**NEW ISSUE - BOOK ENTRY ONLY**

*In the opinion of Wolff & Samson, P.A., Bond Counsel, based upon existing statutes, regulations, rulings and court decisions, and assuming continuing compliance by the Agency and the 2001 Tax Exempt Borrowers (as defined herein) with certain tax covenants, interest on the* ***2001 Series A Bonds*** *and the* ***2001 Series C Bonds*** *is not included in gross income for Federal income tax purposes pursuant to the Internal Revenue Code of 1986 (except that no opinion is expressed as to the exclusion of interest on any such Bond for any period during which such Bond is held by a "substantial user" of a Project financed with the proceeds of such Bond or a "related person" to any such "substantial user" within the meaning of Section 147(a) of the Code), but interest on the 2001 Series A Bonds and the 2001 Series C Bonds is an item of tax preference for purposes of calculating the Federal alternative minimum tax imposed with respect to individuals and corporations.* ***Interest on the 2001 Series B Bonds is includable in gross income for Federal income tax purposes.*** *Interest on and any gain realized from the sale of the Offered Bonds is not includable in gross income under the existing New Jersey Gross Income Tax Act.* ***See "TAX MATTERS" herein.***

# $109,275,000
# NEW JERSEY HOUSING AND MORTGAGE FINANCE AGENCY
## Multi-Family Housing Revenue Bonds

**$26,980,000 2001 Series A (AMT)**
**$13,745,000 2001 Series B (Federally Taxable)**
**$68,550,000 2001 Series C (Periodic Auction Reset Securities )(PARS)(sm) (AMT)**

**Dated:** 2001 Series A Bonds and 2001 B Bonds - October 1, 2001
2001 Series C PARS Bonds - Date of Delivery

**Due:** As shown on inside cover page

The 2001 Series A Bonds, the 2001 Series B Bonds and the 2001 Series C Bonds (collectively, the "Offered Bonds") are issuable only as fully-registered bonds without coupons and when issued will be registered to Cede & Co., as nominee of The Depository Trust Company, New York, New York, to which payments of principal and interest will be made. Individual purchases of the 2001 Series A Bonds, and the Series B Bonds may be made in the principal amount of $5,000 or any integral multiple thereof. Individual Purchases of the 2001 Series C Bonds (the "PARS Bonds"), while such Bonds bear interest at PARS Rates (as defined herein) may be made in the principal amount of $25,000 and integral multiples of $5,000 in excess thereof. The Offered Bonds will be issued in book-entry form only. Purchasers of the Offered Bonds will not receive physical delivery of bond certificates representing their beneficial ownership interests. See "Description of the Offered Bonds — Book-Entry Only System" herein. First Union National Bank is the Trustee with respect to the Bonds (as defined herein).

***This Official Statement provides information about the PARS Bonds only when they bear interest at PARS Rates.***

Each Series of PARS Bonds will mature on the dates set forth on the inside cover page hereof and will bear interest from their Date of Delivery for the applicable Initial Period at a rate established by Goldman, Sachs & Co., prior to their Date of Delivery. Thereafter each Series of PARS Bonds will bear interest at the applicable PARS Rate for a twenty-eight day Auction Period determined pursuant to Auction Procedures unless changed as described herein, which interest is payable on the applicable Interest Payment Dates (as defined herein). WHILE THE PARS BONDS BEAR INTEREST AT PARS RATES, THERE ARE NO BONDHOLDER RIGHTS TO TENDER SUCH PARS BONDS AT ANY TIME, AND THERE IS NO OBLIGATION TO PURCHASE SUCH PARS BONDS AT ANY TIME ON THE PART OF THE AGENCY, THE UNDERWRITER, THE TRUSTEE, THE INSURER, OR ANY OTHER PERSON.

Upon conversion from a PARS Rate Period to fixed interest rates, the PARS Bonds will be subject to mandatory tender for purchase at a price equal to 100% of the principal amount thereof plus accrued interest, if any, to such date. The purchase price of such PARS Bonds so tendered is payable from the proceeds of the remarketing of such PARS Bonds. While the PARS Bonds bear interest at PARS Rates, the Trustee will act as their paying agent, tender agent, authenticating agent and bond registrar.

The 2001 Series A Bonds and the 2001 Series B Bonds will mature on the dates and will bear interest from their dated date set forth above to their maturity (or prior redemption) at the rates, as set forth on the inside cover page, payable on each May 1 and November 1, commencing May 1, 2002.

The Offered Bonds are subject to redemption prior to maturity (including redemption at par), and the PARS Bonds are subject to mandatory tender, all as described herein.

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

**The Agency has no taxing power. Neither the State of New Jersey nor any political subdivision thereof is obligated to pay the principal or Redemption Price of or interest on any Bond, and neither the faith and credit nor the taxing power of the State of New Jersey nor any political subdivision thereof is pledged to the payment of the principal or Redemption Price of or interest on the Bonds. The Bonds are special limited obligations of the Agency, and the principal or Redemption Price of and interest on the Bonds is payable solely from the assets pledged under the General Resolution, and the faith and credit of the Agency is not pledged for the payment of the principal or Redemption Price of and interest on the Bonds.**

The Offered Bonds will be issued for the purpose of providing the Agency with funds which will be used, together with other available moneys, to finance Mortgage Loans, to pay the initial installment of the premium on a surety bond for the Debt Service Reserve Fund and to pay certain costs of issuance of the Offered Bonds, as described herein.

This cover page contains certain information for quick reference only. It is not a summary of the Offered Bonds offering. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.

The Series 2001 A Bonds and the Series 2001 B Bonds are offered when, as and if issued and received by the Underwriters and the PARS Bonds are offered when as and if issued and received by Goldman, Sachs & Co., as Underwriter of the PARS Bonds , subject, in each case, to prior sale, to withdrawal or modification of the offer without notice and to the approval of legality by Wolff & Samson, P.A., Roseland, New Jersey, Bond Counsel to the Agency. Certain legal matters will be passed on for the Underwriters by their counsel, DeCotiis, Fitzpatrick, Gluck & Cole, LLP, Trenton, New Jersey. The Underwriters named below intend, but are not obligated, to make a market in the Offered Bonds. For information concerning the terms of the Underwriters' compensation, see "Underwriting" herein. It is expected that the Offered Bonds in definitive form will be available for delivery to The Depository Trust Company in New York, New York, on or about October 17, 2001.

**Goldman, Sachs & Co.**†

**A.G.Edwards & Sons, Inc.** **First Union National Bank** **UBS PaineWebber Inc.**

October 5, 2001

(sm) A service mark of Goldman, Sachs & Co.

† Goldman, Sachs & Co. is the sole underwriter of the PARS Bonds.

## MATURITY SCHEDULE

**$109,275,000**
**NEW JERSEY HOUSING AND MORTGAGE FINANCE AGENCY**
**MULTI-FAMILY HOUSING REVENUE BONDS**

**$26,980,000 2001 Series A Bonds (AMT)**

$11,390,000 2001 Series A Serial Bonds

| Maturity Date | Principal Amount | Interest Rate | Price | Maturity Date | Principal Amount | Interest Rate | Price |
|---|---|---|---|---|---|---|---|
| 05/01/04 | $110,000 | 3.10% | 100% | 05/01/08 | $745,000 | 4.00% | 100% |
| 11/01/04 | 660,000 | 3.10% | 100% | 11/01/08 | 760,000 | 4.00% | 100% |
| 05/01/05 | 670,000 | 3.35% | 100% | 05/01/09 | 775,000 | 4.15% | 100% |
| 11/01/05 | 680,000 | 3.35% | 100% | 11/01/09 | 795,000 | 4.15% | 100% |
| 05/01/06 | 695,000 | 3.60% | 100% | 05/01/10 | 810,000 | 4.30% | 100% |
| 11/01/06 | 705,000 | 3.60% | 100% | 11/01/10 | 825,000 | 4.30% | 100% |
| 05/01/07 | 720,000 | 3.80% | 100% | 05/01/11 | 845,000 | 4.45% | 100% |
| 11/01/07 | 730,000 | 3.80% | 100% | 11/01/11 | 865,000 | 4.45% | 100% |

$15,590,000 5.05% 2001 Series A Term Bonds due May 1, 2034 @ 98.427%

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**$13,745,000 6.64% 2001 Series B Term Bonds (Federally Taxable) due May 1, 2032 @ 100%**

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**$68,550,000 2001 Series C (PARS) (sm) (AMT)**

| Principal Amount | Maturity Date | Price | Auction Period* | End of Initial Period | First Auction Date | First Interest Payment Date |
|---|---|---|---|---|---|---|
| $10,000,000 | May 1, 2033 | 100% | 28-Days | November 14, 2001 | November 14, 2001 | November 15, 2001 |
| $58,550,000 | November 1, 2033 | 100% | 28-Days | November 14, 2001 | November 14, 2001 | November 15, 2001 |

*Subject to change as described herein.

No dealer, broker, salesperson or other person has been authorized by the New Jersey Housing and Mortgage Finance Agency or the Underwriters to give any information or to make any representations other than those contained herein and, if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds, by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. Information set forth herein has been furnished by the New Jersey Housing and Mortgage Finance Agency and other sources which are believed to be reliable. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the New Jersey Housing and Mortgage Finance Agency since the date hereof.

Other than with respect to information concerning Financial Security Assurance Inc. ("Financial Security") contained under the caption "Bond Insurance" and Exhibit I - "Form of Municipal Bond Insurance Policy" herein, none of the information in this Official Statement has been supplied or verified by Financial Security and Financial Security makes no representation or warranty, express or implied, as to (i) the accuracy or completeness of such information; (ii) the validity of the Offered Bonds; or (iii) the tax-exempt status of the interest on the Tax-Exempt Offered Bonds.

The order and placement of material in this Official Statement, including the Exhibits, are not to be deemed a determination of relevancy, materiality or importance and this Official Statement, including the Exhibits, must be reviewed and considered in its entirety.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE OFFERED BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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# OFFICIAL STATEMENT

**of**

**NEW JERSEY HOUSING AND MORTGAGE FINANCE AGENCY**
**relating to**

**$109,275,000 MULTI-FAMILY HOUSING REVENUE BONDS**

**$26,980,000 2001 Series A (AMT)**
**$13,745,000 2001 Series B (Federally Taxable)**
**$68,550,000 2001 Series C (Periodic Auction Reset Securities )(PARS)(sm) (AMT)**

## INTRODUCTION

The purpose of this Official Statement, which includes the cover page, the inside cover page and the Exhibits hereto, is to set forth certain information concerning the New Jersey Housing and Mortgage Finance Agency (the "Agency"), created by the New Jersey Housing and Mortgage Finance Agency Act of 1983, constituting Chapter 530 of the Pamphlet Laws of New Jersey of 1983, as amended (the "Act"), the Agency's $26,980,000 Multi-Family Housing Revenue Bonds, 2001 Series A (AMT) (the "2001 Series A Bonds"), $13,745,000 Multi-Family Housing Revenue Bonds, 2001 Series B (Federally Taxable) (the "2001 Series B Bonds"), and $68,550,000 Multi-Family Housing Revenue Bonds, 2001 Series C (Periodic Auction Reset Securities) (PARS)(sm) (AMT) (the "2001 Series C Bonds"and together with the 2001 Series A Bonds and the 2001 Series B Bonds, the "Offered Bonds"). The Offered Bonds are being issued pursuant to the Act, the General Resolution Authorizing the Issuance of New Jersey Housing and Mortgage Finance Agency Multi-Family Housing Revenue Bonds, adopted by the Agency on August 17, 1995, as amended (the "General Resolution"), the Series Resolution Authorizing the Issuance of Not to Exceed $200,000,000 Multi-Family Housing Revenue Bonds, 2001 Series, adopted by the Agency on August 23, 2001 (the "Series Resolution") and the Executive Director's Certificates, each dated as of the date of sale of the Offered Bonds (collectively, the "Executive Director's Certificate", and together with the General Resolution and the Series Resolution, the "Resolution").

(sm) A service mark of Goldman, Sachs & Co.

The Offered Bonds will be the twenty-first, twenty-second and twenty-third Series of Bonds issued under the General Resolution. The Agency has previously issued $645,010,000 aggregate initial principal amount of Multi-Family Housing Revenue Bonds under the General Resolution (the "Prior Bonds") of which $609,045,000 was Outstanding as of May 1, 2001. See "Outstanding Prior Bonds" for more details concerning each such Series of Prior Bonds. The Offered Bonds, the Prior Bonds and all other Multi-Family Housing Revenue Bonds to be issued under the General Resolution (the "Additional Bonds") are herein referred to as "Bonds", and all bonds of the Agency (including the Bonds), regardless of the resolution under which they were or are issued, are herein referred to as "bonds." Except as otherwise described herein, payments of principal or Redemption Price of and interest on the Offered Bonds, the Prior Bonds and all Additional Bonds, notwithstanding the Series of which they are a part or their date or dates of issuance, are secured equally and proportionately by the Pledged Funds (defined below). See "Sources of Payment for the Bonds" herein.

Except as the context otherwise requires, capitalized terms used in this Official Statement and not otherwise defined shall have the respective meanings as set forth herein, including "Exhibit J- "PARS Provisions," and in the Resolution. The Trustee under the Resolution is First Union National Bank, located in Morristown, New Jersey.

The 2001 Series A Bonds and the 2001 Series B Bonds will bear interest from their dated dates to their maturity (or prior redemption) at the rates, as set forth on the inside front cover, payable on each May 1, and November 1, commencing May 1, 2002. The 2001 Series C Bonds (the "PARS Bonds") will bear interest from their Date of Delivery for the applicable Initial Period at a rate established by Goldman, Sachs & Co., prior to their Date of Delivery. Thereafter the PARS Bonds will bear interest at the applicable PARS Rate for a twenty-eight day Auction Period determined pursuant to Auction Procedure unless changed as described herein, which interest is payable on the applicable Interest Payment Dates (as defined herein). WHILE THE PARS BONDS BEAR INTEREST AT PARS RATES, THERE IS NO BONDHOLDER RIGHT TO TENDER SUCH PARS BONDS AT ANY TIME, AND THERE IS NO OBLIGATION TO PURCHASE SUCH PARS BONDS AT ANY TIME ON THE PART OF THE AGENCY, THE UNDERWRITER, THE TRUSTEE, THE INSURER, OR ANY OTHER PERSON.

***This Official Statement provides information about the PARS Bonds only when they bear interest at PARS Rates.***

Financial Security Assurance Inc. has made a commitment to issue a municipal bond insurance policy (the "Insurance Policy"). The Insurance Policy will guarantee the scheduled payment of principal of and interest on the Offered Bonds when due, the form of which is attached as Exhibit I. The Insurance Policy is not a source of payment for any Bonds other than the Offered Bonds. See "Bond Insurance." Each Series of Prior Bonds are insured either by Ambac Assurance Corporation or by Financial Security Assurance Inc. (collectively, the "Bond Insurers").

Under the General Resolution, the Agency may issue Bonds and apply the proceeds, among other things, (i) to refund outstanding Bonds or other bonds of the Agency, (ii) to make or fund first or subordinate lien mortgage loans (the "Mortgage Loans") to any entity (a "Borrower") that is to apply the proceeds of such loan to the construction, rehabilitation, operation and other improvement of any subsidized or unsubsidized "housing project", as such term is defined in the Act (each, a "Project"), and as such purposes are permitted under the Act, including pursuant to the purchase of senior mortgage-backed securities of the Federal National Mortgage Association ("FNMA"), Government National Mortgage Association ("GNMA") and Federal Home Loan Mortgage Corporation ("FHLMC"), (iii) to make or fund to a Borrower any secured or unsecured loan as defined under the Act which is not a "Mortgage Loan" (termed an "Eligible Loan"), and (iv) to make or fund any grant by the Agency (a "Grant"). To date, the Agency has financed with the proceeds of Prior Bonds only Mortgage Loans that were specified at the time of issuance of such Bonds.

To date, the Agency has applied amounts held under the General Resolution to fund or to acquire Mortgage Loans (the "Prior Mortgage Loans") consisting of (a) first lien Mortgage Loans which receive the benefit of federal rent subsidies paid by the U.S. Department of Housing and Urban Development ("HUD") under Section 8 of the U.S. Housing Act of 1937 ("Section 8"), whether tenant-based or Project-based (together with Mortgage Loans originated hereafter sharing the same characteristics, the "Section 8 Mortgage Loans"), (b) first lien Mortgage Loans which receive the benefit of mortgage interest subsidies paid by HUD under contracts (the "Interest Reduction Contracts") entered into pursuant to Section 236 ("Section 236") of the National Housing Act of 1934, as amended (together with Mortgage Loans originated hereafter sharing the same characteristics, the "Section 236 Mortgage Loans"), (c) first lien Mortgage Loans which receive no rent or interest subsidies but are insured by the Federal Housing Administration ("FHA"), including under its risk-sharing program (the "Risk-Sharing Program") contained in Section 542 of the Housing and Community Development Act of 1992 (together with Mortgage Loans originated hereafter sharing the same characteristics, the "FHA-Insured Mortgage Loans"), (d) first lien Mortgage Loans which receive no rent or interest subsidies and are not insured or guaranteed (together with Mortgage Loans originated hereafter sharing the same characteristics, the "Unenhanced Mortgage Loans"), and (e) second lien Mortgage Loans which receive the benefit of federal rent subsidies from HUD under Section 8 and which are originated under the Agency's Preservation Loan Program (together with Mortgage Loans originated hereafter sharing the same characteristics, the "PLP Section 8 Mortgage Loans"). The characteristics and principal balances of such Mortgage Loans originated to date under the Resolution are contained in "Mortgage Loans - Prior Mortgage Loans" and Exhibit D - "Mortgage Loans Allocated to the Prior Bonds".

The Agency expects the proceeds of the Offered Bonds will be applied, together with other available moneys, to (i) provide financing, or reimbursement to the Agency for its prior financing from Agency funds, for the Mortgage Loans described in "Mortgage Loans - 2001 Series A-C Mortgage Loans" and in Exhibit C hereto (collectively the "2001 Series A-C Mortgage Loans"); (ii) finance the initial installment of the premium for the surety bond for deposit in the Debt Service Reserve Fund; and (iii) pay certain costs of issuance for the Offered Bonds including all or a portion of applicable insurance premiums. See "Plan of Finance" herein for a more detailed description of the use of proceeds of the Offered Bonds, the plan of finance with respect to the Offered Bonds and other related matters.

While the Agency expects that a portion of the proceeds of the Offered Bonds will be applied to finance the 2001 Series A-C Mortgage Loans, events could occur which prevent the Projects from being financed. There are many diverse financial and legal risks associated with any investment in real estate which are not within the Agency's or a particular Borrower's control and which may have a substantial bearing on the ability of the Agency to finance a Mortgage Loan and the ability of a Borrower to complete a Project. If the Agency's conditions to making a Mortgage Loan are not satisfied and the Agency is unable to make a Mortgage Loan for a particular Project, it will be necessary to (i) substitute one or more Projects for that portion of the Offered Bonds allocable to such Project, or (ii) redeem the Offered Bonds allocable to such Project. See "Plan of Finance" and "Description of the Offered Bonds — Redemption Provisions — Special Redemption."

Any unused proceeds of the Prior Bonds and the Offered Bonds may be used to finance other Mortgage Loans (but not any Eligible Loans or Grants), including Mortgage Loans with different characteristics from those financed under the General Resolution to date, provided, that the Agency must file with the Trustee (i) a Cash Flow Statement conforming to the provisions of the Resolution, (ii) written confirmation from the Rating Agency that the making of such Mortgage Loans will not adversely affect the then existing unenhanced rating of any Outstanding Bonds (which, as required by the Bond Insurers, must be at least A+ from S&P), and (iii) an Opinion of Bond Counsel to the effect that the making of such substitute Mortgage Loans shall not adversely affect the exclusion from gross income under the Internal Revenue Code of 1986, as amended (the "Code") of interest on any federally tax-exempt Bonds (the "Tax-Exempt Bonds"). While the General Resolution permits the issuance of Additional Bonds and the application of proceeds thereof to finance any type of Mortgage Loan, as well as any Eligible Loan or any Grant, issuance of such Additional Bonds requires the filing with the Trustee of a written confirmation of the unenhanced rating of the Bonds from the Rating Agency (which, as required by the Bond Insurers, must be at least A+ from S&P).

In connection with the PARS Bonds, the Agency has entered into a delayed start interest rate swap agreement with respect to $47,970,000 principal amount of the PARS Bonds (the "2001 Swap Agreement") with Merrill Lynch Capital Services (the "2001 Swap Provider") and an interest rate cap agreement (the "2001 Cap Agreement") with Bear Stearns Financial Products (the "2001 Cap Provider"). See "PLAN OF FINANCE" herein for more information about the 2001 Swap Agreement and the 2001 Cap Agreement.

**The Agency has no taxing power. Neither the State of New Jersey nor any political subdivision thereof is obligated to pay the principal or Redemption Price of or interest on any Bond, and neither the faith and credit nor the taxing power of the State of New Jersey or any political subdivision thereof is pledged to the payment of the principal or Redemption Price of or interest on the Bonds. The Bonds are special limited obligations of the Agency, and the principal or Redemption Price of and interest on the Bonds is payable solely from the Pledged Funds under the General Resolution, and the faith and credit of the Agency is not pledged for the payment of the principal or Redemption Price of and interest on the Bonds.**

All references in this Official Statement to the Act and the Resolution are qualified in their entirety by reference to such documents, copies of which are available from the Agency, and all references to the Offered Bonds are qualified in their entirety by reference to the definitive forms thereof and the information with respect thereto contained in the Resolution.

## NEW JERSEY HOUSING AND MORTGAGE FINANCE AGENCY

### Creation of the Agency

The Act, which became effective on January 17, 1984, provided for the consolidation of the New Jersey Housing Finance Agency (the "HFA") and the New Jersey Mortgage Finance Agency (the "MFA") into a single agency to be known as the New Jersey Housing and Mortgage Finance Agency. Prior to the merger, the MFA was primarily responsible for providing funds to finance the purchase or improvement of owner-occupied, one-to-four family residences in the State, and the HFA was primarily responsible for providing funds to finance the construction and rehabilitation of multi-family rental housing projects in the State. The Act provided for the vesting in the Agency of the powers previously possessed by the MFA and the HFA and the assumption by the Agency of the outstanding bonds and other obligations of each predecessor agency.

The Agency was created to provide a strong unified advocate for housing production, financing and improvement. The Agency has the power, *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; 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 under the Act; to make and collect the fees and charges it determines reasonable; to the extent permitted under its contract with the holders of bonds of the Agency, to invest and reinvest any moneys of the Agency not required for immediate use, including proceeds from the sale of any obligations of the Agency, in obligations, securities or other investments as the Agency deems prudent; and to do any acts and things necessary or convenient to carry out the powers expressly granted in the Act.

### Organization and Membership

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. Its members include the following *ex officio* members: the Commissioner of the Department of Community Affairs, the State Treasurer, the Attorney General, the Commissioner of the Department of Banking and Insurance and the Commissioner of the Department of Human Services. There are also four public members appointed by the Governor with the advice and consent of the State Senate for terms of three years. The four public members must be residents of the State and must have knowledge in the areas of housing design, construction or operation, finance, urban redevelopment or community relations. The Commissioner of the Department of Community Affairs is the *ex officio* Chairman of the Agency.

The Agency's present members are as follows:

**Jane M. Kenny**, *ex officio*, Chairman, Commissioner of the Department of Community Affairs of the State of New Jersey.

**Karen L. Suter**, *ex officio*, Vice Chairman, Commissioner of the Department of Banking and Insurance of the State of New Jersey.

**Peter R. Lawrance**, *ex officio*, Acting Treasurer of the State of New Jersey.

**John J. Farmer, Jr.**, *ex officio*, Attorney General of the State of New Jersey.

**James Smith,** *ex officio,* Acting Commissioner of the Department of Human Services.

**Rev. Msgr. William J. Linder**, Pastor of St. Rose of Lima Church in the Roseville section of Newark.

**Dorothy L. Blakeslee**, a Partner and Principal in the financial advisory firm of Municipal Advisory Partners, Inc., Upper Saddle River, New Jersey.

**Frank B. Smith**, Executive Vice President of Elite Agents, Inc.,Fairfield, New Jersey.

**Rev. William D. Watley, Ph.D.**, Pastor of Saint James AME Church, in Newark, New Jersey.

The Rev. Msgr. Linder and Mr. Smith each had a prior connection to certain Projects financed by certain of the Prior Bonds. Both the Rev. Msgr. Linder and Mr. Smith abstained in any vote with regard to such Projects and the issuance and sale of such Bonds.

The Agency has approximately 235 employees with the staff generally organized under an Executive Director, a Chief of Policy and Planning, a Chief Operating Officer, three Assistant Executive Directors and a Chief Financial Officer. The staff includes professionals in the fields of architecture, engineering, mortgage banking, finance, accounting, planning and law, as well as specialists in construction, real estate development and housing management.

The following individuals constitute the executive staff of the Agency:

**DEBORAH De SANTIS - Executive Director**. Deborah De Santis serves as Executive Director of the Agency and as vice-chair of the Council on Affordable Housing. Prior to her appointment as Executive Director, Ms. De Santis served as Chief Operating Officer of the Agency. Under Ms. De Santis' leadership, the Agency has utilized more than $578 million in Agency funding to finance over 6,700 units of affordable housing. In addition, Ms. De Santis created the Office of Community Development to provide municipalities

and developers with technical assistance and help in securing additional financial resources to fund their projects. At Ms. De Santis' initiative the Agency has completed its first five year strategic plan which commits an additional $135.7 million which will be leveraged with other funding for the creation of 6,550 affordable units. Before joining the Agency, Ms. De Santis was Governor Whitman's Deputy Chief of Staff where she oversaw several redevelopment projects for the State including the Trenton Arena. From February 1994 to July 1996, Ms. De Santis served as Deputy Commissioner of the New Jersey Department of Community Affairs where she was an original member of the Governor Whitman's Urban Coordinating Council, as well as a member of the New Jersey Urban Enterprise Zone Authority and the New Jersey Urban Development Corporation. As Deputy Commissioner of the State Department of Community Affairs, Ms. De Santis coordinated the development of Governor Whitman's comprehensive housing policy, H-EASY 2000. The successful performance of the Whitman administration policy will contribute over 1 billion dollars in housing, more than 18,500 construction jobs, as well as new opportunities for older New Jerseyans, first-time home buyers, hard working urban families and people with special needs. She received her Bachelor of Science degree in Business Administration from Babson College.

**GREGORY W. ADKINS - Chief of Policy and Planning.** Employed by the New Jersey Department of Community Affairs since 1984, Mr. Adkins served as supervisor of the State's energy conservation assistance programs for low-income families for six years. In addition, Mr. Adkins served as Director of the Division of Community Resources. In this position, he had the responsibility for the daily operation of a number of programs designed to assist low-income families including the Weatherization Assistance Program, Community Services Block Grant Program, Intergovernmental Review of Grant Applications, and Legal Services. Mr. Adkins is currently Assistant Commissioner in the Department of Community Affairs. In his capacity as Assistant Commissioner, Mr. Adkins is responsible for providing management oversight of the following divisions and offices: the Federal Grant Tracking Program; the Division of Women; the Center for Hispanic Policy, Research and Development; and the Office of Recreation. Mr. Adkins is currently a member of the New Jersey Executive Commission on Ethical Standards, the New Jersey Juvenile Justice Commission. Mr. Adkins is Vice Chairman of the Trenton Community Charter School Board of Trustees. Mr. Adkins is currently serving as Chief of Policy and Planning for the Agency. Mr. Adkins attended the United States Military Academy, West Point. He will complete his Master's Degree in Human Services in December, 2001.

**DENISE L. COYLE - Chief Operating Officer.** Ms. Coyle was appointed to the position of Chief Operating Officer in March 1999 and is responsible for marketing and communications, government relations, community outreach, human resources and administration. Prior to joining the Agency, Ms. Coyle served as Chief of Staff for the New Jersey Department of Banking and Insurance where she helped to create and implement the initiative for Governor Whitman's automobile insurance reform law. As the Chief of Staff for the Department of Personnel from 1994 to 1996, Ms. Coyle was instrumental in the development of the Whitman administration's initiative for civil services reform. Ms. Coyle attended Mt. St. Mary's College in Emmittsburg, Maryland, and graduated from Rutgers University with a Bachelor of Arts degree in labor relations.

**EILEEN A. HAWES - Chief Financial Officer**. Ms. Hawes joined the Agency in 1979. Ms. Hawes has served in several capacities, including Assistant to the Construction Loan Accountant, Multi-Family Trust Accountant, Supervisor of Single-Family Mortgage Accounting, Manager and Director of Internal Operations and Director of Finance. In October, 1995, Ms. Hawes was appointed Chief Financial Officer. Ms. Hawes attended Rider University, with a major in finance.

**TRACEE BATTIS - Assistant Executive Director**. Ms. Battis was appointed an Assistant Executive Director in April of 1993. Ms. Battis joined the Agency in 1976 and has served in several capacities including Policy Analyst in the Agency's previous Policy Development Division, Manager of Internal Operations and Director of Internal Operations & Regulatory Affairs. Ms. Battis received her Master's degree in Business Administration, with a major emphasis in Finance, from Rider College and a Bachelor of Science degree, with a major emphasis in Management, from Trenton State College.

**DEAN REICHE - Assistant Executive Director, Community Development.** Mr. Reiche joined the Agency in 1995, and previously served as the Chief of Policy and Planning and Manager of Special Programs. As Assistant Executive Director, Mr. Reiche directs the Agency's efforts to provide a broad community-based approach to housing and economic development. In addition, he oversees a variety of special projects including the Camden and SHORE-EASY initiatives as well as programs designed to provide housing opportunities for special needs populations. Mr. Reiche graduated with a J.D. degree from the Seton Hall University School of Law in June 1993. He is a 1981 graduate of Williams College where he majored in history. Mr. Reiche is a member of both the Pennsylvania and American Bar Associations.

**ANTHONY TOZZI - Assistant Executive Director.** Mr. Tozzi is currently serving as Assistant Executive Director at the Agency. Mr. Tozzi previously served as the Director of Regulatory Affairs and Tax Credits. He joined the Agency in December 1979 and served in several capacities prior to the above appointments. Mr. Tozzi was admitted to the New Jersey Bar in 1986 and holds a J.D. degree from Seton Hall University, as well as a Bachelor of Arts degree from The College of New Jersey. Mr. Tozzi was appointed to the Hamilton Township Zoning Board by Mayor Jack Rafferty and served from January 1990 - December 1999. Prior to joining the Agency, Mr. Tozzi worked for two years for the New Jersey Department of Environmental Protection.

The Agency maintains its office at 637 South Clinton Avenue, Trenton, New Jersey. The Agency's mailing address is 637 South Clinton Avenue, P.O. Box 18550, Trenton, NJ 08650-2085, and the Agency's telephone number is (609) 278-7400.

**Outstanding Debt of the Agency**

The Agency has previously issued multi-family program bonds and notes, under various resolutions, of which approximately $1,207,046,500 aggregate principal amount of such bonds was outstanding as of May 1, 2001. The Agency has also previously issued mortgage revenue bonds for various single family programs,

of which approximately $1,457,215,000 aggregate principal amount of such bonds was outstanding as of May 1, 2001.

The Agency's bonds and notes are all secured by certain revenues and assets of the Agency pledged under the respective resolution applicable to such bonds. Such revenues and assets pledged to secure the Agency's obligations other than the Bonds are not pledged to and should not be considered as security for the Bonds. Similarly, the Pledged Funds are not pledged to the payment of other outstanding bonds and notes of the Agency.

## PLAN OF FINANCE

The Agency expects the proceeds of the Offered Bonds will be applied, together with other available moneys, to (i) provide financing, or reimbursement to the Agency for its prior financing from Agency funds, for the Mortgage Loans described in "Mortgage Loans - 2001 Series A-C Mortgage Loans" and in Exhibit C hereto (collectively the "2001 Series A-C Mortgage Loans"); (ii) finance the initial installment of the premium for the surety bond for deposit in the Debt Service Reserve Fund; and (iii) pay certain costs of issuance for the Offered Bonds including all or a portion of applicable insurance premiums. See "Estimated Sources and Uses of Funds".

The 2001 Series A Bonds and 2001 Series B Bonds will be issued as bonds bearing fixed rates of interest as set forth on the inside cover page hereof. The PARS Bonds will bear interest at rates determined as described herein under "DESCRIPTION OF THE OFFERED BONDS-PARS Bonds" and in Exhibit J - PARS PROVISIONS.

In connection with the PARS Bonds, the Agency has entered into a delayed start interest rate swap agreement with respect to $47,970,000 principal amount of the PARS Bonds (the "2001 Swap Agreement") with Merrill Lynch Capital Services (the "2001 Swap Provider") and an interest rate cap agreement (the "2001 Cap Agreement") with Bear Stearns Financial Products (the "2001 Cap Provider"). Pursuant to the 2001 Swap Agreement, beginning on November 1, 2002 and on subsequent dates specified in the 2001 Swap Agreement (each a "Swap Commencement Date") and ending on May 1, 2029 (the "2001 Swap Termination Date"), the Agency will pay the 2001 Swap Provider interest at the fixed rate of 5.0388% semiannually each November 1, and May 1, commencing May 1, 2003 on a notional principal amount specified in the 2001 Swap Agreement corresponding to a principal amount of the PARS Bonds, and the 2001 Swap Provider will pay interest to the Agency every fourth Thursday (or the next succeeding business day) commencing November 14, 2002 and ending on the 2001 Swap Termination Date at a rate based upon The Bond Market Association Municipal Swap Index ™ (the "BMA Index"), each on a gross basis. Pursuant to the 2001 Cap Agreement, effective on the date of delivery of the PARS Bonds, with respect to all or a portion of the PARS 2001 Bonds for which there is no effective fixed interest rate pursuant to the 2001 Swap Agreement, the 2001 Cap Provider will make payments to the Agency if interest rates on the BMA Index exceed the "strike" rate of 5%. Arrangements made in respect of the 2001 Swap Agreement and the 2001 Cap Agreement will not alter the Agency's obligation to pay the principal of, premium, if any, and interest on the PARS Bonds. The 2001 Swap Agreement and 2001 Cap Agreement are Hedging Instruments (as hereinafter defined) under the

General Resolution. Payments made to the Agency by the 2001 Swap Provider and the 2001 Cap Provider will be deposited into the Revenue Fund created under the General Resolution and will constitute Revenues under the Resolution. See "SOURCES OF PAYMENT FOR THE BONDS - Pledge of the General Resolution." The obligation of the Agency to make regularly scheduled semi-annual payments to the 2001 Swap Provider under the 2001 Swap Agreement will be on a parity with the Bonds (except that the Debt Service Reserve Fund will secure only the Bonds). Under certain circumstances, including certain events of default with respect to the Agency or the 2001 Swap Provider, the 2001 Swap Agreement may be terminated in whole or in part prior to its maturity. Following any termination of the 2001 Swap Agreement, under certain market conditions, the Agency could owe a termination payment to the 2001 Swap Provider which could be substantial. Such termination payments will be payable from amounts pledged under the Resolution, subject and subordinate to (i) the payment of principal and interest on the Bonds, (ii) payment of regularly scheduled payments under the 2001 Swap Agreement, and (iii) required replenishment of the Debt Service Reserve Fund, if any. Financial Security Assurance Inc. has committed to issue a policy insuring the semi-annual payments owed by the Agency to the 2001 Swap Provider at a fixed rate and insuring a termination payment which may become due to the 2001 Swap Provider upon the occurrence of certain events up to predetermined policy limits which may be less than any actual termination payment due. Pursuant to the Resolution, the Agency intends to reserve moneys from excess revenues in the Revenue Fund for payment of a termination amount, if any. The Agency's obligation to reimburse Financial Security Assurance in respect of advances relating to termination payments will be subordinate to scheduled payment of principal and interest on the Offered Bonds and to any required replenishment of the Debt Service Reserve Fund.

Certain of the Mortgage Loans the payments on which are expected to become a source of payment for the Bonds, which, for certain purposes, are expected to be allocated by the Agency to the Offered Bonds, will be insured by the FHA pursuant to the Risk-Sharing Program between the Agency and HUD (the "2001 Series FHA-Insured Risk-Sharing Mortgage Loans"). The 2001 Series FHA-Insured Risk-Sharing Mortgage Loans are those for Assisted Senior Living Residence of Wall Township, Kings Highway Towers, Ferry Station and Paragon Village and the portion of the Mortgage Loan for Browns Woods Apartments secured by the First Mortgage Note for such Project (as discussed below). A description of the FHA-Insured Risk-Sharing Mortgage Loans is included herein under "MORTGAGE LOANS - 2001 Series A-C Mortgage Loans" and in Exhibit C to this Official Statement. The Agency expects to apply a portion of the proceeds of the Offered Bonds to make the FHA-Insured Risk-Sharing Mortgage Loans and upon making such loans, the Agency will pledge to the Resolution certain payments received with respect thereto.

Certain of the Mortgage Loans the payments on which are expected to become sources of payment for the Bonds, which, for certain purposes, are expected to be allocated by the Agency to the Offered Bonds will be Section 236 Mortgage Loans (the "2001 Series 236 Mortgage Loans"). The 2001 Section 236 Mortgage Loans will be the portion of those Mortgage Loans secured by the Second Mortgage Notes on the Browns Woods Apartments and Marian Towers Projects (as discussed below). As described in the preceding paragraph, the portion of the Mortgage Loan for the Browns Woods Apartment Project secured by the First Mortgage Note therefor will be a 2001 Series FHA-Insured Risk-Sharing Mortgage. In addition, Marian Towers receives Section 8 Subsidy Payments. A description of the 2001 Series 236 Mortgage Loans

(including the portion of the Browns Woods Mortgage Loan which is a 2001 Series 236 Mortgage Loan) is included under "MORTGAGE LOANS- 2001 Series A-C Mortgage Loans" and in Exhibit C to the Official Statement. The Agency expects to apply a portion of the proceeds from the issuance of the Offered Bonds to make the 2001 Series Section 236 Mortgage Loans and upon making such loans, the Agency will pledge to the Resolution certain payments received by the Agency with respect thereto.

The Mortgage Loans for Browns Woods, Marian Towers, Kings Highway Towers and Ferry Station will be made pursuant to the Agency's Housing Preservation Loan Program which is described in Exhibit E - Federal Housing Assistance, Mortgage Insurance and PLP Programs.

Certain of the Mortgage Loans, the payments on which are expected to become a source of payments for the Bonds, which, for certain purposes, are expected to be allocated by the Agency to the 2001 Series Bonds, will be secured by a mortgage on the property financed, but will not be the subject of either an Annual Contribution Contract or an Interest Reduction Contract or any other subsidy from the federal government. The Mortgage Loans described in this paragraph are referred to herein as the "2001 Series A-C Unenhanced Mortgage Loans." (The 2001 Series FHA-Insured Risk-Sharing Mortgage Loans, the 2001 Series Section 236 Mortgage Loans and the 2001 Series A-C Unenhanced Mortgage Loans are referred to herein collectively as the "Series 2001 A-C Mortgage Loans."). A description of the 2001 Series A- C Unenhanced Mortgage Loans is included under "MORTGAGE LOANS - 2001 Series A-C Mortgage Loans" and in Exhibit C to this Official Statement. The Agency expects to apply a portion of the proceeds of the Offered Bonds to make the 2001 Series Unenhanced Mortgage Loans. Upon making such loans, the Agency will pledge to the Resolution certain payments received by the Agency with respect thereto.

Certain Mortgage Loans will be secured by two mortgage notes, one which will have a maturity of approximately 30 or more years (the "First Mortgage Note") and one which will have an earlier maturity date (the "Second Mortgage Note"). The Second Mortgage Notes securing the Mortgage Loans for Highland Park Senior Housing, Madison Turner Senior Housing, Avenel Manor, The Hamlet at Bear Creek and Dr. King Plaza at North Harrison (all of which are Unenhanced Mortgage Loans), will have a maturity of no more than four years. The Second Mortgage Note for Marian Towers (which secures the portion of the Mortgage Loan for the Marian Towers Project which is a Section 236 Mortgage Loan with the project receiving Section 8 Subsidy Payments) will have a maturity of 23.5 years and the Second Mortgage Note for Browns Woods Apartments (which secures the portion of the Mortgage Loan for the Browns Woods Project which is a Section 236 Mortgage Loan) will have a maturity of 15 years. The Mortgage Loans for Metropolitan Inn and West Electronic will each be secured by only one mortgage note having a maturity of 21 months (the "Short Term Mortgage Notes"). The Second Mortgage Notes and the Short Term Mortgage Notes are expected to be repaid from proceeds received from syndication of federal low income tax credits for the related Project or other programs for which the Project is eligible. See "MORTGAGE LOANS" and EXHIBIT C for more information about the 2001 Series A-C Mortgage Loans and "STRUCTURE ASSUMPTIONS" for more information about Agency assumptions regarding amortization of the Second Mortgage Notes and Short Term Mortgage Notes for purposes of structuring the Offered Bonds.

**MORTGAGE LOANS EXPECTED TO BECOME PLEDGED PURSUANT TO THE RESOLUTION[1]**

| | Anticipated Principal Amount | Percentage of Mortgage Loans |
|---|---|---|
| FHA-Insured Risk-Sharing Mortgage Loans | $55,527,645 | 51.40 % |
| Section 236 Mortgage Loans[1] | 6,963,888 | 6.45 % |
| FHA-Insured Risk-Sharing and Section 236 Mortgage Loans[2] | 6,003,233 | 5.55 % |
| Unenhanced Mortgage Loans | 39,543,529 | 36.60 % |
| Total | $108,038,295 | 100.00 % |

[1] The entire Mortgage Loan for the Marian Towers Project in the amount of $6,963,888 is secured by a First Mortgage Note in the amount of $3,718,791 and a Second Mortgage Note in the amount of $3,245,097 which matures in 23.5 years. The portion of this Mortgage Loan secured by the First Mortgage Note is an Unenhanced Mortgage Loan and the portion secured by the Second Mortgage Note is a Section 236 Mortgage Loan. In addition, 80% of the units in the Marian Towers Project are the subject of subsidy payments under Section 8.

[2] The $6,003,233 Mortgage Loan for the Browns Woods Project will be secured by a First Mortgage Note in the amount of $4,676,160 and by a Second Mortgage Note in the amount of $1,327,073 which matures in 15 years. The portion of this Mortgage Loan secured by the First Mortgage Note is an FHA-Insured Risk-Sharing Mortgage Loan and the portion secured by the Second Mortgage Note is a Section 236 Mortgage Loan.

Notwithstanding the Agency's expectations, it has the right to finance Mortgage Loans for other projects with unused Offered Bond and Prior Bond proceeds, which projects may fall under any of the categories of Section 8 Mortgage Loans, Section 236 Mortgage Loans, FHA-Insured Mortgage Loans, Unenhanced Mortgage Loans or PLP Section 8 Mortgage Loans or by any other Mortgage Loans with different characteristics (but not any Eligible Loans or Grants). Any Mortgage Loan to be so substituted must be approved by subsequent resolution of the Agency. The Agency must also file with the Trustee (i) a Cash Flow Statement conforming to the provisions of the Resolution, (ii) written confirmation from the Rating Agency that the making of such Mortgage Loans will not adversely affect the then existing unenhanced rating of any Outstanding Bonds (which, as required by the Bond Insurers, must be at least A+ from S&P), and (iii) an Opinion of Bond Counsel to the effect that the making of such substitute Mortgage Loans shall not adversely affect the exclusion from gross income under the Code for federal income tax purposes of interest on the Tax-Exempt Bonds of the related Series (including the 2001 Series A Bonds and the 2001 Series C Bonds). **The Agency has the right, but not the obligation, to substitute projects if an eligible project is available. If a substitute project is unavailable, the allocable unused proceeds of the Offered Bonds would be available for special redemption of certain of the Offered Bonds. See "Description of the Offered Bonds — Redemption Provisions — Special Redemption."**

## SOURCES OF PAYMENT FOR THE BONDS

### Special Limited Obligation of the Agency

The Agency has no taxing power. Neither the State of New Jersey nor any political subdivision thereof is obligated to pay the principal or Redemption Price of or interest on any Bond, and neither the faith and credit nor the taxing power of the State of New Jersey or any political subdivision thereof is pledged to the payment of the principal or Redemption Price of or interest on the Bonds. The Bonds are special limited obligations of the Agency, and the principal or Redemption Price of and interest on the Bonds is payable solely from the Pledged Funds under the General Resolution, and the faith and credit of the Agency is not pledged for the payment of the principal or Redemption Price of and interest on the Bonds.

### Pledge of the General Resolution

**Pledged Funds.** "Pledged Funds" is defined in the General Resolution to include Revenues (see definition below), the Bond Proceeds Fund and the Debt Service Reserve Fund. The pledges described in this paragraph are subject to the lien of the Trustee for reasonable compensation and expenses. "Revenues" are defined in the General Resolution to be all income derived by or for the account of the Agency under the Resolution, including (i) Mortgage Repayments, (ii) Mortgage Prepayments, (iii) Recovery Payments, (iv) income from the investment of all funds created by or pursuant to and pledged to the payment of Bonds under the General Resolution, (v) all of the Agency's right to receive tenant rentals in respect of the Projects which are the subject of Section 8 Mortgage Loans and PLP Section 8 Mortgage Loans and moneys received with respect to Section 8 Mortgage Loans and PLP Section 8 Mortgage Loans from HUD under Section 8; *provided, however*, that the pledge of moneys received from HUD pursuant to Section 8 shall only be to the extent of the amounts payable on a Borrower's Mortgage Loan and only if such amounts are payable to the Agency in accordance with the applicable Annual Contributions Contract between the Agency (or local public housing agency) and HUD ("ACC") and in turn by the Agency to or for the account of the Borrower pursuant to the Housing Assistance Payments Contract then in effect between the Agency (or local public housing agency) and the Borrower, (vi) all of the Agency's right to receive the federal direct interest reduction payments from HUD in respect of the Projects which are the subject of Section 236 Mortgage Loans; *provided, however*, that the pledge of moneys received from HUD pursuant to Section 236 shall only be to the extent of the amount payable on a Borrower's Mortgage Loan and only if such amounts are payable to the Agency in accordance with an Interest Reduction Contract then in effect between the Agency and HUD with respect to such Project, (vii) all amounts paid on any Eligible Loan for principal and interest by or on behalf of a Borrower to or for the account of the Agency; and (viii) to the extent not otherwise included in (i) through (vii) above, moneys on deposit in the Revenue Fund. "Revenues" does not include Escrow Payments or Fees and Charges.

"Mortgage Repayments" is defined in the General Resolution as the amounts paid on Mortgage Loans from time to time for principal and interest by or on behalf of Borrowers to or for the account of the Agency, but shall not include any Mortgage Prepayments. "Mortgage Prepayments" is defined in the General

Resolution as a principal payment voluntarily made by a Borrower on account of a Mortgage Loan in advance of the due date or dates thereof including, *unless* otherwise provided in a Series Resolution, any prepayment penalty, fee or premium or other additional charge as may be provided by the terms of such Mortgage Loan. "Recovery Payments" is defined in the General Resolution as (i) any moneys received or recovered from the sale, assignment or other disposition of a Mortgage Loan or (ii) any moneys received or recovered, less the expenses necessarily incurred by the Agency in connection with the collection of such amount, in respect of (a) the condemnation of premises (or any part thereof) subject to a Mortgage, (b) proceedings taken in the event of a default by a Borrower, (c) any claim settlement for mortgage insurance, guarantees or hazard insurance received in respect of a Mortgage Loan and (d) the sale or other disposition of a Mortgage Loan which is in default.

**Although certain payments with respect to the Mortgage Loans are part of the Pledged Funds, the Mortgage Loans themselves are not pledged as security for the Bonds. Should a creditor of the Agency obtain a lien on all or a portion of the Mortgage Loans, the Agency may not receive all of the moneys payable under such Mortgage Loans, and moneys payable thereunder may not be available to become Pledged Funds.**

Amounts on deposit in the Funds and Accounts may be applied only as provided in the General Resolution. Amounts in the Revenue Fund may, after providing for the payments required by the General Resolution and reserving in such Fund an amount equal to the Aggregate Termination Value Holdback, be withdrawn free and clear of the pledge of the General Resolution, subject to the Agency's having filed with the Trustee documentation evidencing compliance with the Applicable Coverage Ratio Percentage test and provided that amounts may be transferred to the Agency to pay or reimburse the Agency for its administrative expenses prior to reserving the Aggregate Termination Value Holdback (which is the sum of the Termination Value Holdback for all Hedging Instruments then in effect which is 35% of the actual or assumed termination payments which would be due on the date of calculation). The "Applicable Coverage Ratio Percentage" test is defined to mean, during the period that any of the Bonds are insured under a municipal bond insurance policy, that the ratio of (a) all Mortgage Repayments and interest earnings on the Bond Proceeds Fund and the Revenue Fund to (b) accrued and unpaid debt service on the Bonds, less investment earnings on the Debt Service Reserve Fund and Bond principal to be paid from the Debt Service Reserve Fund, Trustee fees and expenses, and credit enhancement fees for the Bonds, is at least 115% or such lower percentage allowed by all insurers under the municipal bond insurance policies. For purpose of applying the Applicable Coverage Ratio Percentage test, so long as the 2001 Swap Agreement and 2001 Cap Agreement, as applicable, are in effect, the effective fixed rate under the 2001 Swap Agreement and the strike rate under the 2001 Cap Agreement may be used for the PARS Bonds, so long as the 2001 Swap Provider or the 2001 Cap Provider, as applicable, have ratings of at least "AA". After the expiration of the 2001 Swap Agreement and 2001 Cap Agreement, as applicable, if the PARS Bonds are unhedged, the Agency shall assume a rate which satisfies Standard & Poor's criteria for a rating of "A +". See "Cash Flow Statements" and Exhibit B — " Summary of Certain Provisions of the Resolution" under the subcaptions "General Provisions—Cash Flow Statement," "Provisions Applicable During Effective Period of Any of the Municipal Bond Insurance Policies—Cash Flow

Statement" and "Provisions Applicable When None of the Municipal Bond Insurance Policies is in Effect—Cash Flow Statement".

**Mortgage Loans.** The proceeds of the Prior Bonds have been applied, and the proceeds of the Offered Bonds are expected to be applied, to finance or to acquire the Mortgage Loans described herein under "Mortgage Loans" and in Exhibits C and D, consisting to date of Section 8 Mortgage Loans, PLP Section 8 Mortgage Loans, FHA-Insured Mortgage Loans, Section 236 Mortgage Loans and Unenhanced Mortgage Loans. The General Resolution permits the substitution of other Mortgage Loans (but not any Eligible Loans or Grants) in the event that there are unused proceeds of the Prior Bonds and Offered Bonds, including Mortgage Loans with different characteristics from those described above, provided that, among other things, there is delivered to the Trustee written confirmation from the Rating Agency that such substitution will not adversely affect the then existing unenhanced rating of any Outstanding Bonds (which, as required by the Bond Insurers, must be at least A+ from S&P). In addition, the General Resolution permits the issuance of Additional Bonds and the application of the proceeds thereof to finance Mortgage Loans of other types, as well as Eligible Loans and Grants, but the issuance of any such Series of Additional Bonds requires the delivery to the Trustee of a written confirmation of the unenhanced rating of the Bonds from the Rating Agency (which, as required by the Bond Insurers, must be at least A+ from S&P). "Mortgage Loans" under the General Resolution may be secured by senior or subordinate mortgage liens (such as the PLP Section 8 Mortgage Loans) and may be represented by senior obligations of GNMA, FNMA or FHLMC.

