		96	–
Other assets				213	102	315	1,176
Total current assets	27,649	–	2,316	79,130	72,333	181,428	134,644
						–	
Non-current assets						–	
Investments	734		7,712	82,941	16,122	107,509	129,914
Mortgage loans receivable – net	46,519		112,774	670,040	216,087	1,045,420	1,045,027
Debt service arrears receivable – net	9			1,171	143	1,323	1,285
Deferred charges- bond issuance costs – net				4,796	2,221	7,017	7,278
Total non-current assets	47,262	–	120,486	758,948	234,573	1,161,269	1,183,504
Total assets	$ 74,911	$ –	$ 122,802	$ 838,078	$ 306,906	$ 1,342,697	$ 1,318,148

New Jersey Housing and Mortgage Finance Agency

Schedule of Net Assets – Multi-Family Housing Program (continued)

As of December 31, 2006 and June 30, 2006
(In Thousands)

	December 31, 2006						
	General Housing Loan Bond Funds	**1983-A Highview Terrace**	**1991-I**	**1995**	**2005**	**Total**	**June 30, 2006 Total**
Liabilities							
Current liabilities:							
Bonds and obligations – net	$ 5,045		$ 2,235	$ 42,790	$ 7,170	$ 57,240	$ 56,205
Accrued interest payable on bonds and obligations	510		1,412	6,508	2,572	11,002	10,227
Mortgagor escrow deposits	6,946					6,946	7,233
Interfund allocation	150			2,235	522	2,907	3,003
Total current liabilities	12,651	$ –	3,647	51,533	10,264	78,095	76,668
Non-current liabilities:							
Bonds and obligations – net	51,966		118,945	707,043	270,564	1,148,518	1,132,743
Minimum escrow requirement	572			6,567	1,770	8,909	8,831
Funds held in trust for mortgagor	7,723			4,756		12,479	11,369
Other non-current liabilities				1,066	149	1,215	1,275
Due to HUD							306
Due to other funds			3	889		892	900
Total non-current liabilities	60,261	–	118,948	720,321	272,483	1,172,013	1,155,424
Total liabilities	72,912	–	122,595	771,854	282,747	1,250,108	1,232,092
Net assets:							
Restricted under bond and obligation resolutions	1,999	–	207	66,224	24,159	92,589	86,056
Total net assets	$ 1,999	$ –	$ 207	$ 66,224	$ 24,159	$ 92,589	$ 86,056

New Jersey Housing and Mortgage Finance Agency

Schedule of Revenues, Expenses and Changes in Fund Net Assets – Multi-Family Housing Program

Six months ended December 31, 2006 and fiscal year ended June 30, 2006
(In Thousands)

	December 31, 2006						
	General Housing Loan Bond Funds	**1983-A Highview Terrace**	**1991-I**	**1995**	**2005**	**Total**	**June 30, 2006 Total**
Operating revenues							
Interest income on mortgage loans	$ 1,570	$ 117	$ 4,041	$ 25,389	$ 8,293	$ 39,410	$ 81,228
Fees and charges	355		68	2,306	1,343	4,072	7,732
Other income-net	1			35	10	46	694
Total operating revenues	1,926	117	4,109	27,730	9,646	43,528	89,654
Operating expenses							
Interest and amortization of bond premiums and discounts	1,624	117	4,261	20,362	6,369	32,733	67,471
Insurance costs				370	93	463	970
Servicing fees and other			135	10	4	149	398
Salaries and related benefits				1,636	375	2,011	4,001
Professional services and financing costs				131	35	166	498
General and administrative expenses			4	466	116	586	1,151
Provision for loan losses	1,329			4,630	376	6,335	10,099
Total operating expenses	2,953	117	4,400	27,605	7,368	42,443	84,588
Operating income	(1,027)	–	(291)	125	2,278	1,085	5,066
Nonoperating revenues/(expenses)						–	
Investment income	658		293	2,927	1,837	5,715	9,118
Loss on early extinguishment of old debt				(14)	(250)	(264)	(285)
Total nonoperating revenues, net	658		293	2,913	1,587	5,451	8,833
Income (loss) before transfers	(369)	–	2	3,038	3,865	6,536	13,899
Transfers				(24)	21	(3)	(1,577)
Increase (decrease) in net assets	(369)	–	2	3,014	3,886	6,533	12,322
Net assets, beginning of year	2,368	–	205	63,210	20,273	86,056	73,734
Increase (decrease) in net assets, during year	(369)	–	2	3,014	3,886	6,533	12,322
Net assets, end of year	$ 1,999	$ –	$ 207	$ 66,224	$ 24,159	$ 92,589	$ 86,056