The audited financial statements of the Multi-Family Housing Revenue Bonds Resolution for the year ending June 30, 2001, included herein as Exhibit H, reflect the number and outstanding balances of Mortgage Loans and outstanding amounts of other assets and Pledged Funds held under the Resolution to secure the Bonds. See also, the information contained under the caption "Mortgage Loans" and in Exhibits C and D hereto.

**Debt Service Reserve Fund**

The General Resolution prohibits the Agency from issuing Bonds at any time if, upon the issuance of the Bonds, the amount in the Debt Service Reserve Fund would be less than the Debt Service Reserve Fund Requirement established for the Bonds, *unless* the Agency at the time of the issuance of the Bonds, deposits in the Debt Service Reserve Fund from the proceeds of the Bonds to be issued, or from other sources, an amount which, together with the amount then on deposit in the Debt Service Reserve Fund, shall not be less than the Debt Service Reserve Fund Requirement in respect of all Outstanding Bonds. The Debt Service Reserve Fund Requirement for all of the Bonds has been established by the General Resolution as the aggregate of the requirements established in each Series Resolution authorizing a Series of Bonds.

The Debt Service Reserve Fund Requirement for each of the Series of Prior Bonds was established to create an aggregate Requirement equal to the maximum amount of principal maturing and interest becoming due in the current or any succeeding Bond Year on such Series of Prior Bonds then Outstanding (provided, that the portion of any such Series issued to finance Mortgage Loans insured by HUD under its

Risk-Sharing Program is represented by a Debt Service Reserve Fund Requirement equal to the maximum semi-annual debt service in the current or any succeeding Bond Year on such portion of such Series then Outstanding). The Debt Service Reserve Fund Requirement for the Offered Bonds, as of any date of calculation, will be an amount approximating, but not greater than, the maximum amount of principal maturing and interest becoming due in the current or any succeeding Bond Year on the Offered Bonds then Outstanding determined in accordance with certain structuring assumptions (provided, that the portion of the Offered Bonds issued to finance Mortgage Loans insured by HUD under its Risk-Sharing Program, if any, will be represented by a Debt Service Reserve Fund Requirement equal to the maximum semi-annual debt service in the current or any succeeding Bond Year on such portion of the Offered Bonds then Outstanding and provided that, so long as the 2001 Swap Agreement or 2001 Cap Agreement, as applicable, are in effect, the PARS Bonds will be assumed either to bear interest at the effective fixed rate of interest under the 2001 Swap Agreement (i.e., 5.0388%) or at the "strike" rate under the 2001 Cap Agreement (i.e., 5%), as applicable, so long as the 2001 Swap Provider or 2001 Cap Provider, as applicable, has a rating of at least "AA"). After expiration of such agreements, if the PARS Bonds are unhedged, such Bonds will be assumed to bear interest at rates which correspond to comparable fixed rate bonds. See "PLAN OF FINANCE" above and "STRUCTURE ASSUMPTIONS" hereinafter.

The General Resolution does not provide for a required minimum Debt Service Reserve Fund Requirement for all Outstanding Series of Bonds. As a result, the establishment of Debt Service Reserve Fund Requirements upon the issuance of Additional Bonds under the General Resolution may cause the aggregate Debt Service Reserve Fund Requirement for all Outstanding Bonds to be less than as stated at the present time. One precondition to the issuance of Additional Bonds is the delivery to the Trustee of a written confirmation from the Rating Agency that such issuance will not adversely affect the then existing unenhanced rating of any Outstanding Bonds (which, as required by the Bond Insurers, must be at least A+ from S&P).

The Series Resolutions with respect to the Prior Bonds and the Offered Bonds each allow for the use of Cash Equivalents to fund the Debt Service Reserve Fund. The Debt Service Reserve Fund Requirement with respect to the Offered Bonds will be funded with the deposit of a Cash Equivalent in the form of a Surety Bond issued by Financial Security Assurance Inc. (the “2001 Series A-C Surety Bond”) and the Debt Service Reserve Fund Requirement with respect to certain of the Prior Bonds was satisfied with the deposit of surety bonds issued by Ambac Assurance Corporation and Financial Security Assurance, Inc. (the “Prior Surety Bonds” and, together with the 2001 Series A-C Surety Bond and any surety bonds entered into hereafter, the “Surety Bonds”). In addition, although the Agency used cash to fund the Debt Service Reserve Fund Requirement with respect to the other Series of Prior Bonds, it is permitted under the related Series Resolutions to replace all or a portion of such deposits with Cash Equivalents, in its discretion. For purposes of the description under this heading, references to amounts on deposit in the Debt Service Reserve Fund shall refer to cash and investments on deposit therein and to amounts provided through Cash Equivalents.

As of April 30, 2001, the Debt Service Reserve Requirement with respect to all Series of Bonds (not including the Offered Bonds) was funded in the amount of $67,608,559 representing cash and investments in the Debt Service Reserve Fund in the amount of $17,850,060 and an aggregate face amount of Surety Bonds equal to $49,758,499. The 2001 Series A-C Surety Bond is expected to be in the initial face amount of $5,421,840.64.

In the event that, on any date on which an interest or principal payment (including any sinking fund redemption required by a Series Resolution) shall be due, there is a deficiency in the amounts in the Revenue Fund to be applied to the payment of such interest on or such principal or Redemption Price of the Offered Bonds, the Trustee shall make up such a deficiency by the withdrawal of moneys for that purpose from the Debt Service Reserve Fund in the following order of priority: *first*, by the withdrawal of funds not representing Cash Equivalents on deposit in the Debt Service Reserve Fund; and *second*, if such funds are not sufficient to make up such deficiency, then by payment from all Cash Equivalents on a pro rata basis.

If necessary to restore the amount on deposit in the Debt Service Reserve Fund to the Debt Service Reserve Fund Requirement, the Trustee is required to withdraw moneys (to the extent moneys are available) from the Revenue Fund for deposit to the credit of the Debt Service Reserve Fund. See Exhibit B—"Summary of Certain Provisions of the Resolution" under the subcaptions "General Provisions—Revenue Fund," "Provisions Applicable During Effective Period of Any of the Municipal Bond Insurance Policies—Revenue Fund" and "Provisions Applicable When None of the Municipal Bond Insurance Policies is in Effect—Revenue Fund." *The Agency has no obligation to replenish withdrawals from the Debt Service Reserve Fund from sources other than Pledged Funds.*

**Additional Bonds**

The General Resolution provides that the Agency may issue parity Bonds in addition to the Prior Bonds and the Offered Bonds, including Bonds issued to refund other Bonds, or other bonds, of the Agency. The General Resolution requires as a precondition to such issuance the delivery of written confirmation from the Rating Agency that such issuance will not adversely affect the then existing unenhanced rating of any Outstanding Bonds (which, as required by the Bond Insurers, must be at least A+ from S&P). See Exhibit B—"Summary of Certain Provisions of the Resolution—General Provisions—Issuance of Bonds" and "—Refunding Bonds." Additional Bonds may have interest payment dates and principal payment dates which differ from the interest payment dates and principal payment dates for the Prior Bonds and the Offered Bonds. The General Resolution also permits the Agency to enter into Hedging Instruments (such as the 2001 Swap Agreement and 2001 Cap Agreement) which may be on a parity with the Bonds and shall be payable as provided in the applicable Series Resolution and Executive Director's Certificate. Under the Resolution, scheduled payments on the 2001 Swap Agreement will be on a parity with the Bonds except that the Debt Service Reserve Fund secures only the Bonds. Any termination payments under the 2001 Swap Agreement will be subordinate to the Bonds. See "PLAN OF FINANCE" herein.

**Cash Flow Statements**

The General Resolution provides that the Agency shall file with the Trustee a current Cash Flow Statement (i) whenever any Series of Bonds is issued, or (ii) as otherwise required under the General Resolution or under any Series Resolution.

A Cash Flow Statement is prepared based upon certain assumptions made by the Agency setting forth, for the current and each succeeding Bond Year in which Bonds are scheduled to be Outstanding, a schedule of all anticipated Revenues, which, under certain conditions described in the Resolution, may include reasonably expected Mortgage Prepayments (but such Mortgage Prepayments may not be applied in such Cash Flow Statement to pay interest) less all amounts required to be paid into the Arbitrage Rebate Fund during such Bond Year, and all amounts, if any, expected to be withdrawn from the Debt Service Reserve Fund to pay principal and interest on the Bonds, together with a schedule of principal and interest on the Bonds and all premiums for credit enhancement payable from the Revenue Fund, and projecting (i) that such Revenues will be sufficient to pay all such amounts in the current and each succeeding Bond Year, (ii) that the sum of (A) the principal amount of the Mortgage Loans, and (B) the amounts on deposit in the Revenue Fund, Bond Proceeds Fund and Debt Service Reserve Fund exceed the aggregate principal amount of the Outstanding Bonds plus accrued but unpaid interest thereon to the date of such Cash Flow Statement plus the Aggregate Termination Value Holdback, and (iii) assuming that all Mortgage Repayments are to be received thirty (30) days after they are due.

If any Cash Flow Statement reflects a deficiency in any Bond Year in the amount of funds expected to be available for the purposes described in the General Resolution during such Bond Year, the Agency will not be in default under the General Resolution.

For purposes of preparing a Cash Flow Statement, the Offered Bonds will be assumed to have the effective 5.0388% fixed rate under the 2001 Swap Agreement or the 5% strike rate under the 2001 Cap Agreement so long as the 2001 Swap Provider or the 2001 Cap Provider, as applicable, have a rating of at least "AA".

For additional information, see "PLAN OF FINANCE" and Exhibit B—"Summary of Certain Provisions of the Resolution" under the subcaptions "General Provisions—Cash Flow Statement," "Provisions Applicable During Effective Period of Any of the Municipal Bond Insurance Policies—Cash Flow Statement" and "Provisions Applicable When None of the Municipal Bond Insurance Policies is in Effect—Cash Flow Statement."

## OUTSTANDING PRIOR BONDS

| Series | Original Principal Amount | Outstanding Principal Amount (as of 5/1/01) |
|---|---|---|
| 1995 Series A | $163,575,000 | $147,135,000 |
| 1995 Series B | 7,435,000 | 6,680,000 |
| 1995 Series C | 2,490,000 | 2,045,000 |
| 1996 Series A | 30,880 000 | 27,220,000 |
| 1996 Series B | 16,655,000 | 15,015,000 |
| 1997 Series A | 73,140,000 | 69,550,000 |
| 1997 Series B | 11,745,000 | 11,365,000 |
| 1997 Series C | 22,770,000 | 21,120,000 |
| 1999 Series A | 29,850,000 | 23,150,000 |
| 1999 Series B | 2,060,000 | 1,885,000 |
| 1999 Series C | 5,805,000 | 5,740,000 |
| 2000 Series A1 | 32,105,000 | 32,105,000 |
| 2000 Series A2 | 2,965,000 | 2,965,000 |
| 2000 Series B | 60,890,000 | 60,485,000 |
| 2000 Series C1 | 42,580,000 | 42,580,000 |
| 2000 Series C2 | 15,000,000 | 15,000,000 |
| 2000 Series E1 | 94,850,000 | 94,850,000 |
| 2000 Series E2 | 10,215,000 | 10,215,000 |
| 2000 Series F | 16,815,000 | 16,755,000 |
| 2000 Series G | 3,185,000 | 3,185,000 |
| Total | $645,010,000 | $609,045,000 |

## BOND INSURANCE

### Insurance Policy

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

THE POLICY IS NOT COVERED BY ANY INSURANCE SECURITY OR GUARANTY FUND ESTABLISHED UNDER NEW YORK, CALIFORNIA, CONNECTICUT OR FLORIDA INSURANCE LAW.

**Financial Security Assurance Inc.**

Financial Security is a New York domiciled insurance company and a wholly owned subsidiary of Financial Security Assurance Holdings Ltd. ("Holdings"). Holdings is an indirect subsidiary of Dexia, S.A., a publicly held Belgian corporation. Dexia, S.A., through its bank subsidiaries, is primarily engaged in the business of public finance in France, Belgium and other European countries. No shareholder of Holdings or Financial Security is liable for the obligations of Financial Security.

At June 30, 2001, Financial Security's total policyholders' surplus and contingency reserves were approximately $1,481,333,000 and its total unearned premium reserve was approximately $766,018,000 in accordance with statutory accounting principles. At June 30, 2001, Financial Security's total shareholders' equity was approximately $1,589,409,000 and its total net unearned premium reserve was approximately $632,823,000 in accordance with generally accepted accounting principles.

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

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

Financial Security will also provide the 2001 Series A-C Surety Bond as described under "SOURCES OF PAYMENT FOR THE BONDS - Debt Service Reserve Fund" and will provide certain insurance coverage with respect to regularly scheduled payments made by the Agency under the 2001 Swap Agreement and termination payments which may become due under the 2001 Swap Agreement as described under "PLAN OF FINANCE" above.

## MORTGAGE LOANS

**2001 Series A-C Mortgage Loans**

The 2001 Series A-C Mortgage Loans will provide construction and/or long term financing for the following Projects.

Christopher Columbus Homes consists of 36 units located in the City of Paterson in Passaic County. Construction of the Project commenced in October, 2000 and is expected to be completed in February, 2002. The Mortgage Loan provided for this Project will provide construction financing only and is expected to be in the aggregate amount of $4,100,000 and is expected to mature in July, 2002. The Mortgage Loan for this Project is an Unenhanced Mortgage Loan. The Agency also expects to provide a loan for this Project in the amount of $2,100,000 from the Agency's Administrative Fund which will be repayable directly to such Fund.

Assisted Living Residence of Wall Township consists of 108 units located in the Wall Township, in Monmouth County. Construction of the Project commenced in September, 2000 and is expected to be completed in September, 2001. This Mortgage Loan, which will provide permanent financing, is expected to be in the aggregate amount of $13,575,000 and is expected to mature in November, 2031. The Project is an assisted living project and the Mortgage Loan for the Project is an FHA-Insured Mortgage Loan funded under the Risk-Sharing Program. See Exhibit E - "Federal Housing Assistance, Mortgage Insurance and PLP Programs."

Kings Highway Towers consists of 408 units located in the Township of Maple Shade in Burlington County. Renovation of the Project is expected to commence in October, 2001 and is expected to be completed in October, 2003. This Mortgage Loan, which will be made pursuant to the Agency's Housing Preservation Loan Program, will provide permanent financing for the cost of acquisition and renovation of this Project, is expected to be in the aggregate amount of $18,147,620 and is expected to mature in February, 2034. The Mortgage Loan for the Project is an FHA-Insured Mortgage Loan funded under the Risk-Sharing Program. See Exhibit E - "Federal Housing Assistance, Mortgage Insurance and PLP Programs."

Ferry Station consists of 542 units located in the City of Camden in Camden County. Renovation commenced in April, 2001 and is expected to be completed in October, 2002. The Mortgage Loan, which will be made pursuant to the Agency's Housing Preservation Loan Program, is expected to be in the aggregate amount of $14,250,000 and is expected to mature in March, 2033. This Mortgage Loan, which will provide permanent financing for the costs of acquisition and renovation of the Project, is an FHA-Insured Mortgage Loan funded under the Risk-Sharing Program. See Exhibit E - "Federal Housing Assistance, Mortgage Insurance and PLP Programs."

Paragon Village is an independent and assisted living project which consists of 154 units located in Mt. Olive in Morris County. Construction of the Project is expected to commence in November, 2001 and is expected to be completed in February, 2003. The Mortgage Loan, which will provide construction and permanent financing, is expected to be in the aggregate amount of $9,555,025 and is expected to mature in March, 2033. The Mortgage Loan for the Project is an FHA-Insured Mortgage Loan funded under the Risk-Sharing Program. See Exhibit E - "Federal Housing Assistance, Mortgage Insurance and PLP Programs." The Agency also expects to provide a loan for this Project in the amount of $11,734,975 from the Agency's Administrative Fund which will be repayable directly to such Fund.

Browns Woods Apartments consists of 150 units located in Browns Mills in Burlington County. Renovation of the Project is expected to commence in November, 2001 and is expected to be completed in November, 2002. The Mortgage Loan, which will be made pursuant to the Agency's Housing Preservation Loan Program, is expected to be in the aggregate amount of $6,003,233 and is expected to mature in December, 2032 and will provide construction and permanent financing for the cost of acquisition and renovation of the Project. This Mortgage Loan will be secured by a First Mortgage Note in the amount of $4,676,160 and a Second Mortgage Note in the amount of $1,327,073. The portion of this Mortgage Loan secured by the First Mortgage Note is an FHA-Insured Risk-Sharing Mortgage Loan and the portion secured by the Second Mortgage Note is a Section 236 Mortgage Loan. See Exhibit E - "Federal Housing Assistance, Mortgage Insurance and PLP Programs."

Marian Towers consists of 154 units located in the City of Hoboken in Hudson County. Construction of the Project is expected to commence in October, 2001 and is expected to be completed in April, 2002. The Mortgage Loan, which will be made pursuant to the Agency's Housing Preservation Loan Program, is expected to be in the aggregate amount of $6,963,888 and is expected to mature in May, 2032. The Mortgage Loan will be secured by a First Mortgage Note in the amount of $3,718,791 and a Second Mortgage Note in the amount of $3,245,097. The portion of the Mortgage Loan secured by the First Mortgage Note is an Unenhanced Mortgage Loan and the portion secured by the Second Mortgage Loan is for the Project is a Section 236 Mortgage Loan. In addition, the Project receives Section 8 Subsidy Payments. See Exhibit E - "Federal Housing Assistance, Mortgage Insurance and PLP Programs."

Highland Park Senior Housing consists of 57 units located in Highland Park in Middlesex County. Construction of the Project commenced in September, 2000 and is expected to be completed in September, 2001. The Mortgage Loan is expected to be in the aggregate amount of $3,512,869 and is expected to mature in November, 2031 and will provide permanent financing for the Project. This Mortgage Loan for the Project is an Unenhanced Mortgage Loan which is secured by a First Mortgage Note in the amount of $3,070,941 and a Second Mortgage Note in the amount of $441,928.

Madison Turner Senior Housing consists of 44 units located in Newark in Essex County. Construction of the Project commenced in February, 2001 and is expected to be completed in August, 2002. The Mortgage Loan is expected to be in the aggregate amount of $2,435,046 and is expected to mature in December, 2032. The Mortgage Loan for the Project is an Unenhanced Mortgage Loan which will provide permanent financing for the Project and which will be secured by a First Mortgage Note in the amount of $626,945 and a Second Mortgage Note in the amount of $1,808,101.

Bramblewood Apartments consists of 117 units located in Lawrence Township in Mercer County. Construction of the Project is expected to commence in January, 2002 and is expected to be completed in February, 2003. The Mortgage Loan is expected to be in the aggregate amount of $6,672,279 and is expected to mature in September, 2033 and will provide permanent financing for the Project. The Mortgage Loan for the Project is an Unenhanced Mortgage Loan. Lawrence Township granted preliminary site plan approval on September 13, 2001 and is scheduled to consider the application for final site plan approval on

or about October 15, 2001. The Township required certain changes to the design of the building, which require amendments to be made to the architectural drawings and specifications. As the design changes do not affect the underwriting assumptions made by the Agency in granting its mortgage commitment and based upon the Agency's review of the municipal actions concerning the project (namely: (1) the Planning Board's providing preliminary site plan approval (2) the Township's municipal council and mayor's declaration of need for the Project and granting tax abatement to the Project and (3) the lack of any neighborhood opposition to the Project (to the Agency's knowledge)) the Agency reasonably expects that final site plan approval will be granted at the October meeting. If final site plan approval is not granted for this Project, the Agency, at such time as the Agency shall determine in accordance with the provisions of the Resolution, will either substitute another Project for financing or redeem Offered Bonds.

Avenel Manor is a senior living facility which consists of 88 units located in Avenel in Middlesex County. Construction of the Project is expected to commence in November, 2001 and is expected to be completed in January, 2003. The Mortgage Loan is expected to be in the aggregate amount of $5,617,924 and is expected to mature in August, 2033. The Mortgage Loan for the Project is an Unenhanced Mortgage Loan which will provide permanent financing for the Project and which will be secured by a First Mortgage Note in the amount of $4,250,889 and a Second Mortgage Note in the amount of $1,367,035.

Dr. King Plaza at North Harrison Street consists of 96 units located in East Orange in Essex County. Construction of the Project is expected to commence in December, 2001 and is expected to be completed in January, 2003. The Mortgage Loan is expected to be in the aggregate amount of $9,407,729 and is expected to mature in July, 2033. The Mortgage Loan for the Project is an Unenhanced Mortgage Loan which will provide permanent financing for the Project and which will be secured by a First Mortgage Note in the amount of $3,011,695 and a Second Mortgage Note in the amount of $6,396,034. Certain residents of East Orange have filed a complaint with the Federal District Court for the District of New Jersey requesting that the court enjoin the Agency and the other named defendants from, inter alia, funding this Project. See "MORTGAGE LOANS - Certain Factors Affecting Mortgage Loans - Pending Litigation - Dr. King Plaza at North Harrison" herein for a discussion of such litigation and of litigation pending with respect to this Project to which the Agency is not a party.

Metropolitan Inn is a senior living facility which consists of 16 units located in Burlington, in Burlington County. Construction of the Project is expected to commence in December, 2001 and is expected to be completed in December, 2002. The Mortgage Loan for permanent financing is expected to be in the aggregate amount of $1,627,674, and will be secured by a Short-Term Mortgage Note which is expected to mature in September, 2004. The Mortgage Loan for the Project is an Unenhanced Mortgage Loan.

West Electronic Building is a senior living facility which consists of 36 units located in Burlington, in Burlington County. Construction of the Project is expected to commence in December, 2001 and is expected to be completed in January, 2002. The Mortgage Loan for permanent financing is expected to be in the aggregate amount of $3,224,488 and will be secured by a Short-Term Mortgage Note which is expected to mature in September, 2004. This Mortgage Loan is an unenhanced Mortgage Loan.

The Hamlet at Bear Creek is a senior living facility with 61 units located in West Windsor in Mercer County. Construction of the Project will commence in November, 2001 and is expected to be completed in June, 2002. The Mortgage Loan is expected to be in the aggregate amount of $2,945,520 and is expected to mature in December, 2032. The Mortgage Loan for the Project is an Unenhanced Mortgage Loan which will provide permanent financing for the Project and which will be secured by a First Mortgage Note in the amount of $1,333,396 and a Second Mortgage Note in the amount of $1,612,124.

See Exhibit C hereto for more information regarding the foregoing Projects that are to be financed by a Series 2001 A-C Mortgage Loan. For each such Project, information is provided regarding (1) whether the Project is a Section 236 Mortgage Loan or an Unenhanced Mortgage Loan, (2) whether the Project is an FHA-Insured Mortgage Loan, (3) the amount of the Mortgage Loan, (4) the expected interest rate and the maturity date for the Mortgage Loan, (5) the maturity date of the subsidy contract, if any, and (6) the expected occupancy rate for the Project.

**Prior Mortgage Loans**

The chart below sets forth certain information regarding the various types of Prior Mortgage Loans financed and to be financed by the Prior Bonds. See also Exhibit D hereto.

**Categories of Prior Mortgage Loans Under the Resolution**
(as of April 30, 2001)

| | Mortgage Loans Funded with Prior Bonds | Mortgage Loans to be Funded (1997 Series) | Mortgage Loans to be Funded (1999 Series) | Mortgage Loans to be Funded (2000 Series A1-C2) | Mortgage Loans to be Funded 2000 Series E1-G | Total Funded and Expected Mortgage Loans | Percentage of Total |
|---|---|---|---|---|---|---|---|
| Section 8 | $ 154,223,883 | | | | | $ 154,223,883 | 22.19% |
| Section 236 | 224,422,300 | | | | | 224,422,300 | 32.29 |
| Unenhanced | 116,293,487 | $11,555,721[1] | $2,335,865[2] | $3,828,635[3] | $6,504,482[5] | 140,518,190 | 20.22 |
| FHA-Insured | 72,376,893 | | | 71,929,657[4] | | 144,306,550 | 20.76 |
| PLP Section 8 | 31,530,081 | | | | | 31,530,081 | 4.54 |
| Total | $598,846,644 | $11,555,721 | $2,335,865 | $75,758,292 | $6,504,482 | $ 695,001,004 | 100.00% |

[1] Represents proceeds allocated to HMFA #1235-Essex Commons Project. See "Certain Factors Affecting Mortgage Loans - Occupancy Levels and Delinquencies" for a discussion on the status of this Project.

[2] Represents amounts intended to be disbursed to HMFA #1228 Marina Bay for which the mortgage commitment has expired. The Agency has not yet determined how these amounts will be applied.

[3] Represents proceeds allocated for an expected mortgage loan in the amount of $2,178,274 to be made to HMFA# 1275 Mews at Collingwood for which mortgage take out is scheduled for September 25, 2001 and an expected mortgage loan in the amount of $1,650,361 for HMFA #1269 Plymouth Place for which take out occurred on May 30, 2001, as scheduled.

[4] Represents proceeds allocated to expected loans for: (a) HMFA #1264 Lafayette Village Construction in the amount of $9,308,981; (b) Monastery HMFA # 1251 in the amount of $10,298,000; (c) HMFA 1251 in the amount of $3,422,000; (d) HMFA #1226 - Sycamore in the amount of $17,229,499; (e) HMFA #1261 Buckingham Place in the amount of $16,936,129, and (f) HMFA #1260 Victoria Mews in the amount of $14,735,048 for which take out occurred on May 23, 2001.

[5] Represents proceeds allocated to HMFA #1284 Meridian at Howell for construction/permanent financing in the amount of $6,504,482. Mortgage amortization will begin by November 1, 2001.

## Mortgage Loan Categories

The following is a summary of the types of Mortgage Loans that have been financed to date under the General Resolution. The General Resolution does not limit the composition of the total Mortgage Loan portfolio held under the General Resolution by any percentages of individual types or categories of Mortgage Loans. The proceeds of the Offered Bonds are expected to be applied to finance Mortgage Loans falling into certain of the same categories described below. Additional categories of Mortgage Loans may be financed under the General Resolution from unused proceeds of the Prior Bonds and the Offered Bonds and from proceeds of Additional Bonds, provided that, among other things, the Trustee receives written confirmation from the Rating Agency that the inclusion of such Mortgage Loans under the General Resolution shall not adversely impair the then existing unenhanced rating of any Outstanding Bonds (which, as required by the Bond Insurers, must be at least A+ from S&P). See also Exhibit E — "Federal Housing Assistance, Mortgage Insurance and PLP Programs" for a more detailed discussion.

**Section 8 Mortgage Loans.** Mortgage Loans may be the subject of ACC's between the Agency or a local public housing agency (a "PHA") and HUD providing for disbursement by the Agency or such PHA, as HUD's agent, of housing assistance payments to the applicable Borrower pursuant to Section 8.

Legislation has recently been enacted which has made significant changes in the law, regulations and procedures governing Section 8 contract rents and contract renewals. These changes could have a significant impact on the Revenues to the Agency from the Section 8 Mortgage Loans and the PLP Section 8 Mortgage Loans. Although any such legislation could affect the ability of the Borrowers to make full and timely payment of Mortgage Loan debt service, the Agency believes that the estimated scheduled pledged payments on the Mortgage Loans, together with amounts held under the General Resolution and the earnings thereon, will be sufficient to pay, when due, the debt service on the Bonds.

Section 8 provides for the payment by HUD of a federal housing subsidy (a "Housing Assistance Payment" or "HAP Payment") for the benefit of low-income families (defined generally as families whose annual income does not exceed 80% of the median income for the area as determined by HUD) and very low-income families (defined generally as families whose annual income does not exceed 50% of the median income for the area as determined by HUD). HAP Payments may be made to or for the account of the owner of dwelling units occupied by low-income and very low-income families. Provision is made under Section 8 and HUD regulations thereunder for administration of the Section 8 program through state housing finance agencies, including the Agency, and through PHAs. As is further described below, under this arrangement, the state housing finance agency or the PHA enters into a Housing Assistance Payments Contract ("HAP Contract"), pursuant to which it agrees to pay HAP Payments to or for the account of the owner and concurrently enters into an ACC with HUD for the receipt of a corresponding subsidy payment from HUD. With respect to the Section 8 new construction or substantial rehabilitation programs, HUD regulations permit the state agency to exercise a high degree of program responsibility for developments without federal mortgage insurance, such as selection of the developer, approval of design and construction quality, site selection, and determination of economic feasibility and marketability, subject to audit and review by HUD to assure compliance with federal requirements and objectives. All of the Section 8 Projects and PLP Section 8 Projects financed with the proceeds of Prior Mortgage Loans involved Section 8 new construction or substantial rehabilitation subsidies administered in this fashion.

HAP Payments are based upon the Contract Rents applicable to subsidized dwelling units. An initial Contract Rent is established in the HAP Contract for each Section 8 unit at a level intended to be sufficient to pay the debt service and operating costs (and, in most instances, a return to the project owner) attributable to such unit in its first year of operation.

The amount of the subsidy payable to the Agency (or the PHA) for the account of the owner under the HAP Contract is the applicable Contract Rent less the payment, if any, required to be made to the owner by the tenant as determined by HUD. The tenant payment is generally equal to 30% of family income, though each assisted family is generally required to pay a minimum rent of between $25 and $50 per month. Thus, the total rental income from Section 8 housing units payable to or for the account of the owner is equal to the Contract Rent, part being paid by the tenants directly to the owner and the remainder being paid by HUD through the Agency to the owner in the form of HAP Payments. The proportion of the Contract Rent actually paid by HUD and that actually paid by tenants will vary depending upon tenant income.

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

A Project financed by bonds or notes of the Agency during its construction is not eligible to receive Section 8 subsidy payments with respect to eligible dwelling units until a certification of completion has been furnished. Once a Project (or a stage of a Project) has been accepted as complete, the Agency HAP Contracts provide for the payment of HAP Payments for a maximum period of not more than 40 years or, in the case of most Projects the subject of more recently executed HAP Contracts, 30 years from the date of the initial HAP Contract (including renewals) with respect to the applicable portion of the Project. HAP Contracts with a maximum term of 40 years have an initial term of five years with seven five-year renewals contemplated, or an initial term of 20 years with four five-year renewals. Agency HAP Contracts with a maximum term of 30 years have an initial term of five years with five-year renewals, or an initial term of 20 years with two five-year renewals. In the case of all Agency HAP Contracts, renewal of the HAP Contract is automatic unless both the Agency and the Project owner elect not to renew.

Five of the HAP Contracts allocable to the Prior Mortgage Loans expire before the end of the related Section 8 Mortgage Loans. While recent practice has been for HUD and the Congress to renew expiring contracts, there is no obligation to continue doing so. In light of the uncertainty on this subject, the Agency's underwriting of these Projects assumes that there will not be a renewal of the related Section 8 HAP Contracts upon expiration.

The question of HAP Contract renewals has been the subject of much discussion, and a federal policy has been established with enactment of The Multifamily Assisted Housing Reform and Affordability Act of 1997 (the "1997 Act"), Publ. L. 105-65. The 1997 Act implemented a "Portfolio Reengineering" program also referred to as "the Mark-to-Market" program, directed primarily at Section 8 projects with mortgages insured by FHA pursuant to the National Housing Act, but also setting out the terms for renewals of HAP Contracts for Section 8 projects that are not FHA-Insured. The Agency's underwriting of a particular Project assumes that there will not be a renewal of its Section 8 HAP Contract upon expiration.

Under the 1997 Act, many FHA-Insured Section 8 projects with expiring HAP Contracts and above-market rents will be eligible for restructuring plans and, upon restructuring, may receive continuing Section 8 assistance. These restructuring plans may include partial prepayment of mortgage debt intended to reduce Section 8 rent levels to those of comparable market rate properties or to the minimum level necessary to support proper operations and maintenance, and in certain cases, such plans may comprehend a change from "project-based" to "tenant-based" Section 8 subsidies. If the HAP Contract which applies to a Section 8 Project is renewed with provision for "tenant-based" Section 8 subsidies, the Agency assumes that, if the particular tenants residing in the project at the time of restructuring of the FHA-Insured mortgage should move, the project will no longer benefit from HAP Payments with respect to the units occupied by the departing tenants.

The 1997 Act contained unique HAP Contract renewal and rent determination standards for Section 8 projects for which the primary financing or mortgage insurance was provided by a unit of State or local government (or an agency or instrumentality thereof). Such projects, under the 1997 Act, were excluded from restructuring and instead were eligible for renewal at the lesser of: (1) existing rents adjusted by an Operating Cost Adjustment Factor ("OCAF") established by HUD, or (2) a budget-based rent determined by HUD. However, Congress recently passed the "Preserving Affordable Housing for Senior Citizens and Families into the 21st Century Act" as part of HUD's Fiscal Year 2000 Appropriations Act (the "1999 Act"), which amends portions of the 1997 Act with the evident intent, among other things, of making the Mark-to-Market program apply to Section 8 projects with FHA-Insured mortgages for which the primary financing was provided by a unit of state or local government unless the implementation of a mortgage restructuring plan is in conflict with applicable law or agreements governing such financing. Currently there are bills pending in the House and the Senate to amend the 1997 Act through the "Office of Multifamily Housing Assistance Restructuring Extension Act of 2001" to reauthorize the Office of Multifamily Housing Assistance Restructuring through September 30, 2004 (House) or September 30, 2006 (Senate).

The Agency believes it prudent to assume that those Section 8 Projects which have HAP Contracts expiring prior to the maturity dates of the related Section 8 Mortgage Loans will either require mortgage restructuring under the Mark-to-Market program upon expiration of the related HAP Contracts or, if such projects are ineligible for restructuring, may default on or prepay their FHA-Insured mortgages. Any such event, including mortgage restructuring, may result in a partial or full prepayment of the particular Section 8 Mortgage Loan.

Most of the Section 8 Projects financed with the proceeds of the Prior Mortgage Loans and the Projects which are the subjects of the PLP Mortgage Loans fall within the category of state-financed, non-FHA-Insured mortgages, which are *not* subject to mortgage restructuring under the Mark-to-Market program upon expiration of the related HAP Contracts. Most such HAP Contracts are not subject to expiration (other than subject to mandatory renewal as described above in "Term of the Subsidy Contracts") until maturity of the related Section 8 Mortgage Loans. Under current law, upon request of the owner of such a project, HUD is required to renew an expiring HAP Contract (absent certain actions or omissions of an owner or affiliate and subject to certain verifications) at existing rents adjusted by an OCAF, or budget-based rent if determined by HUD. Renewals are available for an initial term of five years, subject to availability of funds. Contract Rents upon subsequent renewals would reflect the lesser of existing rents adjusted by the OCAF established by HUD or a budget-based rent determined by HUD. While there can be no assurance that any such rent adjustments will provide for Contract Rents adequate to pay principal and interest on the related Section 8 Mortgage Loans, the Agency expects that any such mortgage loans will have matured by the expiration of the related HAP Contracts. More generally, there can be no assurance that future law, policies or funding levels at the time of expiration of these HAP Contracts will continue to make renewals and rent adjustments available on the same terms as are currently anticipated or at all.

The 1999 Act also provides for a new program (sometimes known as the Mark-Up-To-Market Program) for preservation of Section 8 projects that allows increases in Section 8 rent levels for certain

Section 8 projects that have below market rents to market or near market rate levels. HUD Notice H 00-8 dated May 16, 2000 approves Section 8 Enhanced Vouchers in preservation eligible projects. Enhanced Vouchers are for a period of one year with one year renewals subject to funding availability. Enhanced Vouchers will also be given to all tenants if the owner chooses not to renew the HAP Contract.

While under current law, owners are generally allowed to renew expiring project-based HAP Contracts (absent certain material adverse conduct or conditions), owners are not required to renew HAP Contracts. If an owner elects not to renew a HAP Contract, the owner is required to provide certain notices and transitional tenant protections.

**PLP Section 8 Mortgage Loans.** The Agency may apply proceeds of Bonds to provide Mortgage Loans for the acquisition by new owners of Projects which are the subject of Section 8 subsidies under ACC's between the Agency and HUD in furtherance of its preservation loan program. PLP Section 8 Mortgage Loans are subject to the same federal rent subsidy provisions as described under "Section 8 Mortgage Loans" above and in Exhibit E - "Federal Housing Assistance, Mortgage Insurance and PLP Programs - Section 8 Program". Each such Project will have been originally financed by mortgage loans from the Agency (the "Existing Mortgage Indebtedness") which were funded by Agency bonds. As part of its acquisition of the applicable Project, each Borrower assumes the Existing Mortgage Indebtedness on the Project and also pays an additional sum in cash, such payment being financed by a new PLP Section 8 Mortgage Loan made from proceeds of the Bonds. The new PLP Section 8 Mortgage Loan is evidenced by a promissory note and secured by a mortgage lien. Such mortgage lien is subordinate to the lien of the related Existing Mortgage Indebtedness held by the Agency. Repayment of the Existing Mortgage Indebtedness in most cases is not pledged to secure the Bonds. The principal amount of each PLP Section 8 Mortgage Loan was determined by the Agency to be approximately equal to the amount of additional debt that could be supported by the revenues generated from the applicable Project involved in the preservation loan program. In establishing the amount of each PLP Section 8 Mortgage Loan, the Agency considered the debt service on the related Existing Mortgage Indebtedness and the expenses associated with such Project. The revenues associated with each Project consist of Section 8 subsidy payments, rental payments received from tenants and earnings derived from the investment of Project reserves. The Project reserves include a six (6) month reserve for insurance, a three (3) month reserve for taxes and a three (3) month (senior citizen Projects) or six (6) month (family unit Projects) reserve for operating expenses and debt service. Additional information regarding the Agency's preservation loan program is set forth in Exhibit E — "Federal Housing Assistance, Mortgage Insurance and PLP Programs– The PLP Program."

**Section 236 Mortgage Loans.** Mortgage Loans may be the subject of interest reduction payment agreements among the Agency, HUD and the applicable Borrower pursuant to Section 236. Each such Interest Reduction Contract provides that HUD will make monthly interest reduction subsidy payments to the Agency with respect to such Section 236 Mortgage Loans.

In accordance with the provisions of the Interest Reduction Contracts, HUD generally agrees to make direct interest reduction subsidy payments ("236 Payments") to state housing finance agencies, such

as the Agency, in an amount equal to that portion of the debt service required under the actual 40 year mortgage loan which is in excess of that debt service which would be due on a self-amortizing 40 year mortgage loan in the same principal amount with an interest rate of 1% per annum.

A Project financed by bonds or notes of the Agency during its construction is not eligible to receive 236 Payments with respect to eligible dwelling units until all the dwelling units are completed. Interest Reduction Contracts provide for the payment of the 236 Payments for a period of not more than 50 years from the date of the initial 236 Payments with respect to the applicable Project. Generally, the expiration date of an Interest Reduction Contract for a Section 236 Mortgage Loan is approximately coterminous with the maturity of the Section 236 Mortgage Loan.

Under the Interest Reduction Contracts, HUD may reduce 236 Payments in the event a dwelling unit is destroyed or rendered uninhabitable for any reason (whether or not insurance coverage is obtained or obtainable), unless such unit is restored or rehabilitated within a reasonable time or unless an unsubsidized unit is designated in its place.

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

HUD may terminate 236 Payments with respect to any Project if the Project is acquired by any owner who is not an eligible mortgagor under Section 236. Each Borrower on a Section 236 Mortgage Loan has covenanted in the Interest Reduction Contract not to sell, convey, or transfer the related Project except to a mortgagor eligible under Section 236 and approved by the Agency.

Section 236(e)(2) and Section 236(b) address the transfer of mortgages from HUD to a private entity or a public entity, respectively, and the continuation of Interest Reduction Payments ("IRP's") after such transactions. Under Section 236(e)(2), a Section 236 mortgage may be prepaid and the IRP subsidy continued provided the owner enters into IRP and Use Agreements that require the continuation of the low-income housing resource for five (5) years beyond the new IRP term. Under Section 236(b), an approved State or local agency must purchase the insured Section 236 mortgage, terminate the FHA-insurance, keep the Section 236 mortgage intact and the owner must enter into new IRP and Use Agreements to maintain the property as a low-income housing resource for a period of five (5) years beyond the new IRP term. IRP assistance may be suspended, if an owner fails to maintain the project as an affordable housing resource pursuant to the conditions of the IRP and Use Agreements.

Any insured, non-insured or HUD-held Section 236 project, where the owner or prospective owner is an eligible mortgagor and is in good standing with HUD, is eligible for a Section 236(e)(2) or 236(b)

transaction. Under a Section 236(e)(2) transaction involving the prepayment of an insured Section 236 mortgage, eligible mortgagor entities are: nonprofit mortgagors, builder-seller mortgagors, limited distribution mortgagors, cooperative and investor sponsor mortgagors. Under a Section 236(b) transaction and a Section 236(e)(2) transaction involving prepayment of a non-insured Section 236 mortgage, eligible mortgagor entities are: private nonprofit entities, limited dividend entities, public entities or cooperative housing corporations. In Section 236(e)(2) transactions, eligible mortgagees include any mortgagee if a public agency agrees to be the oversight agency to assure compliance with the requirements of the IRP Agreement. If a public agency declines to participate as the oversight entity, then the mortgagee must be a HUD-approved multi-family mortgagee, the refinancing must be through an FHA-insured mortgage and HUD will perform the oversight function. In Section 236(b) transactions, a public agency will be participating as the oversight entity. However, if the agency that acquired the 236 mortgage does not wish to finance the remainder of the transaction (project acquisition and probable repair costs), any mortgagee may finance these costs provided the project oversight will be performed by the 236(b) mortgagee.

In both Section 236(e)(2) and 236(b) transactions, there will be a Section 236 regime as the basis for IRP assistance, i.e., establishment of basic and market rent schedules, occupancy and habitability standards, income limits and financial reporting. Tenants must be protected from involuntary displacement and rent increases due to the transaction. Owners must demonstrate to HUD how the project will be financially feasible under the continued Section 236 regime. To the extent it is financially feasible and consistent with the long-term preservation of the affordable housing resource, all outstanding HUD debt should be repaid under the transaction. The IRP subsidy may not exceed the payment schedule that was established for the original Section 236 mortgage, unless the new IRP schedule provides for lower monthly payments. The continued IRP assistance may be used for debt service needs.

Under federal law, the United States Government may have the right to set-off liabilities of the Agency to the United States against the amounts payable under Interest Reduction Contracts.

See also Exhibit E - "Federal Housing Assistance, Mortgage Insurance And PLP Programs" for a discussion of the Section 236 program and for continuation of IRP's under Section 236(e)(2) and Section 236(b).

**FHA-Insured Mortgage Loans.** Mortgage Loans may be the subject of federal mortgage insurance provided by FHA. These FHA-Insured Mortgage Loans are expected to be insured ("FHA Insurance") under the National Housing Act of 1934 (the "National Housing Act") or pursuant to Section 542 of the Housing and Community Development Act of 1992 (the "1992 Act"). The Transferred FHA-Insured Section 8 Mortgage Loans are insured under the National Housing Act.

FHA-Insured Mortgage Loans under the National Housing Act are generally insured to the extent of 99% of the amount of the defaulted principal balance thereof, after adjustment for certain expenses and for deposits or assets held by the mortgagee for the benefit of the development. Insurance benefits may be received in the form of cash, through foreclosure on the development or assignment of the mortgage note to

FHA, or in the form of debentures issued by FHA upon assignment of the note to FHA. Any FHA debentures bear a rate of interest that is published at the time of the commitment for FHA Insurance or the date of initial endorsement of the note by FHA, whichever is higher. The Agency intends to submit any claims for FHA Insurance under this program by assignment of the mortgage note for cash.

Section 542(c) of the 1992 Act specifically directs the Secretary of HUD to carry out a pilot program of risk-sharing with qualified state and local housing finance agencies ("HFA's"). The qualified HFA's are authorized to underwrite and process loans. HUD will provide full mortgage insurance of the mortgage with respect to affordable multifamily housing projects processed by such HFA's under the Risk-Sharing Program; provided, however, that HUD has retained the right to adjust the amount of mortgage insurance until the time of HUD's final endorsement of such loans.

Pursuant to Section 542(c) of the 1992 Act, the Agency and HUD have entered into risk-sharing agreements (the "Risk-Sharing Agreements") whereby FHA has agreed to provide FHA Insurance on the FHA-Insured Mortgage Loans financed with the proceeds of Prior Bonds and of the Offered Bonds and the Agency has agreed to reimburse FHA for 25% of any actual loss (i.e., if the amount recovered and paid to FHA from final disposition of the Project is less than the amount of the claim settlement paid by FHA). However, any failure by the Agency to reimburse FHA pursuant to a Risk-Sharing Agreement will not affect FHA's obligation to make payments on the related FHA-Insured Mortgage Loans. The 1992 Act and the regulations thereunder require that the Agency must use proceeds of insurance under the Act to redeem Bonds that are attributable to the defaulted Mortgage Loan. The Agency's obligation to reimburse FHA is not secured by or otherwise subject to the lien of the General Resolution. See also Exhibit E - "Federal Housing Assistance, Mortgage Insurance and PLP Program" for a description of the FHA insurance programs.

**Unenhanced Mortgage Loans.** Mortgage Loans may be secured by a first lien on the financed property, but not be the subject of either an ACC or an Interest Reduction Contract or any other subsidy, insurance or guaranty from the federal or state government. Approximately 20% of the total outstanding principal balance of Prior Mortgage Loans and approximately 33% of the total outstanding principal balance of the Series 2001 A-C Mortgage Loans to be financed by the Series 2001 A-C Bonds is expected to be, represented by Unenhanced Mortgage Loans.

See Exhibit F - "Mortgage Loan Origination and Management" for a description of the Agency's underwriting standards and procedures for Mortgage Loans (other than PLP Section 8 Mortgage Loans). See "Structure Assumptions" for certain assumptions with respect to a formerly troubled Project financed by an Unenhanced Mortgage Loan (McKinley Avenue Apartments), which the Agency has made in structuring the plan of finance in connection with the issuance of the Prior Bonds and the Offered Bonds.

**Other Mortgage Loans.** To the extent the Agency finances or acquires Mortgage Loans with the proceeds of Additional Bonds, or substitutes other Mortgage Loans for those expected to be financed with unused Offered Bond and Prior Bond proceeds, such Mortgage Loans may have different characteristics

from those described above. In addition, the proceeds of Additional Bonds may be applied to the financing of Mortgage Loans of other types, as well as Eligible Loans or Grants. It is a precondition to the financing of such other Mortgage Loans, or the issuance of Additional Bonds, among other things, that written confirmation be delivered to the Trustee from the Rating Agency that such financing or issuance, respectively, shall not adversely affect the then existing unenhanced rating of any Outstanding Bonds (which, as required by the Bond Insurers, must be at least A+ from S&P). See Exhibit B— "Summary of Certain Provisions of the Resolution" under the subcaptions "General Provisions—Issuance of Bonds," "Provisions Applicable During Effective Period of Any of the Municipal Bond Insurance Policies—Issuance of Bonds" and "Provisions Applicable When None of the Municipal Bond Insurance Policies is In Effect—Issuance of Bonds."

**Mortgage Prepayments**

The terms of all of the Prior Mortgage Loans which are not PLP Section 8 Mortgage Loans and the terms of the 2001 Series A-C Mortgage Loans will prohibit partial or complete prepayment until the Agency bonds or Bonds (as the case may be), which provided the initial financing for such Mortgage Loans are redeemable (except for prepayments due to default, condemnation, casualty loss or other involuntary events), and thereafter only with the approval of the Agency and, with respect to Section 8 Mortgage Loans and Section 236 Mortgage Loans, with the consent of HUD. The Agency bonds which provided the initial financing for the Projects refinanced with the proceeds of the 1995 Bonds, the 2000 Series A1 Bonds, the 2000 Series A2 Bonds, the 2000 Series B Bonds and the 2000 Series C1 Bonds have been redeemed; see Exhibit D hereto for a listing of such Projects. The terms of all Prior PLP Section 8 Mortgage Loans either prohibit partial or complete prepayment prior to maturity or they otherwise mature sooner than 20 years after the date of first mortgage closing (see the discussion concerning the Regulation below). The General Resolution requires that all Mortgage Prepayments be used to redeem Bonds.

In addition, the Agency has adopted a regulation, N.J.A.C. 5:80-5.10 (the "Regulation"), which restricts prepayment of Agency-financed mortgages, including all Prior Mortgage Loans, and the 2001 Series A-C Mortgage Loans, in order to maintain and preserve Agency-financed developments as affordable rental housing. Under the Regulation, prepayment will not be permitted by the Agency until at least 20 years have elapsed after the original mortgage closing, and the Agency shall not approve prepayment thereafter if prepayment would (a) cause the Agency to be in default under its obligations to the bondholders of the bonds issued to finance the development; or (b) jeopardize the continuing tax-exempt status of the bonds; or (c) reduce or terminate any subsidies applicable to the development such as Section 8 or Section 236 subsidies. N.J.A.C. 5:80-5.10(c). Approval of prepayment under the Regulation is also conditioned upon the sponsor's agreement to continue to operate the development under the statutory and regulatory control of the Agency concerning tenant income eligibility, tenant selection, certification/recertification of tenant income, rent increases, affirmative fair housing marketing, and maintenance of reserves, until the original expiration date of the original Agency mortgage. N.J.A.C. 5:80-5.10(b)(1). In addition, the Resolution provides that, to the extent that Agency consent is necessary, the Agency may not consent to the prepayment of a

Mortgage Loan unless such Mortgage Prepayment will be used to redeem Bonds. See Exhibit B—"Summary of Certain Provisions of the Resolution — General Provisions—Prepayment of Mortgage Loans."

Although the intent of the Regulation is to restrict prepayment of Agency-financed mortgage loans, its provisions are not expected to fully prevent prepayment at the option of a Borrower with respect to Section 8 Mortgage Loans or Section 236 Mortgage Loans. However, one disincentive to prepayment of any Mortgage Loan is that local real estate tax abatement granted pursuant to the provisions of the Agency's Act will likely cease upon any such prepayment of the Mortgage Loan in full. See Exhibit E-"Federal Housing Assistance, Mortgage Insurance and PLP Programs-- Section 236 Program--Prepayment of Section 236 Mortgages."

As of April 30, 2001, the Agency had experienced no prepayments of Prior Mortgage Loans. However, on July 27, 2001, the Agency did receive a mortgage prepayment on a Prior Mortgage Loan in the amount of $3,838,357. There can be no assurance given that other prepayments of Prior Mortgage Loans will not occur in the future.

See "Description of the Offered Bonds – Redemption Provisions – Special Redemption" for a discussion of the redemption of the Offered Bonds from Mortgage Prepayments and Exhibit D - Mortgage Loans Allocated To Prior Bonds for information about Prior Mortgage Loans which are subject to prepayment.

**Certain Factors Affecting Mortgage Loans**

**General.** The Agency's ability to meet debt service payments on Bonds will be affected by a variety of factors including the timely receipt of sufficient revenues from the Mortgage Loans. The Mortgage Loans made or purchased under the Program are not the personal obligations of the Borrowers (or the partners of the Borrowers) and the ability of the Agency to pay the principal of and interest on the Bonds is dependent on the Revenues derived from the Mortgage Loans. The ability of the Borrowers to make timely Mortgage Repayments is dependent upon a variety of factors, including, but not limited to, achievement and maintenance of sufficient levels of occupancy, sound management of the Projects, timely receipt of Section 8 housing assistance payments or Section 236 interest reduction subsidy payments (if applicable), the ability to increase rents to cover increases in operating expenses, including taxes, utility charges and maintenance costs, and changes in laws and governmental regulations which affect the cost of operating the Projects. The Agency covenants in the Resolution to diligently enforce, and take all reasonable steps, actions and proceedings necessary for the enforcement of all terms, covenants and conditions of Mortgages securing Mortgage Loans made or purchased by the Agency which, if not enforced, will affect the prompt collection of Mortgage Repayments or materially adversely affect the value of the Project subject to such Mortgage.

**Occupancy Levels and Delinquencies.** Generally, the Projects financed by the Section 8 Mortgage Loans maintain 97% occupancy *except* in those cases where units have recently been vacated and new tenants have not yet moved in. Applications for residency typically exceed the number of available units,

so that occupancy levels consistently exceed those needed to maintain required revenues. As of April 30, 2001, all Section 8 Mortgage Loans were current in their Mortgage Loan payments.

Generally, the Projects financed by the Section 236 Mortgage Loans maintain 90% or higher occupancy; and as of April 30, 2001, all Section 236 Mortgage Loans were current in their Mortgage Loan payments, except for three (3) such Mortgage Loans (described below) with aggregate principal arrearages of $274,505. (Section 236 interest reduction subsidy payments have been received with respect to the Section 236 Mortgage Loans with arrearages. The arrearages represent the portion of the Mortgage Loan payment due from the Borrower, which consists of 1% per annum interest on the outstanding principal balance of the Mortgage Loan, plus amortization of Mortgage Loan principal.) See "Structure Assumptions" for certain assumptions with respect to New Hope and New Community Homes which the Agency has made in structuring the plan of finance in connection with the issuance of the Prior Bonds and the Offered Bonds.

- New Hope – The Section 236 Mortgage Loan for this Project in the principal amount $5,289,220 (as of April 2001) has an outstanding principal arrears amount of $111,797.18 representing a cumulative delinquency of 50 months. This Project has suffered a number of physical and financial setbacks over the past three years. The Borrower has been working with Agency staff to address these issues. The solutions have included a number of major repair and replacement items. The Agency does not expect to receive the portion of the Mortgage Loan payment due from the Borrower with respect to this Project.

- New Community Homes – The Section 236 Mortgage Loan for this Project in the principal amount of $3,944,403 (as of April 30, 2001) has an outstanding principal arrears amount of $136,030.08 representing a cumulative delinquency of 79 months. This Project has suffered a number of physical and financial setbacks over the past five years. The Agency does not expect to receive the portion of the Mortgage Loan payment due from the Borrower with respect to this Project. The Rev. Msgr. Linder, a public member of the Agency, is the founder of, and a former officer of, New Community Corporation, the parent corporation of the Borrower with respect to New Community Homes.

- Shalom Clemente – The Section 236 Mortgage Loan for this Project in the principal amount of $5,121,000 (as of April 30, 2001) has an outstanding principal arrears balance of $26,677.32, representing a cumulative delinquency of two years dating back to prior to 1994. The Project has been current in its Mortgage Loan payments for the past four years and has paid $100,000 towards the accumulated arrearages.

One of the Projects financed with an Unenhanced Mortgage Loan, Stockton Arms Project, has an outstanding principal balance of $987,849.01 and a principal arrears balance of $28,055.73 as of April 30, 2001. The Project was initially financed from the Agency's Administrative Account and was current in its Mortgage Loan payments at the time it was allocated to the 1996 Series B Bonds. Since that time, the Project manager left and the Project has experienced a significant increase in vacancies. The Project is experiencing financial difficulties and is 47 months behind in Mortgage Loan payments. The Agency has

suspended the managing general partner of the related Borrower. The ownership and operation of the Project is being directed by Agency staff and a new managing agent has also been retained. See also "Structure Assumptions".

Another Project financed with an Unenhanced Mortgage Loan, McKinley Avenue Apartments Project, experienced difficulties resulting in a restructuring of its Unenhanced Mortgage Loan effective November 1, 1995. The McKinley Mortgage Loan has been current since such restructuring. See also "Structure Assumptions."

Construction of another Project financed with an Unenhanced Mortgage Loan, Essex Commons Project, halted in the Spring of 1998 within a few months of the mortgage closing, because the construction contract was terminated by the Owner. Only $1,750,941 of the expected loan amount of $11,556,000 has been disbursed. A new construction contract was not executed and approved, and construction was not resumed or completed within the 18 month construction period provided under the loan documents. After giving notice of default and attempting to work with the Owner to resolve the construction stoppage, the Agency filed suit and obtained a judgment in foreclosure. A writ of execution issued, but on July 12, 2001, the Owner filed a Chapter 11 bankruptcy petition which stayed execution on the judgment. As a result of the mortgage default and foreclosure, and to the extent permitted under the U.S. Bankruptcy Code, the Agency may take such action as may be in the best interests of the public and the bondholders including: purchase and resale of the property, mortgage workout and refinance of the Essex Commons Project, sale of the Agency's judgment interest in the real property, finance of one or more substitute projects from the unexpended proceeds of the 1997 Bonds, or the Agency may apply the proceeds of any sale or satisfaction of the judgment and/or any unexpended 1997 bond proceeds to the redemption of 1997 Bonds. At this time, due to the Owner's bankruptcy, the Agency has not determined what action it will take.

As of April 30, 2001, the payments on the Prior Mortgage Loans are current, except as noted above. In addition, as of April 30, 2001, all payments on the PLP Section 8 Mortgage Loans previously funded with Agency administrative funds and expected to be reimbursed with the proceeds of the Offered Bonds are current.

**Syndication of Federal Low Income Housing Tax Credits.** Several of the Projects which the Agency has financed with Prior Mortgage Loans have been underwritten by the Agency assuming the receipt of proceeds from the sale by the Borrowers of federal low income housing tax credits. Such syndication proceeds are to be used to finance a portion of Project costs. Failure to receive syndication proceeds as expected for whatever reason (including changes in federal tax law) could have an adverse impact on the completion of a Project. To the extent that the Agency has advanced funds under a Mortgage Loan, failure to receive syndication proceeds with respect thereto and any resultant failure to complete the related Project may ultimately result in default on the related Mortgage Loan. To the extent that the Agency has not advanced funds under a Mortgage Loan, failure to receive such syndication proceeds may result in a failure by the Agency to fund the related Mortgage Loan and a related prior redemption of Bonds from unused proceeds. See Exhibit C for identification of Projects to be financed with 2001 Series A-C Mortgages which

the Agency has underwritten assuming the receipt of proceeds from the sale by the Borrowers of federal low income housing tax credits.

**Construction and Rent-Up Risks.** Development of multifamily rental property entails numerous risks affecting construction and rent-up of the property. The Agency requires as a condition to development of any Project that 100% payment and performance bonds be provided by the general contractor. In addition, the Agency develops a marketing study for each Project in order to assess the likelihood of successful rent-up of the Project following completion of construction. Prior to issuance of a mortgage commitment, the Agency's Technical Services Division reviews Project plans and specifications and performs a cost estimation of construction costs. During construction, an Agency construction official monitors progress to ensure that the Project is being built to plans and specifications, in addition to determining work in place for requisitioning payment to contractors. Prior to disbursement of payments to contractors, a title update is performed to ensure the absence of any liens.

The Agency requires the completion of an appraisal and market study for each Project. Reliance is placed on the "income approach" to assess the data that supports a capitalization rate, discount rate, revenue, expenses, discounted cash flow analysis and stabilization. The market study examines the market place demographics along with the supply and demand factors and the impact on the Project's absorption period. The Agency compares this information to that which was submitted by the applicant as well as to the Agency's portfolio data and incorporates it into the underwriting analysis. See Exhibit F, "Mortgage Loan Origination and Management," for further discussion.

**Pending Litigation - Tax Abatement**. In Town of Secaucus v. City of Jersey City and Newport Centre, the Town of Secaucus filed a similar suit challenging tax exemptions for Agency-financed housing projects under N.J.S.A. 55:14K-37b. Secaucus alleged that the statute exempts only housing project improvements, not land, from taxation and if the statute does exempt both land and improvements it violates the Uniformity Clause of the State Constitution. The New Jersey Attorney General has also intervened in this case and in the case of Town of Secaucus v. City of Jersey City and Battery View, which involves similar issues. In Battery View, the project has filed a motion for summary judgment returnable August 31, 2001. The Attorney General filed a brief in support of the motion for summary judgment. The motion was argued on August 31, 2001 and the court has reserved decision. In a related case, Town of Secaucus v. City of Jersey City and TPI Urban Renewal (which case does not involve an Agency-financed project and in which the Attorney General has not intervened), the trial judge issued a ruling dated May 19, 2000 denying cross motions for summary judgment. In the opinion, the judge found that the annual service charge provided for in the agreement at issue exceeded the relevant statutory limitation of 2% and that the taxpayers failed to satisfy the statutory certification requirement; the judge concluded that each finding provides an independent basis for invalidating the tax exemption. The defendants argued, however, that Secaucus' complaint should be dismissed on the theories of equitable estoppel and/or laches because the exemptions had been in effect and relied upon for a number of years before the instant challenge. The court is to schedule a plenary hearing limited to those issues. If it is determined that the claims are barred by estoppel and/or laches, the complaint will be dismissed; if it is determined that there is no bar to the claims, the tax exemptions

for 1998, 1999, 2000 and 2001 will be invalidated. The defendants have moved for reconsideration of the court's decision. Once this test case is resolved, the court will schedule the remainder of the cases involving constitutional challenges including Newport Centre. Since the defendants in Newport Centre and Battery View also raised an equitable estoppel and/or laches defense, this case may be settled based on the outcome of TPI Urban Renewal without addressing the constitutional issues.

No assurance can be given at this time as to the outcome of the above-captioned litigation or its impact on the ability of the Borrowers to make the payments required under the Mortgage Loans. If the abatement is declared invalid after all appeals are exhausted, additional property taxes may be imposed on the Projects and such taxes could adversely affect the ability of the Borrowers to make the payments required under the Mortgage Loans.

**Pending Litigation - Foreclosure.** The Agency has filed and prosecuted foreclosure actions against the sponsors of two Agency-financed projects. In New Jersey Housing and Mortgage Finance Agency v. Evergreen West, judgment was entered on January 11, 2001 against, among others, the sponsor of the Essex Commons project in Jersey City in favor of the Agency in the amount of $2,206,299.29 and secondly in favor of the City of Jersey City in the amount of $145,762.91. The project sponsor filed a Chapter 11 bankruptcy petition on July 12, 2001, the date of a scheduled sheriff's sale. In New Jersey Housing and Mortgage Finance Agency v. Rockaway Pacific, judgment was entered on June 5, 2001 in favor the Agency in the amount of $1,403,041.64 against the sponsor of the Stockton Arms project in Trenton. The Agency intends to proceed with a sheriff's sale.

**Pending Litigation - Dr. King Plaza at North Harrison.** On August 30, 2001, the Agency was served with a complaint filed with the United States District Court for the District of New Jersey in a matter known as Nathaniel Carter et al. v. New Jersey Housing and Mortgage Finance Agency, et al. (Civil Action No.01-4182 JAG) relating to the Dr. King at North Harrison, one of the Projects the Agency expects to finance with the Offered Bonds. The plaintiffs in this matter are three residents, land owners and taxpayers of East Orange, New Jersey, and the complaint seeks, among other things, a preliminary and permanent injunction enjoining the Agency, and the other defendants (the State of New Jersey, Department of Community Affairs, the City of East Orange, the Planning Board of the City of East Orange and Dr. King Plaza Urban Renewal Associates, L.P.) "from taking any actions to fund, approve, subsidize, issue tax credits for, construct, or otherwise aid and abet in any manner the Brick Church Urban Renewal Project" of which the Dr. King Plaza at North Harrison is a part.

The plaintiffs allege violations by the defendants of the 1949 Housing Act, 42 U.S. C. §§ 1701, et seq.; the 1964 Civil Rights Act, 42 U.S.C. §§ 2000D to 2000D -7, and Title VIII of the 1978 Civil Rights Act, 42 U.S.C. §§ 3602 to 3619, as well as the New Jersey Law Against Discrimination, N.J.S.A. 10:5 -1, et seq. With respect to the Agency in particular, the plaintiffs allege, inter alia, that implementing the Project in East Orange will have the impermissible and illegal effect of increasing the concentration of minorities and racial segregation, that the Agency has not adopted any rules, regulations, or procedures addressing the racially segregative effects of their policies and funding determinations, that, in determining to fund the Project, the

Agency did not consider its effect on the concentration of minorities and racially segregative effects in East Orange, that the Agency violated its own internal priorities relating to the source of tax abatements in approving the Project and violated certain regulations of HUD relating to the use of high rise elevator projects.

Although the plaintiffs do not expressly request any preliminary or permanent injunction enjoining the issuance of the Offered Bonds, if the relief requested by the plaintiffs is granted by the court, it is possible that Offered Bonds in an amount necessary to finance the Mortgage Loan for the Dr. King Project and certain related bond costs (approximately $9,500,000) would not be delivered or that, if these Offered Bonds were delivered, their proceeds would not be used to finance the Dr. King at North Harrison Project. It is also possible that, under certain circumstances, an early redemption of the Offered Bonds would be required.

The office of the Attorney General of New Jersey is counsel to the Agency and will vigorously defend the Agency in such proceedings. It is not possible to predict the outcome of the litigation. In the event that the court grants an injunction, the Agency will either use the proceeds of the Offered Bonds to finance another project or redeem the Offered Bonds. The Agency believes that if it should not prevail, any possible relief granted would not affect the Agency's ability to pay the Offered Bonds, whether at maturity or on early redemption.

## ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of funds with respect to the Offered Bonds, exclusive of accrued interest, are expected to be approximately as follows:

| | |
|---|---|
| **Sources** | |
| 2001 Series Bond Proceeds | $109,029,769.30 |
| Total Sources | $109,029,769.30 |
| **Uses*** | |
| Bond Proceeds Fund | |
| 2001 Series A & B Bonds | $39,168,087.00 |
| 2001 Series C Bonds | 68,871,616.00 |
| Underwriters' Compensation | 500,516.00 |
| Costs of Issuance** | 489,550.30 |
| Total Uses | $109,029,769.30 |

*The Agency expects to fund the Debt Service Reserve Fund Requirement for the Offered Bonds with the 2001 Series A-C Surety Bond instead of a cash deposit.

**Includes, among other costs, the initial premium installment for the Policy, the initial premium installment for the 2001 Series A-C Surety Bond, the premium for the 2001 Cap Agreement and the premium for the insurance with respect to the 2001 Swap Agreement.

## DESCRIPTION OF THE OFFERED BONDS

### General

The 2001 Series A Bonds and 2001 Series B Bonds will be dated, and interest thereon will be payable on the dates, as set forth on the cover page of this Official Statement. The 2001 Series A Bonds and the 2001 Series B Bonds will mature on the dates and in the amounts, and will bear interest (calculated on the basis of a 360-day year of twelve 30-day months) from their date to maturity (or prior redemption) at the applicable rates, as set forth on the inside cover page of this Official Statement.

***This Official Statement provides information about the PARS Bonds only when they bear interest at PARS Rates.***

The 2001 Series C Bonds (the "PARS Bonds") will bear interest from their Date of Delivery for the applicable Initial Period set forth on the inside cover page of this Official Statement at a rate established by Goldman, Sachs & Co. prior to their date of delivery and thereafter at the applicable PARS Rate unless converted to fixed interest rates. Following the applicable Initial Period, the 2001 C Series Bonds will initially bear interest for twenty-eight day Auction Periods but can be converted to a one-day, 28-day, 35-day, three-

month or six-month Auction Period or a Special Auction Period. The Special Auction Period is any period of not less than seven days nor more than 1,096 days which is not another Auction Period. Interest on the PARS Bonds in a daily, seven-day, 28- day or 35-day Auction Period or a Special Auction Period of 180 days or less shall be computed on the basis of a 360-day year for the number of days elapsed and in a three-month, six-month Auction Period or a Special Auction Period of more than 180 days on the basis of a 360-day year of twelve 30-day months. **WHILE THE PARS BONDS BEAR INTEREST AT PARS RATES, THERE IS NO BONDHOLDER RIGHT TO TENDER SUCH PARS BONDS AT ANY TIME, AND THERE IS NO OBLIGATION TO PURCHASE SUCH PARS BONDS AT ANY TIME ON THE PART OF THE AGENCY, THE UNDERWRITER, THE TRUSTEE, THE INSURER OR ANY OTHER PERSON.** Upon conversion from a PARS Rate Period to fixed interest rates, the PARS Bonds will be subject to mandatory tender on the conversion date at a price equal to 100% of the principal amount thereof plus accrued interest, if any, to such date. Certain conversions of PARS Bonds from one Auction Period to another or to fixed interest rates will by subject to the consent of Financial Assurance. See "DESCRIPTION OF THE OFFERED BONDS – PARS BONDS" and "APPENDIX J– PARS PROVISIONS." herein.

The Offered Bonds shall be issued only as fully-registered bonds, without coupons and when issued will be registered to Cede & Co., as nominee of The Depository Trust Company, New York, New York, to which payments of principal and interest will be made. An individual purchase of a PARS Bond may be made in denominations of $25,000 or any integral multiple thereof. An individual purchase of a 2001 Series A Bonds or 2001 Series B Bonds may be made in the principal amount of $5,000 or any integral multiple thereof. The Offered Bonds will be issued in book-entry form only and will be registered in the name of Cede & Co., as nominee of DTC, pursuant to DTC's Book-Entry Only System. See "Book-Entry Only System" herein.

**PARS Bonds**

"PARS Rate" means with respect to the PARS Bonds, while such PARS Bonds bear interest at a PARS Rate, the rate of interest to be borne by such PARS Bonds during each Auction Period which (other than for the Initial Period) shall equal the Auction Rate for each Auction Period; provided, however, that, if the Auction Agent shall have failed to determine the Auction Rate for any Auction Period (including without limitation, the circumstances where there is no Auction Agent or no Broker-Dealer), the PARS Rate for such Auction Period shall be the No Auction Tax-Exempt Rate for the 2001 Series C Bonds; provided, further, that if a "Payment Default" (i.e., a failure to pay principal, premium or interest on any PARS Bond when due) has occurred and the Bond Insurer is in default under the Policy for a claim thereunder for payment of such principal or interest, the PARS Rate for the Auction Period during which such Payment Default shall have occurred and each Auction Period thereafter commencing prior to the date on which the Payment Default shall have ceased to be continuing, shall be the Default Tax-Exempt Rate for the 2001 Series C Bonds for such Auction Period; provided, further, that in no event shall the PARS Rate exceed the lesser of 14% per annum with regard to the 2001 Series C Bonds or the maximum rate permitted by law, and; provided, further, in the event of a failed conversion from a PARS Rate to a fixed interest rate or the conversion from one Auction Period to another Auction Period, the affected 2001 Series C Bonds will continue as PARS Bonds with twenty-eight day Auction Periods and bear interest at the Maximum Tax-Exempt PARS Rate for the

2001 Series C Bonds for the next Auction Period.

"Interest Payment Date" means the respective First Interest Payment Date set forth on the inside cover page for the Initial Period, and thereafter: during a PARS Rate Period, (a) when used with respect to any Auction Period other than a daily Auction Period or a Special Auction Period, the Business Day immediately following such Auction Period; (b) when used with respect to a daily Auction Period, the first Business Day of the month immediately succeeding such Auction Period; (c) when used with respect to a Special Auction Period of (i) seven or more but fewer than 180 days, the Business Day immediately following such Special Auction Period, or (ii) 180 or more days, semi-annually after the first day of such Special Auction Period or the next Business Day if such day is not a Business Day and on the Business Day immediately following such Special Auction Period; (d) after the Fixed Rate Conversion Date, each Semi-annual Interest Payment Date; (e) each Mandatory Tender Date; and (f) the maturity date of applicable series of PARS Bonds.

"Auction Date" means with respect to the PARS Bonds, during any period in which the Auction Procedures are not suspended in accordance with the provisions of the PARS Bonds, for (i) the PARS Bonds in a daily Auction Period, each Business Day, (ii) the PARS Bonds in a Special Auction Period, the last Business Day of the Special Auction Period, and (iii) the PARS Bonds in any other Auction Period, the Business Day next preceding each Interest Payment Date for the PARS Bonds (whether or not an Auction shall be conducted on such date); provided, however, that the last Auction Date with respect to PARS Bonds in an Auction Period other than the daily Auction Period or Special Auction Period shall be the earlier of (a) the Business Day next preceding the Interest Payment Date next preceding the date such PARS Bonds are converted to bear interest at fixed interest rates (the "Conversion Date)", and (b) the Business Day next preceding the Interest Payment Date next preceding the final maturity date for such PARS Bonds; and provided, further, that for PARS Bonds in a daily Auction Period, the last Auction Date shall be the earlier of (x) the Business Day next preceding the Conversion Date for such PARS Bonds and (y) the Business Day next preceding the final maturity date for such PARS Bonds. The last Business Day of a Special Auction Period shall be the Auction Date for the Auction Period which begins on the next succeeding Business Day, if any. On the Business Day preceding the conversion from a daily Auction Period to another Auction Period, there will be two Auctions, one for the last daily Auction Period and one for the first Auction Period following the conversion. The respective First Auction Dates for the PARS Bonds shall be the applicable First Auction Date set forth on the inside cover page.

"Auction Period" means (i) a Special Auction Period; (ii) with respect to the PARS Bonds in a daily Auction Period, a period beginning on each Business Day and extending to but not including the next succeeding Business Day; (iii) with respect to the PARS Bonds in a seven-day Auction Period, a period of generally seven days beginning on the applicable First Day of Auction Period (or the day following the last day of the prior Auction Period if the prior Auction Period does not end the applicable Last Day of Auction Period) and ending on the applicable Last Day of Auction Period thereafter (unless such applicable Last Day of Auction Period is not followed by a Business Day, in which case ending on the next succeeding day which is followed by a Business Day); (iv) with respect to the PARS Bonds in a 28-day Auction Period, a period of generally 28 days beginning on the applicable First Day of Auction Period (or the day following the last

day of the prior Auction Period if the prior Auction Period does not end the applicable Last Day of Auction Period) and ending on the applicable Last Day of Auction Period thereafter (unless such applicable Last Day of Auction Period is not followed by a Business Day, in which case ending on the next succeeding day which is followed by a Business Day); (iv) with respect to the PARS Bonds in a 35-day Auction Period, a period of generally 35 days beginning on the applicable First Day of Auction Period (or the day following the last day of the prior Auction Period if the prior Auction Period does not end the applicable Last Day of Auction Period) and ending on the applicable Last Day of Auction Period thereafter (unless such applicable Last Day of Auction Period is not followed by a Business Day, in which case ending on the next succeeding day which is followed by a Business Day); and (v) with respect to the PARS Bonds in three-month Auction Period, a period of generally three months (or shorter period upon a conversion from another Auction Period) beginning on the day following the last day of the prior Auction Period and ending on the first day of the month that is the third calendar month following the beginning date of such Auction Period; and (vi) with respect to the PARS Bonds in a six-month Auction Period, a period of generally six months (or shorter period upon a conversion from another Auction Period) beginning on the day following the last day of the prior Auction Period and ending on the next succeeding Semi-annual Interest Payment Date; provided, however, that if there is a conversion of the PARS Bonds from a daily Auction Period to a seven-day Auction Period, the next Auction Period will begin on the date of the conversion (i.e. the Interest Payment Date for the prior Auction Period) and will end on the applicable Last Day of Auction Period (unless such Last Day of Auction Period is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), if there is a conversion from a daily Auction Period to a 28-day Auction Period, the next Auction Period will begin on the date of the conversion (i.e. the Interest Payment Date for the prior Auction Period) and will end on the applicable Last Day of Auction Period (unless such Last Day of Auction Period is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 21 days but not more than 28 days from such date of conversion, and, if there is a conversion from a daily Auction Period to a 35-day Auction Period, the next Auction Period will begin on the date of the conversion (i.e. the Interest Payment Date for the prior Auction Period) and will end on the applicable Last Day of Auction Period (unless such Last Day of Auction Period is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 28 days but not more than 35 days from such date of conversion.

"First Day of Auction Period" means with respect to the PARS Bonds after the end of the Initial Auction Period, Thursday, while such PARS Bonds are in a seven-day, twenty-eight day or thirty-five day Auction Period and with respect to other Auction Periods, the day determined as provided in the Resolution.

"Last Day of Auction Period" means with respect to the PARS Bonds after the end of the Initial Auction Period, Wednesday while such PARS Bonds are in a seven-day, twenty-eight day or thirty-five day Auction Period and with respect to other Auction Periods, the day determined as provided in the Resolution.

**Auction Agent** The Trustee will enter into the Auction Agreement initially with The Bank of New York, pursuant to which, The Bank of New York, as Agent for the Trustee, shall perform the duties of Auction Agent. The Auction Agreement will provide, among other things, that the Auction Agent will determine the Auction Rate for each Auction in accordance with the Auction Procedures.

**Auction Date** An Auction to determine the interest rate with respect to the PARS Bonds for the next succeeding Auction Period will be held on the Business Day next preceding each Interest Payment Date for such PARS Bonds while the PARS Bonds are in a period other than a daily period and if in a daily Auction Period, each Business Day while such PARS Bonds are in a daily Auction Period. The First Auction Date for the 2001 Series C Bonds shall be the First Auction Date set forth on the inside front cover.

**Broker-Dealer** The initial Broker-Dealer for the 2001 Series C Bonds maturing on November 1, 2033 shall be Goldman, Sachs & Co. and the initial Broker-Dealer for the 2001 Series C Bonds maturing on May 1, 2033 shall be Merrill Lynch & Co. Incorporated.

**Order to Existing Owners and Potential Owners** The procedure for submitting orders prior to the Submission Deadline on each Auction Date is described in Exhibit J, as are the particulars with regard to the determination of the Auction Rate and the allocation of the PARS Bonds bearing interest at PARS Rates (collectively, the "Auction Procedures").

**Amendment of Auction Procedures** The provisions of the Resolution concerning the Auction Procedures including without limitation the definitions of Default Tax-Exempt Rate, Maximum Tax-Exempt PARS Rate, Minimum Tax-Exempt PARS Rate, PARS Index, Interest Payment Date, Tax-Exempt PARS Multiple, No Auction Tax-Exempt Rate and PARS Rate with respect to the 2001 Series C Bonds, may be amended by obtaining the consent of Financial Security and the owners of all 2001 Series C Bonds affected by such amendment. If on the first Auction Date occurring at least 20 days after the date on which the Auction Agent mailed notice to Financial Security and the registered owners of PARS Bonds affected by such amendment, (i) the applicable PARS Rate which is determined on such date is the Winning Bid Rate, (ii) Financial Security has consented in writing to such amendment and (iii) the Agency and the Trustee have received a counsel's opinion that such changes will not adversely affect the validity of the PARS Bonds or any exemption from federal income taxation to which interest on the PARS Bonds would otherwise be entitled (a "Favorable Counsel Opinion"), the proposed amendment shall be deemed to have been consented to by the beneficial owners of all PARS Bonds bearing interest at a PARS Rate affected by such amendment.

**Conversion of 2001 Series C Bonds to Fixed Rates.** At the option of the Agency, but subject to the prior written consent of Financial Security unless the PARS Bonds to be converted are at the Maximum Tax-Exempt or Maximum Taxable Interest Rate as applicable, any portion of the 2001 Series C Bonds may be converted to bear interest at a fixed interest rate, provided that after any partial conversion there are no less than $10,000,000 of the PARS Bonds outstanding bearing interest at the PARS Rate unless consented to by the Broker-Dealer. On the conversion date of the PARS Bonds to be converted, such PARS Bonds to be converted shall be subject to mandatory tender at a purchase price equal to 100% of the principal amount thereof, plus accrued interest. The purchase price of the PARS Bonds so tendered is payable solely from the proceeds of the remarketing of such PARS Bonds and no payment will be available from monies under the Resolution. In the event that the conditions of a conversion are not satisfied, including the failure to remarket all applicable 2001 Series C Bonds on a mandatory tender date, the 2001 Series C Bonds will not be subject to mandatory tender, will be returned to their owners, will automatically convert to a twenty-eight

day Auction Periods and will bear interest at the Maximum Tax-Exempt PARS Rate. It is currently anticipated that, should any of the 2001 Series C Bonds be converted to bear interest at a fixed interest rate, a remarketing memorandum or remarketing circular will be distributed describing the 2001 Series C Bonds during such Rate Period. If the 2001 Series C Bonds bear interest at the Maximum Tax-Exempt Rate for a period of 60 days, the Agency shall convert such PARS Bonds to a fixed interest rate unless Financial Security otherwise consents.

**Conversion from One Auction Period to Another** On the conversion date for the PARS Bonds selected for conversion from one Auction Period to another, any PARS Bonds which are not the subject of a specific Hold Order or Bid will be deemed to be subject to a Sell Order. In the event of a failed conversion to another Auction Period due to the lack of Sufficient Clearing Bids, the PARS Bonds will automatically convert to twenty-eight day Auction Periods, and will bear interest at the Maximum Tax-Exempt PARS Rate. In connection with a conversion from one Auction Period to another, written notice of such conversion will be given in accordance with the Auction Procedures; however, the PARS Bonds will not be subject to mandatory tender on such conversion date.

**Special Considerations Relating to the 2001 Series C Bonds Bearing Interest at PARS Rates**

The Resolution and the Auction Agreement provide that the Auction Agent may resign from its duties as Auction Agent by giving at least 90 days notice or 30 days notice, if it has not been paid, to the Agency, Financial Security and the Trustee and does not require, as a condition to the effectiveness of such resignation, that a replacement Auction Agent be in place if its fee has not been paid. The Broker-Dealer Agreement provides that the Broker-Dealer thereunder may resign upon five business days notice or immediately, in certain circumstances, and does not require, as a condition to the effectiveness of such resignation, that a replacement Broker-Dealer be in place. For any Auction Period during which there is no duly appointed Auction Agent, or during which there is no duly appointed Broker-Dealer, it will not be possible to hold Auctions, with the result that the interest rate on the 2001 Series C Bonds will be the No Auction Tax-Exempt Rate.

The Broker-Dealer Agreement will provide that a Broker-Dealer may submit an Order in Auctions for its own account. If a Broker-Dealer submits an Order for its own account in any Auction, it might have an advantage over other Bidders in that it would have knowledge of orders placed through it in that Auction; such Broker-Dealer, however, would not have knowledge of Orders submitted by other Broker-Dealers (if any) in that Auction. In the Broker-Dealer Agreement, Broker-Dealers will agree to handle customer orders in accordance with their respective duties under applicable securities laws and rules.

During a PARS Rate Period a beneficial owner of a PARS Bond may sell, transfer or dispose of a PARS Bond only pursuant to a Bid or Sell Order in accordance with the Auction Procedures (see "APPENDIX J- PARS PROVISIONS") or through a Broker-Dealer. The ability to sell a PARS Bond in an Auction may be adversely affected if there are not sufficient buyers willing to purchase all the PARS Bonds at a rate equal to or less than the Maximum PARS Rate.

The initial Broker-Dealers for the PARS Bonds, Goldman, Sachs & Co.and Merrill Lynch & Co. Incorporated, have advised the Agency that they intend to make a market in the 2001 Series C Bonds between Auctions; however, Goldman, Sachs & Co.and Merrill Lynch & Co. are not obligated to make such markets, and no assurance can be given that secondary markets therefor will develop.

Changes to the Auction Periods and Auction Dates do not require the amendment of the Auction Procedures or any consents except that Financial Security must consent to a change from one Auction Period to a longer Auction Period and except that the Agency must receive a Favorable Counsel Opinion.

**Redemption Provisions**

***Optional Redemption***

**2001 Series A Bonds and 2001 Series B Bonds**

The 2001 Series A Bonds and 2001 Series B Bonds are redeemable at any time on and after May 1, 2011, as a whole or in part by lot, at the option of the Agency at a Redemption Price equal to 100% of the principal amount thereof, all in the manner provided by the Resolution.

**2001 Series C Bonds**

The 2001 Series C Bonds that bear interest at a PARS Rate are subject to redemption by the Agency from any source, in whole or in part, on any applicable Interest Payment Date, at a redemption price equal to 100% of the principal amount thereof. The 2001 Series C Bonds to be redeemed will be selected from such Bonds on such basis as will be determined by the Agency; provided, however, in the event of a partial redemption of the 2001 Series C Bonds bearing interest at a PARS Rate, the aggregate principal amount not so redeemed shall be an integral multiple of $25,000 and the aggregate principal amount of the 2001 Series C Bonds bearing interest at a PARS Rate which will remain outstanding is at least $10,000,000 unless otherwise consented to by the Broker-Dealer.

***Special Redemption***

The Offered Bonds to be redeemed as described under this subcaption are redeemable at any time, in whole or in part, at the principal amount thereof plus accrued interest to the redemption date.

The Offered Bonds are redeemable at the option of the Agency from the unexpended proceeds of such Series of the Offered Bonds.

The Offered Bonds of each Series are required by the Resolution to be redeemed from Mortgage Prepayments received with respect to Series 2001 A-C Mortgage Loans financed by or allocated to such Series of the Offered Bonds. See “Mortgage Loans - Mortgage Prepayments” for a discussion of Mortgage Prepayments.

The Offered Bonds of each Series are also redeemable at the option of the Agency from Recovery

Payments or amounts in anticipation thereof received with respect to Series 2001 A-C Mortgage Loans financed by or allocated to such Series of the Offered Bonds. See "Sources of Payment for the Bonds - Pledge of the General Resolution" for a discussion of Recovery Payments.

The Offered Bonds are also redeemable at the option of the Agency from any moneys on deposit in the Revenue Fund (derived from any Series of Bonds) under the General Resolution (which includes amounts in the Debt Service Reserve Fund which are in excess of the Debt Service Reserve Fund Requirement and which are transferred to the Revenue Fund) which are available therefor; provided, however, if the Agency exercises its option described in this paragraph, the Agency covenants to consult with nationally recognized bond counsel to ensure that the interest on any Tax-Exempt Offered Bond does not become includible in gross income of the holder thereof for federal income tax purposes as a result of such redemption. Scheduled payments on the Prior Mortgage Loans, and the Series 2001 A-C Mortgage Loans are in excess of the respective scheduled debt service on the Prior Bonds and Offered Bonds. There can be no assurance that payments on Mortgage Loans will be received as scheduled. Moneys received in excess of scheduled debt service on the Prior Bonds and the Offered Bonds (if not otherwise required to pay debt service on other Bonds issued under the General Resolution and subject to certain limitations pursuant to the General Resolution) will be available to redeem Bonds, including Offered Bonds, or, alternatively, may be transferred to the Agency, free and clear of the lien of the Resolution, upon satisfaction of the Applicable Coverage Ratio Percentage test. See "SOURCES OF PAYMENT FOR THE BONDS - Pledge of the General Resolution- Pledged Funds."

Subject to the limitations described above, the Offered Bonds to be so redeemed are to be selected from any Series of the Offered Bonds and from the outstanding maturities of any such Series of the Offered Bonds on such basis as determined by the Agency. See Exhibit B—"Summary of Certain Provisions of the Resolution—General Provisions—Redemption of Bonds" for additional information regarding the redemption of Bonds.

In the Resolution, the Agency has covenanted not to redeem 2001 Series A Bonds or 2001 Series B Bonds from the proceeds of a voluntary sale by the Agency of the non-defaulted 2001 Series A- C Mortgage Loans except in accordance with the optional redemption provisions described below under the heading "Optional Redemption."

***Sinking Fund Redemption Requirements***

The 2001 Series A Bonds maturing May 1, 2034 (the "Series 2001 A Term Bonds"), the 2001 Series B Bonds and the 2001 Series C Bonds (collectively, the "Offered Term Bonds") are subject to Sinking Fund Requirements requiring mandatory redemption in part by lot on the respective dates shown below at the respective principal amount thereof plus accrued interest to the redemption date, without premium, according to the following schedule:

| Date | 2001 Series A Bonds Maturing 5/1/2034 | 2001 Series B Bonds Maturing 5/1/2032 | 2001 Series C Bonds Maturing 11/1/2033 | 2001 Series C Bonds Maturing 5/1/2033 |
|---|---|---|---|---|
| 5/1/ 02 | | | | |
| 11/1/ 02 | | $80,000 | | |
| 5/1/ 03 | | 80,000 | | |
| 11/1/ 03 | | 85,000 | | |
| 5/1/ 04 | | 85,000 | | |
| 11/1/ 04 | | 90,000 | | |
| 5/1/ 05 | | 90,000 | | |
| 11/1/ 05 | | 95,000 | | |
| 5/1/ 06 | | 95,000 | | |
| 11/1/ 06 | | 100,000 | | |
| 5/1/ 07 | | 105,000 | $ 160,000 | $ 25,000 |
| 11/1/ 07 | | 110,000 | 165,000 | 25,000 |
| 5/1/ 08 | | 110,000 | 170,000 | 25,000 |
| 11/1/ 08 | | 115,000 | 175,000 | 25,000 |
| 5/1/ 09 | | 120,000 | 175,000 | 30,000 |
| 11/1/ 09 | | 125,000 | 180,000 | 30,000 |
| 5/1/ 10 | | 125,000 | 185,000 | 30,000 |
| 11/1/ 10 | | 130,000 | 190,000 | 30,000 |
| 5/1/ 11 | | 135,000 | 195,000 | 30,000 |
| 11/1/ 11 | | 140,000 | 200,000 | 30,000 |
| 5/1/ 12 | | 145,000 | 1,000,000 | 170,000 |
| 11/1/ 12 | | 150,000 | 1,020,000 | 175,000 |
| 5/1/ 13 | | 155,000 | 1,050,000 | 180,000 |
| 11/1/ 13 | | 160,000 | 1,075,000 | 185,000 |
| 5/1/ 14 | | 165,000 | 1,100,000 | 190,000 |
| 11/1/ 14 | | 170,000 | 1,125,000 | 195,000 |
| 5/1/ 15 | | 175,000 | 1,155,000 | 200,000 |
| 11/1/ 15 | | 180,000 | 1,180,000 | 205,000 |
| 5/1/ 16 | | 185,000 | 1,210,000 | 210,000 |
| 11/1/ 16 | | 195,000 | 1,240,000 | 215,000 |
| 5/1/ 17 | | 200,000 | 1,225,000 | 210,000 |
| 11/1/ 17 | | 205,000 | 1,245,000 | 215,000 |
| 5/1/ 18 | | 215,000 | 1,270,000 | 220,000 |
| 11/1/ 18 | | 220,000 | 1,305,000 | 225,000 |
| 5/1/ 19 | | 230,000 | 1,340,000 | 230,000 |
| 11/1/ 19 | | 235,000 | 1,370,000 | 235,000 |
| 5/1/ 20 | | 245,000 | 1,400,000 | 245,000 |
| 11/1/ 20 | | 250,000 | 1,440,000 | 250,000 |
| 5/1/ 21 | | 260,000 | 1,475,000 | 255,000 |
| 11/1/ 21 | | 270,000 | 1,510,000 | 260,000 |
| 5/1/ 22 | | 275,000 | 1,545,000 | 270,000 |
| 11/1/ 22 | | 285,000 | 1,585,000 | 275,000 |
| 5/1/ 23 | | 295,000 | 1,625,000 | 280,000 |
| 11/1/ 23 | | 305,000 | 1,660,000 | 290,000 |
| 5/1/ 24 | | 315,000 | 1,705,000 | 295,000 |
| 11/1/ 24 | | 325,000 | 1,740,000 | 305,000 |
| 5/1/ 25 | | 335,000 | 1,790,000 | 310,000 |
| 11/1/ 25 | | 350,000 | 1,830,000 | 320,000 |
| 5/1/ 26 | | 360,000 | 1,880,000 | 325,000 |
| 11/1/ 26 | | 370,000 | 1,920,000 | 335,000 |
| 5/1/ 27 | | 385,000 | 1,910,000 | 330,000 |
| 11/1/ 27 | | 395,000 | 1,925,000 | 335,000 |
| 5/1/ 28 | | 410,000 | 1,970,000 | 345,000 |
| 11/1/ 28 | | 425,000 | 2,020,000 | 350,000 |
| 5/1/ 29 | | 440,000 | 2,070,000 | 360,000 |
| 11/1/ 29 | $1,920,000 | 455,000 | 480,000 | 80,000 |
| 5/1/ 30 | 1,970,000 | 465,000 | 490,000 | 85,000 |
| 11/1/ 30 | 2,025,000 | 485,000 | 505,000 | 85,000 |
| 5/1/ 31 | 2,075,000 | 500,000 | 515,000 | 85,000 |
| 11/1/ 31 | 2,130,000 | 515,000 | 520,000 | 95,000 |
| 5/1/ 32 | 1,505,000 | 30,000† | 540,000 | 95,000 |
| 11/1/ 32 | 1,440,000 | | 550,000 | 100,000 |
| 5/1/ 33 | 1,425,000 | | 565,000 | 100,000† |
| 11/1/33 | 775,000 | | 680,000† | |
| 5/1/34 | 325,000† | | | |

†Stated Maturity.

Notwithstanding the foregoing, while the 2001 Series C Bonds bear interest at a PARS Rate, in any Auction Period other than a daily Auction Period, if such redemption date is not an Interest Payment Date, the redemption shall occur on the Interest Payment Date immediately preceding such redemption date. 2001 Series C Bonds in a Special Auction Period may be redeemed prior to the end of the Special Auction Period pursuant to the sinking fund redemption schedule.

The foregoing annual Sinking Fund Requirements for a maturity of Offered Term Bonds may be reduced at the option of the Agency by the amount of Offered Term Bonds of such maturity of such Series due which have been redeemed (otherwise than through the operation of the Sinking Fund Requirements) or purchased as provided in the General Resolution.

***General Provisions as to Purchase or Redemption of Bonds***

Pursuant to the General Resolution, the Trustee may at any time purchase Bonds upon direction of an Authorized Officer of the Agency, from moneys on deposit in the Revenue Fund, in an amount which does not exceed the aggregate of the Sinking Fund Requirements for such date applicable to all maturities, *provided* that the principal (as of the date of such Sinking Fund Requirements) of the Bonds of each maturity so purchased does not exceed the respective Sinking Fund Requirements for the Bonds of such date applicable to the Bonds of such maturity and shall be credited against such respective Redemption Requirements, and *provided further*, that the purchase price for such Bonds does not exceed the principal amount (as of the date of such Sinking Fund Requirement) thereof (excluding accrued interest but including any brokerage or other charges); *however*, no such purchase shall be made by the Trustee during the period of forty-five (45) days prior to the date of a Sinking Fund Requirement.

The Trustee shall select the Bonds or portions of Bonds to be redeemed or purchased in accordance with the General Resolution and the applicable Series Resolution. Except as otherwise stated in the Series Resolution authorizing a Series of Bonds with respect to all or any part of the Series of Bonds authorized thereunder, moneys shall, upon direction by the Agency to the Trustee, be applied by the Trustee to the purchase or the redemption of Bonds selected from among the Series and maturities on the basis specified by the Agency. The direction to the Trustee from the Agency relating to each redemption of Bonds at the election of the Agency shall be filed with the Trustee at least forty-five (45) days prior to the date fixed for redemption or such lesser number of days as shall be acceptable to the Trustee.

***Selection of Bonds for Redemption***

If less than all of the Bonds of one Series and one maturity shall be called for redemption, the particular Bonds of such Series and maturity to be redeemed shall be selected by lot, using such method of selection as the Trustee in its discretion may determine.

***Notice of Redemption***

Notice of any redemption will be mailed at least thirty (30) days prior to the date set for redemption to the registered owners of Bonds to be redeemed at their addresses as they appear in the registration books

kept by the bond registrar, such mailing shall be a condition precedent to such redemption, *but* failure to receive any such notice shall not affect the validity of the proceedings for the redemption of Bonds.

**Book-Entry Only System**

The Depository Trust Company, New York, New York ("DTC"), will act as securities depository for the Offered Bonds. The Offered Bonds will be issued as fully registered securities registered in the name of Cede & Co. (DTC's partnership nominee). One fully registered Offered Bond for each maturity of each Series thereof, in the principal amount of each maturity of each Series, will be issued for the Offered Bonds and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants ("Participants") deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The Rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

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

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

Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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

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

Neither DTC nor Cede & Co. will consent or vote with respect to the Offered Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to the Agency as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Offered Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Offered Bonds will be made to DTC. DTC's practice is to credit Direct Participants' accounts on the payable date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on the payable date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, or the Agency, subject to any statutory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the Agency or the Trustee, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Offered Bonds at any time by giving reasonable notice to the Agency or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, Offered Bond certificates are required to be printed and delivered. The Agency may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Offered Bond certificates will be printed and delivered.

So long as Cede & Co. is the registered owner of the Offered Bonds, as nominee for DTC, references herein to Bondholders or registered owners of Offered Bonds (other than under the caption "Tax Matters") shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners of the Offered Bonds.

When reference is made to any action which is required or permitted to be taken by the Beneficial Owners, such reference shall only relate to those permitted to act (by statute, regulation or otherwise) on behalf of such Beneficial Owners for such purposes. When notices are given, they shall be sent by the

Trustee to DTC only.

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

**The above information concerning DTC and DTC's book-entry system has been obtained from DTC. Neither the Agency nor the Underwriters take responsibility for the accuracy thereof. The Beneficial Owners should confirm the foregoing information with DTC or the DTC Participants.**

NEITHER THE AGENCY NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DTC PARTICIPANTS, TO INDIRECT PARTICIPANTS, OR TO ANY BENEFICIAL OWNER WITH RESPECT TO (i) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, ANY DTC PARTICIPANT, OR ANY INDIRECT PARTICIPANT; (ii) ANY NOTICE THAT IS PERMITTED OR REQUIRED TO BE GIVEN TO THE OWNERS OF THE OFFERED BONDS UNDER THE RESOLUTION; (iii) THE SELECTION BY DTC OR ANY DTC PARTICIPANT OR INDIRECT PARTICIPANT OF ANY PERSON TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF THE OFFERED BONDS; (iv) THE PAYMENT BY DTC OR ANY DTC PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT WITH RESPECT TO THE PRINCIPAL OR REDEMPTION PREMIUM, IF ANY, OR INTEREST DUE WITH RESPECT TO THE OFFERED BONDS; (v) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS THE OWNER OF OFFERED BONDS; OR (vi) ANY OTHER MATTER.

## STRUCTURE ASSUMPTIONS

### General

The Agency believes it is reasonable to make the assumptions described below in structuring the principal maturities (including Sinking Fund Requirements) of the Offered Bonds and expects that the estimated scheduled Mortgage Loan repayments, together with Mortgage Loan prepayments received, if any, of principal of and interest on the Mortgage Loans, and amounts held under the General Resolution and the earnings thereon, will be sufficient to pay, when due, the debt service on the Offered Bonds and the Prior Bonds.

In structuring the principal maturities (including Sinking Fund Requirements) of the Offered Bonds, the Agency has not considered the issuance of Additional Bonds or the application or investment of the proceeds thereof. Since Additional Bonds issued under the General Resolution will rank equally and ratably with the Offered Bonds and the Prior Bonds with respect to the security afforded by the General Resolution, the availability of money for repayment of the Offered Bonds and the Prior Bonds could be affected by the issuance of and the application and investment of proceeds of Additional Bonds.

In establishing the principal maturities and Sinking Fund Requirements for the Prior Bonds and the

Offered Bonds, the Agency has assumed that no Mortgage Prepayments will be received with respect to the Prior Mortgage Loans, and the 2001 Series A-C Mortgage Loans. See "Mortgage Loans—Mortgage Prepayments".

In structuring the plan of finance in connection with the issuance of the Offered Bonds , the Agency has assumed that proceeds of the Offered Bonds will be used (i) to finance the 2001 Series A-C Mortgage Loans, and (ii) to pay certain costs of issuance and underwriters' compensation of the Offered Bonds. With respect to the PARS Bonds, the Agency has assumed that prior to occurrence of the Swap Commencement Date or Dates under the 2001 Swap Agreement with respect to $47,790,000 of the PARS Bonds, the 2001 Series C Bonds will bear interest based on a two year average BMA index plus an expected trading spread and that on and after the occurrence of the Swap Commencement Dates, the PARS Bonds will bear interest at the effective 5.0388% fixed rate pursuant to the 2001 Swap Agreement. For purposes of sizing the Debt Service Reserve Fund Requirement for the Offered Bonds, the Agency has assumed a bond amortization schedule assuming a 30 year loan amortization for the Second Mortgage Notes for the Mortgage Loans for the Highland Park Senior Housing, Madison Turner Senior Housing, Marian Towers, Browns Woods Apartments, Avenel Manor, the Hamlet at Bear Creek and Dr. King Plaza at North Harrison Projects) and for the Short Term Mortgage Notes for Metropolitan Inn and West Electronics. The Agency has further assumed that there will be no Recovery Payments, Mortgage Prepayments, or losses due to the uncollectibility of Mortgage Loans, except as described in the next two succeeding paragraphs and that all Mortgage Loans (except as described in the next paragraph), other than FHA-Insured Mortgage Loans, if they become in default and are foreclosed upon, will produce foreclosure proceeds equal to the outstanding principal balance of such Mortgage Loans. With respect to FHA-Insured Mortgage Loans, the Agency has assumed that if FHA- Insured Mortgage Loans become in default and are foreclosed upon or assigned to FHA for payment of insurance benefits, will produce foreclosure proceeds or proceeds of such assignment equal to 99% of the principal balance of such FHA-Insured Mortgage Loans which are not provided pursuant to the Risk-Sharing Program and equal to 100% of the principal balance of such FHA-Insured Mortgage Loans which are provided pursuant to the Risk-Sharing Program. Further, the Agency has assumed investment of the proceeds of the Offered Bonds and the Prior Bonds in the investments and at the investment returns at the rates set forth herein under "STRUCTURE ASSUMPTIONS - Investments" below.

In structuring the plan of finance in connection with the issuance of the Prior Bonds, the Agency has assumed with respect to the Unenhanced Mortgage Loan for McKinley Avenue Apartments, that the Borrower will make only principal payments on the restructured Mortgage Loan and with respect to the Unenhanced Mortgage Loan for Stockton Arms and Essex Commons that there will be no payments made by the Borrower. See "Mortgage Loans - Certain Factors Affecting Mortgage Loans". In addition, the Agency has also assumed with respect to the Section 236 Mortgage Loans for New Hope and New Community Homes that there will be no payments of the Borrower's portion of the related Mortgage Loan payments (i.e., only subsidy payments are received). See "Mortgage Loans - Certain Factors Affecting Mortgage Loans—Occupancy Levels and Delinquencies."

In addition to the financial assumptions described above, with respect to the Prior Bonds, the Agency made an additional cash flow analysis, which assumed for each Section 236 Mortgage Loan which currently

uses "excess income" (as determined pursuant to the Section 236 program requirements) to pay debt service on its Mortgage Loan, that all of such "excess income" will no longer be available for such purposes. (However, depending upon the source of such "excess income," all or a portion of such "excess income" may continue to be available for Mortgage Loan debt service.) See Exhibit E—"Federal Housing Assistance, Mortgage Insurance and PLP Programs—Section 236 Program—Excess Income." Based upon this cash flow analysis, the Agency believes that the estimated scheduled pledged payments on the Mortgage Loans, together with amounts held under the General Resolution and the earnings thereon, will be sufficient to pay, when due, the debt service on the Bonds.

**Investments**

Amounts deposited in the Funds created under the Resolution with respect to the Offered Bonds will be invested in Permitted Investments, which may include investment agreements satisfying the requirements of the Resolution. See the definition of "Permitted Investments" in "Summary of Certain Provisions of the Resolution—General Definitions" in Exhibit B.

Moneys on deposit in certain funds and accounts for the Offered Bonds will be invested as follows: Proceeds of the 2001 Series A Bonds deposited in the Bond Proceeds Account will be invested in the New Jersey Cash Management Fund; Proceeds of the 2001 Series C Bonds deposited in the Bond Proceeds Account will be invested with Trinity Plus Funding Company, L.L.C. at a rate set for 28 Day periods equal to the latest available Municipal Market Date weekly BMA™ Municipal Swap Index plus.60% for a term ending August 31, 2004; amounts attributable to the Offered Bonds deposited in the Revenue Fund will be invested with CDC Funding Corp. at 4.59% for a term ending May 1, 2034. The Agency utilizes the New Jersey Cash Management Fund for short term investment of bond proceeds and as of April 30, 2001, $12,994,120 of amounts in the Bond Proceeds Fund was invested in the Cash Management Fund. In addition, the following investment agreements have been entered in connection with various of Series of Prior Bonds:

**Bond Proceeds Fund**

| Series | Provider | Interest Rate | Maturity | Amount Invested as of April 30, 2001 |
|---|---|---|---|---|
| 2000 A1-C2 | Bayerische Landesbank Girozentrale | 6.86% | 5/1/2002 | $75,927,709 |
| 2000 E1-G | CDC - Funding | 6.71% | 12/1/2002 | $ 6,411,483 |

**Revenue Fund**

| Series | Provider | Interest Rate | Maturity | Amount Invested as of April 30, 2001 |
|---|---|---|---|---|
| 1996 | Westdeutsche Landesbank Girozentrale | 6.42% | 5/1/2028 | N/A (revolving deposits of funds) |
| 1997 | Societe Generale | 6.06% | 5/1/2040 | N/A (revolving deposits of funds) |
| 1999 | AIG Matched Funding Corp. | 5.32% | 11/1/2030 | N/A (revolving deposits of funds) |
| 2000 A1-C2 | Bayerische Landesbank Girozentrale | 6.86% | 5/1/2032 | N/A (revolving deposits of funds) |
| 2000 E1-G | CDC - Funding | 6.61% | 11/1/2031 | N/A (revolving deposits of funds) |

**Debt Service Reserve Fund**

| Series | Provider | Interest Rate | Maturity | Amount Invested as of April 30, 2001 |
|---|---|---|---|---|
| 1996 | Westdeutsche Landesbank Girozentrale | 6.96% | 5/1/2028 | $2,393,060 |

Certain earnings on investments of Pledged Funds may be subject to rebate to the United States in order to prevent interest on Tax-Exempt Bonds, including the 2001 Series A Bonds , the 2001 Series C Bonds and all Prior Bonds that are federally tax-exempt, from being included in gross income for federal income tax purposes and may be deposited in the Arbitrage Rebate Fund as provided in the General Resolution. The Arbitrage Rebate Fund is not a part of the Pledged Funds and, therefore, will not be available to pay principal (including the Redemption Price) of and interest on the Bonds.

## AGREEMENT BY THE STATE

Under the Act, the State pledges to and covenants and agrees with the holders of the Bonds that the State will not limit, restrict or alter the rights or powers vested in the Agency to perform and fulfill the terms of any agreement made with the holders of the Bonds or in any way impair the rights or remedies of such holders of the Bonds until the Bonds, together with interest thereon, with interest on any unpaid installments of interest and all costs and expenses in connection with any action or proceeding by or on behalf of the holders of the Bonds are fully met, paid and discharged.

## STATE NOT LIABLE ON BONDS

The Act provides that Bonds of the Agency shall not be in any way a debt or liability of the State or of any political subdivision thereof other than the Agency and shall not create or constitute any indebtedness, liability or obligation of the State or of any such political subdivision or be or constitute a pledge of the faith and credit of the State or of any such political subdivision but that all such Bonds unless funded or refunded by bonds, shall be payable solely from revenues or funds pledged or available for their payment as authorized in the Act.

## LEGALITY OF BONDS FOR INVESTMENT

In the State, under the Act, notwithstanding any restriction contained in any other law, all banks, trust companies, savings banks and institutions, building and loan associations, savings and loan associations, investment companies, and other persons carrying on a banking or investment business, all insurance companies, insurance associations and other persons carrying on an insurance business, and all executors, administrators, guardians, trustees and other fiduciaries may legally invest any sinking funds, moneys or other funds belonging to them or within their control in any bonds including the Bonds, issued pursuant to the Act and such bonds shall be authorized security for any and all public deposits.

## TAX MATTERS

### 2001 Series A Bonds and 2001 Series C Bonds

The Internal Revenue Code of 1986, as amended (the "Code") imposes certain requirements which must be met on a continuing basis subsequent to the issuance of the 2001 Series A Bonds and the 2001 Series C Bonds (collectively, the "Tax-Exempt Bonds") in order to ensure that interest on the Tax-Exempt Bonds be and remain excludable from gross income for Federal income tax purposes under Section 103 of the Code. Failure of the Agency and each owner of a project financed with the proceeds of the Tax-Exempt Bond (collectively, "2001 Tax-Exempt Borrowers") to observe such requirements may cause interest on the Tax-Exempt Bonds to be includable in gross income for Federal income tax purposes, retroactive to the date of issuance of the Tax-Exempt Bonds. In the Agency's Arbitrage Certificate, the 2001 Tax-Exempt Borrowers' Tax Regulatory Agreements and the 2001 Tax-Exempt Borrower's Financing, Deed Restriction and Regulatory Agreement with the Agency (collectively, the "Tax Certificates"), the Agency and the Borrowers will represent that the Agency and the Borrowers expect and intend to be able to comply with, and will, to the extent permitted by law, comply with the respective provisions and procedures set forth in the Tax Certificates and do and perform all acts and things necessary or desirable in order to assure that, under the Code as presently in effect, interest on the Tax-Exempt Bonds be and remain excluded from gross income for Federal income tax purposes.

Assuming continuing compliance by the Agency and the Borrowers with their respective covenants set forth in the Tax Certificates with respect to compliance with the Code, Bond Counsel is of the opinion that, under existing statutes, regulations, administrative pronouncements and judicial decisions, interest on the Tax-Exempt Bonds is not included in the gross income of the owners thereof for Federal income tax

purposes pursuant to the Code, except that no opinion is expressed as to the exclusion of interest on any AMT Bond for any period during which such Bond is held by a "substantial user" of the Project financed with the proceeds of such Bond or a "related person" to any such "substantial user" within the meaning of Section 147(a) of the Code. Interest on the Tax-Exempt Bonds is an item of tax preference for purposes of calculating the alternative minimum tax imposed by the Code with respect to individuals and corporations.

Although interest on the Tax-Exempt Bonds is excluded from gross income for Federal income tax purposes (except as otherwise described herein), the accrual or receipt of interest on the Tax-Exempt Bonds may otherwise affect the Federal income tax liability of or other consequences to the recipients thereof. The nature and extent of these other tax consequences will depend upon the recipient's particular tax status or other items of income or deduction. Bond Counsel expresses no opinion regarding any such consequences. Purchasers of the Tax-Exempt Bonds, particularly purchasers that are corporations (including C corporations, S corporations and foreign corporations operating branches in the United States), property or casualty insurance companies, banks, thrifts or other financial institutions, certain recipients of Social Security or Railroad Retirement benefits and individuals who may be eligible for the earned income tax credit under Section 32 of the Code, are advised to consult their own tax advisors as to the tax consequences of purchasing or holding the Tax-Exempt Bonds.

There can be no assurance that legislation will not be introduced or enacted after the issuance and delivery of the Tax-Exempt Bonds so as to affect adversely the exclusion from gross income for Federal income tax purposes of interest on the Tax-Exempt Bonds. Each purchaser of the Tax-Exempt Bonds should consult his or her own advisor regarding any changes in the status of pending or proposed Federal tax legislation.

### 2001 Series B Bonds

**INTEREST ON THE 2001 SERIES B BONDS AND IS INCLUDABLE IN GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES.**

Each purchaser of the Taxable Bonds should consult his or her own advisor as to the tax consequences of purchasing or holding the Taxable Bonds.

#### New Jersey Gross Income Tax

In the opinion of Bond Counsel, interest on and any gain realized on the sale of the Tax-Exempt Bond and the Taxable Bonds is not includable in gross income under the existing New Jersey Gross Income Tax Act.

## LITIGATION

To the Agency's knowledge, there is no controversy or litigation of any nature now pending or threatened seeking to or restraining or enjoining the offering or delivery of the Offered Bonds, or the funding of 2001 Series A-C Mortgage Loans with the proceeds of the Offered Bonds or in any way contesting or affecting the validity of the Offered Bonds or any proceedings of the Agency taken with respect to the

issuance or sale thereof, or the pledge or application of any moneys or security provided for the payment of the Offered Bonds or the existence or powers of the Agency or the title of any officers or members of the Agency to their respective positions, except for the pending litigation described under "MORTGAGE LOANS- Certain Factors Affecting Mortgage Loans- Pending Litigation - Dr. King at North Harrison Project" herein.

## LEGAL MATTERS

All legal matters incident to the authorization, issuance, sale and delivery of the Offered Bonds are subject to the approval of Wolff & Samson, P. A., Roseland, New Jersey, Bond Counsel to the Agency, and certain other conditions. Certain legal matters will be passed upon for the Underwriters by their counsel, DeCotiis, FitzPatrick, Gluck & Cole, LLP, Trenton, New Jersey. The approving opinions of Bond Counsel will be delivered on the date of issuance of the Offered Bonds in substantially the forms attached hereto as Exhibit A.

## INDEPENDENT AUDITORS

The financial statements of the New Jersey Housing and Mortgage Finance Agency - Multi-Family Housing Revenue Bonds Resolution as of and for the fiscal years ended June 30, 2001 and 2000 included in Appendix H to this Official Statement have been audited by Deloitte & Touche LLP, independent auditors, as stated in the report appearing herein.

## CONTINUING DISCLOSURE

The Securities and Exchange Commission (the "SEC") pursuant to the Securities Exchange Act of 1934, as amended and supplemented (codified on the date hereof at 15 U.S.C 77 et seq.) (the "Securities Exchange Act") has adopted amendments to its Rule 15c2-12 (codified at 17 C.F.R. §240.15c2-12) (the "Rule") effective for transactions on which a Participating Underwriter (as hereinafter defined) enters into a contractual obligation on and after July 3, 1995 which generally prohibit a broker, dealer, or municipal securities dealer ("Participating Underwriter") from purchasing or selling municipal securities, such as the Offered Bonds, unless the Participating Underwriter has reasonably determined that an issuer of municipal securities or an obligated person has undertaken in a written agreement or contract for the benefit of holders of such securities to provide certain annual financial information and event notices to various information repositories.

On the date of delivery of the Offered Bonds, the Agency will enter into a Continuing Disclosure Agreement with the Trustee for the benefit of the registered owners and the beneficial owners of the Offered Bonds pursuant to which the Agency with respect to the Pledged Funds and Obligated Persons (as defined in Exhibit I) will agree to comply on a continuing basis with the continuing disclosure requirements of the Rule (the "Continuing Disclosure Agreement"). A copy of the Continuing Disclosure Agreement is included in Exhibit G — "Continuing Disclosure Agreement" attached hereto.

Since the effective date of the Rule, the Agency has not failed to comply, in any material respects, with any previous undertakings to provide annual financial information and notice of material events under the requirements of the Rule.

## UNDERWRITING

Goldman, Sachs & Co. and the other Underwriters listed on the cover page of this Official Statement (the "Fixed Rate Underwriters") have jointly and severally agreed to purchase the Series 2001 A Bonds and the Series 2001 B Bonds (the "Fixed Rate Bonds") at the price of $40,479,769.30 plus accrued interest from their dated date to date of delivery and will receive a fee of $243,453.50 in connection with the underwriting and placement of such Bonds. Goldman, Sachs & Co. (the "PARS Underwriter") has agreed to purchase the PARS Bonds at the price of $68,550,000.00 and will receive a fee of $257,062.50.In connection with the underwriting and placement of such Bonds. Goldman, Sachs & Co. will also assist the Agency in establishing the structure of the Offered Bonds pursuant to a separate agreement with the Agency.

The Purchase Contract with respect to the Offered Bonds provides that it shall be a condition (i) to the obligations of the Agency to sell and deliver the Fixed Rate Bonds to the Fixed Rate Underwriters and to sell and deliver the PARS Bonds to the PARS Underwriter, and (ii) to the obligations of the Fixed Rate Underwriters to purchase the Fixed Rate Bonds and to the obligations of the PARS Underwriter to purchase the PARS Bonds that the entire aggregate principal amount of the Offered Bonds be sold and delivered by the Agency and that all of the Fixed Rate Bonds and the PARS Bonds be purchased by the Fixed Rate Underwriters and by the PARS Underwriter, respectively. The obligation to make such purchase is subject to certain terms and conditions set forth in such Purchase Contract, the receipt of certain legal opinions and certain other conditions. The initial public offering prices may be changed, from time to time, by the Fixed Rate Underwriters or the PARS Underwriter, as the case may be. The purchase contract with respect to the Offered Bonds provides that the Fixed Rate Underwriters and the PARS Underwriter may offer and sell the Fixed Rate Bonds and the PARS Bonds, respectively to certain dealers (including dealers depositing such Bonds into unit investment trusts, certain of which may be sponsored or managed by an Underwriter) and others at prices lower than the public offering prices stated on the cover page.

## ADDITIONAL INFORMATION

Certain provisions of the Act, the General Resolution, the Series Resolution, the Executive Director's Certificate, the Continuing Disclosure Agreement, the Code and other provisions of law are summarized in this Official Statement. Such summaries do not purport to be comprehensive or definitive and reference is made to such documents for a full and complete statement of their respective provisions. All quotations from, and summaries and explanations of, the Act, the General Resolution, the Series Resolution, the Executive Director's Certificate, the Continuing Disclosure Agreement and the Code contained herein do not purport to be complete and reference is made to said documents, the Act and the Code for full and complete statements of their provisions. Copies of the General Resolution, the Series Resolution, the Executive Director's Certificate and the Continuing Disclosure Agreement may be obtained upon request directed to the Agency.

**NEW JERSEY HOUSING AND MORTGAGE FINANCE AGENCY**

By: /s/Deborah De Santis

Executive Director

Date: October 5, 2001

# EXHIBIT A

# FORM OF OPINION OF BOND COUNSEL

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EXHIBIT A
FORM OF OPINION OF BOND COUNSEL

SIMULTANEOUSLY WITH THE ISSUANCE AND DELIVERY OF THE SERIES 2001 BONDS, WOLFF & SAMSON, P.A. BOND COUNSEL TO THE AUTHORITY, IS EXPECTED TO DELIVER ITS APPROVING LEGAL OPINION IN SUBSTANTIALLY THE FOLLOWING FORM.

[CLOSING DATE]

New Jersey Housing and Mortgage
Finance Agency
637 S. Clinton Avenue
Trenton, New Jersey 08650

Re: New Jersey Housing and Mortgage Finance Agency
Multi-Family Housing Revenue Bonds
$_____ 2001 Series A (AMT)
$_____ 2001 Series B (Federally Taxable)
$_____ 2001 Series C (Periodic Auction Reset Securities)
(PARS)(sm) (AMT)

Ladies and Gentlemen:

We have served as bond counsel to the New Jersey Housing and Mortgage Finance Agency (the "Agency"), a body politic and corporate and an instrumentality of the State of New Jersey (the "State"), created by the New Jersey Housing and Mortgage Finance Agency Act of 1983, constituting Chapter 530 of the Pamphlet Laws of New Jersey of 1983, as amended (the "Act"), in connection with the issuance of its New Jersey Housing and Mortgage Finance Agency Multi-Family Housing Revenue Bonds, consisting of $_____ 2001 Series A (AMT) (the "Series A Bonds"), $_____ 2001 Series C (Periodic Auction Reset Securities) (PARS)(sm) (AMT) (the "Series C Bonds," and together with the Series A Bonds, the "Tax-Exempt Bonds"), and $_____ 2001 Series B (Federally Taxable) (the "Taxable Bonds"); the Tax-Exempt Bonds and the Taxable Bonds are collectively referred to as the "Bonds").

The Bonds are issued pursuant to the Act, the General Resolution Authorizing the Issuance of New Jersey Housing and Mortgage Finance Agency Multi-Family Housing Revenue Bonds, adopted by the Agency on August 17, 1995, as amended and supplemented (the "General Resolution"), the Series Resolution Authorizing the Issuance of Not to Exceed $200,000,000 New Jersey Housing and Mortgage Finance Agency Multi-Family Housing Revenue Bonds, adopted by the Agency on August 23, 2001 (the "Series Resolution") and certificates delivered by the Executive Director of the Agency, dated as of October 5, 2001 (collectively, the "Executive Director's Certificate," and, together with the General Resolution

and the Series Resolution, the "Resolution"). Capitalized terms used but not defined herein shall have the meanings ascribed to them in the Resolution.

The Tax-Exempt Bonds are being issued to finance Mortgage Loans for the Projects described in Table 1 in Exhibit A attached to the Series Resolution, including reimbursing the Agency for sums previously advanced to make such Mortgage Loans. In connection with the issuance of the Tax-Exempt Bonds, the Agency has required each owner of a project financed with a Mortgage Loan financed with the proceeds of the Tax-Exempt Bonds (each a "2001 Tax-Exempt Borrower") to enter into a Financing, Deed Restriction and Regulatory Agreement containing certain certain provisions relating to the exclusion from gross income of interest on the Tax-Exempt Bonds for federal income tax purposes and a Tax Certificate (collectively, the "2001 Tax-Exempt Borrower Tax Agreements").

The Taxable Bonds are being issued to finance Mortgage Loans for the Projects described in Table 2 in Exhibit A attached to the Series Resolution, including reimbursing the Agency for sums previously advanced to make such Mortgage Loans.

As the basis for this opinion we have examined such matters of law and such documents, certifications, instruments and records as we have deemed necessary to enable us to render the opinion set forth below, including the Act, and original counterparts or certified copies of the General Resolution, Series Resolution, Executive Director's Certificate, opinions as to various matters delivered by the Attorney General of the State of New Jersey, and the other documents, certifications, instruments and records listed in the Index and Closing Memorandum in respect of the Bonds filed this date with the Trustee. We have also examined the fully executed and authenticated Bonds. In rendering this opinion, we have relied on the genuineness, truthfulness and completeness of all documentation examined as referred to above.

Based on the foregoing and the other qualifications and limitations set forth herein, we are of the opinion that:

1. The Agency is validly organized under the Act, and at all relevant times had and has full power and authority thereunder to adopt the Resolution and to issue and sell the Bonds.

2. The issuance of the Bonds by the Agency has been duly and validly authorized by the Agency.

3. The Resolution has been duly and validly adopted, executed and delivered by the Agency and is in full force and effect on the date hereof.

4. All conditions precedent to the delivery of the Bonds contained in the Resolution have been fulfilled.

5. The Bonds and the Resolution are valid and binding obligations of the Agency, enforceable against the Agency in accordance with their respective terms.

6. The Internal Revenue Code of 1986, as amended (the "Code") imposes certain requirements which must be met on a continuing basis subsequent to the issuance of the Tax-Exempt Bonds in order to ensure that interest on the Tax-Exempt Bonds be and remain excludable from gross income for Federal income tax purposes under Section 103 of the Code. Failure of the Agency and the 2001 Tax-Exempt Borrowers to observe such requirements may cause interest on the Tax-Exempt Bonds to be includable in gross income for Federal income tax purposes, retroactive to the date of issuance of the Tax-Exempt Bonds. In the Agency's Arbitrage Certificate and the 2001 Tax-Exempt Borrower Tax Agreements (collectively, the "Tax Certificates"), the Agency and the 2001 Tax-Exempt Borrowers will represent that the Agency and the 2001 Tax-Exempt Borrowers expect and intend to be able to comply with, and will, to the extent permitted by law, comply with the respective provisions and procedures set forth in the Tax Certificates and do and perform all acts and things necessary or desirable in order to assure that, under the Code as presently in effect, interest on the Tax-Exempt Bonds be and remain excluded from gross income for Federal income tax purposes.

Assuming the Agency and the 2001 Tax-Exempt Borrowers observe their respective covenants set forth in the Tax Certificates with respect to compliance with the Code, Bond Counsel is of the opinion that, under existing statutes, regulations, administrative pronouncements and judicial decisions, interest on the Tax-Exempt Bonds is not included in the gross income of the owners thereof for Federal income tax purposes pursuant to the Code, except that no opinion is expressed as to the exclusion of interest on any Tax-Exempt Bond for any period during which such Bond is held by a "substantial user" of a Project financed with the proceeds of such Bond or a "related person" to any such "substantial user" within the meaning of Section 147(a) of the Code. Interest on the Tax-Exempt Bonds is an item of tax preference for purposes of calculating the alternative minimum tax imposed by the Code with respect to individuals and corporations.

No opinion is expressed, however, as to the extent the accrual or receipt of interest on the Tax-Exempt Bonds may otherwise affect the Federal income tax liability of or other consequences to the recipients thereof, which will depend on each recipient's particular tax status and other items of income or deduction.

There can be no assurance that legislation will not be introduced or enacted after the issuance and delivery of the Tax-Exempt Bonds so as to affect adversely the exclusion from gross income for Federal income tax purposes of interest on the Tax-Exempt Bonds. Each purchaser of the Tax-Exempt Bonds should consult his or her own advisor regarding any changes in the status of pending or proposed Federal tax legislation.

**INTEREST ON THE TAXABLE BONDS IS INCLUDABLE IN GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES.**

**Each purchaser of the Taxable Bonds should consult his or her own advisor as to the tax consequences of purchasing or holding the Taxable Bonds.**

We are also of the opinion that Interest on and any gain realized on the sale of the Bonds is not includable in gross income under the existing New Jersey Gross Income Tax Act.

The foregoing opinions are qualified to the extent that the enforceability of the Resolution and the Bonds and all related obligations of the various parties thereto may be limited as to remedies by any applicable bankruptcy, insolvency, debt adjustment, reorganization, moratorium and similar laws of general application at the time in effect and by judicial decisions and principles of equity affecting creditors' rights generally and judicial discretion.

Very truly yours,

# EXHIBIT B

## SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION

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## EXHIBIT B

## SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION

The following is a summary of certain provisions of the General Resolution, as amended and supplemented, and the Executive Director's Certificates. This summary does not purport to be comprehensive or definitive and is subject to all of the terms and provisions of the Resolution, to which reference is hereby made and copies of which are available from the Trustee or the Agency.

Certain provisions of the General Resolution are effective only for so long as any of the Municipal Bond Insurance Policies is in full force and effect and the Insurer is not in default under the terms and conditions of any of the Municipal Bond Insurance Policies. For a summary of such provisions, see "Provisions Applicable During Effective Period of any of the Municipal Bond Insurance Policies" below. Certain other provisions of the General Resolution become effective when none of the Municipal Bond Insurance Policies is in full force and effect or when each of the Insurers is in default under any of the Municipal Bond Insurance Policies. For a summary of those provisions, see "Provisions Applicable When None of the Municipal Bond Insurance Policies is in Effect" below. In addition, certain provisions of the General Resolution are effective only for so long as any of the Surety Bonds are in full force and effect and the issuers thereof is not in default under the terms and conditions of any of the Surety Bonds. See, "Provisions Applicable During the Effective Period of any Surety Bond" below for a summary of these provisions.

### General Provisions

The following provisions of the General Resolution are not affected by the status of the Municipal Bond Insurance Policy or the Insurer.

*Certain Definitions*

The following are definitions in summary form of certain terms contained in the General Resolution and used herein:

"Accountant's Opinion" means an opinion signed by a firm of certified public accountants of recognized standing selected by the Agency.

"Agency" means the New Jersey Housing and Mortgage Finance Agency, a body corporate and politic exercising public and essential governmental functions of the State, organized and existing under the Act, or if that agency shall be abolished by law, the person, board, body or commission succeeding to the powers and duties thereof or to whom its powers and duties shall be given by law.

"Annual Contributions Contract" means the contract between the Agency and HUD required by HUD pursuant to Section 8 which provides for the payment to the Agency by HUD of the federal subsidy to be paid by the Agency to or for the account of the Borrower pursuant to the Housing Assistance Payments Contract.

"Applicable Coverage Ratio Percentage" has the meanings set forth therefor under "Provisions Applicable During Effective Period of Any of the Municipal Bond Insurance Policies-Certain Definitions" below.

"Appreciated Principal Amount" means, with respect to each Capital Appreciation Bond, the principal amount, as established by the Series Resolution authorizing such Capital Appreciation Bond, on the Debt Service Payment Date in each year the Capital Appreciation Bond is Outstanding. With respect to a day other than a Debt Service Payment Date, "Appreciated Principal Amount" shall mean the Appreciated Principal Amount on the next preceding Debt Service Payment Date plus the portion of the difference between the Appreciated Principal Amount on the next preceding Debt Service Payment Date and the next succeeding Debt Service Payment Date that the number of days from the next preceding Debt Service Payment Date to the date for which the determination is being calculated bears to the total number of days from the next preceding Debt Service Payment Date to the next succeeding Debt Service Payment Date.

"Arbitrage Rebate Amount" means, with respect to any Series of Tax-Exempt Bonds, the amount required to be rebated to the United States pursuant to Section 148(f)(2) of the Code or successor provisions applicable to such Series of Tax-Exempt Bonds.

"Arbitrage Rebate Expert" means any of the following chosen by the Agency: (a) the Agency, (b) Bond Counsel, (c) any national firm of certified public accountants approved by the Agency, (d) any reputable firm which offers to the tax-exempt bond industry rebate calculation services, holds itself out as having expertise in that area and is approved by the Agency, or (e) such other person approved by Bond Counsel.

"Arbitrage Rebate Fund" means the Arbitrage Rebate Fund created by the General Resolution which shall not be deemed a part of the Pledged Funds, but which shall be held by the Trustee.

"Authorized Officer" means the Chair, the Vice Chair, the Executive Director, any Assistant Executive Director, the Secretary or any Assistant Secretary, and any other authorized representative as from time to time may be designated by resolution or by-law to act hereunder on behalf of the Agency.

"Bond Counsel" means an attorney-at-law or a law firm appointed by the Agency having, a national reputation in the field of municipal law whose opinions are generally accepted by purchasers of municipal bonds.

"Bondholder" or "Holder" or "Holders of Bonds" or any similar term means any person or party who shall be the registered owner of any Outstanding Bond or Bonds.

"Bond Proceeds Fund" means the Bond Proceeds Fund established pursuant to the provisions of the General Resolution.

"Bond Year" means the period of twelve (12) consecutive months beginning on November 1, in any calendar year, and ending on October 31 of the succeeding year.

"Borrower" means any person, partnership, corporation, or association, to which the Agency is authorized to make a Mortgage Loan or an Eligible Loan under the Act and the successors in title or assigns of such Borrower.

"Capital Appreciation Bonds" means the Bonds so identified in a Series Resolution which do not provide for the payment of interest at all or for an initial period of time and which increase in principal amount subsequent to the date of issuance in accordance with the terms and conditions of such Series Resolution.

"Cash Flow Statement" means a Cash Flow Statement conforming to the requirements of the General Resolution.

"Code" means the applicable provisions of the 1954 Code and the 1986 Code.

"Costs of Issuance" means with respect to the Bonds, all costs relating to the issuance or carrying of the Bonds including, but not limited to: (i) Underwriter's compensation (whether realized directly or derived through the purchase of the Bonds at a discount below the price at which they are expected to be sold to the public); (h) counsel fees (including the fees of Bond Counsel, counsel to any underwriter of the Bonds, counsel to the Agency, counsel to any Borrower, counsel to the Trustee and any other specialized counsel) incurred in connection with the Bonds; (iii) financial advisor fees incurred in connection with the Bonds; (iv) rating agency fees, if any; (v) fees of the Trustee incurred in connection with the Bonds; (vi) paying agent and certifying and authenticating agent fees related to issuance of the Bonds; (vii) accountant fees related to issuance of the Bonds; (viii) printing costs (of the Bonds and of any preliminary and final offering materials); (ix) fees of any securities depository; (x) the fees for any Cash Equivalent; (xi) costs incurred in connection with the required public approval process (e.g., publication costs for public notices in connection with the issuance of the Bonds, including without limitation, the notice of sale and the notice of public hearing); (xii) costs of engineering and feasibility studies necessary to the issuance of the Bonds (as opposed to such studies related solely to completion of any project and not to the financing); and (xiii) the fees of the Agency.

"Debt Service Payment Date" means any date upon which interest on and/or principal of Bonds is due and payable in accordance with their terms, as set forth in the Series Resolution authorizing such Bonds.

"Debt Service Reserve Fund" means the Debt Service Reserve Fund established pursuant to the provisions of the General Resolution.

"Debt Service Reserve Fund Requirement" means, as of any date of calculation, the aggregate of all amounts required to be deposited and maintained in the Debt Service Reserve Fund in each Series Resolution authorizing the issuance of a Series of Bonds.

"Eligible Loan" means a secured or unsecured loan as defined in the Act, other than a Mortgage Loan, made by the Agency from amounts available for such purpose in the Bond Proceeds Fund pursuant to any Series Resolution.

"Escrow Payments" means all payments made by or on behalf of a Borrower in order to obtain or maintain mortgage insurance and fire and other hazard insurance, and any payments required to be made by or on behalf of a Borrower with respect to a Mortgage for taxes or other governmental charges or other similar charges to a Borrower customarily required to be escrowed.

"Executive Director's Certificate" means a certificate executed by the Agency's Executive Director or any Assistant Executive Director in connection' with the issuance of a Series of Bonds.

"Fees and Charges" means the amounts determined pursuant to mortgage documents entered into by the Agency or Prior Agency and each of the Borrowers, including, without limitation, the Agency's general and administrative expenses.

"Fiscal Year" means any twelve (12) consecutive calendar months commencing with the first day of July and ending on the last day of the following June or such other twelve (12) consecutive calendar month period as the Agency may from time to time designate or such shorter period as the Agency may designate in connection with any change in a Fiscal Year.

"Grant" means a grant made by the Agency from amounts available for such purpose in the Bond Proceeds Fund.

"Housing Assistance Payments Contract" or "HAP" means the contract between the Agency and the Borrower required by HUD pursuant to Section 8 which is executed upon completion and acceptance of a Project and which provides for the payment of the federal subsidy to or for the account of the Borrower by the Agency.

"HUD" means the United States Department of Housing and Urban Development.

"Interest Reduction Contract" means the contract between HUD and the Agency required by HUD pursuant to Section 236 which is executed upon completion and acceptance of a Project and which provides for the payment of the federal direct interest reduction subsidy to the Agency for a Project financed pursuant to Section 236.

"Mortgage" means the instrument establishing a mortgage lien securing a Mortgage Loan made by the Agency to a Borrower.

"Mortgage Loan" means a mortgage loan made to a Borrower of a Project evidenced by various documents related to the mortgage loan including but not limited to a mortgage note, a mortgage and a financing, deed restriction and regulatory agreement, which documents secure the repayment of loans made by the Agency or the Prior Agency to a Borrower, as may be the case, and may secure the repayment of other advances from the Agency to a Borrower related to such Project. Acquisition of the senior debt obligations and mortgage-backed securities (excluding stripped mortgage securities which are purchased at prices exceeding their principal amounts) of the Federal National Mortgage Association, the Government National Mortgage Association and the Federal Home Loan Mortgage Corporation shall also be Mortgage Loans.

"Municipal Bond Insurance Policies" means, individually or collectively as the context requires, (i) the municipal bond insurance policy issued by Ambac Assurance insuring the payment when due of the principal of and interest on the 1995 Series Bonds as provided therein; and/or (ii) the municipal bond insurance policy issued by Ambac Assurance insuring the payment when due of the principal of and interest on the 1996 Series Bonds as provided therein; and/or (iii) the municipal bond insurance policy issued by Ambac Assurance insuring the payment when due of the principal of and interest on the 1997 Series Bonds as provided therein; and/or (iv) the municipal bond insurance policy issued by Financial Security Assurance Inc. insuring payment when due of the principal of and interest on the 1999 Series Bonds as provided therein; and/or (v) the municipal bond insurance policy issued by Financial Security Assurance, Inc. insuring payment when due of the principal of and interest on the 2000 Series Bonds as provided therein; and/or (vi) the municipal bond insurance policy issued by Financial Security Assurance Inc. insuring payment when due of the principal of and interest on the Offered Bonds as provided therein.

"1954 Code" means the Internal Revenue Code of 1954, as amended, and any applicable regulations promulgated thereunder.

"1986 Code" means the Internal Revenue Code of 1986, as amended, and any applicable regulations promulgated thereunder.

"Notes" means any obligations issued by the Agency, other than Bonds, for the purpose of providing funds to (i) make loans which upon being funded from proceeds of Bonds or any prior bonds of the Agency, will qualify as Mortgage Loans or (ii) pay Notes previously issued for such purpose.

"Officer's Certificate" means a written instrument signed by an Authorized Officer.

"Opinion of Bond Counsel" means an opinion in writing signed by Bond Counsel.

"Permitted Investments" means to the extent authorized by law for investment of moneys of the Agency, (i) direct obligations of the United States or obligations, the principal and interest of which are guaranteed by the full faith and credit of the United States ("Government Obligations") or obligations of any state of the United States of America or any political subdivision of such a state, which obligations are rated at least the then existing

unenhanced rating on the Bonds, and payment of which is secured by an irrevocable pledge of such Government Obligations; (ii) bonds, debentures or other obligations issued by Federal Land Banks, Federal Intermediate Credit Banks, Banks for Cooperatives, Federal Home Loan Banks, Tennessee Valley Agency, the United States Postal Service, Federal National Mortgage Association (excluding stripped mortgage securities valued greater than par on the portion of the unpaid principal), Federal Farm Credit System Obligations, Federal Home Loan Mortgage Corporation (which guarantees full and timely payment of principal and interest), International Bank for Reconstruction and Development and Inter-American Development Bank; (iii) any other obligations of any agency controlled or supervised by and acting as an instrumentality of the United States Government pursuant to authority granted by the Congress of the United States and which are guaranteed by the full faith and credit of the United States; (iv) direct and general obligations of or obligations unconditionally guaranteed by the State to the payment of the principal of and interest on which the full faith and credit of the State is pledged; (v) obligations issued by public agencies or municipalities and fully secured as to the payment of both principal and interest by a pledge of annual contributions under an annual contributions contract or contracts with the United States of America, or temporary notes, preliminary loan notes or project notes issued by public agencies or municipalities and fully secured as to the payment of both principal and interest by requisition or payment agreement with the United States of America; (vi) time deposits, certificates of deposit or any other deposit with a bank (including the Trustee), trust company, national banking association, savings bank, federal mutual savings bank, savings and loan association, federal savings and loan association or any other institution chartered or licensed by any state or the United States Comptroller of the Currency, or any successor to the functions thereof, to accept deposits in such state (as used herein "deposits" shall mean obligations evidencing deposit liability which rank at least on a parity with the claims of general creditors in liquidation), which are (a) fully insured by the Federal Deposit Insurance Corporation, or (b) secured to the extent, if any, required by the Agency and made with an institution whose unsecured long-term debt securities are rated at least the then existing unenhanced rating on the Bonds (or "A-1" if the investment is for a period not exceeding one year) by a Rating Agency; (vii) repurchase agreements backed by or related to obligations described in (i), (ii) or (iii) above with any institution whose unsecured long-term debt securities are rated at least the then existing unenhanced rating on the Bonds (or "A-1" if the investment is for a period not exceeding one year) by a Rating Agency; (viii) investment agreements, secured or unsecured as required by the Agency, with any institution whose unsecured long-term debt securities are rated at least the then existing unenhanced rating on the Bonds (or "A-l" if the investment is for a period not exceeding one year) by a Rating Agency, including any institution which does not satisfy such criteria if the obligations of such institution under the investment agreement in question is Guaranteed by any other institution which has received a rating of its claims paying ability from the Rating Agency at least equal to "A" or whose unsecured long-term debt securities are rated at least the then existing unenhanced rating on the Bonds (or "A-1" if the investment is for a period not exceeding one year) by a Rating Agency; (ix) commercial paper with a maturity of less than one year and rated "A-1 by a Rating Agency; (x) units of participation in the New Jersey Cash Management Fund, or any other similar common trust fund which is established by law as a legal depository of public moneys and for which the New Jersey State Treasurer is custodian; or (xi) money market mutual funds rated at least the then existing unenhanced rating on the Bonds that are comprised exclusively of obligations described in

clauses (i) through (ix) above, including any such fund held by the Trustee; provided, that it is expressly understood that the definition of Permitted Investments shall be and be deemed to be expanded, or new definitions and related provisions shall be added to the General Resolution by a Supplemental Resolution, thus permitting investments with different characteristics from those permitted above, which the Agency deems from time to time to be in the interests of the Agency to include as Permitted Investments, if at the time of inclusion, such inclusion will not, in and of itself, impair, or cause the Bonds to fail to retain the then existing unenhanced rating assigned to them by the Rating Agency and provided, further, that if any Series of Bonds shall then be rated by a Rating Agency based upon a Cash Equivalent, the term "unenhanced rating on the Bonds" as used in this paragraph shall mean the unenhanced rating of the Bonds on the date of original issuance of such Series of Bonds or such lesser rating or ratings as the provider of any such Cash Equivalent may thereafter notify the Agency and the Trustee in writing.

"Prior Agency" means the New Jersey Housing Finance Agency created by Section 4 of P.L. 1967, c. 81 (codified at N.J.S.A. 55:14K-4).

"Project" means a subsidized or unsubsidized "housing project" as defined under the Act, and such other improvements in respect of which the Agency is authorized by the Act to make a Mortgage Loan.

"Rating Agency" means Standard & Poor's, or any successor thereto ("S&P") when the Bonds rated by S&P, or any other nationally recognized rating agency when the Bonds are rated by such agency, pursuant to a request for a rating by the Agency.

"Redemption Price" means, with respect to any Bond, the principal amount thereof, plus the applicable premium, if any, payable upon redemption thereof pursuant to the General Resolution.

"Refunding Bonds" means any Series of Bonds authorized to be issued pursuant to the Resolution.

"Revenue Fund" means the Revenue Fund established pursuant to the General Resolution.

"Section 8" means the federal subsidy program pursuant to Section 8 of the United States Housing Act of 1937, as amended, and the regulations thereunder.

"Section 236" means the federal subsidy program pursuant to Section 236 of the National Housing Act of 1934, as amended, and the regulations thereunder.

"Serial Bonds" means that portion of a Series of Bonds so designated by the Agency in a Series Resolution as Serial Bonds.

"Series of Bonds" or "Bonds of a Series" means the Series of Bonds authorized by a Series Resolution.

"Series Resolution" means a resolution or resolutions of the Agency authorizing the issuance and sale of Series of Bonds in accordance with the terms and provisions of the General Resolution adopted by the Agency in accordance with the provisions of the General Resolution and which shall include the additional proceedings of the Agency as may be set forth in any Executive Director's Certificate delivered pursuant to such Series Resolution.

"Sinking Fund Requirement" means the requirement to redeem Term Bonds prior to maturity pursuant to the General Resolution.

"State" means the State of New Jersey.

"Supplemental Resolution" means a resolution supplemental to or amendatory of the General Resolution, adopted by the Agency in accordance with the provisions of the General Resolution which shall include any Series Resolution, as applicable.

"Taxable Bonds" means any Bonds which are not Tax-Exempt Bonds.

"Tax-Exempt Bonds" means Bonds of a Series which are accompanied on their date of issuance by an Opinion of Bond Counsel to the effect that interest on such Series of Bonds is not includable in the gross income of the owners for federal income tax purposes.

"Term Bonds" means that portion of the Bonds so designated in a Series Resolution as Term Bonds, and not designated or redesignated as Serial Bonds.

"Trustee" means the national banking association, bank or trust company appointed pursuant to the provisions of the General Resolution to act as trustee under the General Resolution, and its successor or successors and any other national banking association, bank or trust company at any time substituted in its place pursuant to the General Resolution.

*Payment Due or Acts to be Performed on Weekends and Holidays*

If the date for making any payment of principal or Redemption Price of, or interest on, the last date for performance of any act or the exercising of any right, as provided in the General Resolution, shall be a legal holiday or a day on which banking institutions in the city where the principal corporate trust office of the Trustee is located, are authorized by law to remain closed, such payment may be made or act performed or right exercised on the next succeeding day not a legal holiday or not a day on which such banking institutions are authorized by law to remain closed, unless otherwise provided in a Series Resolution, with the same force and effect as if done on the nominal date provided in the General Resolution.

*General Resolution Constitutes Contract*

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

*Issuance of Bonds* [1]

The issuance and sale of Bonds shall be authorized by a Series Resolution and the Bonds may be issued in one or more Series. The Bonds shall be sold at such price or prices as the Agency may determine in the Series Resolution. Before any Series of Bonds shall be authenticated and delivered by the Trustee, there shall be on file with the Trustee the following:

(a) a copy, duly certified by an Authorized Officer, of the General Resolution;

(b) an Opinion of Bond Counsel stating that (i) the issuance of such Series of Bonds has been duly and validly authorized by the Agency, (ii) the General Resolution, as affected by the applicable Series Resolution, has been duly adopted and is in full force and effect, (iii) all conditions precedent to the delivery of such Series of Bonds contained in the General Resolution have been fulfilled, and (iv) such Series of Bonds and the General Resolution are valid and binding obligations of the Agency;

(c) a request and authorization to the Trustee on behalf of the Agency, signed by an Authorized Officer, to authenticate and deliver such Series of Bonds to the purchaser or purchasers therein identified upon payment to the Trustee for the account of the Agency of the purchase price therefor;

(d) a copy certified by an Authorized Officer of the Agency of the Series Resolution authorizing such Bonds including, if provided for in such Series Resolution, an Executive Director's Certificate;

(e) the amounts to be deposited in the funds and accounts held by the Trustee as shall be specified in the Series Resolution authorizing such Series of Bonds;

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[1] *But see, "Provisions Applicable During Effective Period of Any of the Municipal Bond Insurance Policies – Issuance of Bonds" and "Provisions Applicable When None of the Municipal Bond Insurance Policies is in Effect – Issuance of Bonds."*

(f) an Officer's Certificate of the Agency stating that the Agency is not in default in the performance of any of the covenants, conditions, agreements or provisions contained in the General Resolution;

(g) a Cash Flow Statement conforming to the requirements of the General Resolution;

(h) such further documents and moneys as are required by the provisions of the General Resolution or any Series Resolution adopted pursuant to the General Resolution.

When the documents mentioned in clauses (a) through (h) and any document as described below under Provisions Applicable During Effective Period of Any of the Municipal Bond Insurance Policies-Issuance of Bonds" or "Provisions Applicable When None of the Municipal Bond Insurance Policies is in Effect-Issuance of Bonds," as applicable, shall have been filed with the Trustee and when the Bonds described in the Series Resolution shall have been executed and authenticated as required by the General Resolution, the Trustee shall deliver such Bonds at one time to or upon the order of the purchaser or purchasers or designees, but only upon payment to the Trustee of the purchase price of the Bonds.

Simultaneously with the delivery of the Bonds, the Trustee shall deposit or credit the proceeds of the Bonds into the Bond Proceeds Fund. Unless otherwise provided in the applicable Series Resolution, the Trustee shall apply such proceeds, together with any other available funds, as follows:

(i) an amount shall be transferred to and deposited to the credit of the Debt Service Reserve Fund such that the amount on deposit in such fund will at least equal the Debt Service Reserve Fund Requirement;

(ii) the total amount of such proceeds designated by the Agency as accrued interest and capitalized interest shall be transferred to and deposited to the credit of the Revenue Fund; and

(iii) an amount to be transferred to and deposited into any fund or account not referred to in clauses (i) and (ii) above as provided in the applicable Series Resolution.

*Refunding Bonds*

Refunding Bonds of the Agency may be issued under and secured by the General Resolution, subject to the conditions of the General Resolution, for the purpose of providing funds, with any other available funds, for (i) redeeming (or purchasing in lieu of redemption) prior to their maturity or maturities, or retiring at their maturity or maturities, all or any part of the Outstanding Bonds of any Series, including the payment of any redemption premium thereon (or premium, to the extent permitted by law, included in the purchase price if purchased in lieu of redemption) ' (ii) making any required deposits to the Debt Service Reserve Fund, (iii) if deemed necessary by the Agency, for paying the interest to accrue on the Refunding Bonds, the refunded Bonds or any other bonds of the Agency or the Prior Agency to be refunded to the date fixed for their redemption (or purchase) and (iv) any expenses in connection with such refunding. Before any Refunding Bonds shall be issued and authenticated by the Trustee under the provisions described in this paragraph, there shall be delivered to the Trustee:

(a) all of the documents and moneys referred to in clauses (a) through (h) above and any document as described below under "Provisions Applicable During Effective Period of Any of the Municipal Bond Insurance Policies-Issuance of Bonds" or "Provisions Applicable When None of the Municipal Bond Insurance Policies is in Effect-Issuance of Bonds", as applicable, in the General Resolution;

(b) if all or part of the Bonds to be refunded or the other obligations of the Agency or the Prior Agency to be refunded are to be redeemed prior to maturity, irrevocable instructions from an Authorized Officer of the Agency to the Trustee to redeem the applicable Bonds or applicable other obligations of the Agency or the Prior Agency to be refunded;

(c) if the Bonds to be refunded are not to be redeemed within the next succeeding ninety (90) days after delivery of the Refunding Bonds, irrevocable instructions to the Trustee to duly mail notice that such Bonds to be refunded have been refunded to those persons listed in and in the manner provided for in the General Resolution;

(d) either (i) moneys in an amount sufficient to effect payment at the applicable Redemption Price of the Bonds to be refunded, together with accrued interest on such Bonds to be refunded to the date fixed for their redemption, which moneys shall be held by the Trustee in a separate account irrevocably in trust for and assigned to the respective Holders of the Bonds to be refunded, or (ii) Permitted Investments listed in clause (i) in such principal amounts, of such maturities, bearing such interest, and otherwise having such terms and qualifications, as shall be necessary to comply with the provisions of the General Resolution and any moneys required pursuant to the General Resolution which Permitted Investments and moneys shall be held in trust and used only as provided in the General Resolution; and

(e) such further documents and moneys as are required by the provisions of the General Resolution or any Supplemental Resolutions adopted pursuant to the General Resolution.

Refunding Bonds shall be designated, shall be in such denominations, shall be dated, shall bear interest, if any, at a rate or rates not exceeding the maximum rate then permitted by law payable beginning on such date, shall be stated to mature on such date or dates and in such year or years, shall have such Debt Service Payment Dates, and shall be made redeemable at such times and prices, shall be numbered, and any Term Bonds of such Series shall have such' Sinking Fund Requirements, all as may be provided by the Series Resolution for such Bonds. Refunding Bonds shall be on a parity with and shall be entitled to the same benefit and security of -the General Resolution as all other Bonds issued under the General Resolution, provided, however, a Series Resolution may provide for differences in the maturities thereof or the Debt Service Payment Dates or the rate or rates of interest or the provisions for redemption.

When the documents mentioned in clauses (a) to (e) above shall have been filed with the Trustee and when the Refunding Bonds described in the Series Resolution shall have been executed and authenticated as required by the General Resolution, the Trustee shall deliver such Refunding Bonds at one time to or upon the order of the purchaser or purchasers, but only upon payment to the Trustee of the purchase price of such Refunding Bonds.

The proceeds of such Refunding Bonds shall, to the extent practicable, be invested and reinvested by the Trustee, with the approval of the Agency, in Permitted Investments, and the moneys so invested shall be available for use when required. The income derived from such investments shall be added to such proceeds and applied in accordance with the provisions of the General Resolution.

*Pledge*

The Pledged Funds, including the moneys deposited therein, investments thereof and the proceeds of such investments, if any, are pledged to the Trustee for the benefit of the Bondholders for the payment of the principal or Redemption Price of, and interest on, the Bonds in accordance with the terms and provisions of the General Resolution. Subject to the provisions of the General Resolution this pledge shall be valid and binding from and after the date of adoption of the General Resolution and the Pledged Funds shall immediately be subject to the lien of such pledge without any physical delivery thereof or further act, and the lien of such pledge shall be valid and binding as against all parties having claims of any kind in tort, contract or otherwise against the Agency, irrespective of whether such parties have notice thereof.

*Funds and Accounts*

The following special funds and accounts shall be established and maintained with respect to the Bonds issued pursuant to the provisions of the General Resolution:

(a) Bond Proceeds Fund-Multi-Family Housing Revenue Bonds
(b) Revenue Fund-Multi-Family Housing Revenue Bonds
(c) Debt Service Reserve Fund-Multi-Family Housing Revenue Bonds

(d) Arbitrage Rebate Fund-Multi-Family Housing Revenue Bonds

*Bond Proceeds Fund*

The Bond Proceeds Fund shall be held by the Trustee, to the credit of which deposits shall be made as provided in the General Resolution. Promptly upon the issuance, sale and delivery of any Series of Bonds, the Agency shall deposit into the account of the Bond Proceeds Fund, for such Series of the Bonds, the proceeds derived from the sale of such Series of Bonds (inclusive of accrued interest and capitalized interest, if any, on such Series Of Bonds) in an amount determined in the Series Resolution, except that such amounts representing accrued interest and capitalized interest shall be immediately transferred by the Trustee from the Bond Proceeds Fund to the Revenue Fund. Moneys shall be withdrawn from the Bond Proceeds Fund from time to time upon presentation of a check, draft or other transfer document signed by an Authorized Officer, for the purpose of (i) making a deposit to the Debt Service Reserve Fund as provided by the General Resolution, (ii) paying Costs of Issuance of the Bonds, (iii) making Grants or Eligible Loans, (iv) redeeming Outstanding Bonds, other outstanding bonds of the Agency issued by the Agency or the Prior Agency, or other obligations of the Agency issued by the Agency or the Prior Agency, and (v) making or purchasing Mortgage Loans or reimbursing the Agency for sums advanced to make Mortgage Loans, as the case may be.

In each Series Resolution, the Agency may provide for the establishment of separate accounts within the Bond Proceeds Fund for each Series of Bonds for the purposes and periods of time set forth in the applicable Series Resolution.

Interest or other income derived from the investment of moneys in the Bond Proceeds Fund shall (i) to the extent that the proceeds of such Bonds were intended to be used for construction of a Project, remain in the Bond Proceeds Fund until the completion date for such Project and (ii) otherwise, shall be transferred to the Revenue Fund upon instruments signed by an Authorized Officer at such periodic intervals as the Agency, by an Officer's Certificate, shall direct.

*Mortgage Loans, Grants and Eligible Loans*

Mortgage Loans, Grants and Eligible Loans authorized pursuant to or meeting the requirements of an applicable Series Resolution shall be made or purchased from moneys in the Bond Proceeds Fund. All payments from the Bond Proceeds Fund shall be subject to the provisions and restrictions of the General Resolution, and the Agency covenants that it will not cause or permit to be paid from the Bond Proceeds Fund any sums except in accordance with such provisions and restrictions.

Moneys in the Bond Proceeds Fund shall be withdrawn from time to time by check, draft or other transfer document of the Agency for the purpose of making or purchasing Mortgage Loans, Grants or Eligible Loans, as the case may be, upon execution of an Officer's Certificate of the Agency stating:

(a) the amount to be paid; and
(b) the name of the Borrower and the purpose for which the payment is to be made.

The Trustee shall have no responsibility to determine whether Mortgage Loans, Grants or Eligible Loans meet the requirements of the applicable Series Resolution. Notwithstanding any other provision of the General Resolution to the contrary, the Agency shall deposit in the Bond Proceeds Fund moneys received by the Agency as a payment made by or on behalf of the Borrower not constituting Mortgage Repayments, Mortgage Prepayments, Recovery Payments or Escrow Payments, provided, however, that Fees and Charges shall be retained by the Agency and deposited in the Operating Fund.

*Revenue Fund*[2]

(a) The Revenue Fund shall be held by the Trustee at its principal corporate trust office. The portion of the proceeds of any Series of Bonds which shall represent accrued interest or capitalized interest, and transferred from the Bond Proceeds Fund as described in the General Resolution, and all Revenues held or collected by the Agency or the Trustee shall be deposited upon receipt in the Revenue Fund, except as may otherwise be provided in the General Resolution. Mortgage Prepayments, when received, shall be set aside by the Trustee and used solely for the redemption of Bonds, pursuant to the written direction of an Authorized Officer of the Agency. There shall also be deposited in the Revenue Fund any income or interest earned by, or increment to, any fund (except the Arbitrage Rebate Fund) established pursuant to the General Resolution due to the investment thereof, any moneys transferred from the Arbitrage Rebate Fund to the Revenue Fund as provided in the General Resolution and any other moneys made available by the Agency for the purposes of such fund from any other source. Moneys and the proceeds of sale of securities from time to time in the Revenue Fund shall be paid out and applied for the uses and purposes for which the same are pledged by the General Resolution, in the manner provided in the General Resolution.

Escrow Payments, if any, received by the Agency as part of a Mortgage Repayment shall be deposited on receipt in the Revenue Fund and, at the written direction of an Authorized Officer of the Agency, may be withdrawn free and clear of the lien of this Resolution for application to the purposes for which such Escrow Payments were received.

(b) The Trustee shall transfer from the Revenue Fund to the Arbitrage Rebate Fund the amounts specified by the Agency pursuant to and at the times set forth in the General Resolution, provided that the Trustee shall have no responsibility for determining the accuracy of the amounts to be so transferred.

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[2] *But see, "Provisions Applicable During Effective Period of Any Municipal Bond Insurance Policies – Revenue Fund"; "Provisions Applicable When None of the Municipal Bond Insurance Policies is in Effect – Revenue Fund"; and "Provisions Applicable During the Effective Period of any Surety Bond – Revenue Fund."*

(c) The Trustee will withdraw from the Revenue Fund on, or at the direction of an Authorized Officer of the Agency, and pay to itself, any of the reasonable expenses, charges, and other disbursements as provided in the General Resolution.

(d) As of the first day of each calendar month, after providing for the payments, if any, pursuant to paragraphs (b) or (c) above, the Trustee shall reserve in the Revenue Fund an amount equal to the sum of (i) an amount with respect to each Bond such that, if the same amounts are so reserved for payment of interest with respect to each Bond on the first day of each succeeding calendar month thereafter prior to, and including, the next date upon which an installment of interest falls due on such Bond, the aggregate of the amounts so reserved, when added to the amounts already on deposit therein, would on such Debt Service Payment Date be equal to the installment of the interest on such Bond then falling due; plus (ii) with respect to Bonds maturing within the next twelve calendar months an amount such that, if the same amounts are so reserved for payment of principal on the first day of each succeeding calendar month thereafter prior to and including the next day upon which an installment of principal falls due on such Bonds, the aggregate of the amounts so reserved, when added to the amounts already on deposit therein, would on such Debt Service Payment Date be equal to the amount of principal on the Bonds maturing (whether by stated maturity or by reason of a Sinking Fund Requirement), plus (iii) with respect to each fee or premium with respect to any credit enhancement for any Series of Bonds, payable within the next twelve calendar months, an amount such that if the same amounts are so reserved on the first day of each succeeding calendar month thereafter prior to and including the next date upon which payment of such fee or premium falls due, the aggregate of the amounts so reserved, when added to the amounts already on deposit therein, would on such payment date be equal to the fee or premium then falling due. The Trustee shall withdraw from the Revenue Fund (i) on, or at the direction of an Authorized Officer of the Agency prior to, each Debt Service Payment Date of the Outstanding Bonds, an amount equal to the unpaid interest due on the Bonds on such Debt Service Payment Date, and shall cause such amount to be applied to the payment of said interest when due and may transmit the same to itself for such purpose, (ii) on, or at the direction of an Authorized Officer of the Agency prior to, each Debt Service Payment Date of the Outstanding Bonds on which principal on the Bonds is scheduled to be paid, an amount equal to the principal amount of the Outstanding Bonds maturing (whether by stated maturity or by a reason of a Sinking Fund Requirement) on said day and shall cause the same to be applied to the payment of the principal of said Bonds when due and may transmit the same to itself and apply the same to such payment, and (iii) at the direction of an Authorized Officer of the Agency on or prior to the payment date for any fee or premium with respect to credit enhancement, to either (A) the provider of such credit enhancement, or (B) the Agency as reimbursement of any advances made by the Agency to pay such fee or premium.

(e) At any time except for the period of forty-five (45) days next preceding the date of a Sinking Fund Requirement, the Trustee shall, at the direction of an Authorized Officer of the Agency, apply amounts on deposit in the Revenue Fund in an amount which purchased shall not exceed the respective Sinking Fund Requirements for such date applicable to such maturity and shall be credited against such respective Sinking Fund Requirements, and provided further that the purchase price paid by the Trustee for each such Bond (excluding accrued interest but including any brokerage or other charges) shall not exceed the principal

amount or Appreciated Principal Amount (as of the date of such Sinking Fund Requirement) thereof. In addition, at the option of the Agency to be exercised at least forty-five (45) days prior to the date of a Sinking Fund Requirement, there shall be credited against the Sinking Fund Requirement (if any) for such date applicable to Bonds of each respective maturity such principal amount or Appreciated Principal Amount, as the case may be, as the Agency shall elect, not to exceed the aggregate principal amount or in the case of Capital Appreciation Bonds, the aggregate Appreciated Principal Amount (as of the date of the Sinking Fund Requirement) of the Bonds of the same maturity (i) (A) which have been redeemed (other than through the operation of a Sinking Fund Requirement) or (B) which have been purchased by the Agency (or by the Trustee at the direction of an Authorized Officer of the Agency) from any moneys available for such purposes and which have been canceled by the Trustee, and (ii) for which no credit against any Sinking Fund Requirement has previously been taken.

(f) After providing for the transfers, payments and reservations of funds pursuant to (b), (c), (d) and (e) above, the Trustee shall, at the direction of an Authorized Officer of the Agency, withdraw from the balance of any moneys so remaining in the Revenue Fund and deposit to the credit of the Debt Service Reserve Fund such amount (or the balance of the moneys so remaining in the Revenue Fund, if less than the required amount) as shall be required to increase the amount credited to the Debt Service Reserve Fund to an amount equal to the Debt Service Reserve Fund Requirement.

*Debt Service Reserve Fund* [3]

(a) The Debt Service Reserve Fund shall be held by the Trustee at its principal corporate trust office. The Agency shall direct the Trustee to transfer from the Bond Proceeds Fund and pay into the Debt Service Reserve Fund such portion of the proceeds of the sale of Bonds, if any, as shall be provided by the Series Resolution authorizing the issuance thereof, and any moneys which may be made available to the Agency for the purposes of the Debt Service Reserve Fund from any other source or sources. The Trustee shall deposit in the Debt Service Reserve Fund all moneys transferred from the Revenue Fund pursuant to the provisions of the General Resolution for the purpose of restoring the Debt Service Reserve Fund to the amount of the Debt Service Reserve Fund Requirement. A Series Resolution may provide that the Debt Service Reserve Fund Requirement may be funded in whole or in part through Cash Equivalents.

(b) In the event there shall be, on any date on which an interest or principal payment (including any Sinking Fund Requirement) shall be due, a deficiency in the amounts in the Revenue Fund to be applied to the payment of interest or principal pursuant to the provisions of the General Resolution or Redemption Price of the Bonds, the Trustee shall make up such a deficiency by the withdrawal of moneys for such purpose from the Debt Service Reserve Fund, in such amounts as will, at the respective times, provide moneys for transfer to the Revenue Fund sufficient to make up any such deficiency.

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[3] *But see, "Provisions Applicable During the Effective Period of any Surety Bond – Debt Service Reserve Fund."*

(c) Whenever the Trustee shall determine that, on any Debt Service Payment Date, the moneys and securities in the Debt Service Reserve Fund or any income earned by or increment in value to the moneys and securities in the Debt Service Reserve Fund due to the investment thereof are in excess of the Debt Service Reserve Fund Requirement for all Bonds, the Trustee will, at the written direction of an Authorized Officer of the Agency, transfer all or any portion of such excess in the Debt Service Reserve Fund to the Revenue Fund.

*Arbitrage Rebate Fund*

The Arbitrage Rebate Fund shall be held by the Trustee at its principal corporate trust office. Amounts will be deposited in the Arbitrage Rebate Fund as specified in the General Resolution in order to comply with the rebate requirements of Section 148 of the Code, including the payment of any, applicable Arbitrage Rebate Amount to the United States. Separate Accounts will be established within the Arbitrage Rebate Fund for each Series of the Tax-Exempt Bonds. Each separate Account will be maintained until all of the Bonds of such Series of Tax-Exempt Bonds to which such Account relates have been retired and for seventy-five (75) days thereafter. Except as provided in a Series Resolution with respect to any Series of Tax-Exempt Bonds, the procedures set forth in the General Resolution will apply with respect to each Series of Tax-Exempt Bonds. Notwithstanding any other provision of the General Resolution, the Arbitrage Rebate Fund will not be subject to any security interest, pledge, assignment, lien or charge in favor of the Trustee, any paying agent, any Bondholder or any other person. Subject to the provisions set forth in the General Resolution, the moneys in the Arbitrage Rebate Fund will be applied solely to satisfy the rebate requirements of Section 148 of the Code with respect to the Tax-Exempt Bonds until release of such funds as provided above.

*Redemption of Bonds*

Upon receipt of an Officer's Certificate of the Agency, the Trustee will, at the sole written discretion of an Authorized Officer of the Agency, apply the designated moneys in the Revenue Fund to the purchase of such Bonds as shall be designated by the Agency at the most advantageous price obtainable with due diligence, provided that if such price shall exceed the Redemption Price of such Bonds applicable on the next ensuing redemption date for such Bonds, any such excess amount shall be paid from moneys available to the Agency from other than Pledged Funds. Bonds not so purchased may be redeemed at a Redemption Price determined by a Series Resolution at the time and in the manner provided in the General Resolution. Bonds shall not be purchased pursuant to this paragraph following the mailing of notice of redemption from moneys to be applied to the redemption of Bonds on the date specified therein.

Any Bonds purchased or redeemed by the Trustee in accordance with the provisions of the General Resolution shall be canceled by the Trustee.

*Investment of Funds and Accounts Held by the Trustee* [4]

(a) Moneys in the Bond Proceeds Fund, the Revenue Fund, the Arbitrage Rebate Fund, the Debt Service Reserve Fund and any other fund or account established pursuant to a Series Resolution as provided in the General Resolution shall be invested by the Trustee, upon the oral direction of an Authorized Officer of the Agency promptly confirmed in writing, in an Officer's Certificate delivered to the Trustee, in Permitted Investments the maturity or redemption date at the option of the holder of which shall coincide as nearly as practicable with the times at which moneys are needed by the Agency for the purposes of such fund or account. Such direction of the Agency will specify the amount thereof to be so invested and the Agency in issuing such direction shall take into consideration the dates and times when moneys in such fund or account will be required for the purposes of the General Resolution.

(b) Obligations purchased as an investment of moneys in any fund held by the Trustee under the provisions of the General Resolution shall be deemed at all times to be a ,Part of such fund and, except as otherwise provided in the General Resolution, the income or interest earned by, or increment to, a fund (except the Arbitrage Rebate Fund) due to the investment thereof shall be transferred to the Revenue Fund. Any interest paid on the investment of the Arbitrage Rebate Fund shall be credited to the Arbitrage Rebate Fund.

(c) The Trustee shall sell at the best price obtainable, or present for redemption, any obligation purchased by it as an investment whenever it shall be necessary in order to provide moneys to meet any payment or transfer from the fund for which such investment was made. The Trustee shall advise the Agency in writing, on or before the twentieth day of each calendar month, of the details of all investments held for the credit of each fund in its custody under the provisions of the General Resolution as of the end of the preceding month.

*Covenant Against Encumbrances*

Except as permitted in the General Resolution, the Agency has covenanted that it will not sell, convey, mortgage, encumber or otherwise dispose of a Mortgage Loan, a Project or any part thereof or the money held for the credit of any account within the Funds created under the General Resolution or take any other action which would adversely affect the security of the Bondholders unless an Authorizing Officer of the Agency determines that such action would not adversely affect the security for the Bondholders and furnishes to the Trustee written confirmation from the Rating Agency that such action will not adversely affect the unenhanced rating of the Outstanding Bonds.

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[4] *But see, "Provisions Applicable During Effective Period of Any Municipal Bond Insurance Policies – Investment of Funds and Accounts Held by the Trustee" and "Provisions Applicable When None of the Municipal Bond Insurance Policies is in Effect – Investment of Funds and Accounts Held by the Trustee."*

*Mortgage Loan Covenants* [5]

The Agency has agreed to take all reasonable actions that, in the judgment of the Agency, are proper and necessary to enforce the rights of the Agency under the Mortgages and to protect and enforce the rights and interests of the Bondholders under the General Resolution. 'Ne Agency will not consent to the modification of the rate of interest, the amount or time of payment of any installment of principal or interest of any Mortgage Loan or any Fees and Charges, or the security for any terms of any Mortgage Loan or the Mortgage securing same in a manner materially detrimental to Bondholders. However, upon an affirmative finding by the Agency expressed in a resolution of the Agency that the overall transaction of which such modification is a part does not adversely affect the Bondholders, the Agency may agree to a modification of the Mortgage on any Project to provide for a waiver of the Agency's right to foreclose for a period not to exceed ten (10) years.

*Cash Flow Statement*[6]

(a) The Agency will file with the Trustee a current Cash Flow Statement (i) whenever any Series of Bonds is issued, or (ii) as otherwise required under the General Resolution or under any Series Resolution.

(b) The Agency has agreed that it will only purchase Bonds or redeem Bonds pursuant to any redemption, which may be at the option of the Agency, if (i) with regard to optional redemptions, it is redeeming Bonds on a basis reasonably consistent with the Cash Flow Statement filed at the time of issuance of that Series of Bonds or (ii) it has determined, on the basis of its most recent Cash Flow Statement and other information available to the Agency, that such action will not adversely affect the ability of the Agency to pay, when due, the principal or Redemption Price of and interest on the Bonds. The Trustee may rely on an Officer's Certificate of the Agency that there will be no adverse effect on the ability of the Agency to pay, when due, the principal or Redemption Price of and interest on the Bonds.

(c) All Cash Flow Statements shall be based, to the extent not inconsistent with actual experience, upon assumptions reasonably consistent with the assumptions used to prepare the Cash Flow Statement filed in conjunction with the issuance of the related Series of Bonds, unless the Agency obtains written confirmation from the Rating Agency that the use of other assumptions will not adversely affect the unenhanced rating of the Outstanding Bonds.

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[5] *But see, "Provisions Applicable During Effective Period of Any Municipal Bond Insurance Policies – Mortgage Loan Covenants" and "Provisions Applicable When None of the Municipal Bond Insurance Policies is in Effect – Mortgage Loan Covenants."*

[6] *But see, "Provisions Applicable During Effective Period of Any Municipal Bond Insurance Policies – Cash Flow Statement" and "Provisions Applicable When None of the Municipal Bond Insurance Policies is in Effect – Cash Flow Statement."*

*Tax Covenants*

The Agency has agreed to comply with the provisions of the Code applicable to the Tax-Exempt Bonds and has covenanted not to take any action, or fail to take any action, which would cause the interest on the Tax-Exempt Bonds to become includable in gross income for federal income tax purposes under Section 103 of the Code or cause the interest on the Tax-Exempt Bonds to be treated as an item of tax preference under Section 57 of the Code, if such Tax-Exempt Bonds when originally issued were accompanied by an opinion of Bond Counsel to the effect that such interest would not be so treated as an item of tax preference. Without limiting the generality of the foregoing, the Agency will not make, or direct the Trustee to make, any use of the proceeds of any Series of Tax-Exempt Bonds, directly or indirectly, in a manner which would cause the Bonds of such Series of Tax-Exempt Bonds to be "arbitrage bonds" under the Code and the Treasury Regulations applicable to obligations issued on the date of issuance of the Bonds of such Series. Notwithstanding anything to the contrary contained in the General Resolution, the obligation of the Agency and the Trustee will survive any payment of the Tax-Exempt Bonds and discharge and release of the General Resolution effected pursuant to the General Resolution.

Nothing in the General Resolution will be construed, however, to prevent the Agency from issuing Taxable Bonds.

*Prepayment of Mortgage Loans*

The Agency will not consent to any prepayment of Mortgage Loans except in connection with the redemption of Bonds prior to maturity pursuant to the provisions of the General Resolution and only if the Agency obtains an Opinion of Bond Counsel substantially to the effect that any such prepayment of Mortgage Loans does not adversely affect the tax-exempt status of any Tax-Exempt Bonds and that such prepayment is permitted under the terms of the General Resolution and any applicable Series Resolution.

*Books and Records*

(a) The Trustee will keep proper books of records and account in which complete and correct entries will be made of all transactions relating to the receipts, disbursements, allocations and applications of all Mortgage Repayments and Mortgage Prepayments received by the Trustee under the General Resolution, and such books will be available for inspection by the Agency and any Bondholders during business hours, upon reasonable notice and under reasonable conditions.

(b) On or before the tenth (10th) business day of each month, the Trustee will furnish to the Agency a statement of the revenues and expenditures and of the changes in the balances of any fund or account held by the Trustee under the General Resolution during the previous month.

(c) The Agency will keep proper books of records and account for all its transactions and for each of the Mortgage Loans, other than those recorded in the books maintained by the Trustee pursuant to the General Resolution, and such books will be available for inspection by the Trustee and any Bondholder during business hours and upon reasonable notice.

*Annual Audit and Reports*[7]

Within one hundred and fifty (150) days of the end of each Fiscal Year, the Agency MU furnish to the Trustee (A) a statement of its revenues and expenses with respect to the Bonds and of the changes in its fund balances with respect to the Bonds during the previous Fiscal Year, accompanied by an Accountant's Opinion certifying the accuracy thereof and (B) a report of the Agency's activities with respect to the Bonds during the previous Fiscal Year.

*Events of Default*

Each of the following events is deemed as an Event of Default under the General Resolution:

(a) default in the payment of the principal of or Redemption Price, if any, of any of the Bonds when the same shall become due and payable, whether at maturity or upon call for redemption or otherwise; or

(b) default in the payment of any installment of interest on any of the Bonds when the same shall become due and payable; or

(c) the entry of a decree or order for relief by a court having jurisdiction in the premises in respect of the Agency in an involuntary case under the federal bankruptcy laws, as now or hereafter constituted, or any other applicable federal or State bankruptcy, insolvency or other similar law, or appointing a receiver, liquidator, assignee, custodian, trustee, sequestrator (or similar official) of the Agency or for any substantial part of its property, or ordering the winding up or liquidation of its affairs and the continuance of any such decree or order unstayed and in effect for the period of sixty (60) consecutive days; or

(d) the commencement by the Agency of a voluntary case under the federal bankruptcy laws, as now constituted or hereafter amended, or any other applicable federal or State bankruptcy, insolvency or other similar law, or the consent by it to the appointment of or taking possession by a receiver, liquidator, assignee, trustee, custodian, sequestrator (or other similar official) of the Agency or for any substantial part of its property, or the making by it of any assignment for the benefit of creditors, or the taking of action by the Agency in furtherance of any of the foregoing; or

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[7] *But see, "Provisions Applicable During Effective Period of Any Municipal Bond Insurance Policies – Information Reporting to the Insurer."*

(e) if the Agency defaults in the due and punctual performance of any other covenants or agreements contained in the Bonds or in the General Resolution and such default continues for ninety (90) days after written notice requiring the same to be remedied shall have been given to the Agency by the Trustee, which may give such notice in its discretion and shall give such notice at the written request of the owners of not less than twenty-five per cent (25 %) in aggregate principal amount of Outstanding Bonds.

*Remedies*

Upon the happening and continuance of any Event of Default, then, and in each such case, the Trustee may proceed, and upon the written request of the Holders of not less than twenty-five per centum (25%) in principal amount of Outstanding Bonds shall proceed, in its own name, to protect and enforce its rights and the rights of the Bondholders by such of the following remedies, as the Trustee, being advised by counsel, shall deem most effectual to protect and enforce such rights:

(a) by any action, writ, or other proceeding in accordance with the laws of the State, enforce all rights of the Bondholders, including the right to require the Agency to make and collect Fees and Charges and Mortgage Repayments and Recovery Payments of Mortgage Loans made by it adequate to carry out the covenants and agreements as to, and pledge of, such Mortgage Repayments and Recovery Payments, and other properties and to require the Agency to carry out any other covenant or agreement with Bondholders and to perform its duties under the Act;

(b) by bringing suit upon all or any part of the Bonds;

(c) by action, require the Agency to account as if it were the trustee of an express trust for the Holders of the Bonds,

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

(e) in accordance with the provisions of the Act, declare all Bonds due and payable, whether or not in advance of maturity, in the amounts provided in the General Resolution upon thirty (30) days' prior notice in writing to the Agency, and if all defaults shall have been cured, then, with the written consent of the Holders of not less than twenty-five per centum (25 %) in principal amount of the Outstanding Bonds, to annul such declaration and its consequences.

In the enforcement of any remedy under the General Resolution, the Trustee shall be entitled to sue for, enforce payment on and receive any and all amounts then or during any default becoming, and any time remaining, due from the Agency for principal, Redemption Price, interest or otherwise, under any provision of the General Resolution or of the Bonds, and unpaid, with interest on overdue payments at the rate or rates of interest payable on such Bonds prior to maturity, together with any and all costs and expenses of collection and of all proceedings under the General Resolution and under such Bonds, without prejudice to any

other right or remedy of the Trustee or of the Bondholders, and to recover and enforce judgment or decree against the Agency for any portion of such amounts remaining unpaid, with interest, costs and expenses, and to collect from any moneys available for such purpose, in any manner provided by law, the moneys adjudged or decreed to be payable.

*Priority of Payments After Default*

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

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

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

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

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

Neither the Trustee nor the Agency shall consent or agree directly or indirectly to extend the time for payment of the interest on any Bond. In case the time for the payment of the interest on any Bond shall be extended, such interest so extended shall not be entitled in case of default hereunder to the benefit or security of the General Resolution except subject to the

prior payment in full of the principal of all Outstanding Bonds and of all interest the time for the payment of which shall not have been extended.

Whenever moneys are to be applied by the Trustee as described in (a) and (b) above, such moneys shall be applied by the Trustee at such times, and from time to time, as the Trustee in its sole discretion shall determine, having due regard to the amount of such moneys available for application and the likelihood of additional money becoming available for such application in the future. Whenever the Trustee shall exercise such discretion in applying such moneys, it shall fix the date (which shall be a Debt Service Payment Date for all Outstanding Bonds unless the Trustee shall deem another date more suitable) upon which such application is to be made and upon such date interest on the amounts of principal to be paid on such date shall cease to exist. The Trustee shall give such notice as it may deem appropriate for the fixing of any such date. The Trustee shall not be required to make payment to the Holder of any Bond unless such Bond shall be presented to the Trustee for appropriate endorsement or for cancellation if fully paid.

*Bondholders' Direction of Proceedings*

The Holders of the majority in principal amount of the Bonds then Outstanding shall have the right, by an instrument or concurrent instruments in writing executed and delivered to the Trustee, to direct the method of conducting all remedial proceedings to be taken by the Trustee, provided that such direction shall not be otherwise than in accordance with law or the provisions of the General Resolution, and that the Trustee shall have the right to decline to follow any such direction which in the opinion of the Trustee would be unjustly prejudicial to Bondholders not parties to such direction.

*Limitation on Rights of Bondholders*

No Holder of any Bond shall have any right to institute any suit, action or other proceeding, or for the protection or enforcement of any right under the General Resolution or any right under law unless such Holder shall have given to the Trustee written notice of the event of default or breach of duty on account of which such suit, action or proceeding is to be taken, and unless the Holders of not less than twenty-five per centum (25%) in principal amount of the Bonds then Outstanding shall have made written request of the Trustee to exercise the powers granted in the General Resolution or granted under law or to pursue such remedy in its or their name or names, after the right to exercise such powers or right of action, as the case may be, shall have accrued, and shall have afforded the Trustee a reasonable opportunity either to proceed to exercise the powers herein granted or granted under the law or to institute such action, suit or proceeding in its name and unless., also, there shall have been offered to the Trustee reasonable security and indemnity against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee shall have refused or neglected to comply with such request within a reasonable time; and such notification, request and offer of indemnity are declared in every such case, at the option of the Trustee, to be conditions precedent to the execution of powers under the General Resolution or for any other remedy thereunder or under law. It is understood and intended that no one or more Holders of the Bonds secured by the General Resolution shall have any right in any manner whatever by his or -their action to affect, disturb or prejudice the security of the General Resolution, or to enforce any right thereunder or under law with respect to the Bonds or the General Resolution, except in the manner therein provided, and that all proceedings shall be instituted, had and maintained in the manner therein provided and for the benefit of all Holders of the Outstanding Bonds. Notwithstanding the foregoing provisions, the obligation of the Agency shall be absolute and unconditional to pay the principal or Redemption Price of and interest on the Bonds to the respective Holders thereof at the respective due dates thereof and nothing under the General Resolution shall affect or impair the right of action, which is absolute and unconditional, of such Holders to enforce such payment.

Each holder of any Bond by his acceptance thereof shall be deemed to have agreed that any court in its discretion may require, in any suit for the enforcement of any right or remedy under the General Resolution or any Series Resolution or any Supplemental Resolution, or in any suit against the Trustee for any action taken or omitted by it as Trustee, the filing by any party litigant in such suit of an undertaking to pay the reasonable costs of such suit, and that such court may in its discretion assess reasonable costs, including reasonable attorneys' fees, against any party litigant in any such suit, having due regard to the merits and good faith of the claims or defenses made by such party litigant; but the provisions of this paragraph shall not apply to any suit instituted by the Trustee, to any suit instituted by any Bondholder, or group of Bondholders, holding at least twenty-five per centum (25%) in principal amount of the Bonds Outstanding, or to any suit instituted by any Bondholder for the enforcement of the payment of the principal or Redemption Price of or interest on any Bond on or after the respective due date expressed in such Bond.

*Compensation of Trustee*

Subject to the provisions of any written contract between the Agency and the Trustee relating to the compensation of the Trustee, the Agency shall pay to the Trustee from time to time reasonable compensation for all services performed by it under the General Resolution and also all reasonable expenses, charges, and other disbursements, and those of its attorneys, agents and employees incurred in and about the administration and execution of the trusts created by the General Resolution, and the performance of its powers and duties under the General Resolution.

*Supplemental Resolutions*

The Agency may, without the consent of the Bondholders, adopt at any time or from time to time Series Resolutions or Supplemental Resolutions for any one or more of the following purposes, and any Series Resolution or Supplemental Resolution shall become effective in accordance with its terms upon the filing with the Trustee of a copy thereof certified by an Authorized Officer:

(a) To provide, in a Series Resolution, for the issuance of a Series of Bonds (including Refunding Bonds) and to prescribe the terms and conditions pursuant to which such Bonds may be issued, paid or redeemed;

(b) To add additional covenants and agreements of the Agency for the purpose of further securing the payment of the Bonds, provided such additional covenants and agreements are not contrary to or inconsistent with the covenants and agreements of the Agency contained in the General Resolution;

(c) To surrender any right, power or privilege reserved to or conferred upon be the Agency by the terms of the General Resolution;

(d) To confirm as further assurance any pledge under and the subjection to any lien, claim or pledge created or to be created by the provisions of the General Resolution of the Pledged Funds, Mortgages and other moneys, securities, funds and property pledged in the manner and to the extent provided in the General Resolution;

(e) With the consent of the Trustee, to cure any ambiguity or defect or inconsistent provision in the General Resolution or to insert such provisions clarifying matters or questions arising under the General Resolution as are necessary or desirable in the event any such modifications are not contrary to or inconsistent with the General Resolution as theretofore in effect:

(f) With the consent of the Trustee, to modify any provision of the General Resolution, any Series Resolution or any Supplemental Resolution, provided, however, that no such modification shall impair in any material manner the rights or remedies of Bondholders or the security for the Bonds afforded by the General Resolution;

(g) To modify any of the provisions of the General Resolution or any previously adopted Series Resolution or Supplemental Resolution in any other respects, provided that such modifications shall not be effective until after all Bonds of any Series of Bonds Outstanding as of the date of adoption of such Supplemental Resolution shall cease to be Outstanding and all Bonds issued under such resolutions shall contain a specific reference to the modifications contained in such subsequent resolutions;

(h) To change any of the provisions relating to the Arbitrage Rebate Section, the Determination and Deposits of Arbitrage Rebate Amount Section, the Excess Money in the Arbitrage Rebate Fund Section, the Payment of Arbitrage Rebate Amount to the United States Section, or the Place of Payment and Accompanying Documents; Duty of the Trustee Section in the General Resolution, which are intended to comply with Section 148 of the Code, if as a result of a change in such Section 148 of the Code or in the interpretation thereof, a change in any of the above Sections will be required or desirable to assure continued compliance with Section 148 of the Code and the regulations thereunder; provided that, prior to any such amendment becoming effective, the Agency shall deliver to the Trustee at the sole cost and expense of the Agency, an Opinion of Bond Counsel to the effect that either (i) such amendment is required to maintain the exclusion from gross income under Section 103 of the Code of interest paid and payable on the Tax-Exempt Bonds for federal income tax purposes or (ii) such amendment shall not adversely affect the exclusion from gross income under Section 103 of the Code of interest paid or payable on the Tax-Exempt Bonds for federal income tax purposes.

The provisions of the General Resolution may be modified at any time or from time to time by a Supplemental Resolution, subject to the consent of Bondholders in accordance with and subject to the provisions of the General Resolution, such Supplemental Resolution to become effective upon the filing with the Trustee of a copy thereof certified by an Authorized Officer.

*Powers of Amendment*

Any modification or amendment of the General Resolution and of the rights and obligations of the Agency and of the Holders of the Bonds thereunder in any particular, may be made by a Supplemental Resolution, with the written consent, (a) of the Holders of at least two-thirds in principal amount of the Bonds Outstanding at the time such consent is given, or (b) in case less than all of the several Series of Bonds then Outstanding are affected by the modification or amendment, of the Holders of at least two-thirds in principal amount of the Bonds of each Series so affected and Outstanding at the time such consent is given; provided, however, that if such modification or amendment will, by its terms, not take effect so long as any Bonds of any specified like Series and maturity remain Outstanding, the consent of the Holders of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of calculating Outstanding Bonds. No such modification or amendment shall permit a change in the terms of redemption or maturity of the principal of any Outstanding Bond or of any installment of interest thereon or a reduction in the principal amount or the Redemption Price thereof or in the rate of interest thereon without the consent of the Holder of such Bond, or shall reduce the percentages or otherwise affect the classes of Bonds the consent of the Holders of which is required to effect such modification or amendment. A Series shall be deemed to be affected by a modification or amendment of the General Resolution if the same adversely affects or diminishes the rights of the Holders of Bonds of such Series. The Trustee may in its discretion determine whether or not in accordance with the foregoing provisions Bonds of any particular Series or maturity would be affected by any modification or amendment of the General Resolution and any such determination shall be binding and conclusive on the Agency and all Holders of Bonds.

*Modifications by Unanimous Consent*

The terms and provisions of the General Resolution and the rights and obligations of the Agency and of the Holders of the Bonds thereunder may be modified or amended in any respect upon the adoption and filing by the Agency of a Supplemental Resolution and consent of the Holders of all of the Bonds then Outstanding, such consent to be given as provided in the General Resolution, except that no notice to Bondholders by mailing shall be required.

*Exclusion of Bonds*

Bonds owned or held by or for the account of the Agency shall not be deemed Outstanding for the purpose of consent or other action or any calculation of Outstanding Bonds provided for in the General Resolution, and the Agency shall not be entitled with respect to such Bonds to give any consent or take any other action provided for in the General Resolution. At the time of any consent or other action taken under the General Resolution, the Agency shall furnish the Trustee an Officer's Certificate, upon which the Trustee may rely, describing all Bonds so to be excluded.

*Release of Lien of General Resolution; Assignment of Security*

If the Agency shall pay or cause to be paid, or there shall otherwise be paid, to the Holders of the Bonds then Outstanding, the principal or Redemption Price of and interest to become due thereon, at the times and in the manner stipulated therein and in the General Resolution, then and in that event the pledge made in and by the General Resolution and all other covenants, agreements and other obligations of the Agency to the Bondholders shall be discharged and satisfied. In such event, the Trustee shall, upon request of the Agency, execute and deliver to the Agency all such instruments as may be desirable to evidence such release and discharge and the Trustee shall pay over or deliver to the Agency all monies or securities held by it pursuant to the General Resolution (except for the Arbitrage Rebate Fund) which are not required for the payment or redemption of Bonds not theretofore surrendered for such payment or redemption.

*Payment of Bonds*

Bonds for the payment or redemption of which moneys shall then be held by the Trustee (through deposit by the Agency of funds for such payment or redemption or otherwise), whether at or prior to the maturity or the redemption date of such Bonds, shall be deemed to have been paid. All Outstanding Bonds shall, prior to their maturity or redemption (late thereof, be deemed to have been paid if (a) in case any of said Bonds are to be redeemed on any date prior to their maturity, the Agency shall have given to the Trustee in form satisfactory to it irrevocable instructions as provided in the General Resolution to give notice of redemption on said date of such Bonds, (b) there shall have been deposited with the Trustee either moneys in an amount which shall be sufficient, or Permitted Investments of the type described in clause (i) of the definition of Permitted Investments, the principal of and the interest on which when due will provide moneys which, together with the moneys, if any, deposited with the Trustee at the same time shall be sufficient, to pay when due the principal or Redemption Price, if any, and interest due and to become due on said Bonds on or prior to the redemption date or maturity date thereof, as the case may be, and (c) in the event said Bonds are not by their terms subject to redemption within the next succeeding 60 days, the Agency shall have given the Trustee in form satisfactory to it irrevocable instructions to mail first class postage prepaid, as soon as practicable, a notice to the Holders of such Bonds that the deposit required by (b) above has been made with the Trustee and that said Bonds are deemed to have been paid and stating such maturity or redemption date upon which moneys are to be available or the payment of the principal or Redemption Price of and interest on said Bonds. Neither Permitted Investments nor moneys deposited with the Trustee nor principal or interest payments on any such Permitted Investments shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal or Redemption Price of and interest on said Bonds; provided that any cash received from such principal or interest payments on such Permitted Investments deposited with the Trustee, if not then needed for such purpose, shall, to the extent practicable be reinvested in Permitted Investments maturing at times and in amounts sufficient to pay when due the principal or Redemption Price of and interest to become due on said Bonds on and prior to such redemption date or maturity date thereof, as the case may be, and interest earned from such reinvestments shall be paid to the Agency, as received by the Trustee, free and clear of any trust, lien or pledge.

*Other Financing By Agency*

Nothing in the General Resolution expressed or implied shall be construed as preventing the Agency from issuing any debt or obligation for any of its lawful purposes, including but not limited to financing the acquisition or construction of any land, building, structure or other facility, to the extent such debt or obligations are not issued under or secured by the provisions of the General Resolution. Nothing in the General Resolution expressed or implied shall be construed as preventing the Agency from pledging its faith and credit in conjunction with any other debt or obligations.

*Governing Law*

The Resolution will be governed by and construed in accordance with the laws of the State.

**Provisions Applicable During Effective Period of Any of the Municipal Bond Insurance Policies**

So long as any of the Municipal Bond Insurance Policies are in full force and effect and the Insurer is not in default under the terms and conditions of any of the Municipal Bond Insurance Policies, the provisions set forth under this heading "Provisions Applicable During Effective Period of Any of the Municipal Bond Insurance Policies" shall apply.

*Certain Definitions*

"Applicable Coverage Ratio Percentage" means 115% or such other lower percentage as shall be approved by the Insurer in writing.

"Cash Equivalent" means a Letter of Credit, Insurance Policy, Surety, Guaranty or other Security Arrangement (each as defined and provided for in a Series Resolution providing for the issuance of Bonds rated by the Rating Agency or in a Supplemental Resolution), provided by an institution which has received a rating of its claims paying ability from the Rating Agency at least equal to "A" or whose unsecured long-term debt securities are rated at least "A" by the Rating Agency.

"Coverage Ratio" means a fraction, (i) the numerator of which is the sum of (A) Mortgage Repayments and (B) interest earnings on the Bond Proceeds Fund and the Revenue Fund, and (ii) the denominator of which is the sum, as of the date of such calculations, of the accrued but unpaid (x) debt service on the Bonds (which shall include debt service on any Additional Bonds, and in the case of any Bonds which bear interest at a variable rate, the calculation of debt service with respect to such Bonds shall be based on the assumption that such Bonds bear interest at the maximum rate applicable thereto), less investment earnings on the Debt Service Reserve Fund and Bond principal to be paid from withdrawals from the Debt Service Reserve Fund, (y) the fees and expenses of the Trustee and (z) any credit enhancement fees with respect to the Bonds.

"Hedging Instrument" means any interest rate, currency or cash-flow swap agreement, interest rate cap, floor or option agreement, forward payment conversion agreement, put, call or other agreement or instrument to hedge payment, interest rate, spread or similar exposure, in each case which is a general obligation of a counterparty whose general obligations at the time of execution of the Hedging Instrument are such that (i) the then existing rating on the Bonds shall not be adversely affected and (ii) (A) if the Hedging Instrument has a term of less than ten (10) years, are rated at least "A" by the Rating Agency and (B) if the Hedging Instrument has a term of ten (10) years or more, are rated at least "AA" by the Rating Agency.

"Outstanding" when used with reference to Bonds means, as of any date, Bonds theretofore or then being delivered under the provisions of the General Resolution, except: (i) Bonds in lieu of or in substitution for which other Bonds shall have been delivered pursuant to the provisions of the General Resolution; and (ii) Bonds deemed to have been paid as provided in the General Resolution.

Notwithstanding anything in the General Resolution to the contrary, in the event that the principal and/or interest due on any insured Bonds is paid by the Insurer pursuant to the Municipal Bond Insurance Policy, such insured Bonds will remain Outstanding for all purposes, not be defeased or otherwise satisfied and not be considered paid by the Agency, and the assignment and pledge of the Pledged Funds and all covenants, agreements and other obligations of the Agency to the Holders of the Bonds shall continue to exist and shall run to the benefit of the Insurer, and the Insurer shall be subrogated to the rights of such Holders of the Bonds.

*The Insurer as Third Party Beneficiary*

To the extent that the General Resolution confers upon or gives or grants to the Insurer any right, remedy or claim under or by reason of the General Resolution, the Insurer is Explicitly recognized as being a third-party beneficiary under the General Resolution, and may enforce any such right, remedy or claim conferred, given or granted thereunder.

*Issuance of Bonds*

In addition to the items described in clauses (a) through (h) under "General Provisions-Issuance of Bonds" above, the following shall also be required to be on file with the Trustee before any Series of Bonds may be authenticated and delivered by the Trustee: Written confirmation from the Rating Agency that the issuance of such Series of Bonds will not adversely affect (i) the then existing unenhanced rating of any Outstanding Bonds previously issued under the General Resolution and (ii) the underlying rating of any Outstanding Bonds which shall in no event be less than "A+" or the equivalent except with the written approval of the Insurer, receipt of which shall be acknowledged by the Insurer.

*Revenue Fund*

In addition to clauses (a) through (f) under "General Provisions-Revenue Fund" above, the following shall apply:

(i) After setting aside and reserving in the Revenue Fund the amount estimated by the Agency to be required for the purposes provided above in the following month, and after setting aside and reserving in the Revenue Fund an amount equal to the Aggregate Termination Value Holdback (calculated as of the first day of each Bond Year), and upon delivery by the Agency to the Trustee of (i) an opinion of the Arbitrage Rebate Expert stating that for the period ending no more than forty-five (45) days prior to the date of such expected transfer or applications, the Arbitrage Rebate Amount then accrued for all Series of Tax-

Exempt Bonds has been deposited to the Arbitrage Rebate Fund, as provided in the Resolution, and (ii) of an Officer's Certificate stating that the Coverage Ratio as of the date of such Officer's Certificate is greater than or equal to the Applicable Coverage Ratio Percentage, the balance of the moneys in the Revenue Fund shall be: (A) transferred to the Agency, free and clear of the lien of the Resolution or (B) applied (1) to the purchase or redemption of Bonds or (2) to the making or purchasing of Mortgage Loans, Grants or Eligible Loans, as the Agency shall determine. The Agency may also direct the Trustee to retain any such balance or portion thereof in the Revenue Fund. Notwithstanding the foregoing, funds may be transferred to the Agency, free and clear of the lien of the Resolution to pay or reimburse the Agency for its administrative expenses, in compliance with the Resolution but prior to setting aside an amount equal to the Termination Value Holdback in the Revenue Fund.

(j) Notwithstanding clauses (a) through (g) above, the Trustee will pay to the counterparty of any Hedging Instrument such amount as will be due from the Agency or the Trustee thereunder, as specified in a Series Resolution or an applicable Executive Director's Certificate which has been approved by the Insurer, in such order of priority with respect to the payments specified in clauses (a) through (g) above as may be established in such Series Resolution or applicable Executive Director's Certificate.

*Investment of Funds and Accounts Held by the Trustee*

In addition to clauses (a) through (c) under General Provisions-Investment of Funds and Accounts Held by the Trustee above, the following shall apply:

(d) In computing the amount in any fund held by the Trustee under the provisions of the General Resolution, the value of obligations purchased as an investment of moneys therein shall be determined as of the end of each month and calculated as follows:

(i) as to investments the bid and asked prices of which are published on a regular basis in The Wall Street Journal (or, if not there, in The New York Times): the average of the bid and asked prices for such investments so published on or most recently prior to such time of determination;

(ii) as to investments the bid and asked prices of which are not published on a regular basis in The Wall Street Journal or The New York Times: the average bid price at such time of determination for such investments by any two nationally recognized government securities dealers (selected by the Trustee in its absolute discretion) at the time making a market in such investments or the bid price published by a nationally recognized pricing service;

(iii) as to certificates of deposit and bankers acceptances: the face amount thereof, plus accrued interest; and

(iv) as to any investment not specified above: the value thereof established by prior agreement among the Agency, the Trustee and the Insurer.

*Mortgage Loan Covenants*

In addition to the provisions described under "General Provisions-Mortgage Loan Covenants" above, the following shall apply:

If the Agency agrees to modify any Mortgage Loan it will give prior written notice to the Rating Agency and furnish to the Trustee and the Insurer written confirmation from the Rating Agency that such action will not adversely affect the unenhanced rating of the Outstanding Bonds.

*Cash Flow Statement*

In addition to clauses (a) through (c) under "General Provisions-Cash Flow Statement" above, the following shall apply:

(d) A Cash Flow Statement shall consist of an Officer's Certificate of the Agency setting forth for the current and each succeeding Bond Year in which Bonds are scheduled to be Outstanding a schedule of all anticipated Revenues, which may include reasonably expected Mortgage Prepayments if such Mortgage Prepayments will not be applied in the Cash Flow Statement to pay interest on the Bonds less all amounts required to be paid into the Arbitrage Rebate Fund during such Bond Year, and of all amounts, if any, expected to be withdrawn from the Debt Service Reserve Fund to pay principal and interest on the Bonds, together with a schedule of principal and interest on the Bonds and all premiums for credit enhancement payable under Section 6.3(d)(iii) of the General Resolution, and projecting (i) that such Revenues will be sufficient to pay all such Remounts in the current and each succeeding Bond Year, (ii) that the sum of (A) the principal ,amount of the Mortgage Loans, and (B) the amounts on deposit in the Bond Proceeds Fund, the Revenue Fund and the Debt Service Reserve Fund exceed the aggregate principal amount of the Outstanding Bonds plus accrued but unpaid interest thereon to the date of such Cash Flow Statement, and (iii) assuming that all Mortgage Repayments are to be received thirty (30) days after they are due. Such demonstration is referred to as the "Cash Flow Test."

*Responsibilities of Trustee*

The Trustee shall be under no obligation or duty to perform any act which would involve it in expense or liability or to institute or defend any suit, or to advance any of its own moneys, unless properly indemnified. The Trustee shall not be liable in connection with the performance of its duties under the General Resolution except for its own negligence or misconduct. The permissive right of the Trustee to do things enumerated in the General Resolution or in a Series Resolution shall not be construed as a duty. The Trustee shall only be responsible for the performance of the duties and obligations expressly set forth in the General Resolution and in any Series Resolution. Notwithstanding any other provision of the General Resolution, in determining if the rights of the Holders of the 1995 Series Bonds, the 1996 Series Bonds, the 1997 Series Bonds, the 1999 Series Bonds and/or the 2000 Series Bonds will be adversely affected by any action taken pursuant to the terms and provisions of the General Resolution, the Trustee shall consider the effect on the Holders of the 1995 Series Bonds, the 1996 Series Bonds, the 1997 Series Bonds, the 1999 Series Bonds and/or the 2000 Series Bonds as if there were no Municipal Bond Insurance Policies.

*Resignation and Removal of Trustee*

The Trustee may at any time resign and be discharged of the duties and obligations created by the General Resolution by giving not less than sixty (60) days' written notice to the Agency, the Insurers and each Bondholder by first-class mail postage prepaid at his address appearing upon the registry books of the Agency, specifying the date when it intends such resignation to take effect, and such resignation shall take effect only when a successor, acceptable to the Insurers, is appointed.

The Trustee will be removed by the Agency if so requested at any time by an instrument or concurrent instruments in writing, filed with the Trustee and the Agency and signed by the Holders of a majority in principal amount of the Bonds then Outstanding or their attorneys-in-fact duly authorized, excluding any Bonds held by or for the account of the Agency. The Trustee may also be removed at any time by the Agency, except during an Event of Default as defined in the General Resolution, for such cause as shall be determined in the sole discretion of the Agency by filing with the Trustee an instrument signed by an Authorized Officer of the Agency. The Trustee may be removed at any time, at the request of an Insurer, for any breach of the trust set forth in the General Resolution.

*Appointment of Successor Trustee*

If the Trustee will resign, be removed or become incapable of acting or shall be adjudged a bankrupt or insolvent, or if a receiver, liquidator or conservator of the Trustee, or of its property, shall be appointed, or if any public officer shall take charge or control of the Trustee, or of its property or affairs, the Agency will thereupon appoint a successor Trustee and shall cause notice of such appointment to be mailed, to the Insurers, and each Bondholder at the address appearing on the registry books of the Agency, such notice to be given within twenty (20) days after such appointment. If in a proper case no appointment of a successor Trustee shall be made pursuant to the foregoing provisions within forty-five (45) days after the Trustee has given to the Agency and the Insurers written notice, as provided in the General Resolution, or after a vacancy in the office of the Trustee shall have occurred by reason of its Inability to act, the Trustee, either of the Insurers or the Holder of any Bond may apply to any court of competent jurisdiction to appoint a successor Trustee. Such court may thereupon, after such notice, if any, as such court may deem proper and prescribed, appoint a successor, Trustee. Any successor Trustee shall be a bank or trust company in good standing organized under the laws of the State or a national banking association duly authorized to exercise trust powers and subject to examination by federal or state authority, and having a capital and surplus aggregating at least Seventy-Five Million Dollars ($75,000,000) and One Hundred Million Dollars ($100,000,000) in trust assets and acceptable to the Insurer, if there be such a bank or trust company or national banking association willing and able to accept the office on reasonable and customary terms and authorized by law to perform all duties imposed upon it by the General Resolution.

*Consent of the Insurer*

Any provision of the General Resolution expressly recognizing or granting rights in or to the Insurer may not be amended in any manner which affects the rights of the Insurer hereunder without the prior written consent of the Insurer.

*Consent of the Insurer in Addition to Bondholder Consent*

Unless otherwise provided in the General Resolution, the Insurer's consent shall be required in addition to Bondholder consent, when required, for the: (i) execution and delivery of any Supplemental Resolution or any amendment, supplement or change to or modification of the Mortgage Loans, (ii) removal of the Trustee and selection and appointment of any successor trustee or paying agent, and (iii) initiation or approval of any action not described in (i) or (ii) above which requires Bondholder consent.

*Consent of the Insurer in the Event of Insolvency*

Any reorganization or liquidation plan with respect to the Agency must be acceptable to the Insurer. In the event of any reorganization or liquidation, the Insurer shall have the right to vote on behalf of all Bondholders who hold the bonds insured by such Insurer absent a default by such Insurer under the applicable Municipal Bond insurance Policy insuring such Bonds.

*Consent of the Insurer Upon Default; Acceleration Rights for Bonds*

Upon the occurrence and continuance of an Event of Default as described under "General Provisions-Events of Default" above, the Insurer shall be entitled to control and direct the enforcement of all rights and remedies granted to the Holders of the 1999 Series Bonds, the 2000 Series Bonds and Offered Bonds, or the Trustee for the benefit of the Holders of 1999 Series Bonds, the 2000 Series Bonds and Offered Bonds under the General Resolution, including, without limitation: (i) the right to accelerate the principal of 1999 Series Bonds, the 2000 Series Bonds and Offered Bonds as described in the General Resolution, (ii) the right to annul any declaration of acceleration, and (iii) the right to approve all waivers of any Events of Default with respect to 1999 Series Bonds, the 2000 Series Bonds and Offered Bonds.

Upon the occurrence of an Event of Default as described under "General Provisions-Events of Default" above, Financial Security shall be deemed to be the sole Holder of the 1999 Series Bonds, the 2000 Series Bonds and Offered Bonds for the purpose of determining the percentage of Bondholders necessary to direct the Trustee to declare the principal of the Bonds to be immediately due and payable.

Upon the occurrence and continuance of an Event of Default as described under "General Provisions-Events of Default" above, Ambac Assurance shall be entitled to control and direct the enforcement of all rights and remedies granted to the Holders of the 1995 Series Bonds, the 1996 Series Bonds and the 1997 Series Bonds, or the Trustee for the benefit of the Holders of 1995 Series Bonds, the 1996 Series Bonds and the 1997 Series Bonds under the General Resolution, including, without limitation: (i) the right to accelerate the principal of 1995 Series Bonds, the 1996 Series Bonds and the 1997 Series Bonds as described in the General Resolution, (ii) the right to annul any declaration of acceleration, and (iii) the right to approve all waivers of any Events of Default with respect to 1995 Series Bonds, the 1996 Series Bonds and the 1997 Series Bonds.

Upon the occurrence of an Event of Default as described under "General Provisions-Events of Default" above, Ambac Assurance shall be deemed to be the sole Holder of the 1995 Series Bonds, the 1996 Series Bonds and the 1997 Series Bonds for the purpose of determining the percentage of Bondholders necessary to direct the Trustee to declare the principal of the Bonds to be immediately due and payable.

*Information Reporting to the Insurers*

The Insurers have the right to direct an accounting at the Agency's expense of the funds and accounts under the General Resolution.

The Agency's failure to comply with any such direction by an Insurer within three (3) days after receipt of written notice of such direction from an Insurer shall be deemed an additional "Event of Default" under the General Resolution;

(i) provided, however, that if the Agency notifies such Insurer and the Trustee in writing that compliance cannot occur within such period, then such Insurer shall agree to extend such period so long as compliance is begun within such period and diligently pursued, but only if, in the opinion of such Insurer, such extension would not materially adversely affect the interests of any Bondholder; and

(ii) provided further, that the Trustee shall exercise any remedies under the General Resolution to enforce the performance of the Agency's covenant to provide an accounting as described herein only upon the written request of the Holders of not less than twenty-five per centum (25 %) in principal amount of the Outstanding Bonds.

**Provisions Applicable When None of the Municipal Bond Insurance Policies is in Effect**

If the Municipal Bond Insurance Policies are no longer in full force and effect, or if the Insurer is in default under the terms and conditions of any of the Municipal Bond Insurance Policies, the provisions set forth under this heading "Provisions Applicable When None of the Municipal Bond Insurance Policies is in Effect" shall apply.

*Certain Definitions*

"Applicable Coverage Ratio Percentage" means (i) 100% or (ii) if the Applicable Coverage Ratio Percentage is established in one or more Series Resolutions, the greater of (A) 100% or (B) the highest of the Applicable Coverage Ratio Percentages established in and still in effect pursuant to a Series Resolution.

"Cash Equivalent" means a Letter of Credit, Insurance Policy, Surety, Guaranty or other Security Arrangement (each as defined and provided for in a Series Resolution providing for the issuance of Bonds rated by the Rating Agency or in a Supplemental Resolution), provided by an institution which has received a rating of its claims paying ability from the Rating Agency at least equal to the then existing unenhanced rating on the Bonds or whose unsecured long-term debt securities are rated at least the then existing unenhanced rating on the Bonds (or "A-V if the Cash Equivalent has a remaining term at the time of acquisition not exceeding one year) by the Rating Agency.

"Coverage Ratio" means a fraction, (i) the numerator of which is the sum of (A) Mortgage Repayments and (B) interest earnings on the Bond Proceeds Fund and the Revenue Fund, and (ii) the denominator of which is the sum, as of the date of such calculation, of the a, accrued but unpaid (x) debt service on the Bonds (which shall include the debt service on any Additional Bonds), less investment earnings on the Debt Service Reserve Fund and Bond principal to be paid from withdrawals from the Debt Service Reserve Fund, (y) the fees and expenses of the Trustee and (z) any credit enhancement fees with respect to the Bonds.

"Hedging Instrument" means any interest rate, currency or cashflow swap agreement, interest rate cap, floor or option agreement, forward payment conversion agreement, put, call or other agreement or instrument to hedge payment, interest rate, spread or similar exposure, in each case which is a general obligation of a counterparty whose general obligations at the time of execution of the Hedging Instrument are such that the then existing unenhanced rating the Bonds shall not be adversely affected.

"Outstanding" when used with reference to Bonds means, as of any date, Bonds theretofore or then being delivered under the provisions of the General Resolution, except: (i) Bonds in lieu of or in substitution for which other Bonds shall have been delivered pursuant to the revisions of the General Resolution: and (ii) Bonds deemed to have been paid as provide in the General Resolution.

*Issuance of Bonds*

In addition to the items described in clauses (a) through (h) under "General Provisions-Issuance of Bonds" above, the following shall also be required to be on file with the Trustee before any Series of Bonds may be authenticated and delivered by the Trustee:

(i) written confirmation from the Rating Agency that the issuance of such Series of Bonds will not adversely affect the then existing unenhanced rating of any Outstanding Bonds previously issued under the General Resolution.

*Revenue Fund*

In addition to clauses (a) through (f) under "General Provisions-Revenue Fund" above, the following shall apply:

(l) After setting aside and reserving in the Revenue Fund the amount estimated by the Agency to be required for the purposes provided above in the following month and upon delivery by the Agency to the Trustee of (i) an opinion of the Arbitrage Rebate Expert stating that for the period ending no more than forty-five (45) days prior to the date of such expected transfer or application, the Arbitrage Rebate Amount then accrued for all Series of Tax-Exempt Bonds has been deposited to the Arbitrage Rebate Fund, as provided in the General Resolution, and (ii) of an Officer's Certificate stating that the Coverage Ratio as of the date of such Officer's Certificate is greater than or equal to the Applicable Coverage Ratio Percentage, the balance of the moneys in the Revenue Fund will be: (A) transferred to the

Agency, free and clear of the lien of the General Resolution or (B) applied (1) to the purchase or redemption of Bonds or (2) to the making or purchasing of Mortgage Loans, Grants or Eligible Loans as the Agency shall determine. The Agency may also direct the Trustee to retain any such balance or a portion thereof in the Revenue Fund.

(m) Notwithstanding clauses (a) through (g) above the Trustee will pay to the counterpart of any Hedging Instrument such amount as will be due from the Agency or the Trustee thereunder, as specified in a Series Resolution or an applicable Executive Director's Certificate, in such order of priority with respect to the payments specified in clauses (a) through (g) above, as may be established in such Series Resolution or applicable Executive Director's Certificate.

*Investment of Funds and Accounts Held by the Trustee*

In addition to clauses (a) through (c) under "General Provisions-Investment of Funds and Accounts Held by the Trustee" above, the following shall apply:

(d) In computing the amount in any fund held by the Trustee under the provisions of the General Resolution, obligations purchased as an investment of moneys therein shall be valued at their cost to the Agency, as adjusted by amortization of the discount or premium paid upon purchase of such obligations ratably to their respective maturities.

*Mortgage Loan Covenants*

In addition to the provisions described under "General Provisions-Mortgage Loan Covenants" above, the following shall apply:

If the Agency agrees to modify any Mortgage Loan it will give prior written notice to the Rating Agency and furnish to the Trustee written confirmation from the Rating Agency that such action will not adversely affect the unenhanced rating of the Outstanding Bonds.

*Cash Flow Statement*

In addition to clauses (a) through (c) under "General Provisions-Cash Flow Statement" above, the following shall apply:

(d) A Cash Flow Statement shall consist of an Officer's Certificate of the Agency setting forth for the current and each succeeding Bond Year in which Bonds are scheduled to be Outstanding a schedule of all anticipated Revenues, which may include reasonably expected Mortgage Prepayments if the Rating Agency shall have confirmed that the inclusion of such Mortgage Prepayments shall not adversely affect the then existing unenhanced rating of the Outstanding Bonds, less all amounts required to be paid into the Arbitrage Rebate Fund during such Bond Year, and of all amounts, if any, expected to be withdrawn from the Debt Service Reserve Fund to pay principal and interest on the Bonds, together with a schedule of principal and interest on the Bonds and all premiums for credit enhancement payable under

the Resolution, and (i) projecting that such Revenues will be sufficient to pay all such amounts in the current and each succeeding Bond Year, (h) projecting that the sum of (A) the principal amount of the Mortgage Loans, and (13) the amounts on deposit in the Bond Proceeds Fund, Revenue Fund and the Debt Service Reserve Fund exceed the aggregate principal amount of the Outstanding Bonds plus accrued but unpaid interest thereon to the date of such Cash Flow Statement, and (iii) assuming that all Mortgage Repayments are to be received thirty (30) days after they are due. Such demonstration is referred to as the "Cash Flow Test".

*Responsibilities of Trustee*

The Trustee shall be under no obligation or duty to perform any act which would involve it in expense or liability or to institute or defend any suit, or to advance any of its own moneys, unless properly indemnified. The Trustee shall not be liable in connection with the performance of its duties under the General Resolution except for its own negligence or misconduct. The permissive right of the Trustee to do things enumerated in the General Resolution or in a Series Resolution shall not be construed as a duty. The Trustee shall only be responsible for the performance of the duties and obligations expressly set forth in the General Resolution and in any Series Resolution.

*Resignation and Removal of Trustee*

The Trustee may at any time resign and be discharged of the duties and obligations created by the General Resolution by giving not less than sixty (60) days' written notice to the Agency and each Bondholder by first-class mail postage prepaid at his address appearing upon the registry books of the Agency, specifying the date when it intends such resignation to take effect, and such resignation shall take effect only when a successor is appointed.

The Trustee will be removed by the Agency if so requested at any time by an instrument or concurrent instruments in writing, filed with the Trustee and the Agency and signed by the Holders of a majority in principal amount of the Bonds then Outstanding or their attorneys-in-fact duly authorized, excluding any Bonds held by or for the account of the Agency. The Trustee may also be removed at any time by the Agency, except during an Event of Default as defined in the General Resolution, for such cause as shall be determined in the scale discretion of the Agency by filing with the Trustee an instrument signed by an Authorized Officer.

*Appointment of Successor Trustee*

If the Trustee shall resign, be removed or become incapable of acting or shall be adjudged a bankrupt or insolvent, or if a receiver, liquidator or conservator of the Trustee, or of its property, shall be appointed, or if any public officer shall take charge or control of the Trustee, or of its property or affairs, the Agency will thereupon appoint a successor Trustee and shall cause notice of such appointment to be mailed, to each Bondholder at the address appearing on the registry books of the Agency, such notice to be given within twenty (20) days after such appointment. If no appointment of a successor Trustee shall be made pursuant to the foregoing provisions within forty-five (45) days after the Trustee has given to the Agency written notice, as provided in the General Resolution, or after a vacancy in the office of the Trustee shall have occurred by reason of its inability to act, the Trustee or the Holder of any Bond may apply to any court of competent jurisdiction to appoint a successor Trustee. Such court may thereupon, after such notice, if any, as such court may deem proper and prescribed, appoint a successor Trustee. Any successor Trustee appointed under the provisions of the General Resolution shall be a bank or trust company organized under the laws of the State or a national banking association and having a capital and surplus aggregating at least Fifty Million Dollars ($50,000,000) and One Hundred Million Dollars ($100,000,000) in trust assets, if there be such a bank or trust company or national banking association willing and able to accept the office on reasonable and customary terms and authorized by law to perform all the duties imposed upon it by the General Resolution.

**Provisions Applicable During the Effective Period of any Surety Bond**

So long as any Surety Bond, in full force and effect and the provider thereof is not in default under the terms and conditions of the Surety Bond, the provisions set forth under this heading "Provisions Applicable During the Effective Period of any Surety Bond" shall apply.

*Revenue Fund*

The payments required by clause (f) under "General Provisions-Revenue Fund" above shall not include any amounts payable to the provider in respect of a Surety Bond.

*Debt Service Reserve Fund*

In addition to the items described in clauses (a) through (c) under "General Provisions-Debt Service Reserve Fund" above, the following shall apply:

(d) For purposes of determining the value of investments in the Debt Service Reserve Fund pursuant to the General Resolution, a Surety Bond shall be deemed to have a value equal to its current Surety Bond Coverage (as defined in the Surety Bond) and any other Cash Equivalent shall be deemed to have a value equal to the current amount which may be drawn upon thereunder.

(e) In the event of any deficiency as described in the General Resolution, the Trustee shall make up such deficiency by the withdrawal of moneys for that purpose in the Debt Service Reserve Fund as follows: first, by the withdrawal of funds not representing Cash Equivalents (including Prior Surety Bonds), and second, if such funds are not sufficient to make up such deficiency, then by payment under Surety Bonds and the other Cash Equivalents on a pro rata basis, as provided in the General Resolution (with respect to Surety Bonds) and in any Series Resolution authorizing a Cash Equivalent.

(f) Draws upon Surety Bonds shall be made as provided in the General Resolution and therein for amounts which are then due to the Trustee under the Resolution up to but not in excess of Surety Bond Coverage; provided, however, that notwithstanding the foregoing, the maximum amount of any payment from a Surety Bond shall be the product of (x) the aggregate amount of the payment pursuant to the applicable terms of such Surety Bond, and (y) the fraction, the numerator of which is the current Surety Bond Coverage of such Surety Bond, and the denominator of which is the aggregate current value of all Cash Equivalents (including the Surety Bond).

(g) Upon the later of; (i) one (1) day after receipt by the General Counsel of the provider of a Surety Bond of a demand for payment in the form attached to the Surety Bond (the "Demand for Payment"), duly executed by the Trustee certifying that sufficient moneys for the payment of debt service as required by the General Resolution are not or will not be on deposit with the Trustee; or (ii) the payment date of the Bonds as specified in the Demand for Payment presented by the Trustee to the General Counsel of the provider of the Surety Bond, the provider of the Surety Bond will make a deposit of funds in an account with the Trustee or its successor, for the payment to the Trustee in an amount determined in the General Resolution (as specified in the Demand for Payment) up to but not in excess of the Surety Bond Coverage.

(h) The Trustee shall, after submitting to the provider of the Surety Bond the Demand for Payment as provided in the preceding paragraph, make available to the provider of the Surety Bond all records relating to the funds and accounts maintained under the General Resolution.

(i) The Trustee shall, upon receipt of moneys received from the draw on a Surety Bond, as specified in the Demand for Payment, credit the Debt Service Reserve Fund to the extent of moneys received pursuant to such Demand.

(j) To the extent there is a reduction in the Debt Service Reserve Requirement with respect to Series Bonds, the Surety Bond Coverage of the related Surety Bond shall be correspondingly reduced.

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# EXHIBIT C

## MORTGAGE LOANS EXPECTED

## TO BE FINANCED WITH PROCEEDS OF THE OFFERED BONDS

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EXHIBIT C

# MORTGAGE LOANS EXPECTED TO BE FINANCED WITH PROCEEDS OF THE OFFERED BONDS

| Project Number | County | Project Name | Subsidy Program | FHA Insurance | Approximate Expected Mortgage Loan Amount | Expected Mortgage Loan Interest Rate | Expected Mortgage Loan Maturity Date | Subsidy Maturity Date | Expected Construction Start Date | Expected Permanent Takeout[1] | Expected Remaining Construc-tion Term (months) | Expected Rent-Up Period (months) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1267 | Middlesex | Highland Park Senior Housing. | N/A | No | $3,512,869 | 5.95% | 11/2031[3] | N/A | 9/00 | 10/01 | 1 | 8 |
| 1210 | Monmouth | Assisted Living Residence of Wall Township | N/A | Yes | 13,575,000 | 7.45% | 11/2031 | N/A | 9/00 | 9/01 | 0 | 18 |
| 1300 | Essex | Madison Turner Senior Housing | N/A | No | 2,435,046 | 6.10% | 12/2032[4] | N/A | 4/01 | 8/02 | 4 | 12 |
| 1285 | Passaic | Christopher Columbus | N/A | No | 4,100,000[9] | 5.00% | 7/2002 | N/A | 10/00 | N/A | 9 | N/A |
| 1315 | Burlington | Kings Highway Tower | N/A | Yes | 18,147,620 | 6.10% | 2/2034 | N/A | 12/01 | 4/04 | 24 | 24 |
| 1319 | Hudson | Marian Towers | Section 236 and Sec. 8 | No | 6,963,888 | 5.95% | 7/2032[5] | 4/1/24 | 11/01 | N/A | 9 | (2) |
| 1321 | Camden | Ferry Station | N/A | Yes | 14,250,000 | 5.95% | 3//2033 | N/A | 4/01 | 03/03 | 18 | 8 |
| 1316 | Morris | Paragon Village | N/A | Yes | 9,555,025[10] | 6.10% | 3/2033 | N/A | 11/01 | N/A | 15 | 21 |
| 1310 | Burlington | Browns Woods | Section 236 | Yes | 6,003,233 | 6.10% | 12/2032[6] | 6/19/18 | 11/01 | N/A | 12 | (2) |
| 1326 | Mercer | Bramblewood Adult Community | N/A | No | 6,672,279 | 5.95% | 9/2033 | N/A | 1/02 | 08/03 | 12 | 5 |
| 1325 | Middlesex | Avenel Manor | N/A | No | 5,617,924 | 6.10% | 8/2033[7] | N/A | 11/01 | 07/03 | 15 | 6 |
| 1323 | Mercer | Hamlet at Bear Creek | N/A | No | 2,945,520 | 6.10% | 01/2033[11] | N/A | 11/01 | 12/02 | 8 | 6 |
| 1292 | Burlington | Metropolitan Inn | N/A | No | 1,627,674 | 5.00% | 6/2004 | N/A | 12/01 | 05/03 | 12 | 6 |

| Project Number | County | Project Name | Subsidy Program | FHA Insurance | Approximate Expected Mortgage Loan Amount | Expected Mortgage Loan Interest Rate | Expected Mortgage Loan Maturity Date | Subsidy Maturity Date | Expected Construction Start Date | Expected Permanent Takeout[1] | Expected Remaining Construc-tion Term (months) | Expected Rent-Up Period (months) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1293 | Burlington | West Electronic Building | N/A | No | 3,225,896 | 5.00% | 6/2004 | N/A | 12/01 | 05/03 | 12 | 6 |
| 1327 | Essex | Dr. King Plaza at North Harrison Street | N/A | No | 9,407,729[8] | 6.10% | 7/2033 | N/A | 9/01 | 04/03 | 14 | 6 |

(1) Expected takeout date reflects 6 months from the anticipated completion date
(2) Existing Development; already occupied
(3) $441,928 will mature 15 months after takeout
(4) $1,808,101 will mature 26 months after takeout
(5) $3,245,097 will mature in 23.5 years
(6) $1,327,073 will mature in 15 years
(7) $1,367,035 will mature 13 months after takeout
(8) $6,396,034 will mature 18 months after takeout
(9) Agency also has an Administrative loan on this project in the amount of $2,100,000.
(10) Agency also has an Administrative loan on this project in the amount of $11,734,975.
(11) $1,612,124 will mature 18 months after takeout

# EXHIBIT D

## MORTGAGE LOANS ALLOCATED TO PRIOR BONDS

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EXHIBIT D

# MORTGAGE LOANS ALLOCATED TO PRIOR BONDS
# (OTHER THAN PLP SECTION 8 MORTGAGE LOANS)

## 2000 SERIES A1, C1 AND C2

| Project Number | County | Project Name | Number of Units | Initial Mortgage Term (in years) | Mortgage Loan Interest Rate | Original Mortgage Loan Principal Amount ($000 omitted) | Outstanding Mortgage Loan Balance on 4/30/01 ($000 omitted) | Replacement Reserve Balance on 4/30/01 ($000 omitted) | Mortgage Loan Type[3] | Mortgage Loan Maturity Date | Occupancy Rate as of 4/30/2001 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 1253 | Monmouth | Rug Mill Senior | 98 | 30 | 6.75% | $6,880 | $6,875 | 0 | Un | 01/01/31[2] | 28%[6] |
| 1254 | Monmouth | Rug Mill Families | 104 | 30 | 8.30% | $1,000 | $996 | 4 | Un | 10/01/30 | 98% |
| 1264 | Hudson | Lafayette Village | 136 | 30 | N/A | $10,500 | N/A | N/A | FHA | N/A | N/A |
| 1268 | Morris | Cook's Pond Senior Housing | 70 | 30 | 8.80% | $4,084 | $4,078 | 0 | Un | 12/01/30[4] | 100% |
| 1269 | Atlantic | Plymouth Place Apartments | 128 | 30 | 8.50% | $1,650 | N/A[6] | N/A | Un | 11/01/31 | 100% |
| 1275 | Monmouth | Mews at Collingwood Park | 110 | 30 | N/A | $2,178[5] | N/A | N/A | Un | N/A | N/A |
| 1226 | Monmouth | Sycamore Manor | 124 | 30 | N/A | $17,229 | N/A | N/A | FHA | N/A | N/A |
| 1251 | Burlington | The Monastery | 137 | 30 | N/A | $13,720 | N/A | N/A | FHA | N/A | N/A |
| 1260 | Morris | Victoria Mews | 97 | 30 | 8.50% | $14,735 | N/A[7] | N/A | FHA | 01/01/31 | N/A |
| 1261 | Middlesex | Buckingham Place | 112 | 30 | N/A | $16,936[5] | N/A | N/A | FHA | N/A | N/A |
| | | | | | | $88,912 | $11,949 | | | | |

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[1] Un refers to Unenhanced Mortgage Loan and FHA refers to FHA-Insured Mortgage Loan.
[2] $5,007,178 expected to be due December 1, 2001.
[3] $8,628,392 expected to be due October 1, 2002.
[4] $2,907,874 expected to be due November 1, 2001.
[5] Expected Mortgage, Loan not amortizing at 4/30/01.
[6] Loan Closed 5/30/01, initial loan amount isf $1,650,361.
[7] Loan Closed 5/23/01, initial loan amount is $14,735,048.
[8] Project in rent-up stage.

## 2000 SERIES A2 AND B

| Project Number | County | Project Name | Number of Units | Initial Mortgage Term (In Years) | Mortgage Loan Interest Rate | Original Mortgage Loan Principal Amount ($000 omitted) | Outstanding Mortgage Loan Balance on 4/30/01 ($000 omitted) | Replacement Reserve Balance on 4/30/01 ($000 omitted) | Mortgage Loan Type(3) | Mortgage Loan Maturity Date | Occupancy Rate of 4/30/01 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 1075 | Essex | Montclarion | 56 | 40 | 7.9300% | $3,100 | $2,901 | $202 | Un | 12/10/19 | 98% |
| 307 | Cape May | Victorian Towers | 206 | 47 | 9.0000% | $4,825 | $4,145 | $606 | 236 | 11/01/22 | 93% |
| 334 | Cumberland | Pinewood Hall | 171 | 47 | 9.0000% | $4,015 | $3,454 | $863 | 236 | 11/01/22 | 100% |
| 367 | Essex | WOSCHA | 183 | 47 | 9.0000% | $4,669 | $4,011 | $249 | 236 | 11/01/22 | 97% |
| 369 | Monmouth | Keyport Legion Apts | 209 | 47 | 9.0000% | $5,478 | $4,706 | $573 | 236 | 11/01/22 | 100% |
| 408 | Mercer | Pond Run I | 160 | 47 | 9.0000% | $3,546 | $3,047 | $956 | 236 | 11/01/22 | 88% |
| 410 | Essex | Two Twenty Prospect | 298 | 47 | 9.0000% | $7,764 | $6,670 | $598 | 236 | 11/01/22 | 99% |
| 419 | Hudson | Ocean Towers 1st | 100 | 39 | 10.4014% | $2,633 | $2,371 | $760 | 236 | 11/01/22 | 99% |
| 462 | Passaic | Murray M. Bisgaier | 201 | 47 | 9.0000% | $5,200 | $4,468 | $1,136 | 236 | 11/01/22 | 100% |
| 485 | Hudson | Unico Towers 1st | 203 | 47 | 9.0000% | $6,000 | $5,155 | $676 | 236 | 11/01/22 | 98% |
| 513 | Monmouth | Bayshore Village | 96 | 47 | 9.0000% | $1,824 | $1,567 | $316 | 236 | 11/01/22 | 98% |
| 582 | Middlesex | Old Bridge Rotary Sr. (1) | 204 | 30 | 12.3880% | $10,250 | $7,885 | $1,327 | 8 | 01/01/13 | 99% |
| 969 | Camden | Sycamore Ridge (2) | 304 | 30 | 12.3386% | $11,100 | $8,411 | $3,396 | 8 | 09/01/12 | 100% |
| 1055 | Burlington | Regency Park | 103 | 40 | 8.1800% | $5,536 | $5,215 | N/A | FHA | 04/01/30 | 74% |
| Total | | | | | | $75,940 | $64,006 | | | | |

(1) Section 8 Project, with HAP Contract conterminous with Mortgage Loan
(2) Section 8 Project, with HAP Contract that expires five months before the end of the term of the Mortgage Loan.
(3) Un refers to an Unenhanced Mortgage Loan, 236 refers to a Section 236 Mortgage Loan, 8 refers to a Section 8 Mortgage Loan and FHA refers to an FHA-Insured Mortgage Loan.

2000 SERIES E1, E2, F & G

| Project Number | County | Project Name | Subsidy Program | FHA Insurance | Mortgage Loan Interest Rate | Original Mortgage Loan Principal Amount ($000 omitted) | Outstanding Mortgage Loan Balance on 4/30/01 ($000 omitted) | Replacement Reserve Balance on 4/30/01 | Mortgage Loan Maturity Date | Subsidy Maturity Date | Occupancy Rate as of 4/30/01 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 1284 | Monmouth | Meridian @ Howell | N/A | Yes | | $12,025 | (1) | N/A | N/A | N/A | N/A |
| 1290 | Cumberland | Hopewell Place | N/A | No | 8.750% | $1,248 | $1,242 | $16 | 08/01/30 | N/A | 98% |
| 458 | Essex | Prospect Park Sr. Cits. | Sec.8 | No | 6.333% | $4,300 | $2,894 | $1,182 | 10/01/18 | 09/22/18 | 100% |
| 509 | Monmouth | Minnisnik Village | Sec.8 | No | 6.333% | $3,537 | $2,484 | $255 | 10/01/18 | 09/26/18 | 100% |
| 544 | Camden | Jewish Federation | Sec.8 | No | 6.333% | $5,000 | $3,601 | $1,139 | 10/01/18 | 11/29/18 | 100% |
| 548 | Hudson | Salem-Layayette | Sec.8 | No | 6.333% | $18,450 | $13,157 | $2,563 | 10/01/18 | 09/30/18(2) | 98% |
| 565 | Somerset | Somerville Sr. Citis. | Sec.8 | No | 6.333% | $5,500 | $3,652 | $2,104 | 10/01/18 | 04/10/18 | 99% |
| 566 | Monmouth | West Long Branch | Sec.8 | No | 6.333% | $6,000 | $4,321 | $623 | 10/01/18 | 11/08/18 | 95% |
| 578 | Camden | The Mansions | Sec.8 | No | 6.437% | $10,435 | $7,515 | $1,264 | 10/01/18 | 08/10/17(2) | 99% |
| 653 | Passaic | St. Theresa Sr. Citis. | Sec.8 | No | 6.437% | $3,258 | $2,310 | $1,313 | 10/01/18 | 06/19/18 | 100% |
| 258 | Mercer | Princeton Comm. Village | 236 | No | 6.437% | $9,656 | $7,770 | $289 | 04/01/24 | 04/01/24 | 99% |
| 277 | Salem | Penn Village | 236 | No | 6.437% | $3,618 | $2,916 | $2,160 | 04/01/24 | 04/01/24 | 95% |
| 279 | Essex | To-Sault | 236 | No | 6.437% | $18,250 | $14,709 | $268 | 04/01/24 | 04/01/24 | 92% |
| 331 | Essex | Mllwater Housing | 236 | No | 6.437% | $6,660 | $5,359 | $826 | 04/01/24 | 04/01/24 | 98% |
| 374 | Essex | Union Gardens | 236 | No | 6.437% | $3,551 | $2,858 | $259 | 04/01/24 | 04/01/24 | 99% |
| 417 | Essex | Mclver Homes | 236 | No | 6.437% | $3,195 | $2,571 | $636 | 04/01/24 | 04/01/24 | 98% |
| 433 | Union | Allen-Young Apts. | 236 | No | 6.437% | $4,440 | $3,628 | $594 | 04/01/25 | 04/01/25 | 99% |
| 554 | Essex | Reservoir Site Townhouses | 236 | No | 6.437% | $3,638 | $2,983 | $766 | 04/02/25 | 04/01/25 | 95% |

## 2000 SERIES E1, E2, F & G

| Project Number | County | Project Name | Subsidy Program | FHA Insurance | Mortgage Loan Interest Rate | Original Mortgage Loan Principal Amount ($000 omitted) | Outstanding Mortgage Loan Balance on 4/30/01 ($000 omitted) | Replacement Reserve Balance on 4/30/01 | Mortgage Loan Maturity Date | Subsidy Maturity Date | Occupancy Rate as of 4/30/01 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 561 | Passaic | Carroll St. Homes INCCA | 236 | No | 6.437% | $4,000 | $3,285 | $521 | 04/03/25 | 04/01/25 | 91% |
| 605 | Hudson | Marian Towers | 236 | No | 6.437% | $5,844 | $4,775 | $708 | 04/01/24 | 04/04/25 | 100% |
| 607 | Essex | West Kinney Apts. | Sec.8 | No | 7.305% | $4,923 | $3,607 | $604 | 01/08/16 | 01/08/16 | 97% |
| 1026 | Essex | Norfolk Square Apts. | Sec 8 | No | 12.465% | $4,570 | $3,339 | $310 | 08/01/13 | 09/01/13 | 98% |
| 806 | Essex | Corinthian Towers | Sec. 8 | Yes | 10.160% | $10,250 | $9,520 | $589 | 05/01/25 | 04/30/05 | 100% |
| 1053 | Essex | Douglas Harrison | N/A | No | 9.800% | $3,000 | $2,461 | $29 | 09/01/16 | N/A | 78% |
| 1084 | Mercer | Chestnut Park | Sec. 8 | NO | 9.500% | $3,524 | $3,102 | $267 | 10/01/19 | 04/14/11 | 100% |
| TOTAL | | | | | | $158,872 | $144,109 | | | | |

(1) Project not amortizing as of 4/30/01, still under construction
(2) Project completed in stages; date is expiration of subsidy contract for the first stage.

## 1999 SERIES A, B & C

| Number | County | Project Name | Number of Units | Original Mortgage Loan Amount ($000 omitted) | Outstanding Mortgage Loan Balance on 4/30/01 ($000 omitted) | Replacement Reserve Balance on 04/30/01 ($000 omitted) | Mortgage Loan Origination Date | Mortgage Loan Maturity Date | Occupancy Rate as of 4/30/01 |
|---|---|---|---|---|---|---|---|---|---|
| 1248 | Mercer | McCorristin Square | 70 | $4,001 | $3,989 | 15 | 05/31/00 | 06/01/30 | 100% |
| 1250 | Passaic | North Main Street (1) | 70 | $6,700 | $0 | N/A | N/A | 11/01/00 | N/A |
| 1252 | Monmouth | Spring Lake Gardens | 66 | $4,165 | $4,140 | 0 | 11/14/00 | 10/01/30 | 58% |
| 1255 | Gloucester | Mill Stream Apts. | 96 | $4,489 | $4,463 | 17 | 10/01/00 | 10/01/30 | 97% |
| 1213 | Essex | Lincoln Courts | 85 | $1,150 | $1,128 | 90 | 02/25/99 | 03/01/29 | 98% |
| 1236 | Essex | Bruce Street | 108 | $2,288 | $2,278 | 16 | 11/01/00 | 10/01/30 | 100% |
| 1228 | Cape May | Marina Bay Towers | 142 | $2,336 (2) | N/A | N/A | N/A | N/A | N/A |
| 1265 | Union | Leland Gardens | 256 | $10,312 | $10,247 | 39 | 10/01/00 | 10/01/30 | 99% |
| TOTAL | | | 893 | $35,441 | $26,245 | | | | |

(1) Construction Loan only
(2) Approximate
(3) Project in rent-up stage.

1997 SERIES A, B & C

| Project Number | County | Name | Project Number of Units | Mortgage Loan Interest Rate | Original Mortgage Loan Principal amount ($000 omitted) | Outstanding Mortgage Balance Loan on 4/30/01 ($000 omitted) | Replacement Reserve Balance on 4/30/01 ($000 omitted) | Mortgage Loan Type(3) | Mortgage Loan Origination Date | Mortgage Loan Maturity Date | Occupancy Rate as of 04/30/01 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 1230 | Monmouth | Pavilion | 60 | 6.31% | $1,456 | $1,416 | $64 | Un | 03/01/99 | 01/01/29 | 98% |
| 1138-B | Middlesex | Clara Barton I | 27 | 6.31% | $2,352 | $2,332 | $19 | Un | 05/01/99 | 07/01/29 | 96% |
| 1138 | Middlesex | Clara Barton II | 84 | 6.04% | $10,100 | $9,846 | $110 | FHA | 05/01/99 | 07/01/29 | 76% (7) |
| 1235 | Hudson | Essex Commons(1) | 70 | 6.29% | $11,556 | (4) | N/A | Un | N/A | 07/01/29 | N/A |
| 1234 | Passaic | Nellis Commons | 95 | 6.31% | $5,159 | $4,967 | $169 | Un | 05/01/98 | 04/01/28 | 100% |
| 1198 | Bergen | Edgewater III | 378 | 6.29% | $55,565 | $55,181 | N/A | FHA | 02/01/00 | 02/01/40 | 10%(7) |
| 1244 | Gloucester | County House Village | 96 | 7.92% | $1,656 | $1,631 | $69 | Un | 08/01/99 | 07/01/29 | 100% |
| 1146 | Hudson | Salem-Lafayette(2) | 74 | 7.47% | $1,800 | $1,573 | $64 | 8 | 02/01/99 | 07/01/14 | 100% |
| 1233 | Essex | Berkeley | 51 | 7.92% | $813 | $796 | $59 | Un | 02/01/99 | 07/01/29 | 96% |
| 1195 | Morris | Wharton | 101 | 7.92% | $3,310 | $3,233 | $98 | Un | 10/01/98 | 09/01/28 | 98% |
| 1170 | Mercer | Pellettieri | 69 | 7.92% | $752 | $741 | $57 | Un | 08/01/99 | 07/01/29 | 96% |
| 1182 | Essex | Arlington Grove | 95 | 8.80% | $1,850 | $1,797 | $242 | Un | 02/01/98 | 09/01/27 | 97% |
| TOTAL | | | 1,200 | | $96,369 | $83,563 | | | | | |

(1) See "MORTGAGE LOANS - Certain Factors Affecting Mortgage Loans - Occupancy Levels and Delinquencies" herein
(2) Section 8 Mortgage Loan with HAP Contract expiring 36 months before the end of the term of the Mortgage Loan.
(3) With the exception of Mortgage Loans in arrears or partially prepaid, the outstanding principal balance of the Mortgage Loan as of the applicable date equals the amortized principal balance.
(4) Mortgage Loan was no amortizing as of 4/30/01.
(5) Un refers to an Unenhanced Mortgage Loan, 8 refers to a Section 8 Mortgage Loan, and FHA refers to an FHA-Insured Mortgage Loan.
(6) Indicates first payment date
(7) Project in rent-up stage.

1996 SERIES A & B

| Project Number | County | Project Name | Number of Units | Initial Mortgage Term (In Years) | Mortgage Loan Interest Rate | Original Mortgage Loan Amount ($000 omitted) | Outstanding Mortgage Loan Balance on 4/30/01 ($000 omitted) | Replacement Reserve Balance on 04/30/01 ($000 omitted) | Mortgage Loan Type(3) | Mortgage Loan Origination Date | Mortgage Loan Maturity Date | Occupancy Rate as of 4/30/01 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1199 | Bergen | Paramus Sr. Hsg. | 64 | 30 | 7.10% | $2,693 | $2,570 | 126 | Un | 03/21/97 | 03/01/27 | 100% |
| 1200 | Hunterdon | Readington Apts | 61 | 30 | 7.10% | $2,517 (1) | $2,485 | 43 | Un | 12/28/99 | 01/01/30 | 93% |
| 1202 | Gloucester | Deptford Park II | 80 | 30 | 7.10% | $2,817 | $2,727 | 124 | Un | 05/01/98 | 04/01/28 | 99% |
| 1202 | Gloucester | Deptford Park II | 108 | 2 | 5.00% | $1,727 | $0 | N/A | Un | 04/18/97 | 01/31/99 | 99% |
| 1181 | Camden | Taunton Run | 108 | 30 | 7.10% | $3,250 | $3,171 | 41 | Un | 11/18/99 | 12/01/28 | 97% |
| 1167 | Camden | Sergi Farms | 120 | 30 | 9.10% | $3,035 | $2,982 | 72 | Un | 10/23/98 | 11/01/28 | 93% |
| 1188 | Monmouth | Tinton Falls | 120 | 30 | 7.10% | $3,223 | $3,180 | 115 | Un | 12/01/99 | 12/1/2* | 99% |
| 1190 | Passaic | Summer Hill | 164 | 30 | 6.80% | $9,225 | $8,921 | 161 | Un | 04/29/98 | 05/01/28 | 100% |
| 1203 | Essex | Park Ave. Apts. | 50 | 30 | 7.10% | $1,649 | $1,579 | 146 | Un | 07/01/97 | 07/01/27 | 98% |
| 1203 | Essex | Park Ave. Apts | - | 2 | 4.75% | $892 | $0 | N/A | Un | 07/01/97 | 01/01/01 | 98% |
| 1203 | Essex | Park Ave. Apts. | - | 30 | 10.0% | $65 | $65 | N/A | Un | 07/10/97 | 07/01/27 | 98% |
| 1209 | Camden | Main Street II | 72 | 30 | 9.10% | $1,752 | $1,703 | 50 | Un | 07/29/97 | 08/01/27 | 89% |
| 1184 | Hudson | Mid-City II | 30 | 15 | 9.10% | $719 | $618 | 56 | 8 | 08/01/97 | 07/01/27 | 90% |
| 1171 | Mercer | Wood Street | 46 | 17 | 9.10% | $1,341 | $1,131 | 67 | 8 | 04/11/94 | 10/01/13 | 98% |
| 1160 | Hudson | Mid-City I | 58 | 13.2 | 9.10% | $990 | $722 | 197 | 8 | 09/14/93 | 11/01/09 | 100% |
| 1197 | Mercer | Stockton Arms | 33 | 29.5 | 10.0% | $994 | $988 | 7 | Un | 04/09/96 | 04/01/26 | 85% |
| TOTAL | | | 1,006 | | | $36,889 | $32,842 | | | | | |

With the exception of Mortgage Loans in arrears or partially prepaid, the outstanding principal balance of the Mortgage Loan as of the applicable date equals the amortized principal balance.

1995 SERIES A, B & C

| Project Name | County | Project Name | Number of Units | Initial Mortgage Term (In Years) | Mortgage Loan Interest Rate | Original Mortgage Loan Principal Amount ($000 omitted) | Outstanding Mortgage Loan Balance on 4/30/01 ($000 omitted) | Replacement Reserve Balance on 4/30/01 ($000 omitted) | Mortgage Loan Type(3) | Mortgage Loan Origination Date | Mortgage Loan Maturity Date | Occupancy Rate as of 4/30/01 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 257 | Essex | Felicity | 148 | 47 | 8.255% | $3,506 | $2,956 | $239 | 236 | 10/31/72 | 02/01/23 | 99% |
| 262 | Passaic | Wayne Sr. Citz. | 242 | 47 | 8.255% | $6,920 | $5,835 | $613 | 236 | 09/27/72 | 02/01/23 | 98% |
| 321 | Essex | New Hope | 169 | 47 | 8.255% | $6,140 | $5,289 | $23 | 236 | 10/03/73 | 02/01/23 | 98% |
| 333 | Hudson | Henderson St. | 242 | 47 | 8.255% | $9,650 | $8,137 | $1,114 | 236 | 09/10/74 | 02/01/23 | 99% |
| 360 | Passaic | Colt Arms | 207 | 47 | 8.255% | $5,472 | $4,614 | $689 | 236 | 11/27/74 | 02/01/23 | 99% |
| 425 | Union | Plainfield Sr. Ctz. | 141 | 47 | 8.255% | $3,495 | $2,947 | $867 | 236 | 01/16/73 | 02/01/23 | 100% |
| 437 | Union | Elizabeth Sr. Ctz. | 193 | 47 | 8.255% | $4,572 | $3,855 | $866 | 236 | 07/05/73 | 02/01/23 | 99% |
| 514 | Monmouth | Middle Road | 212 | 47 | 8.255% | $5,400 | $4,553 | $402 | 236 | 11/14/73 | 02/01/23 | 100% |
| 547 | Hudson | Tikvah Towers | 238 | 47 | 8.255% | $6,175 | $5,207 | $870 | 236 | 06/28/74 | 02/01/23 | 97% |
| 330 | Camden | Pine Hill Apts. | 300 | 47 | 8.395% | $5,855 | $5,013 | $392 | 236 | 10/29/71 | 10/01/23 | 96% |
| 335 | Atlantic | Community Haven | 267 | 47 | 8.395% | $6,400 | $5,480 | $732 | 236 | 01/17/75 | 10/01/23 | 93% |
| 349 | Essex | New Community Homes | 120 | 47 | 8.395% | $4,448 | $3,944 | $316 | 236 | 09/20/73 | 10/01/23 | 90% |
| 387 | Mercer | Trent Center West | 246 | 47 | 8.395% | $6,740 | $5,778 | $1,137 | 236 | 10/31/73 | 10/01/23 | 95% |
| 456 | Essex | Shalom Clemente | 168 | 47 | 8.395% | $5,950 | $5,121 | $883 | 236 | 09/20/74 | 10/01/23 | 92% |
| 500 | Middlesex | New Brunswick Apts | 206 | 47 | 8.395% | $4,456 | $3,815 | $387 | 236 | 03/05/73 | 10/01/23 | 99% |

## 1995 SERIES A, B & C

| Project Name | County | Project Name | Number of Units | Initial Mortgage Term (In Years) | Mortgage Loan Interest Rate | Original Mortgage Loan Principal Amount ($000 omitted) | Outstanding Mortgage Loan Balance on 4/30/01 ($000 omitted) | Replacement Reserve Balance on 04/30/2001 ($000 omitted) | Mortgage Loan Type(3) | Mortgage Loan Origination Date | Mortgage Loan Maturity Date | Occupancy Rate as of 04/30/2001 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 529 | Essex | Court Street | 221 | 47 | 8.395% | $6,358 | $5,444 | 980 | 236 | 12/19/74 | 110/1/23 | 99% |
| 577 | Bergen | Marin Luther King Apartments | 100 | 47 | 8.395% | $4,700 | $4,024 | 202 | 236 | 05/21/75 | 10/01/23 | 100% |
| 882 | Monmouth | Sebastian Villa | 171 | 48 | 10.280% | $7,450 | $7,063 | 287 | 236 | 04/15/80 | 12/01/29 | 98% |
| 926 | Middlesex | Hall's Corner Ass. | 154 | 48 | 10.280% | $6,619 | $6,282 | 543 | 236 | 04/23/80 | 02/01/30 | 99% |
| 935 | Essex | Salem Towers | 113 | 48 | 10.280% | $5,310 | $5,040 | 186 | 236 | 04/23/80 | 02/01/30 | 98% |
| 399 | Essex | Oakwood Towers | 237 | 28.5 | 12.322% | $11,400 | $8,573 | 1,512 | 8 | 07/27/81 | 03/01/13 | 99% |
| 861 | Middlesex | New Brunswick Sr. Ctz. Homes (1) | 214 | 28.9 | 11.7399% | $11,600 | $8,772 | 1,348 | 8 | 05/26/81 | 02/13/01 | 98% |
| 844 | Mercer | St. James Village (2) | 110 | 30 | 9.875% | $6,225 | $4,873 | 822 | 8 | 07/01/83 | 06/01/15 | 98% |
| 900 | Mercer | Park Place (1) | 126 | 30 | 9.875% | $6,950 | $5,232 | 805 | 8 | 04/13/83 | 05/01/14 | 98% |
| 945 | Ocean | Highland Plaza (3) | 111 | 30 | 9.875% | $6,600 | $5,077 | 1,281 | 8 | 04/18/83 | 12/01/14 | 99% |
| 1048 | Passaic | 400 Broadway (1) | 50 | 30 | 9.875% | $3,015 | $2,298 | 509 | 8 | 07/14/83 | 09/01/14 | 100% |
| 1052 | Atlantic | McKinley Apts. | 177 | 30 | 6.95% | $9,877 | $6,641 | 296 | Un | 06/07/84 | 01/01/16 | 96% |
| Total | | | 4,883 | | | $171,283 | $141,863 | | | | | |

(1) Section 8 Project, with HAP Contract coterminous with Mortgage Loan
(2) Section 8 Project, with HAP Contract that expires 37 months before the end of the term of the Mortgage Loan.
(3) Section 8 Project, with HAP Contract that expires 7 months after the end of the term of the Mortgage Loan.
(4) With the exception of Mortgage Loans in arrears or partially prepaid, the outstanding principal balance of the Mortgage Loan as of the applicable date equals the amortized principal balance.

1999 SERIES A, B & C

PLP SECTION 8 MORTGAGE LOANS

| Project Number | County | Name(1) | Project Number of Units(2) | Existing Mortgage Indebtedness Balance on 4/30/01 | Existing Mortgages Indebtedness Interest Rate | Original PLP Mortgage Loan Principal Amount ($000 omitted) | Outstanding PLP Mortgage Loan Principal Amount as of 4/30/01 ($000 omitted(4) | PLP Mortgage Loan Interest Rate | Replacement Reserve Balance on 4/30/01 ($000 omitted) | Mortgage Loan Maturity Date(3) | Occupancy Rate as of (4/30/01) |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 742 | Essex | Irvington (Edward F. Gray Apts.) | 129 | $3,859 | 8.35% | $476 | $398 | 5.20% | $1,096 | 6/2011 | 100% |
| 861 | Middlesex | New Brunswick (Schatzman Apts.) | 214 | $8,772 | 11.7399% | $1,599 | $1,342 | 5.20% | $1,348 | 2/2013 | 98% |
| TOTAL | | | 343 | $12,631 | | $2,035 | $1,740 | | | | |

(1) Each is a Section 8 Project.
(2) All units in each of these Projects are the subject of Section 8 subsidies.
(3) The Existing Mortgage Indebtedness and the 1996 PLP Section 8 Mortgage Loan are coterminous.

1997 SERIES A, B & C

PLP SECTION 8 MORTGAGE LOANS

| Project Number | County | Name(1) | Project Number of Units(2) | Existing Mortgage Indebtedness Balance on 4/30/01 | Existing Mortgages Indebtedness Interest Rate | Original PLP Mortgage Loan Principal Amount ($000 omitted) | Outstanding PLP Mortgage Loan Principal Amount as of 4/30/01 ($000 omitted(4) | PLP Mortgage Loan Interest Rate | Replacement Reserve Balance on 4/30/01 ($000 omitted) | Mortgage Loan Maturity Date(3) | Occupancy Rate as of (04/30/01) |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 929 | Atlantic | Atlantic City Sr. | 175 | 5,375 | 6.69% | $1,573 | 1,445 | 7.329% | $1,221 | 10/1/20 | 99% |
| 718 | Essex | Grace West Manor | 429 | 8,033 | 5.8842% | $2,647 | 2,050 | 8.96% | $1,423 | 10/1/09 | 99% |
| 785 | Passaic | Boulevard St. | 187 | 3,757 | 6.96% | $4,530 | 3,421 | 8.20% | $900 | 04/01/10 | 99% |
| TOTAL | | | 791 | $17,165 | | $8,750 | $6,916 | | | | |

(1) Each is a Section 8 Project, with HAP Contract coterminous with Existing Mortgage Indebtedness and PLP Section 8 Mortgage Loan
(2) All units in each of these Projects are the subject of Section 8 subsidies.
(3) The Existing Mortgage Indebtedness and the 1996 PLP Section 8 Mortgage Loan are coterminous.
(4) With the exception of Mortgage Loans in arrears or partially prepaid, the outstanding principal balance of the Mortgage Loan as of the applicable date equals the amortized principal balance.
(5) Section 8 Project, with HAP Contract expiring five months before the end of the term of the Mortgage Loan.

1996 SERIES A, & B

| Project Number | County | Name | Project Number of Units(2) | Existing Mortgage Indebtedness Balance on 4/30/01 ($000 omitted) | Existing Mortgages Indebtedness Interest Rate | Original PLP Mortgage Loan Principal Amount ($000 omitted) | Outstanding PLP Mortgage Loan Principal Amount as of 4/30/01 ($000 omitted(4) | PLP Mortgage Loan Interest Rate | Replacement Reserve Balance on 4/30/2001 ($000 omitted) | Mortgage Loan Maturity Date | Occupancy Rate as of 4/30/2001 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 595 | Bergen | Malcolm Towers[(1)(3)] | 225 | $4,414 | 5.6842% | $3,595 | $2,777 | 9.42% | $1,349 | 09/01/12 | 98% |
| 578 | Camden | Mansions [(5)] | 360 | $7,515 | 6.333% | $4,039 | $3,713 | 9.526% | $1,264 | 09/01/18 | 99% |
| | TOTAL | | 585 | $11,929 | | $7,634 | $6,490 | | | | |

(1) A Section 8 Project, with HAP Contract coterminous with Existing Mortgage Indebtedness and PLP Section 8 Mortgage Loan
(2) All units in each of these Projects are the subject of Section 8 subsidies.
(3) The Existing Mortgage Indebtedness and the 1996 PLP Section 8 Mortgage Loan are coterminous.
(4) With the exception of Mortgage Loans in arrears or partially prepaid, the outstanding principal balance of the Mortgage Loan as of the applicable date equals the amortized principal balance.
(5) Section 8 Project, with HAP Contract expiring five months before the end of the term of the Mortgage Loan.

1995 SERIES A, B & C

PLP SECTION 8 MORTGAGE LOANS

| Project Name | County | Project Name(1) | Number of Units((2) | Existing Mortgage Indebtedness Balance on 4/30/01 ($000 omitted) | Existing Mortgages Indebtedness Interest Rate | Original PLP Mortgage Loan Principal Amount as of 4/30/01 ($000 omitted) | Outstanding PLP Mortgage Loan Principal Amount as of 4/30/01 ($000 omitted)(4) | PLP Mortgage Loan Interest Rate | Replacement Reserve Balance on 4/30/01 ($000 omitted) | Mortgage Loan Maturity Date(3) | Occupancy Rate as of 4/30/01 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 849 | Mercer | Lawrence Plaza | 161 | $4,888 | 6.96% | $4,000 | $3,574 | 6.65% | $1,293 | 10/01/20 | 97% |
| 733 | Mercer | Pond Run II | 161 | $4,128 | 6.024% | $2,770 | $2,450 | 6.65% | $1,432 | 10/01/19 | 97% |
| 495 | Essex | Arlington House | 179 | $4,621 | 8.453% | $2,266 | $1,737 | 7.90% | $1,061 | 03/01/11 | 100% |
| 761 | Camden | Echelon Towers | 267 | $7,239 | 6.96% | $4,075 | $3,631 | 6.45% | $2,388 | 10/01/20 | 99% |
| Total | | | 768 | $20,876 | | $13,111 | $11,392 | | | | |

(1) A Section 8 Project, with HAP Contract coterminous with Existing Mortgage Indebtedness and PLP Section 8 Mortgage Loan
(2) All units in each of these Projects are the subject of Section 8 subsidies.
(3) The Existing Mortgage Indebtedness and the 1996 PLP Section 8 Mortgage Loan are coterminous.
(4) With the exception of Mortgage Loans in arrears or partially prepaid, the outstanding principal balance of the Mortgage Loan as of the applicable date equals the amortized principal balance.
(5) Section 8 Project, with HAP Contract expiring five months before the end of the term of the Mortgage Loan.

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# EXHIBIT E

# FEDERAL HOUSING ASSISTANCE, MORTGAGE INSURANCE AND PLP PROGRAMS

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**EXHIBIT E**

# FEDERAL HOUSING ASSISTANCE, MORTGAGE INSURANCE AND PLP PROGRAMS

## SECTION 8 PROGRAM

### General

Section 8 provides for the payment by HUD of a federal housing subsidy for the benefit of low-income families (defined generally as families whose annual income does not exceed 80% of the median income for the area as determined by HUD) and very low-income families (defined generally as families whose annual income does not exceed 50% of the median income for the area as determined by HUD). HAP Payments may be made to or for the account of the owner of dwelling units occupied by low-income and very low-income families. Provision is made under the 1937 Housing Act and HUD regulations thereunder for administration of the Section 8 program through state housing finance agencies, including the Agency, and through local public housing authorities ("PHAs"). As is further described below, under this arrangement, the state housing finance agency or the PHA enters into a Housing Assistance Payments Contract ("HAP Contract"), pursuant to which it agrees to pay the subsidy to or for the account of the owner and concurrently enters into an Annual Contributions Contract ("ACC") with HUD for the receipt of a corresponding subsidy payment from HUD. With respect to the Section 8 new construction or substantial rehabilitation programs, HUD regulations permit the state agency to exercise a high degree of program responsibility for developments without federal mortgage insurance, such as selection of the developer, approval of design and construction quality, site selection, and determination of economic feasibility and marketability, subject to audit and review by HUD to assure compliance with federal requirements and objectives. All of the Section 8 Projects financed with the proceeds of Prior Mortgage Loans and the Projects which are the subject of Prior PLP Section 8 Mortgage Loans involved Section 8 new construction or substantial rehabilitation subsidies administered in this fashion.

Pursuant to amendments to the 1937 Housing Act effected by the Housing and Community Development Amendments of 1981 (the "1981 Amendments"), as amended, not more than 10% of the dwelling units which were available for occupancy under public housing ACCs and HAP Contracts before the October 1, 1981 effective date of the 1981 Amendments ("Pre-1981 Act Projects") and that are leased thereafter shall be available for leasing by low-income families other than very low-income families; and not more than 5% of the dwelling units which become available for occupancy under public housing ACCs and HAP Contracts after the effective date of the 1981 Amendments ("Post-1981 Act Projects") shall be available for leasing by low-income families other than very low-income families.

The Housing and Urban Rural Recovery Act of 1983 amended the 1937 Housing Act. Among other things, the 1983 Amendments (i) repealed the Secretary of HUD's authority to enter into ACCs for any developments involving new construction or substantial rehabilitation, except for funds obligated prior to January 1, 1984, and (ii) increased to 25 percent from ten percent the number of dwelling units which were available for occupancy under HAP Contracts before the effective date of the 1981 Amendments which may be leased to low-income families other than very-low income families.

On March 23, 1994, HUD published a regulation implementing the requirement of Section 151 of the Housing and Community Development Act of 1992 and Section 555 of the Cranston-Gonzalez National Affordable Housing Act of 1990 ("Cranston-Gonzalez") that any dwelling unit in any housing constructed or substantially rehabilitated pursuant to assistance provided under Section 8(b)(2) of the 1937 Housing Act, as that section existed before October 1, 1983, and with a contract for assistance under that section, be reserved for occupancy by low-income and very-low income families. This regulation, which became effective as of April 22, 1994, removes the exemption to lease to ineligible families for owners who entered into an agreement to enter into a HAP Contract prior to October 1, 1981.

The "Quality Housing and Work Responsibility Act of 1998", Publ. L. 105-276, has again revised the income eligibility standards for Section 8 projects. For Pre-1981 Act Projects, the rule remains that not more than 25% of the units shall be available for occupancy by low-income families other than very low-income families. For Post-1981 Act Projects, not more than 15 percent of the dwelling units shall be available for occupancy by low-income families other than very low-income families. Recent legislation also requires that not less than 40% of the dwelling units that become available for occupancy in any fiscal year shall be available for leasing only by families whose annual income does not exceed 30% of area median income (as determined by HUD and adjusted for family size) at the time of admission.

**Subsidy Contracts**

As administered through the Agency, three principal contracts are executed for new construction or substantial rehabilitation Projects under the Section 8 program. The Agency enters into an Agreement to enter into Housing Assistance Payments Contract ("AHAP") with the developer or owner of the development to be constructed or substantially rehabilitated. (From time to time, the AHAP, the HAP Contract and the ACC, or any of them, are referred to herein as the "subsidy contracts.") The AHAP is approved by HUD. Subject to certain conditions, the AHAP commits the Borrower and the Agency to enter into the HAP Contract upon completion and acceptance of the Project, providing for payment by the Agency of HAP Payments to or for the account of the Borrower. At the same time as the AHAP is executed, the Agency and HUD execute the ACC which provides for the payment to the Agency by HUD of the subsidy which the Agency is to pay to or for the account of the Borrower under the proposed HAP Contract. The HAP Contract

must be submitted to HUD for approval and its effective date may not precede the date the Agency inspects and accepts the project or submission to HUD of certification as to completion (except for minor work items which do not preclude or affect occupancy) of the Project. The HAP Contract may be executed with respect to separate stages of a Project completed at different times. PHAs function in a role comparable to the Agency for purposes of the HAP Contracts for project-based assistance.

**Initial Amount of Subsidy**

Section 8 HAP Payments are based upon the Contract Rents applicable to subsidized dwelling units. An initial Contract Rent is established in the HAP Contract for each Section 8 unit at a level intended to be sufficient to pay the debt service and operating costs (and, in most instances, a return to the project owner) attributable to such unit in its first year of operation.

The amount of the subsidy payable to the Agency (or the PHA) for the account of the owner under the HAP Contract is the applicable Contract Rent less the payment, if any, required to be made to the owner by the tenant as determined by HUD. The tenant payment is generally equal to 30% of family income, though each assisted family is generally required to pay a minimum rent of between $25 and $50 per month. Thus, the total rental income from Section 8 housing units payable to or for the account of the owner is equal to the Contract Rent, part being paid by the tenants directly to the owner and the remainder being paid by HUD through the Agency to the owner in the form of HAP Payments. The proportion of the Contract Rent actually paid by HUD and that actually paid by tenants will vary depending upon tenant income. Contract Rents are subject to adjustment as described in "Expiring HAP Contracts and Recent Legislation" and "Adjustments of Contract Rents" below.

**Term of the Subsidy Contracts**

A Project financed by bonds or notes of the Agency during its construction is not eligible to receive Section 8 subsidy payments with respect to eligible dwelling units until a certification of completion has been furnished. Once a Project (or a stage of a Project) has been accepted as complete, the Agency subsidy contracts provide for the payment of the Section 8 subsidy for a maximum period of not more than 40 years from the date of the initial HAP Contract (including renewals) with respect to the applicable portion of the Project. HAP Contracts with a maximum term of 40 years have an initial term of five years with seven five-year renewals contemplated, or an initial term of 20 years with four five-year renewals. Agency HAP Contracts with a maximum term of 30 years have an initial term of five years with five-year renewals, or an initial term of 20 years with two five-year renewals. In the case of all Agency HAP Contracts, renewal of the HAP Contract is automatic unless both the Agency and the project owner elect not to renew. The PHA HAP

Contract bears a single fifteen-year term. Generally, HAP Contracts for Projects with FHA-Insured Mortgage Loans have a maximum term of 20 years.

**Expiring HAP Contracts and Recent Legislation**

Certain of the HAP Contracts of Section 8 Projects that are allocable to the Prior Bonds expire before the maturity dates of the related Section 8 Mortgage Loans. The question of HAP Contract renewals has been the subject of much discussion, and a federal policy has been established with enactment of The Multifamily Assisted Housing Reform and Affordability Act of 1997 (the "1997 Act"), Publ. L. 105-65. The 1997 Act implemented a "Portfolio Reengineering" program also referred to as "the Mark-to-Market" program, directed primarily at Section 8 projects with mortgages insured by FHA pursuant to the National Housing Act, but also setting out the terms for renewals of HAP Contracts for Section 8 projects that are not FHA-insured. The Agency's underwriting of a particular Project assumes that there will not be a renewal of its Section 8 HAP Contract upon expiration unless HUD provides a project specific, binding, long-term commitment of Section 8 subsidy.

Under the 1997 Act, many FHA-insured Section 8 projects with expiring HAP Contracts and above-market rents will be eligible for restructuring plans and, upon restructuring, may receive continuing Section 8 assistance. These restructuring plans may include partial prepayment of mortgage debt intended to reduce Section 8 rent levels to those of comparable market rate properties or to the minimum level necessary to support proper operations and maintenance, and in certain cases, such plans may comprehend involve a change from "project-based" to "tenant-based" Section 8 subsidies. If the HAP Contract which applies to a Section 8 Project is renewed with provision for "tenant-based" Section 8 subsidies, the Agency assumes that, if the particular tenants residing in the project at the time of restructuring of the FHA-insured mortgage should move, the project will no longer benefit from HAP Payments with respect to the units occupied by the departing tenants.

The 1997 Act contained unique HAP Contract renewal and rent determination standards for Section 8 projects for which the primary financing or mortgage insurance was provided by a unit of State or local government (or an agency or instrumentality thereof). Such projects, under the 1997 Act, were excluded from restructuring and instead were eligible for renewal at the lesser of: (1) existing rents adjusted by an Operating Cost Adjustment Factor ("OCAF") established by HUD, or (2) a budget-based rent determined by HUD. However, Congress recently passed the "Preserving Affordable Housing for Senior Citizens and Families into the 21st Century Act" as part of HUD's Fiscal Year 2000 Appropriations Act (the "1999 Act"), which amends portions of the 1997 Act with the evident intent, among other things, of making the Mark-to-Market program apply to Section 8 projects with FHA-insured mortgages for which the primary financing was provided by a unit of state or local government unless the implementation of a

mortgage restructuring plan is in conflict with applicable law or agreements governing such financing. Currently, there are bills pending in the House of Representatives and the Senate to amend the 1997 Act through the "Office of Multifamily Housing Assistance Restructuring Extension Act of 2001" to reauthorize the Office of Multifamily Housing Assistance Restructuring through September 30, 2004 (House) or September 30, 2006 (Senate).

The Agency believes it prudent to assume that those Section 8 Projects which have HAP Contracts expiring prior to the maturity dates of the related Section 8 Mortgage Loans will either require mortgage restructuring under the Mark-to-Market program upon expiration of the related HAP Contracts or, if such projects are ineligible for restructuring, may default on or prepay their FHA-insured mortgages. Any such event, including mortgage restructuring, may result in a partial or full prepayment of the particular Section 8 Mortgage Loan.

Most of the Section 8 Projects financed with the proceeds of the Prior Mortgage Loans and the Projects which are the subjects of the PLP Mortgage Loans fall within the category of state-financed, non-FHA-insured mortgages, which are not subject to mortgage restructuring under the Mark-to-Market program upon expiration of the related HAP Contracts. Most such HAP Contracts are not subject to expiration (other than subject to mandatory renewal as described above in "Term of the Subsidy Contracts") until maturity of the related Section 8 Mortgage Loans. Under current law, upon request of the owner of such a project, HUD is required to renew an expiring HAP Contract (absent certain actions or omissions of an owner or affiliate and subject to certain verifications) at existing rents adjusted by an OCAF or budget-based rents if determined by HUD. Renewals are available for an initial term of five years, subject to availability of funds. Contract Rents upon subsequent renewals would reflect the lesser of existing rents adjusted the OCAF established by HUD or a budget-based rent determined by HUD. While there can be no assurance that any such rent adjustments will provide for Contract Rents adequate to pay principal and interest on the related Section 8 Mortgage Loans, the Agency expects that any such mortgage loans will have matured by the expiration of the related HAP Contracts. More generally, there can be no assurance that future law, policies or funding levels at the time of expiration of these HAP Contracts will continue to make renewals and rent adjustments available on the same terms as are currently anticipated or at all.

The 1999 Act also provides for a new program (sometimes known as the Mark-Up-To-Market Program) for preservation of Section 8 projects that. That program allows increases in Section 8 rent levels for certain Section 8 projects that have below market rents, to market or near market rate levels. HUD Notice H 00-8 dated May 16, 2000 approves Section 8 Enhanced Vouchers in preservation eligible projects. Enhanced Vouchers are for a period of one year with one year renewals subject to funding availability. Enhanced Vouchers will also be given to all tenants if the owner chooses not to renew the HAP contract.

While under current law, owners are generally allowed to renew expiring project-based HAP Contracts (absent certain material adverse conduct or conditions), owners are not required to renew the HAP Contracts upon expiration. Upon an owner's election. If an owner elects not to renew a HAP Contract, the owner is required to provide certain notices and transitional tenant protections.

**Limitations on Payments of Subsidy: Vacancies**

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

With respect to Section 8 new construction and substantial rehabilitation projects, a payment amounting to 80% of the Contract Rent is payable for a vacancy period of up to sixty (60) days (a) during the rent-up period following completion of the Project or a stage of the Project, and (b) upon occurrence of a vacancy in an assisted dwelling unit after it is initially rented, subject in each case to compliance by the owner with certain conditions relating primarily to a diligent effort to rent the subsidized unit. Thereafter HAP Payments may continue for an additional twelve-month period in an amount equal to the debt service attributable to the unit contingent upon, among other things, the additional conditions that the unit is in decent, safe and sanitary condition during the vacancy period, that the owner has taken and continues to take all feasible action to fill the vacancy, that the Project is not providing the owner with revenues at least equal to the costs incurred by such owner, that the amount of the payments requested is not in excess of that portion of the deficiency which is attributable to the vacant unit for the period of the vacancy and that there is a reasonable prospect that the Project can achieve financial soundness within a reasonable time. Projects subsidized under the Section 8 Moderate Rehabilitation program are eligible to receive vacancy payments, in the amount of 80% of the Contract Rent, only for a maximum period of sixty (60) consecutive days. See Exhibit D—“Mortgage Loans Allocated to Prior Bonds.

**Adjustments of Contract Rents**

Each HAP Contract provides for certain adjustments in Contract Rents. At least annually HUD publishes an Annual Adjustment Factor (“AAF”), which is intended to reflect changes in the fair market rentals established in the housing area for similar types and sizes of dwelling units; interim revisions may be made where market conditions warrant. Upon request from the owner to the Agency, the AAF is applied on the anniversary date of each HAP Contract to Contract Rents, provided that no adjustment shall result in a material difference between the rents charged for subsidized and comparable non-subsidized dwelling units except to the extent that the differences existed with respect to the Contract Rents set at HAP Contract execution or cost certification, where applicable. (The difference that

existed between the Contract Rent for a unit at HAP Contract execution and the rent on comparable unassisted units is generally referred to by HUD as the "Initial Difference" in Contract Rents.) In addition, provision is made in the regulations for special additional adjustments to reflect increases in actual and necessary expenses of owning and maintaining the subsidized units which have resulted from substantial general increases in real property taxes, assessments, utility rates and utilities not covered by regulated rates, if the owner demonstrates that the automatic Annual Adjustments have not provided adequate compensation. The AAF's for Section 8 units which experienced no turnover in tenants since their preceding HAP Contract anniversary date are limited to one percentage point less than the AAF's that would otherwise apply, and if the Contract Rents for a Section 8 Project exceed the applicable HUD fair market rents for the area, then Contract Rents cannot be increased beyond comparable market rents (plus any Initial Difference) as determined by independent appraisals of at least three comparable local developments submitted by the owner. Under current law (Section 8(c)(2)(C) of the 1937 Housing Act), "[t]he Secretary may not reduce the Contract Rents in effect on or after April 15, 1987, for newly constructed, substantially rehabilitated, or moderately rehabilitated projects assisted under this section…, unless the project has been refinanced in a manner that reduces the periodic payments of the owner." 42 U.S.C. § 1437f(c)(2)(C).

There can be no assurance that increases in Contract Rents, if any, will result in revenues sufficient to compensate for increased operating expenses of the developments financed with the proceeds of the Section 8 Mortgage Loans and the developments which are the subjects of the PLP Section 8 Mortgage Loans. It is the Agency's intention that the Section 8 Mortgage Loans not be refinanced so as to reduce debt service payments to the owners of the Projects. Accordingly, under existing law, Contract Rents for the Projects may not be reduced. However, in the event of a change in the law, there can be no assurance that there will not be a decrease in Contract Rents which would adversely affect the ability of the owners of the Projects to pay principal and interest on the Section 8 Mortgage Loans and the PLP Section 8 Mortgage Loans which in turn would adversely affect the ability of the Agency to make timely payments of principal of and interest on the Bonds with amounts pledged under the Resolution. (However, the Offered Bonds are the subject of the Policy.)

**Reduction of Number of Subsidized Dwelling Units**

Failure to make available for occupancy by eligible families the total number of units for which assistance is committed under the HAP Contract may result in a reduction in the number of subsidized dwelling units in a Project or other legal remedies. To ensure that the number of subsidized units will not be reduced, the owner must (i) conduct marketing in accordance with Section 8 regulations; (ii) make a good faith effort to lease the units to eligible and otherwise acceptable families; and (iii) accept any eligible family except for reasons acceptable to the Agency or the PHA. The Agency or the PHA may require owners of Projects to maintain as subsidized units the full amount of units which can be subsidized; the Agency has not covenanted with the holders of the Bonds to do so.

**Funding of Increases in Subsidy**

HUD is required to establish a project account for each subsidized Project, crediting to the account the amounts by which the Contract Rents in effect from time to time exceed the actual subsidy paid by HUD. The project account for a Project will increase annually as long as the sum of tenant contributions to rent and the amount of the initial Contract Rents for the Project exceed the then-current Contract Rents resulting from the annual adjustments described above. (The sum of the initial Contract Rents for all units in a Project, and any utility allowance, is referred to by HUD as the "maximum annual commitment under the applicable ACC or HAP Contract.") At such time as the sum of tenant payments and the maximum annual commitment is not sufficient to cover current Contract Rents, contract authority is "withdrawn from the project account to assure the making of full subsidy payments to the owners". In this fashion, the project account is reduced to reflect the application of contract authority to supplement tenant payments and the maximum annual commitment. The regulations provide that when the HUD-approved estimate of required annual subsidy payments for a fiscal year, including contract authority "withdrawn" from the project account, would cause the amount in such project account to be less than 40% of the maximum annual commitment, HUD is required by applicable Section 8 provisions to take such additional steps authorized by subsection (c)(5) of Section 8 of the 1937 Housing Act (quoted below) as may be necessary to obtain funds to assure that payment will be adequate to cover increases in Contract Rents and decreases in tenant rents. Subsection (c)(5) of Section 8 provides:

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

In practice, HUD has not been replenishing the project accounts when the amounts in such project accounts have fallen below 40% of the maximum annual commitment, but has sought and received amendment authority from Congress sufficient to enable it to discharge its obligations under the HAP Contracts and the ACC's.

**Pledge of Subsidy**

The Section 8 regulations permit an owner to pledge the federal subsidy payments as security for the Mortgage Loan for a Project. Prior to any disbursement of a Mortgage Loan for a Project which is to be subsidized under Section 8, the Agency requires the owner of the Project to enter into an agreement to pledge such federal subsidy payments as security for the Mortgage Loan.

The regulations provide that in the event of foreclosure, or assignment or sale to the Agency in lieu of foreclosure, or in the event of an assignment or sale agreed to by the Agency and approved by HUD (which approval shall not be unreasonably delayed or withheld), subsidy payments will continue in accordance with the HAP contract. Mortgagors or related parties may not, however, bid upon or acquire a multifamily property in a foreclosure proceeding that was itself the subject of the mortgagor's default.

Under each Agency ACC, annual contributions are paid monthly into a special account maintained by the Agency for the receipt of Section 8 payments. To the extent such subsidy payments are sufficient, the Agency retains an amount up to the current payment due from the owner on the Mortgage Loan and any amounts necessary to fund the reserves required to be maintained by the owner with respect to the Project, and disburses any remainder to the owner. The HAP Payments held by the Agency pursuant to an ACC for disbursement to owners are not pledged to the Bonds. For the PHA HAP Contracts, the PHA receives Section 8 payments under its ACC and disburses such funds to the owner.

**Compliance with Subsidy Contracts**

Following specified actions including notice to the Mortgagor and the Agency and opportunity to cure, HUD and/or the Agency may institute corrective action against the Borrower, which action may include suspension of assistance payments.

In the event of a default by the Agency (or PHA) under the ACC or HAP Contract, HUD retains the right to require an assignment of the Agency's administrative rights to HUD after providing reasonable notice to the Agency (or, for purposes of the PHA HAP Contracts, to the PHA) and opportunity to correct the default; however HUD will continue to pay annual contributions in accordance with

the terms of the ACC and the HAP Contract such that receipt of HAP Payments by the applicable Borrower(s) should not be impaired.

The AHAP, the ACC and the HAP Contract contain numerous agreements on the part of the Agency and the owner, including the obligation to maintain the development as decent, safe and sanitary housing and compliance with a number of additional requirements (such as nondiscrimination, equal employment opportunity, relocation, pollution control, labor standards, and resident eligibility) as to which noncompliance by either the Agency or the owner, or both, might endanger the making of HAP Payments. The Agency monitors all of the Section 8 Projects on an ongoing basis to assure that they are operated in compliance with the AHAP, ACC and HAP Contract requirements. Reference is made to the complete texts of these agreements, which are available for inspection upon request. Default by an owner in the performance of its obligations under the HAP Contract is an event of default under the terms of the Mortgage to the Agency which would permit foreclosure by the Agency. The PHA has a role comparable to the Agency's for purposes of the PHA HAP Contracts. The Agency is not presently aware of any existing default by itself or any owner under the subsidy contracts.

Prior to any disbursement of a Mortgage Loan for a Project which is subsidized under Section 8, the Agency enters into a regulatory arrangement with the owner requiring the owner to take or refrain from taking action as necessary to maintain eligibility for Section 8 subsidies for assisted dwelling units in the Project during the term of the Mortgage Loan. Under the Resolution, the Agency has covenanted that it will request of the appropriate Federal authorities an extension of any and all HAP Contracts to the extent that such extension is obtainable with respect to applicable developments as long as there are any Outstanding Bonds.

### Set-Off Rights of the United States

Under federal law, the United States Government may have the right to set off liabilities of the Agency or the PHA, as applicable, to the United States against the amounts payable under ACCs.

## SECTION 236 PROGRAM

### General

Under Section 236 of the National Housing Act of 1934, as amended ("Section 236"), HUD was authorized to enter into HUD Section 236 Contracts with state housing finance agencies, such as the Agency. In accordance with the provisions of the Interest Reduction Contracts, HUD generally agreed to make direct interest reduction subsidy payments ("236 Payments") to the Agency, as mortgage lender, in an amount equal to the difference between the debt service required under the actual 40 year mortgage loan with respect to a Section 236 Project and the amount of debt service which would be due on a self-amortizing 40

year mortgage loan in the same principal amount with an interest rate of 1% per annum.

**Certain Terms of the HUD Section 236 Contracts**

A Project financed by bonds or notes of the Agency during its construction is not eligible to receive 236 Payments with respect to eligible dwelling units until all the dwelling units are completed. Interest Reduction Contracts provide for the payment of the 236 Payments for a period of not more than 50 years from the date of the initial 236 Payments with respect to the applicable Project. Generally, the expiration dates of the Interest Reduction Contracts for the Section 236 Mortgage Loans are approximately coterminous with the maturity of the underlying mortgages.

**Reduction of HUD Payments**

**Condition of Dwelling Units**

Under the Interest Reduction Contracts, HUD may reduce 236 Payments in the event a dwelling unit is destroyed or rendered uninhabitable for any reason (whether or not insurance coverage is obtained or obtainable), unless such unit is restored or rehabilitated within a reasonable time or unless an unsubsidized unit is designated in its place.

Each Section 236 Mortgage provides that the Borrower must maintain hazard insurance on the Section 236 Project with such coverage and in such amounts as are satisfactory to the Agency and such that in the event of any damage to the Section 236 Project all insurance proceeds are payable to the Agency. In the event any dwelling unit is destroyed or rendered uninhabitable by reason of fire or any other insured risk, the Agency has the right to determine if the proceeds of insurance will be applied as a prepayment under the Section 236 Mortgage Loan or for the restoration of the Section 236 Project. In the event the Agency determines that proceeds are not to be applied to restore such a project, 236 Payments may be reduced accordingly.

**Foreclosure**

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

**Acquisition by Ineligible Owner**

HUD may terminate 236 Payments with respect to any Project if the Project is acquired by any owner who is not an eligible mortgagor under Section 236. Each Borrower has covenanted in the Interest Reduction Contract not to sell, convey, or transfer the related Project except to a mortgagor eligible under Section 236 and approved by the Agency.

**Excess Income**

Under Section 236, there is established for each unit for which 236 Payments are made (subject to HUD approval) (i) a basic or subsidized rental charge for each subsidized dwelling unit in the project (the "basic rent"), determined on the basis of the anticipated operating costs of the project, including the cost of utility services if such charges are paid by the project owner, and the payment that would have been required for principal and interest if the mortgage note called for interest at the rate of 1% per annum and (ii) a fair market rental charge for each such unit, determined on the basis of the anticipated operating costs of the project and payment of principal, interest and mortgage insurance premiums that the mortgagor is obligated to pay under the mortgage at the unsubsidized mortgage rate (the "market rent"). Prior to January 1996, Section 236 provided that the rent charged to each subsidized tenant (the "tenant rent") was the basic rent or, if greater, 30% of the tenant's adjusted monthly income, except that such greater amount could not exceed the market rent. Tenant rent has been and continues to be subject to various caps imposed by federal appropriations acts. The statute as currently enacted provides, however, that in no event will the tenant rent be less than the basic rent. (However, tenants may receive additional subsidies which reduce the actual tenant payment below the amount of "tenant rent" as herein defined.) Tenant rents may not be increased as a consequence of a mortgage being foreclosed and a substitute mortgage which still benefits from 236 Payments being entered into.

Each mortgagor is required to remit monthly to HUD "all excess rental charges" collected by the mortgagor. Prior to April 1996, "excess rental charges" subject to this requirement were collected on an aggregate basis. That is, excess rental charges were determined as the amount of rent collected in excess of the sum of the basic rents for all occupied units. This method allowed a mortgagor to deduct collection losses in calculating the amount of excess rental charges to be remitted to HUD. Section 236 has been amended to require that, beginning in 1996, "excess rental charges" are to be calculated on a "unit-by-unit" basis (i.e., the sum of all "excess rental charges" collected, without reduction for collection losses on other units).

However, projects that are assisted under Section 236 and have (or did have) FHA-insured mortgages are permitted to retain some or all of such excess income for project or, effective October 1, 2000, certain non-project use, if

authorized to do so by HUD. The 1999 Act expands this authority to projects that do not have FHA-insured mortgages for Fiscal Year 2000.

On August 2, 2000, HUD renewed the policy on retaining excess Section 236 income for one year. The policy extension was effective July 27, 2001 pursuant to Notice 2001-7. Also pursuant to Notice 2001-7, owners who were authorized to retain excess income pursuant to the 1999 Act, but who remitted that income to HUD, may request a refund. For future years, unless such projects have FHA-insured mortgages, the ability to retain excess rents will be subject to Congressional determination.

In a notice issued by HUD on January 4, 1991 with respect to all mortgagors subject to Interest Reduction Contracts, HUD stated that it will implement strict enforcement actions against an owner of a project who does not remit excess rental amounts. Among HUD's numerous potential remedies against the affected mortgagors are the suspension of interest reduction payments. No assurance can be given regarding which remedies, if any, HUD will utilize against affected mortgagors. See “Termination of HUD Payments—Foreclosure” herein.

**Certain Mortgagor Covenants**

Each mortgagor covenants in its Interest Reduction Contract to limit admission to the subsidized dwelling units of a project to those families whose incomes do not exceed the applicable limits prescribed by the Secretary, with the exception of those tenants who agree to pay fair market value. The Interest Reduction Contracts contain other covenants relating to the preference for occupancy for certain displaced or low-income families, the compliance with applicable civil rights laws prohibiting discrimination in housing, the maintenance of information and records concerning tenants and tenant income in a form required under HUD regulations, the availability for inspection of such information and records, prohibitions against denying occupancy due to number of children in the family and the number of subsidized units which may be rented to any one tenant at any one time. The Secretary has the authority to suspend or terminate 236 Payments at any time upon default by the mortgagor under any of such covenants as well or upon any other default by the mortgagors or the Agency under the terms and conditions of the Interest Reduction Contracts.

**Forbearance and Deferral of Mortgage Repayments**

Under Interest Reduction Contracts, the Agency covenants not to agree to the forbearance or deferral of any payment due under a mortgage without the prior written approval of HUD.

### Prepayment of Section 236 Mortgages

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

The 1999 Act permits mortgagors of Section 236 projects to refinance their mortgages (if the mortgages are otherwise subject to prepayment) while retaining the right to receive 236 Payments. It is too early to tell what impact this provision will have upon the Section 236 Projects which are open to prepayment.

Section 236 Mortgages generally permit prepayment after 20 years from the date of occupancy. Beginning in 1987, federal law imposed significant restrictions on such prepayments; however, on May 16, 2000, HUD's Office of Housing issued Notice H 00-8, which established procedures for the optional continuation of interest reduction payment (IRP) assistance, when projects assisted under Section 236 are refinanced. IRP subsidy may continue provided owners enter into new IRP agreements and Use Agreements, which requires the project to maintain the low-income housing requirements at least five years beyond the term of the IRP. The continuation of the IRP subsidy may not exceed the payment schedule that was established for the original Section 236 Mortgage. However, if the new IRP schedule provides for lower monthly payments than in the old IRP schedule, then the terms of the new IRP Agreement may be for a longer period of time.

### Continuation of Interest Reduction Payments after Refinancing under Section 236(e)(2) and Section 236(b)

Section 236(e)(2) and Section 236(b) address the transfer of mortgages from HUD to a private entity or a public entity, respectively, and the continuation of Interest Reduction Payments ("IRP's") after such transactions. Under Section 236(e)(2), a Section 236 mortgage may be prepaid and the IRP subsidy continued provided the owner enters into IRP and Use Agreements that require the continuation of the low-income housing resource for five (5) years beyond the new IRP term. Under Section 236(b), an approved State or local agency must purchase the insured Section 236 mortgage, terminate the FHA insurance, keep the Section 236 mortgage intact and the owner must enter into new IRP and Use Agreements to maintain the property as a low-income housing resource for a period of five (5) years beyond the new IRP term. IRP assistance may be suspended, if an owner fails to maintain the project as an affordable housing resource pursuant to the conditions of the IRP and Use Agreements.

Any insured, non-insured or HUD-held Section 236 project, where the owner or prospective owner is an eligible mortgagor and is in good standing with HUD, is eligible for a Section 236(e)(2) or 236(b) transaction. Under a Section 236(e)(2) transaction involving the prepayment of an insured Section 236 mortgage, eligible mortgagor entities are: nonprofit mortgagors, builder-seller mortgagors, limited distribution mortgagors, cooperative and investor sponsor mortgagors. Under a Section 236(b) transaction and a Section 236(e)(2) transaction involving prepayment of a non-insured Section 236 mortgage, eligible mortgagor entities are: private nonprofit entities, limited dividend entities, public entities or cooperative housing corporations. In Section 236(e)(2) transactions, eligible mortgagees include any mortgagee if a public agency agrees to be the oversight agency to assure compliance with the requirements of the IRP Agreement. If a public agency declines to participate as the oversight entity, then the mortgagee must be a HUD-approved multi-family mortgagee, the refinancing must be through an FHA-insured mortgage and HUD will perform the oversight function. In Section 236(b) transactions, a public agency will be participating as the oversight entity. However, if the agency that acquired the 236 mortgage does not wish to finance the remainder of the transaction (project acquisition and probable repair costs), any mortgagee may finance these costs provided the project oversight will be performed by the 236(b) mortgagee.

In both Section 236(e)(2) and 236(b) transactions, there will be a Section 236 regime as the basis for IRP assistance, i.e., establishment of basic and market rent schedules, occupancy and habitability standards, income limits and financial reporting. Tenants must be protected from involuntary displacement and rent increases due to the transaction. Owners must demonstrate to HUD how the project will be financially feasible under the continued Section 236 regime. To the extent it is financially feasible and consistent with the long-term preservation of the affordable housing resource, all outstanding HUD debt should be repaid under the transaction. The IRP subsidy may not exceed the payment schedule that was established for the original Section 236 mortgage, unless the new IRP schedule provides for lower monthly payments. The continued IRP assistance may be used for debt service needs.

**Set Off Rights of the United States**

Under federal law, the United States Government may have the right to set-off liabilities of the Agency to the United States against the amounts payable under Interest Reduction Contracts.

## FEDERAL MORTGAGE INSURANCE

### Programs Under The National Housing Act

The following describes briefly the multi-family mortgage insurance program administered by HUD, acting through FHA, pursuant to Sections 220, 221(d)(3) and 221(d)(4) of Title II of the National Housing Act and is qualified in its entirety by reference to the National Housing Act and the regulations thereunder. The applicable FHA regulations regarding such Sections of the National Housing Act are contained in Part 200, Part 220 and Part 221, respectively, of Title 24 of the Code of Federal Regulations and, with certain exceptions, incorporate by reference the provisions of Subpart A, Part 207 of Title 24 of the Code of Federal Regulations concerning eligibility requirements of mortgages covering multi-family housing under Section 207 of the National Housing Act and the provisions of Subpart B, Part 207 of Title 24 of the Code of Federal Regulations concerning the contract rights and obligations of the mortgagee with respect to mortgages insured under Section 207 of the National Housing Act. In the event of a conflict between the documents governing the FHA Mortgage Loans, the National Housing Act or the FHA rules, regulations and program requirements and the Resolutions, the documents governing the FHA Mortgage Loans or provisions of the National Housing Act and FHA rules, regulations and program requirements will be controlling. FHA Insurance benefits under the program are available only if the mortgagee of record is an FHA-approved mortgagee.

FHA regulations define a default under an FHA-insured mortgage (including the note incorporated therein) as: (1) a failure to make any payments due under such mortgage or (2) a failure to perform any other mortgage covenant (which includes covenants in the regulatory agreement executed in connection with such FHA-insured mortgage) if the mortgagee, because of such failure, has accelerated the debt. In the event that there is a default beyond applicable notice and grace periods under the FHA regulatory agreement and FHA so requests, the mortgagee, at its option, may declare the whole indebtedness due and payable. Furthermore, the FHA regulations provide that upon notice of a violation of a mortgage covenant, FHA reserves the right to require the mortgagee to accelerate payment of the outstanding principal in order to protect FHA's interests. A mortgagee is entitled to receive the benefits of the mortgage insurance after the mortgagor has defaulted and such default (as defined in the FHA regulations) has continued for a period of thirty (30) days subject to certain requirements.

It is the responsibility of the mortgagee to notify FHA in the event of such a default by the mortgagor under the mortgage note or mortgage. FHA regulations further require the mortgagee to make an election, within forty-five (45) days after the date on which the mortgagee becomes eligible to receive FHA Insurance benefits, (i) to assign the mortgage to FHA or (ii) to acquire title to and convey the project property to FHA, unless such time period is extended by FHA.

The mortgagee is required to submit all required documentation within forty-five (45) days of the date the mortgage is assigned to FHA unless the time is extended by FHA. The documentation required to be supplied to FHA includes the mortgage note, the mortgage, the security agreement, the financing statements, the title policy, the hazard policy and other instruments, together with assignments of such documents to FHA. If the election is not made or the documents are not delivered within the forty-five (45) days allowed, FHA will not pay the mortgagee interest on sums outstanding from the date the election should have been made or the date the required documents should have been submitted to FHA, whichever is applicable, to the date when the mortgage insurance claim is finally paid, unless FHA has agreed to extend the period with interest.

The FHA Insurance benefits received in the event of any claim under the FHA Insurance contract will be subject to certain deductions. The mortgagee will be entitled to settlement of the insurance claim in cash (or, if elected by the mortgagee, in FHA debentures), upon assignment of the mortgage, in an amount equal to 99% of the amount of the principal balance of a defaulted mortgage loan outstanding as of the date of default, after adjustment for certain expenses and for deposits or assets held by the mortgagee for the benefit of the development and not assigned to FHA. However, the Agency intends to receive insurance claim settlements in cash. FHA Insurance benefits include the payment of interest at the FHA debenture rate on the amount of the insurance claim from the date of default to the date the claim is paid (or such earlier date by which the mortgagee is required to file the election to assign the mortgage or complete submissions as described above, if the mortgagee fails to take such action on a timely basis). The interest rate on the FHA debentures is the rate in effect as of the date of the commitment for FHA Insurance or as of the date of initial endorsement of the note by FHA, whichever is higher. In the case of a monetary default, the date of default is deemed to be the date on which payment on the mortgage loan originally should have been received.

In connection with a claim for FHA Insurance benefits, FHA may require delivery to it of certain cash items. Cash items are defined to include, among other things, any cash held by or on behalf of the mortgagee which has not been applied to reduce the mortgage, funds held by the mortgagee for the account of the mortgagor, any unadvanced balance of the insured note and any undrawn balance under letters of credit delivered to the mortgagee in connection with endorsement of the insured note. The mortgagee is responsible for all funds in its custody and must therefore obtain approval from FHA and others when required, prior to release of any funds which may be in its possession. Failure properly to protect such funds may result in a deduction from the FHA Insurance benefits in an amount equal to the funds FHA asserts should have properly been held as a deposit.

In the event of an assignment, in order to receive FHA Insurance benefits, FHA requires the mortgagee to warrant that: (1) no act or omission of the mortgagee has impaired the validity and priority of the mortgage; (2) the mortgage is prior to all mechanic's and materialmen's liens filed on record subsequent to the

recording of the mortgage, regardless of whether such liens attached prior to the recording date; (3) the mortgage is prior to all liens and encumbrances which may have attached or defects which may have arisen subsequent to the recording of the mortgage, except such liens or other matters as may be approved by FHA; (4) the amount stated in the instrument of assignment is actually due under the insured note and mortgage and there are no offsets or counterclaims against such amount; and (5) the mortgagee has a good right to assign the insured note and mortgage. In assigning its security interest in chattels, including materials, located on the premises covered by the mortgage, or its security interest in building components stored either on-site or off-site at the time of assignment, the mortgagee is required to warrant that: (a) no act or omission of the mortgagee has impaired the validity or priority of the lien created by the chattel security instruments; (b) the mortgagee has a good right to assign the security instruments; and (c) the chattel security instruments are a first lien on the items covered by the instruments except for such other liens or encumbrances as may be approved by FHA.

The mortgagee will be required to furnish FHA with added insurance policy or policies which name FHA as an insured party and which assure that the mortgage constitutes a first lien on the project, subject only to such exceptions previously approved by FHA. The mortgagee will be required to remove any unapproved intervening liens and to obtain an updated title endorsement within the 45-day period (or such longer period as may be approved by FHA) during which documents are required to be submitted. FHA will deduct the amount of any unapproved liens which have priority over the insured mortgage lien from the mortgage insurance benefits.

FHA typically pays a portion of an insurance claim prior to the delivery of all required documentation, including the mortgage note and the mortgage. If a claim is made, FHA will usually, but is not obligated to, pay 90% of the outstanding principal balance of the note within fifteen days of the recordation of an assignment of the mortgage to FHA. Remaining balances are paid to the mortgagee after FHA has received final financial data and final legal clearance has been received. During the period from the date of default on the mortgage until final payment (or such earlier date by which the mortgagee is required to complete submissions as described above), FHA pays interest on the remaining unpaid amount of the insurance claim at the FHA debenture rate.

FHA requires the maintenance of specified casualty insurance on mortgaged properties. The mortgagee must obtain such coverage in the event the mortgagor fails to do so. If the mortgagee fails to pay any premiums necessary to keep the mortgaged property so insured, the mortgage insurance may be terminated at the election of FHA. Alternatively, failure to maintain such insurance at the required levels may result in loss of FHA Insurance benefits in the event the mortgage is assigned to FHA and there are uncompensated amounts arising out of a casualty loss unless, at the time of initial endorsement of the note by FHA, the related project was covered by casualty insurance and such insurance was later canceled

or not renewed and the mortgagee gave notice thereof to FHA within 30 days, or within such further time as FHA may approve, accompanied by a certification that diligent efforts to obtain casualty insurance at reasonably competitive rates were unsuccessful and that efforts to obtain adequate insurance coverage at competitive rates will be continued.

Under the form of regulatory agreement used in connection with developments financed pursuant to FHA-Insured Mortgage Loans (the "Regulatory Agreement"), the mortgagor is required, among other things, to make all payments due under the mortgage loan and to pay a specified amount monthly into the reserve fund for replacements, which must at all times be under the control of state or local housing finance agencies (the "HFA") and disbursements from which may be made only with HUD's consent or, if authorized by HUD, with the consent of the HFA. In addition, the mortgagor must deposit all rents and other receipts of the development in a development bank account and may withdraw funds from such account only in accordance with the Regulatory Agreement for expenses of the development, certain required remittances to HUD, or distributions of return on equity. For projects subject to rent regulation by HUD (except for projects assisted with Section 8 contracts), rental increases may be made only with the approval of HUD. At any time HUD will consider a written request for a rental increase if such request is properly supported by substantiating evidence. Within a reasonable time HUD must either:

(1) approve an increase in the rental schedule to compensate for any net increase in taxes other than income taxes and in operating and maintenance expenses over which the mortgagor has no effective control; or

(2) deny the increase, stating the reasons therefor.

Rent increases for projects assisted with Section 8 contracts are governed by the provisions of the applicable Section 8 contract. Generally, projects insured under Sections 220 and 221(d)(4) of the National Housing Act are not subject to rent regulation by HUD, with certain project-by-project exceptions.

The Regulatory Agreement also contains provisions detailing requirements for tenant eligibility and enforcement mechanisms thereof, requiring nondiscrimination on account of children, race, color, religion, creed, sex or national origin, and permissible uses of, or changes to, the development. In particular, the Regulatory Agreement prohibits the conveyance, transference or encumbrance of the development or any right to manage the development without the prior written approval of HUD. The mortgagor may not make, receive, or retain any distribution of assets or income from the development except from "surplus cash" and only as permitted under the Regulatory Agreement and applicable laws.

The mortgagor is also prohibited, without the prior written approval of HUD, from remodeling, adding to or demolishing any part of the development or engaging

in any other business or activity or incurring any obligation or liability not in connection with the development or requiring as a condition of occupancy of any unit a deposit greater than the prepayment of the first month's rent plus a security deposit of one month's rent or permitting the use of the development for any use except the use that was originally intended.

The development and all books, records, and documents relating thereto are required to be subject to examination and inspection at any reasonable time by HUD. Books and accounts of the development are to be kept in accordance with HUD requirements and complete annual financial reports are to be furnished to HUD within sixty (60) days of the end of each fiscal year.

In the event of a violation in the performance of the mortgagor's obligations under the Regulatory Agreement and the mortgagor' s failure to cure such violation after receiving notice from HUD, even in the absence of a default under a mortgage note or a mortgage, HUD may (a) notify the HFA of such default and request the HFA to declare a default under the mortgage note and the mortgage, and the HFA may, at its option, declare the whole indebtedness due and thereupon proceed with foreclosure of the mortgage or assign the mortgage note and the mortgage to HUD, (b) collect all rents and charges in connection with the operation of the development and use such collections to pay the mortgagor's obligations under the Regulatory Agreement, the mortgage note and the mortgage and the expenses of maintaining the development, (c) take possession of and operate the development, and (d) apply for an injunction, appointment of a receiver or such other relief as may be appropriate.

The Regulatory Agreement provides that the mortgagor of the development assumes no personal liability for payments due under the related mortgage note and mortgage, for the reserve for replacements or for matters not under its control. The Regulatory Agreement does provide, however, that the mortgagor is liable for funds or property of the development in the possession of the mortgagor and which the mortgagor is not entitled to retain, and for the mortgagor's actions, or those of others which the mortgagor has authorized, in violation of the Regulatory Agreement.

The failure to maintain adequate casualty insurance on a development may result in the partial or full loss of the FHA Insurance benefits in the event of damage to or destruction of such development. FHA Insurance benefits may also be lost for failure to pay required FHA mortgage insurance premiums or failure to provide FHA with required notices. FHA Insurance benefits may also be denied if fraudulent statements were made to FHA by the HFA or by the mortgagor with the knowledge of the HFA.

**The Risk-Sharing Program**

Certain Mortgage Loans financed by Prior Bonds and to be financed by the Offered Bonds are FHA-Insured Mortgage Loans. These Mortgage Loans are insured ("Mortgage Insurance") pursuant to Section 542 of the Housing and Community Development Act of 1992 (the "1992 Act"). The following is a summary description of such Mortgage Insurance.

The 1992 Act directs the Secretary of HUD, acting through the FHA, to carry out programs that will demonstrate the effectiveness of providing new forms of federal credit enhancement for multifamily loans. Section 542 of the 1992 Act, entitled "Multifamily Mortgage Credit Programs," provides new independent insurance authority that is not available under the National Housing Act of 1934.

Section 542(c) of the 1992 Act specifically directs the Secretary of HUD to carry out a pilot program (the "Risk-sharing Program") of risk-sharing with qualified state and local housing finance agencies ("HFAs"). The qualified HFAs are authorized to underwrite and process loans. HUD will provide full mortgage insurance of the mortgage with respect to affordable multifamily housing projects processed by such HFAs under the Risk-sharing Program; provided, however, that HUD has retained the right to adjust the amount of mortgage insurance until the time of HUD's final endorsement of such loans.

Pursuant to Section 542(c) of the 1992 Act, the Agency and HUD have entered into risk-sharing agreements (the "Risk-sharing Agreements") whereby FHA has agreed to provide Mortgage Insurance on the FHA-Insured Mortgage Loans financed with the proceeds of Prior Bonds and of the Offered Bonds and the Agency has agreed to reimburse FHA for 25% of any payments made by FHA on the FHA-Insured Mortgage Loans under the Mortgage Insurance. However, any failure by the Agency to reimburse FHA pursuant to a Risk-sharing Agreement will not affect FHA's obligation to make payments on the related FHA-Insured Mortgage Loans.

Under the terms of the Mortgage Insurance for the FHA-Insured Mortgage Loans, if a Borrower has failed to make any payment due under its mortgage note on the due date thereof (a "Payment Default") or if a developer has defaulted in the performance of one of its covenants under the associated Mortgage and the Agency has accelerated the developer's obligations under the associated Mortgage as a result thereof (a "Covenant Default"), and such Payment Default or Covenant Default, as the case may be, has continued for 30 days (the "Grace Period"), the Risk-sharing Program regulations require that a notice of default status be filed with HUD within 10 days following the end of the Grace Period. Then, unless, a written extension has been granted by HUD, the Agency must file within 75 days of the Date of Default (as defined below) an application for initial claim payment (the "Initial Claim Payment"). The Initial Claim Payment will be paid by FHA to the Trustee in an amount equal to 100% of the outstanding principal amount of the

mortgage note, plus interest at the rate set forth in the mortgage note from the Date of Default to the date on which Initial Claim Payment is made, less any late charges and interest with respect thereto. Under the 1992 Act, "Date of Default" is defined as (i) the date of the first uncorrected failure to perform a covenant or obligation under a Mortgage or (ii) the date of the first failure to make a monthly payment on a mortgage note that is not covered by subsequent payments which is sufficient to pay the overdue monthly payments in the order which they were due.

In determining the mortgage note interest component of the Initial Claim Payment, if the Agency fails to meet any of the requirements set forth above within the specified time (including any granted extension of time), HUD may curtail the accrual of interest on a mortgage note by the number of days by which the required action was late. The Risk-sharing Act requires that the Agency must use proceeds of insurance under the Act to redeem Bonds issued to finance the related Projects.

Subject to certain conditions, the Agency may file with HUD a request for a Partial Claim Payment if the Agency is pursuing a workout with the Borrower; provided, however, the Agency must simultaneously pursue with HUD full payment of the Mortgage Insurance claim and satisfy certain other conditions.

The 1992 Act provides that the Mortgage Insurance will terminate upon the occurrence of any of the following: (i) the mortgage note is paid in full, (ii) the Agency acquires the Project and notifies HUD that it will not file a Mortgage Insurance claim, (iii) a party other than the Agency acquires the Project at a foreclosure sale, (iv) the voluntary termination by the Agency of the Mortgage Insurance, (v) the Agency or its successors commit fraud or make a material misrepresentation to HUD with respect to the information culminating in the Mortgage Insurance or while the Mortgage Insurance is in existence, (vi) receipt by HUD of an application from the Agency for final claims settlement, or (vii) if the Agency acquires the Project and fails to make an application for an Initial Claim Payment.

**THE PLP PROGRAM**

In order to further its public purposes, the Agency has established a preservation loan program, which the Agency believes will help preserve multi-family housing for low and moderate income tenancy and generate funds for a fund to preserve, maintain or increase the supply of affordable housing in New Jersey (the "PLP Account"). The program seeks new buyers for multi-family housing developments assisted under Section 8 and financed with Existing Mortgage Indebtedness funded by Agency bonds who will agree to preserve such developments as affordable rental housing for an additional 35-year period through a deed restriction. The new buyer is to assume the Existing Mortgage Indebtedness on the property and pay an additional sum in cash. The cash payment may be financed by the Agency from proceeds of Agency bonds. The purchase price for the development is determined by the amount of the outstanding balance of the

Existing Mortgage Indebtedness, plus the additional cash paid by the buyer (which may be financed by the Agency from proceeds of Agency bonds). Upon sale of the development, cash received as a result of such acquisition and certain money held in reserves are to be shared by the prior developer and the Agency. The Agency deposits its share into the PLP Account.

Under the Resolution, each PLP Section 8 Mortgage Loan represents a loan made to a buyer pursuant to this program in order to assist such buyer to fund the additional cash portion of the purchase price. Each mortgage loan evidencing such a borrowing is a PLP Section 8 Mortgage Loan. The lien of the PLP Section 8 Mortgage Loan is subordinate to the lien of the Agency's Existing Mortgage Indebtedness. The Existing Mortgage Indebtedness in most cases is not a source of payment for the Bonds. If moneys received from the Project are insufficient to meet the requirements of both the Existing Mortgage Indebtedness (which includes principal and interest on the loan itself, maintenance requirements, and funding of Project reserves) and the PLP Section 8 Mortgage Loan, the requirements of the Existing Mortgage Indebtedness will be satisfied first.

The principal amount of each PLP Section 8 Mortgage Loan was determined by the Agency to be approximately equal to the amount of additional debt that could be supported by the revenues generated from the applicable Project involved in the preservation loan program. In establishing the amount of each PLP Section 8 Mortgage Loan, the Agency considered the debt service on the related Existing Mortgage Indebtedness and the expenses associated with such Project. The revenues associated with each Project consist of Section 8 subsidy payments, rental payments received from tenants and earnings derived from the investment of Project reserves. The Project reserves include a six month reserve for insurance, a three month reserve for taxes and a three month (senior citizen Projects) or six month (family unit Projects) reserve for operating expenses and debt service.

In determining the amount of each PLP Section 8 Mortgage Loan funded by Prior Bonds and the Offered Bonds, the Agency assumed or will assume (i) the continuous receipt of Section 8 subsidies at present levels, (ii) that rents would remain at present levels, (iii) that expenses would increase at a rate of 3% per annum, based upon annual expenditures for the period ending December 31 of the year prior to the date of issuance of the related Series of Bonds, (iv) a management fee with respect to the development in an amount equal to 4% of the annual rent, (v) that real estate taxes would not exceed 6.28% of the annual rent as allowed in the tax abatement, (vi) that the reserve for repair and replacement (the “R&R Reserve”) would equal the necessary balance to fund the capital improvements based on the useful life estimate and age to date of scheduled items as approved by the management division of the Agency, (vii) that the R&R Reserve and the tax and insurance escrows for each Project would be fully funded at closing of the PLP Section 8 Mortgage Loan and (viii) that the Operating Reserve would be invested at a rate of 5% per annum. The Agency does not have investments for the R&R Reserves in place for the remaining term of the PLP Section 8 Mortgage Loans;

moneys on deposit in the R&R Reserves are invested at present in the State of New Jersey Cash Management Fund and the Merrill Lynch Cash Management Account. Generally, the R&R Reserve account for each PLP Section 8 Mortgage Loan is transferred from the seller of the underlying Project to the buyer of such Project on the day of closing of the PLP Mortgage Section 8 Mortgage Loan. The insurance, tax and operating reserves are funded at closing and held by or for the benefit of the buyer.

Exhibit F describes the underwriting criteria utilized in financing the Existing Mortgage Indebtedness.

## HOUSING PRESERVATION LOAN PROGRAM

The Agency initiated its Housing Preservation Loan Program in January, 2001. Pursuant to this Program, the Agency seeks to preserve existing affordable housing units in Agency financed projects, preserve affordable housing units that would otherwise be lost to the market, preserve units that are in substantial need of repair and preserve units in priority areas such as Camden and other UCC neighborhoods by making loans to provide for the acquisition and rehabilitation of existing projects. In addition to the underwriting standards which the Agency applies for all Projects, the Agency requires either that a Housing Preservation Loan Program Project be eligible for FHA Insurance provided under the Risk Sharing Program or that the Project receive a federal subsidy. See Exhibit F - 1996-2001 MORTGAGE LOANS (OTHER THAN PLP SECTION 8 MORTGAGE LOANS) -Multi-Family Housing Development Underwriting Analysis for information about the underwriting criteria applied by the Agency for this Program.

# EXHIBIT F

## MORTGAGE LOAN ORIGINATION AND MANAGEMENT

## PRIOR MORTGAGE LOANS, AND EXISTING MORTGAGE INDEBTEDNESS

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## EXHIBIT F

## MORTGAGE LOAN ORIGINATION AND MANAGEMENT

## PRIOR MORTGAGE LOANS, AND EXISTING MORTGAGE INDEBTEDNESS

### General

Set forth below is a brief description of the loan origination policies of the Agency relating to the Prior Mortgage Loans allocated to 1995 Series of Bonds issued pursuant to the General Resolution (the "1995 Mortgage Loans") Bonds (other than PLP Section 8 Mortgage Loans , the Prior Mortgage Loans allocated to the 1996 Series of Bonds, 1997 Series of Bonds, 1999 Series of Bonds and 2000 Series of Bonds issued under the General Resolution (the "1996 - 2000 Mortgage Loans"), the Mortgage Loans expected to be originated with proceeds of the Offered Bonds (the "2001 Series A- D Mortgage Loans" and together with the 1996 - 2000 Mortgage Loans, the "1996-2001 Mortgage Loans") and the Existing Mortgage Indebtedness (The underwriting criteria for PLP Section 8 Mortgage Loans are described in Exhibit E). Although individual policies and procedures discussed below may be modified for future Mortgage Loans as experience or changed conditions necessitate, the following summary outlines the general procedures and requirements of the Agency in processing such 1995 Mortgage Loans (other than the PLP Section 8 Mortgage Loans), the 1996-2001 Mortgage Loans and the Existing Mortgage Indebtedness. Except as described herein, the Agency makes no representation regarding the nature of the program policies and procedures to which such 1995 Mortgage Loans, 1996-2001 Mortgage Loans and Existing Mortgage Indebtedness may or may not have been subject. See Exhibit C for a description of the 2001 Series A-C Mortgage Loans expected to be financed with proceeds of the Offered Bonds; Exhibit D for a description of the Mortgage Loans Allocated to the Prior Bonds and Exhibit E for certain information regarding certain subsidy payments and insurance for certain Mortgage Loans.

### Policy and Procedures

The Agency adopted as a matter of policy numerous requirements and procedures expected to provide that the revenues derived from housing developments, including payments received from the sponsors of such developments and from the federal government relative to these developments, will be adequate to enable the Agency to meet its required debt service payments on bonds. Sponsors of the developments may be assumed to have limited financial resources, and therefore their ability to make mortgage repayments is dependent upon the receipt of development operating income and reserves and (except for Unenhanced Mortgage Loans or Unsubsidized Mortgage Loans) the receipt of federal subsidy payments. The following paragraphs describe, in general, the Agency's major requirements and procedures pertaining to the approval of 1995 Mortgage Loans (other than the PLP Section 8 Mortgage Loans),the 1996 -2001 Mortgage Loans and the Existing Mortgage Indebtedness and construction and management of developments financed by such Mortgage Loans and Existing Mortgage Indebtedness.

**Development Underwriting Analysis**

The Agency examined various factors related to the sites of the developments and the areas surrounding such sites. Among the factors considered by the Agency in these site evaluations were the following:

a. Stability: Reasonable assurance that the surrounding neighborhood meets the demographics and the supply and demand factors to enhance development.

b. Adequate infrastructure: Reasonable proximity to transportation facilities, schools, recreation areas and shopping facilities and freedom from chronic pollution from industrial or other sources.

c. Utilities: Adequate electric, gas and water and reasonable proximity with hookup capability to storm and sanitary systems.

d. Traffic and access: Local traffic patterns and road and curb quality providing reasonable assurance of safe and efficient local traveling conditions. Adequate access to local firefighting and garbage collection services.

**Municipal Support**

The Agency required evidence of municipal support for each development approved. Such evidence included, among other things, the adoption by the governing body of the municipality of a resolution of need for moderate income housing and granting of zoning approval.

**Preliminary Financial Feasibility Analysis**

A financial feasibility analysis of each development was undertaken by the Agency staff. This financial analysis, described below in greater detail, included the following:

a. A professional cost estimating study undertaken by the Agency's staff to arrive at a projected maximum construction cost.

b. An estimation of the land acquisition cost based on a professional appraisal-analysis or the cost of acquisition provided under an urban renewal program.

c. An estimation of the required income from rentals, including provisions for mortgage interest and amortization (taking into account expected federal subsidies), payments in lieu of taxes, all maintenance and operating expenses, funding of repair and replacement reserves, sponsor's return on equity (if applicable), and contingency and collection reserves. State and federal housing assistance programs establish limitations on tenant income. See Exhibit E—"Federal Housing Assistance, Mortgage Insurance and PLP Programs" for a summary of federal subsidy programs.

**Mortgage Commitment**

If the Agency's preliminary financial analysis indicated that a development would be feasible, the Agency may issue a mortgage commitment with respect to such development.

Pursuant to the Agency's adoption of objective development selection criteria, certain of the foregoing criteria, such as the municipal resolution of need, necessary zoning approvals, and a tax abatement agreement, constitute, among others, the threshold criteria which must normally have been met before a development could be financed. Other criteria, such as the stability of the neighborhood and traffic and access patterns were used to select which developments, among those meeting the threshold criteria, would actually be financed.

**Construction**

The construction of developments was subject to certain Agency procedures. These procedures included:

a. Builder's risk property insurance in the amount of the construction contract was required.

b. The Agency assigned a field representative to the development and maintained continuing liaison with the general contractor, architect of record and sponsor to reassure itself as to the acceptability of work installed, progress of the work and reasonableness of periodic requisitions for partial construction payouts as indicated on the AIA G702 and G703 schedules.

c. Prior to the execution of the construction contract, the general contractor for each development must have posted dual obligee (Agency and sponsor) payment and performance bonds or other financial assurance satisfactory to the Agency, or a combination of such bonds, surety bonds, and letters of credit appropriate to the development.

**1996-2001 MORTGAGE LOANS (OTHER THAN PLP SECTION 8 MORTGAGE LOANS)**

**General**

Set forth below is a brief description of the loan origination policies pursuant to which the Mortgage Loans allocated to the 1996 Series of Bonds, 1997 Series of Bonds, 1999 Series of Bonds, 2000 Series of Bonds and to be allocated to the Offered Bonds (the "1996-2001 Mortgage Loans") (other than PLP Section 8 Mortgage Loans) were and will be originated. Although individual policies and procedures discussed below may be modified for future Mortgage Loans as experience or chartered conditions necessitate, the following summary outlines the general procedures and requirements of the Agency in processing the 1996-2001 Mortgage Loans. Except as described herein, the Agency makes no representation regarding the name of the program policies and procedures to which such 1996-2001 Mortgage Loans may or may not be subject.

**Policy and Procedures**

The Agency adopted as a matter of policy numerous requirements and procedures expected to provide that the revenues derived from housing developments financed by 1996-2001 Mortgage Loans, including payments received from the sponsors of such developments and, in certain instances, from the federal government, will be adequate to enable the Agency to meet its required debt service payments on Bonds. Sponsors of the developments may be assumed to have limited financial resources, and therefore their ability to make mortgage repayments is dependent upon the receipt of development operating income and reserves and, in certain instances, the receipt of federal subsidy payments. The following paragraphs describe, in general, the Agency's major requirements and procedures pertaining to the approval of the 1996-2001 Mortgage Loans and construction of developments financed by such Mortgage Loans.

**Multi-Family Housing Development Underwriting Analysis**

The Agency examined various factors, employed certain criteria, and followed certain guidelines when processing the loan applications for developments now expected to be financed by the 1996-2001 Mortgage Loans. Such factors, criteria, and guidelines include the following:

a. Site inspections;

b. Appraisals to determine development valuations of both site and building value relative to the market place (most reliance is placed on the Income Approach to ascertain support for the capitalization rate discount rate, revenue and expenses and how they were employed for a valued estimate);

c. Land valuations based on the lesser of the appraisal value or the purchase price of the last arm's length transaction;

d. Market analysis relating to each development, generally included in the appraisal, although the Agency, under certain circumstances, may require a more detailed market analysis to determine the overall vacancy rates, absorption, stabilization achievement, rental comparables, marketing plans and budgets relating to the developments;

e. Review of construction budgets relating to the developments; as well as design review of the site plans, buildings and units;

f. Review of operating budgets relating to the developments;

g. Verification of affirmative housing marketing plans; and

h. Environmental reviews consisting of a Phase I assessment using ASTM standards, although additional assessments may be warranted. Rehabilitation developments must provide a plan for asbestos removal and remediation of lead-based paint and radon.

The Agency examined additional factors and employed additional criteria and guidelines with regard to the four (4) Mortgage Loans for Marian Towers, Browns Woods, Kings Highway and Ferry Station made pursuant to the Agency's Housing Preservation Loan Program (the "2001 Series A-C Housing Preservation Loan Program Mortgage Loans") expected to be financed by the 2001 Series A- D Mortgage Loans. Such factors, criteria and guidelines include the following:

a. Review of a Capital Needs Assessment (CNA) to identify the long and short-term physical needs of the project;

b. Review of the appraisal to verify that the CNA data has been incorporated;

c. Review of a minimum of three (3) years of financial statements, operating budgets and rental history;

d. Review of interim income received during rehabilitation;

e. Review of Replacement Reserves based on the CNA and Agency data base;

f. Establishment of a rental subsidy/restabilization reserve account for Section 8 and Section 236 decoupling projects which may have to transition to a market rate.

**Security**

All 1996-2001 Mortgage Loans are to be secured by a first mortgage on the land and improvements. If property is owned subject to a ground lease, the improvements alone may suffice. However, the ground lease must be subordinated to the first mortgage assigned to the Agency, and must be in all respects satisfactory to the Agency.

Each developer must provide escrows covering one-half year's premium on all required insurance, one quarter year's tax payments, and one month's principal, interest and servicing fee with respect to the 1996-2001 Mortgage Loans. In addition, the developer must provide an escrow (as cash or a letter of credit) in an amount determined by the Agency to cover all or a portion of the difference between the Agency's costs of borrowing and its earnings on the investment of Bond proceeds until the related 1996-2001 Mortgage Loans begin amortization.

With respect to 1996-2001 Mortgage Loans to provide construction and permanent financing, the Agency requires the developer to provide a 100% payment and performance bond.

With respect to 1996-2001 Mortgage Loans to provide permanent financing, the Agency encourages developers to obtain a 100% payment and performance bond. Otherwise, the developer must provide a letter of credit in the amount of 10% of the hard construction costs, or other form of security acceptable to the Agency which is to remain in place for a period of two years after completion of construction.

With respect to 1996-2001 Mortgage Loans providing permanent and construction financing, a construction contingency fund is required to cover increases in both hard and soft costs. Generally the fund must equal five percent of the construction costs for new construction developments, and 10% of the construction costs for rehabilitated developments (this can be reduced for developments where at least 25% of the joists are being replaced or where a structural engineer's report has been submitted).

With respect to the "2001 Series A-C Housing Preservation Loan Program Mortgage Loans" the Agency requires HUD Risk-Sharing or a Letter of Credit unless there are other compensation factors such as a Project-based Section 8 assistance contract. In addition for such 2001 Series A-C Preservation Loan Program Mortgage Loans which require only permanent financing, the Agency requires that a sufficient number of units be occupied to ensure that the project can meet debt service payments prior to take out of the construction loan.

The 1996-2001 Mortgage Loans are non-recourse to the principals of the Owner, except in the case of fraud or criminal acts with regard to the developments and except as needed to subject the development and/or land to the lien of the Agency mortgage.

**Determination of Mortgage Loan Amount**

All development costs are to be reasonable and/or necessary and the Agency's loan is not to exceed 90% of the total development cost-for-profit developers, and 100% of the total development cost for non-profit developers. The Agency requires that developers seeking construction and permanent financing submit an audit of the development costs. The Agency requires developers seeking permanent financing only to submit an audit and/or an appraisal of the completed development. In most instances, the actual loan amount is contingent upon the debt that can be supported by the development.

Additional factors included in the Agency's determination of the loan amount include the Agency's requirement for a minimum debt service coverage ratio of 115%, limits on return on developer's equity, limitations on rental and utility charges to targeted tenants, and real estate tax abatements through payment in lieu of taxes agreements.

The developer's fee for each development is capped at 15% (20% for certain types of developments) of the total development cost, excluding land, working capital, marketing expenses, contingency and operating deficit reserves.

The Agency makes certain assumptions regarding operating expenses for a development, including the following: a 5% vacancy rate; budgeting of amounts for reserve and replacement at the levels described in item d under the heading "Rent Up and Management" in this Exhibit F, and management fees for developments with 50 or more units at 6% gross rents and at the greater of 6% of gross rents or $417 per unit for developments with fewer than 50 units. Developers must also pay a financing fee to the Agency of either two points up front with .5% annual servicing fee on the original 1996-2000 Mortgage Loan amount, or no points and .65% annual servicing fee on the original 1996-2000 Mortgage Loan amount. The fees may be adjusted for projects requiring mortgages in excess of $20,000,000.

**Term of 1996-2001 Mortgage Loans**

The term of 1996-2001 Mortgage Loans will be typically 30 years, although such term may be adjusted to comply with requirements of mortgage insurance providers or to reflect the length of rental subsidies.

**Junior Financing**

The Agency will permit junior financing. The junior loan may be in the form of an amortizing loan provided, in the case of 1996-2001 Mortgage Loans to provide permanent financing for completed multi-family developments, that the first mortgage is not funded with bond proceeds, and with respect to all 1996-2001 Mortgage Loans, that the multi-family housing development is able to maintain a debt service coverage ratio of 115% including the amortizing junior debt. In no event may the junior lienholder institute foreclosure proceedings or cause acceleration of the junior loan without the consent of the Agency.

## RENT UP AND MANAGEMENT

The Agency adopted certain policies applicable during rent-up and management of developments which are expected to be the subject of 1996-2001 Mortgage Loans. These policies require that:

a. The prospective managing agent submit an acceptable management plan and affirmative marketing plan prior to Agency approval of the managing agent and the determination of his fee.

b. The criteria for tenant selection be reviewed to ensure compliance with federal and state regulations.

c. The Agency be satisfied that the owner/manager is prepared to keep and maintain proper tenant and accounting records.

d. Each sponsor to fund a reserve to be held by the Agency for repairs and replacements to cover the cost of replacing such items as boilers, roofing and major appliances, as well as major repainting and repair expenses for each Project as follows:

(i) In the case of the 1996- 2000 Mortgage Loans , 4% of gross rents budgeted for the repair and replacement reserve to be held by the Agency; and

(ii) In the case of the 2001 Series A-C Mortgage Loans

- Fifty (50) units at four hundred twenty-five dollars ($425) per unit
- Projects of fifty (50) units or more at three hundred dollars ($300) per unit for senior construction
- Three hundred and fifty dollars ($350) per unit for senior rehabilitation and family new construction
- Four hundred ($400) per unit for family rehabilitation

After the first year of occupancy, the Agency requires owners to switch to an economic useful life schedule for future repair and replacement financing.

e. Financial reports providing information on expenses and income as compared to the annual budget be submitted by the sponsor and reviewed by the Agency on a monthly basis. The Agency's mortgages authorize the Agency to require sponsors to disburse moneys only by checks jointly signed by the Agency and the sponsor, and to approve sponsor expenditures over certain limits in accordance with the

Agency's Property Management Policy and Procedures Manual.

f. Insurance coverage be reviewed to determine that liability, property (with a cost of replacement escalation clause) and loss of rent coverage conform to the Agency's specifications.

g. Physical inspections of every development and reviews of the administrative procedures of the sponsor/managers be made by the Agency periodically.

h. Operating budgets be submitted annually by the sponsor for review by the Agency.

i. Certified audited financial statements.

j. Monthly funding of real estate tax and insurance escrows.

# EXHIBIT G

# CONTINUING DISCLOSURE AGREEMENT

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## EXHIBIT G

## CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the "Agreement"), made and entered into as of October 17, 2001 by and between NEW JERSEY HOUSING AND MORTGAGE FINANCE AGENCY, a body corporate and politic of the State of New Jersey (the "Agency") and FIRST UNION NATIONAL BANK, a national banking association duly created and validly existing under the laws of the United States of America with its principal New Jersey corporate trust office located in Morristown, New Jersey (the "Trustee").

**W I T N E S S E T H:**

WHEREAS, the Agency is issuing its Multi-Family Housing Revenue Bonds, 2001 Series, consisting of 2001 Series A, 2001 Series B (Federally Taxable) and 2001 Series C (Periodic Auction Reset Securities (PARS)(sm) (AMT), in the aggregate principal amount of $109,275,000 (collectively, the "Bonds") on the date hereof; and

WHEREAS, the Bonds are being issued pursuant to the Agency's resolution adopted on August 17, 1995 entitled "A RESOLUTION CREATING AND ESTABLISHING THE ISSUE OF MULTI-FAMILY HOUSING REVENUE BONDS OF THE NEW JERSEY HOUSING AND MORTGAGE FINANCE AGENCY; PROVIDING FOR THE ISSANCE OF SAID BONDS; PROVIDING FOR THE PAYMENT OF PRINCIPAL OF AND INTEREST ON SAID BONDS, AND PROVIDING FOR THE RIGHTS OF THE OWNERS THEREOF" (the "General Resolution"), as amended and supplemented, including a Series Resolution of the Authority entitled "SERIES RESOLUTION AUTHORIZING THE ISSUANCE OF NOT TO EXCEED $200,000,000 Multi-Family Housing Revenue Bonds, 2001 Series, consisting of 2001 Series A (NON-AMT), 2001 Series B (AMT), 2001 Series C (Federally Taxable), 2001 Series D (Periodic Auction Reset Securities (PARS)(sm) (AMT)), and 2001 Series E (Periodic Auction Reset Securities (PARS)(sm) (FederallyTaxable)) (collectively, the "Bonds") adopted by the Agency on August 23, 2001 (the "2001 Series Resolution") and Executive Director's Certificates dated as of October 5, 2001 (the "Executive Director's Certificate" and, collectively with the 2001 Series Resolution and the General Resolution, the "Resolution"); and

WHEREAS, the Bonds are being issued to provide funds, which, together with other available funds of the Agency, will be used (i) to make or fund certain Mortgage Loans to housing sponsors for the construction or rehabilitation and operation of multifamily housing projects, (ii) to pay the premium for a Surety Bond to be deposited in the Debt Service Reserve Fund, and (iii) to pay certain costs of issuance (including underwriter's compensation) of the Bonds; and

WHEREAS, the Trustee has duly accepted the trusts imposed upon it by the Resolution as Trustee for the Holders from time to time of the Bonds; and

WHEREAS, The Securities and Exchange Commission (the "SEC") pursuant to the Securities Exchange Act of 1934, as amended and supplemented (codified as of the date hereof at 15 U.S.C. 77 et seq.) (the "Securities Exchange Act") has adopted amendments to its Rule 15c2-12 (codified at 17.C.F.R. §240.15c2-12) ("Rule 15c2-12") effective July 3, 1995, which generally prohibit a broker, dealer, or municipal securities dealer from purchasing or selling municipal securities, such as the Bonds, unless such broker, dealer or municipal securities dealer has reasonably determined that an issuer of municipal securities or an obligated person has undertaken in a written agreement or contract for the benefit of holders of such securities to provide certain annual financial information and event notices to various information repositories; and

WHEREAS, pursuant to the Composite Purchase Contract dated October 5, 2001 (the "Purchase Contract") by and between the Agency, as issuer of the Bonds, Federal National Mortgage Association, and Goldman Sachs & Co., as manager on behalf of itself and the other underwriters of the Bonds named in the Purchase Contract (each, a "Participating Underwriter"), the Agency agreed to deliver on the closing date for the Bonds a "Continuing Disclosure Agreement" between the Trustee on behalf of the holders of the Bonds and the Agency pursuant to which the Agency with respect to the Pledged Funds (described herein) and the Obligated Persons (if any) will agree to provide at the times and to the persons described in Rule 15c2-12 the annual financial information and event notices to various information repositories required to be disclosed on a continual basis pursuant to Rule 15c2-12; and

WHEREAS, the Agency has determined that (i) the Agency, to the limited extent of the "Pledged Funds" established under the Resolution, is an "obligated person" for the Bonds within the meaning of Rule 15c2-12 and (ii) at the time of issuance of the Bonds, there is no other "obligated person" for the Bonds within the meaning of Rule 15c2-12 (based upon application of the objective criteria established in Section 2.6(a) herein); and

WHEREAS, the Agency has further determined to establish herein objective criteria on the basis of which certain persons may become "obligated persons" for the Bonds within the meaning of Rule 15c2-12; and

WHEREAS, the execution and delivery of this Agreement have been duly authorized by the Agency and the Trustee, respectively, and all conditions, acts and things necessary and required to exist, to have happened, or to have been performed precedent to and in the execution and delivery of this Agreement, do exist, have happened and have been performed in regular form, time and manner; and

WHEREAS, the Trustee and the Agency with respect to the Pledged Funds and the Obligated Persons (if any), are entering into this Agreement for the benefit of the Holders and the Beneficial Owners of the Bonds.

NOW, THEREFORE, for and in consideration of the premises and of the mutual representations, covenants and agreements herein set forth, the Agency and the Trustee, each binding itself, its successors and assigns, do mutually promise, covenant and agree as follows:

## ARTICLE 1

## DEFINITIONS

Section 1.1 Terms Defined in Recitals. The following terms shall have the meaning set forth in the recitals hereto:

| | |
|---|---|
| Agency | Purchase Contract |
| Agreement | Resolution |
| Bonds | Rule 15c2-12 |
| General Resolution | SEC |
| Mortgage Loans | Securities Exchange Act |
| 2001 Series Resolution | Trustee |
| Executive Director's Certificate | |
| Participating Underwriter | |

Section1.2 Additional Definitions. The following additional terms shall have the meanings specified below:

"Annual Report" means Financial Statements, Operating Data and Obligated Person Data provided at least annually.

"Beneficial Owner" means (a) any person which (i) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries) or (ii) is treated as the owner of any Bonds for federal income tax purposes; and (b) so long as any Municipal Bond Insurance Policy is in full force and effect and the related Bond Insurer is not in default under the terms thereof, such Bond Insurer. In determining whether a person is a "Beneficial Owner" within the meaning of clause (a) of the preceding sentence, the Agency or the Trustee may require that prior to recognizing any person as a "Beneficial Owner", such person must deliver a certification of a Bondholder stating that such Bondholder is the nominee, depository or other intermediary of such person and the aggregate amount of such Bonds for which the Bondholder is serving in such capacity for such person.

"Bond Insurers" means Ambac Assurance, Financial Security Assurance and any other insurer of Bonds.

"Bondholder", "Holder" or "holder" or any similar term, when used with reference to a Bond or Bonds, means any person who shall be the registered owner of any Outstanding Bond.

"Business Day" means any day other than (a) a Saturday or Sunday, (b) a day on which (i) commercial banks in New York, New York or (ii) the city or cities in which are located the principal (or principal New Jersey) corporate trust office or offices of the Trustee are authorized or required by law to close or (c) a day on which the New York Stock Exchange is closed.

"Disclosure Event" means any event described in subsection 2.1(b) of this Agreement.

"Disclosure Event Notice" means the notice to (i) the State Repository, if any, and (ii) (A) the National Repositories or (B) the MSRB, as provided in subsection 2.4(d).

"Dissemination Agent" means initially the Trustee, acting in its capacity as Dissemination Agent under this Agreement, or any successor Dissemination Agent (which may be the Agency) designated in writing by the Agency and which has filed a written acceptance of such designation.

"Final Official Statement" means the final Official Statement of the Agency dated October 5, 2001 pertaining to the Bonds.

"Financial Statements" means the audited financial statements of the Agency's Multi-Family Housing Revenue Bonds Resolution; provided, that if audited financial statements cannot be provided to the persons and depositories, at the times, required herein, "Financial Statements" shall mean the unaudited financial statements of the Agency's Multi-Family Housing Revenue Bonds Resolution until such time as audited financial statements are available, which audited financial statements shall be provided to such persons and depositories within 3 Business Days after their date of availability.

"Fiscal Year" means the fiscal year of the Agency. As of the date of this Agreement, the Fiscal Year of the Agency begins on July 1 of each calendar year and closes on June 30 of the next succeeding calendar year.

"GAAP" means generally accepted accounting principles, consistently applied, consistent with the standards promulgated by the Financial Accounting Standards Board as modified by the Government Accounting Standards Board.

"GAAS" means generally accepted auditing standards, consistently applied.

"MSRB" means the Municipal Securities Rulemaking Board. The address of the MSRB as of the date of this Agreement is:

1818 N Street, NW, Suite 800
Washington, DC 20036-2491

"Municipal Bond Insurance Policies" means the municipal bond insurance policies issued by Ambac Assurance insuring the payment when due of the principal of and interest on the Bonds as provided therein.

"National Repository" means each "nationally recognized municipal securities information repository" within the meaning of Rule 15c2-12. As of the date of this Agreement, the National Repositories designated by the SEC in accordance with Rule 15c2-12 are:

(a) Bloomberg Financial Markets
Attn: Municipal Repository
100 Business Park Drive
Skillman, New Jersey 08558
Telecopier: (609) 279-3225
Telephone: (609) 279-5962
E-Mail: **munis@Bloomberg.com**

(b) DPC Data Inc.
One Executive Drive
Fort Lee, New Jersey 07024
Telecopier: (201) 947-0107
Telephone: (201) 346-0701
E-Mail: **nrmsir@dpcdata.com**

(c) Standard & Poor's J.J. Kenny Repository
55 Water Street, 45th Floor
New York, New York 10041
Telecopier: (212) 438-3975
Telephone: (212) 438-4595
E-Mail: **nrmsir_repository@sandp.com**

(d) Interactive Data
Attn: Repository
100 Williams Street
New York, New York 10038
Telecopier: (212) 771-7390
Telephone: (212) 771-6899
E-Mail: **nrmsir@interactivedata.com**
Website: **http://www.interactivedata.com**

"Obligated Person" means each person (including the Agency, to the limited extent of the "Pledged Funds" established under the Resolution) constituting an

"obligated person" for the Bonds within the meaning of Rule 15c2-12 and which meets the objective criteria specified in Section 2.6(a) hereof.

"Obligated Person Data" means the audited general purpose financial statements for each Obligated Person for the fiscal period ending during the Fiscal Year covered by such Annual Report; provided, that if audited financial statements cannot be provided to the persons and depositories, and at the times, required herein, "Financial Statements" shall mean unaudited financial statements until such time as audited financial statements are available, which audited financial statements shall be provided to such persons and depositories within 3 Business Days after their date of availability.

"Operating Data" means (a) the statistical information with respect to the Mortgage Loans and the Eligible Loans which will be presented in substantially the format set forth in the Final Official Statement in the information and/or charts contained under the subheadings "2001 Series A-D Mortgage Loans" and "Prior Mortgage Loans" under the heading "MORTGAGE LOANS," the information and the chart under "STRUCTURE ASSUMPTIONS-Investments," and the information contained in the charts set forth in Exhibits C and D to the Final Official Statement, and (b) a report of the Agency as to any Mortgage Loan prepayments, delinquencies, foreclosure proceedings, bankruptcy or real estate owned with respect to the Mortgage Loans and the Eligible Loans, including updates to the information contained in the Final Official Statement under the headings "MORTGAGE LOANS-Mortgage Prepayments" and "MORTGAGE LOANS-Certain Factors Affecting Mortgage Loans-Occupancy Levels and Delinquencies."

"Pledged Funds" means the Pledged Funds, as defined in the Resolution.

"Repository" means each National Repository and the State Repository.

"Securities Counsel" means a lawyer or law firm nationally recognized as an expert in federal securities law acceptable to the Agency.

"State" means the State of New Jersey.

"State Repository" means any public or private repository or entity designated by the State as a state information depository for purposes of Rule 15c2-12. As of the date of this Agreement, there is no State Repository.

Section 1.3 Capitalized Terms Not Defined Herein. Capitalized terms not defined herein shall have the meanings assigned to them in Article I of the General Resolution, as amended, or Section 1 of the 2001 Series Resolution.

Section 1.4 Interpretation. Words of masculine gender include correlative words of the feminine and neuter genders. Unless the context shall otherwise indicate, words importing the singular include the plural and vice versa, and

words importing Persons include corporations, associations, partnerships (including limited partnerships), trusts, firms and other legal entities, including public bodies, as well as natural persons. Articles and Sections referred to by number mean the corresponding Articles and Sections of this Agreement. the terms "hereby", "hereof", "hereto", "herein", "hereunder" and any similar terms as used in this Agreement, refer to this Agreement as whole unless otherwise expressly stated.

As the context shall require, all words importing the singular number shall include the plural number; the disjunctive term "or" shall be interpreted conjunctively as required to insure that the Agency performs any obligations mentioned in the passage in which such term appears.

The headings of this Agreement are for convenience only and shall not define or limit the provisions hereof.

## ARTICLE 2

## CONTINUING DISCLOSURE COVENANTS AND REPRESENTIONS

Section 2.1 Continuing Disclosure Covenants of the Agency. The Agency, with respect to the Pledged Funds and each Obligated Person (if any), agrees that it will provide or cause to be provided, or shall cause the Dissemination Agent to provide:

(a) Not later than one-hundred eighty (180) days after the end of each Fiscal Year, commencing with the fiscal year of the Agency ending June 30, 2002, an Annual Report to each Repository.

(b) In a timely manner, to each National Repository or the MSRB, and to the State Repository, if any, notice of any of the following events with respect to the Bonds, if such event would be material under applicable federal securities laws (each, a "Disclosure Event"):

(i) Principal and interest payment delinquencies;

(ii) Non-payment related defaults;

(iii) Unscheduled draws on debt service reserves reflecting financial difficulties;

(iv) Unscheduled draws on credit enhancements reflecting financial difficulties;

(v) Substitution of credit or liquidity providers, or their failure to perform;

(vi) Adverse tax opinions or events affecting the tax-exempt status of the Bonds, including but not limited to (A) an audit, investigation or other challenge to the exclusion from gross income of interest on the Bonds for Federal income tax purposes, by the Internal Revenue Service in any administrative or judicial proceeding or (B) the issuance of any regulation, decision or other official pronouncement by the Internal Revenue Service, any other official tax authority or any court adversely affecting the exclusion from gross income of interest on the Bonds or of any obligations of a similar type as the Bonds;

(vii) modifications to rights of holders of the Bonds;

(viii) Bond calls, other than mandatory, scheduled sinking fund redemptions, not otherwise contingent upon the occurrence of an event, the terms of which are set forth in the final Official Statement of the Authority circulated in connection with the issuance of the Bonds and notice of which is provided to the Owners of the Bonds pursuant to the Resolution;

(ix) Defeasances;

(x) Release, substitution, or sale of property securing repayment of the Bonds; and

(xi) Rating changes.

(c) In a timely manner, to each National Repository or the MSRB, and to the State Repository, notice of a failure by the Agency to provide the Annual Report within the period described in subsection 2.1(a) hereof.

Section 2.2 Continuing Disclosure Representations. The Agency represents and warrants that the Financial Statements shall be prepared according to GAAP; provided, however, that the Agency may, from time to time, in order to comply with Federal and State legal requirements, modify the basis upon which the Financial Statements are prepared. Notice of any such modification of accounting principles shall be provided to (i) either each National Repository or the MSRB and (ii) the State Repository, if any, and shall include a reference to the specific Federal or State law or regulation describing such accounting basis.

Section 2.3 Form of Annual Report.

(a) The Annual Report may be submitted as a single document or as separate documents comprising a package; provided, however, that if not submitted as part of the Annual Report, the Financial Statements, Operating Data and Obligated Person Data may each be submitted separately.

(b) Any or all of the items which must be included in the Annual Report may be incorporated by reference from other documents, including official statements delivered in connection with other financing issued on behalf of the Agency or related public entities which have been submitted to the Repositories, the MSRB or the SEC. If the document incorporated by reference is a final official statement, it must be available from the MSRB. The Agency shall clearly identify each such other document so incorporated by reference.

Section 2.4 Responsibilities, Duties, Immunities and Liabilities of the Trustee.

(a) If fifteen (15) Business Days prior the date specified in subsection 2.1(a), the Trustee has not received a copy of the Annual Report, the Trustee shall contact the Agency and the Dissemination Agent to determine if the Agency is in compliance with subsection 2.1(a).

(b) If the Trustee is unable to verify that an Annual Report has been provided to the Repositories by the date specified in subsection 2.1(a), the Trustee shall send a notice to each Repository and the MSRB in substantially the form attached hereto as Exhibit A.

(c) Whenever the Agency obtains knowledge of the occurrence of any Disclosure Event, the Agency shall promptly notify the Trustee in writing. Such notice shall instruct the Trustee to report the occurrence of such Disclosure Event pursuant to subsection 2.4(d).

(d) If the Trustee has been instructed by the Agency to report the occurrence of a Disclosure Event, the Trustee shall file a notice of such occurrence with each National Repository or the MSRB and with the State Repository (the "Disclosure Event Notice"); provided, that unless Rule 15c2-12 shall require otherwise, the Disclosure Event Notice pertaining to the occurrence of a Disclosure Event described in clauses 2.1(b)(viii) (redemption of the Bonds) or 2.1(b)(ix)(defeasances) need not be given under this subsection any earlier than the time when the notice (if any) of such Disclosure Event shall be given to Holders of affected Bonds as provided in Sections 4.5 and 14.2 of the General Resolution, respectively. Each Disclosure Event Notice shall be so captioned and shall prominently state the title, date and CUSIP numbers of the applicable Bonds. The obligations of the Agency and the Trustee to provide the notices to the Repositories or the MSRB, as the case may be, under this Agreement are in addition to, and not in substitution of, any of the obligations of the Trustee to provide notices of events of default to Holders under Section 12.11 of the General Resolution.

(e) At the sole cost and expense of the Agency but only from the moneys available to the Agency as described in Section 4.3 hereof, the Trustee shall make available to each Holder and each Beneficial Owner of the Bonds who makes a request therefor a copy of the Annual Report.

(f) Article 8 of the General Resolution is hereby made applicable to this Agreement as if the duties of the Trustee under this Agreement were (solely for this purpose) set forth in the General Resolution.

Section 2.5 Responsibilities, Duties, Immunities and Liabilities of the Dissemination Agent.

(a) The Dissemination Agent shall:

(i) determine each year prior to the date for providing the Annual Report the name and address of each National Repository and each State Repository; and

(ii) file a written report with the Agency and (if the Dissemination Agent is not the Trustee) the Trustee certifying that the Annual Report has been provided pursuant to this Agreement, stating the date it was provided and listing all the Repositories to which it was provided.

(b) The Agency may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent.

(c) The Dissemination Agent (if other than the Trustee or the Trustee in its capacity as Dissemination Agent) shall have only such duties as are specifically set forth in this Agreement, and the Agency agrees, subject to the limitations on the moneys available to the Agency to pay such indemnification described in Section 4.3 hereof, to indemnify and save the Dissemination Agent, its officers, directors, employees and agents harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agents gross negligence or willful misconduct; provided, however, that the foregoing is subject to the limitations or the provisions of the New Jersey Tort Claims Act, N.J.S.A. 59:2-1 et seq. and the New Jersey Contractual Liability Act, N.J.S.A. 59:13-1 et seq. The obligations of the Agency under this subsection shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

Section 2.6 Obligated Persons and Obligated Person Data.

(a) A person shall be an Obligated Person with respect to a Fiscal Year of the Agency if, at the time of providing any Annual Report pursuant to subsection 2.1(a) hereof, such person shall be the obligor under one or more Mortgage Loans and/or Eligible Loans, the outstanding balance or the aggregate outstanding principal

balances of which represents, in the aggregate, at least ten percent (10%) of the total of all outstanding principal balances of all Mortgage Loans and Eligible Loans.

(b) With respect to the Obligated Person Data, the Agency shall require that: (i) any Annual Report containing Obligated Person Data shall describe the accounting principles upon which such data is prepared, together with notice of any modification of accounting principles previously utilized, (ii) if any person shall cease to be an Obligated Person, a notice to such effect shall be included in the next Annual Report.

(c) The Agency hereby determines that the financial information and operating data that would have been included in the Final Official Statement for the Bonds about Obligated Persons (had such Obligated Persons met the objective criteria set forth in subsection 2.6(a) hereof at the time of initial issuance of the Bonds) consists of (i) information required to be included in the Operating Data (which the Agency has already undertaken to provide in subsection 2.1(a) hereof) and (ii) the Obligated Person Data.

## ARTICLE 3

## DEFAULTS AND REMEDIES

Section 3.1 The following shall constitute an "Event of Default" hereunder:

(i) The occurrence and continuation of a failure by the Agency to observe, perform or comply with any covenant, condition or agreement on its part to be observed or performed in this Agreement, if such failure shall remain uncured for a period of sixty (60) days after written notice thereof has been given to the Agency by the Trustee, any Bondholder or any Beneficial Owner ("Disclosure Default"); or

(ii) The occurrence and continuation of a failure by the Trustee or the Dissemination Agent, as the case may be, to observe, perform or comply with any covenant, condition or agreement on its part to be observed or performed in this Agreement, if such failure shall remain uncured for a period of thirty (30) days after written notice thereof has been given to the Trustee or the Dissemination Agent, as the case may be, by the Agency, the Trustee, the Dissemination Agent, any Bondholder or any Beneficial Owner ("Dissemination Default").

Section 3.2 <u>Remedies on Default</u>.

(a) (i) In the case of the enforcement of any of the obligations hereunder to provide the Annual Report and the Disclosure Event Notices, any Beneficial Owner or the Trustee, on behalf of the Bondholders, may and (ii) in the case of challenges to the adequacy of information set forth in the Annual Report and the Disclosure Event Notices so provided, the Trustee may (and at the request of any

Participating Underwriter or the Beneficial Owners of at least twenty-five (25%) percent in aggregate principal amount of Outstanding Bonds, after having provided to the Trustee adequate security and indemnity, shall) or a Beneficial Owner, with the consent of the Beneficial Owners of at least twenty-five (25%) percent in aggregate principal amount of Outstanding Bonds, may, take whatever action at law or in equity against the Agency, the Trustee or the Dissemination Agent which is necessary or desirable to enforce the specific performance and observance of any obligation, agreement or covenant of the Agency, the Trustee or the Dissemination Agent under this Agreement and may compel the Agency, the Trustee or the Dissemination Agent to perform and carry out their duties under this Agreement; provided, that no person or entity shall be entitled to recover monetary damages hereunder under any circumstances.

(b) The Agency may, or any Bondholder or any Beneficial Owner may, for the equal benefit and protection of all Bondholders and Beneficial Owners similarly situated may, take whatever action at law or in equity against the Trustee or the Dissemination Agent and any of the officers, agents and employees of the Trustee or the Dissemination Agent which is necessary or desirable to enforce the specific performance and observance of any obligation, agreement or covenant of the Trustee or the Dissemination Agent, as the case may be, under this Agreement and may compel the Trustee or the Dissemination Agent, as the case may be, or any such officers, agents or employees to perform and carry out their duties under this Agreement; provided, that no person or entity shall be entitled to recover monetary damages hereunder under any circumstances.

(c) In case the Trustee, the Dissemination Agent, the Agency, any Bondholder or any Beneficial Owner shall have proceeded to enforce its rights under this Agreement and such proceedings shall have been discontinued or abandoned for any reason or shall have been determined adversely to such party, then and in every such case the Agency, the Trustee, the Dissemination Agent, any Bondholder and any Beneficial Owner, as the case may be, shall be restored respectively to their several positions and rights hereunder, and all rights, remedies and powers of the Agency, the Trustee, the Dissemination Agent, any Bondholder and any Beneficial Owner shall continue as though no such proceeding had been taken.

(d) An Event of Default under this Agreement shall not be deemed an event of default under the Resolution, and the sole remedy under this Agreement in the event of any failure by the Agency to comply with this Agreement shall be as set forth in subsection 3.2.(a) of this Agreement. The sole remedies under this Agreement in the event of any failure by either the Trustee or the Dissemination Agent to comply with this Agreement shall be as set forth in subsections 3.2(a) and 3.2(b) of this Agreement.

Section 3.3 Agreements to Pay Reasonable Attorneys' Fees and Expenses.

(a) If a Disclosure Default occurs and the Trustee, any Bondholder or any Beneficial Owner, as the case may be, employs attorneys or incurs other expenses for the enforcement of performance or observance of any obligation or agreement on the part of the Agency herein contained, the Agency agrees that it will on demand therefor pay to the Trustee, such Bondholder or such Beneficial Owner the reasonable fees of such attorneys and such other expenses so incurred by the Trustee, such Bondholder or such Beneficial Owner, as the case may be, but only from the moneys available to the Agency as described in Section 4.3 hereof.

(b) If a Dissemination Default occurs and the Agency, any Bondholder or any Beneficial Owner employs attorneys or incurs other expenses for the enforcement of performance or observance of any obligation or agreement on the part of the Trustee or the Dissemination Agent, as the case may be, herein contained, the Trustee or the Dissemination Agent, as the case may be, agrees that it will on demand therefor pay to the Agency, such Bondholder or such Beneficial Owner, as the case may be, the reasonable fees of such attorneys and such other expenses so incurred by the Agency, such Bondholder or such Beneficial Owner; provided that notwithstanding anything in the Resolution to the contrary, neither the Trustee nor the Dissemination Agent, as the case may be, shall be reimbursed or otherwise indemnified by the Agency for the payment of any such fees or expenses paid to the Agency, any such Bondholder or any such Beneficial Owner in connection with remedying any Dissemination Default.

Section 3.4 No Remedy Exclusive. No remedy herein conferred upon or reserved to the Trustee, the Agency, the Dissemination Agent, any Bondholder or any Beneficial Owner is intended to be exclusive of any other available remedy or remedies, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given under this Agreement or now or hereafter existing at law or in equity or by statute. No delay or omission to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver thereof, but any such right and power may be exercised from time to time and as often as may be deemed expedient. In order to entitle the Agency, the Trustee, the Dissemination Agent, any Bondholder or any Beneficial Owner, as the case may be, to exercise any remedy reserved to it in this Article, it shall not be necessary to give any notice, other than such notice as may be herein expressly required.

Section 3.5 No Additional Waiver Implied by One Waiver. In the event any agreement contained this Agreement shall be breached by any party and thereafter waived by any affected party, such waiver shall be limited to the particular breach so waived and shall not be deemed to waive any other breach hereunder.

Section 3.6 Delay Not to Constitute Waiver. No failure by any party to insist upon strict performance of this Agreement or to exercise any remedy upon the occurrence of a Disclosure Default or a Dissemination Default shall constitute a waiver of such default, or a waiver or modification of any provision of this Agreement, and,

likewise, no prior course of dealing between the parties hereto shall constitute a waiver of such default or a waiver or modification of any provision of this Agreement.

## ARTICLE 4

## MISCELLANEOUS

Section 4.1 Purposes of the Disclosure Agreement. This Agreement is being executed and delivered by the Agency as issuer of the Bonds, with respect to the Pledged Funds and each Obligated Person (if any), and by the Trustee for the benefit of the Bondholders and the Beneficial Owners and in order to assist the Participating Underwriters in complying with clause (b)(5) of Rule 15c2-12.

Section 4.2 Third Party Beneficiaries: The Bondholders and the Beneficial Owners. Each Bondholder and each Beneficial Owner is hereby recognized as being a third-party beneficiary hereunder and may enforce any such right, remedy or claim conferred, given or granted to such Bondholder or Beneficial Owner hereunder.

Section 4.3 Payment of Costs and Expenses; Commission.

(a) The sole source of moneys to pay for any costs or expenses under this Agreement shall be the moneys derived by the Agency from (i) the moneys withdrawn by the Agency from the Pledged Funds pursuant to the terms of the Resolution, and (ii) the Fees and Charges collected by the Agency. Under no circumstances shall the Agency be held generally liable for any costs or expenses incurred under this Agreement.

(b) The Agency shall pay to the Trustee reasonable compensation for all services performed by it hereunder and also all its reasonable expenses, charges, and other disbursements and those of its attorneys, agents, and employees, incurred in and about the administration and execution of the trusts hereby created, and the performance of its powers and duties hereunder, and shall indemnify and hold the Trustee harmless against any liabilities which it may incur in the exercise and performance of its powers and duties hereunder, other than liabilities attributable to the gross negligence, bad faith, breach of contract or misconduct of the Trustee, arising out of or as a result of the Trustee performing its obligations under this Agreement or undertaking any transaction contemplated by this Agreement; provided, however, that the foregoing is subject to the limitations or the provisions of the New Jersey Tort Claims Act, N.J.S.A. 59:2-1 et seq. and the New Jersey Contractual Liability Act, N.J.S.A. 59:13-1 et seq.

(c) The Trustee agrees as follows:

(i) the Trustee shall give the Agency prompt notice in writing of any actual or potential claim described above and the institution of any suit or action;

(ii) the Trustee shall not adjust, settle or compromise any such claim, suit or action without the approval of the Agency except to the extent such claim, suit or action involves allegations of a Dissemination Default; and

(iii) the Trustee shall permit the Agency, if the Agency so chooses, to assume full control of the adjustment, settlement, compromise or defense of each such claim, suit or action.

While the New Jersey Contractual Liability Act, N.J.S.A. 59:13-1 et seq. is not applicable by its terms to claims arising under contracts with the Agency, the Trustee agrees that such statute (except N.J.S.A. 59:13-9) shall be applicable to all claims against the Agency arising under this Section 4.3.

The indemnification provided in this Section 4.3 does not apply or extend to any indemnification given by the Trustee to any other person.

Section 4.4 Information to be Provided to the Bond Insurers.

(a) So long as any Municipal Bond Insurance Policy is in full force and effect and the related Bond Insurer is not in default under the terms of the Municipal Bond Insurance Policy:

(i) At the same time or times as the Agency shall be required to provide or to cause the Dissemination Agent to provide, a copy of any Annual Report or notice of a Disclosure Event as provided under Section 2.1 hereof, the Agency shall provide or cause the Dissemination Agent to provide to such Bond Insurer a copy of the same Annual Report or Disclosure Event Notice, as the case may be.

(ii) At the same time or times as the Trustee shall be required to deliver a copy of any Disclosure Event Notice to any Repository or the MSRB as provided under Section 2.4(d) hereof, the Trustee shall deliver a copy of the same Disclosure Event Notice to such Bond Insurer.

(b) The failure to of the Agency, the Dissemination Agent or the Trustee, as the case may be, to provide or cause to be provided to the Bond Insurers any such Annual Report, notice of a Disclosure Event or a Disclosure Event Notice, as the case may be, shall not, by itself, constitute a Disclosure Default or a Dissemination Default hereunder.

Section 4.5 Conflict Between This Agreement and the Resolution. In the event of any conflict between the provisions of the Agreement and the provisions of the Resolution, the provisions of the Resolution shall control.

Section 4.6 Additional Information. Nothing in this Agreement shall be deemed to prevent the Agency from (a) disseminating any other information, using the means of dissemination set forth in this Agreement or any other means of communication, or (b) including any other information in any Annual Report or any Disclosure Event Notice, in addition to that which is required by this Agreement. If the Agency chooses to include any information in any Annual Report or any Disclosure Event Notice in addition to that which is specifically required by this Agreement, the Agency shall have no obligation under this Agreement to update such information or include it in any future Annual Report or any future Disclosure Event Notice.

Section 4.7 Continuing Disclosure with Respect to Additional Bonds. If, in connection with the future issuance of Bonds under the General Resolution, the Agency identifies an Obligated Person pursuant to Rule 15c2-12, the Agency agrees that if it has not yet entered into a contractual arrangement with any such Obligated Person, the Agency will incorporate into its contractual arrangement a requirement that such Obligated Person provide annual financial information and operating data and notices of material events pursuant to Rule 15c2-12 to the Agency. If the Agency will not be entering into any new contractual arrangement with such Obligated Person, the Agency will request such obligated person to provide annual financial information and operating data pursuant to Rule 15c2-12. The Agency will incorporate any annual financial information and operating data it obtains pursuant to this Section 4.7 into the Annual Report. The Agency will give notices of material events with respect to such Obligated Person pursuant to Section 2.1(c) of this Agreement.

Section 4.8 Notices. All notices required to be given or authorized to be given by either party pursuant to this Agreement shall be in writing and shall be sent by registered or certified mail, in the case of the Agency, addressed to it at its main office in City of Trenton, New Jersey; and in the case of the Trustee, addressed to it at its principal New Jersey corporate trust office in the City of Morristown, New Jersey. As of the date of this Agreement, the address of the Bond Insurers are: Ambac Assurance Corporation, One State Street Plaza, New York, New York 10004 and Financial Security Assurance Inc., 350 Park Avenue, New York, New York 10022.

Section 4.9 Assignments. This Agreement may not be assigned by either party without the consent of the other and, as a condition to any such assignment, only upon the assumption in writing of all of the obligations imposed upon such party by this Agreement.

Section 4.10 Severability. If any provisions of this Agreement shall be held or deemed to be or shall, in fact, be illegal, inoperative or unenforceable, the same shall not affect any other provision or provisions herein contained or render the same invalid, inoperative or unenforceable to any extent whatever.

Section 4.11 Execution of Counterparts. This Agreement may be simultaneously executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument. Both parties hereto may sign the same counterpart or each party hereto may sign a separate counterpart.

Section 4.12 Amendments, Changes and Modifications.

(a) This Agreement may be amended, by written agreement of the parties, and any provision of this Agreement may be waived, without the consent of the Bondholders or the Beneficial Owners, except to the extent required pursuant to subclause 4.12(a)(iv)(B) below, if all of the following conditions are satisfied:

(i) such amendment or waiver is made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law (including rules or regulations) or in interpretations thereof, or a change in the identity, nature or status of the Pledged Funds or the Agency or the type of business conducted thereby;

(ii) this Agreement, as so amended or waived, could have complied with the requirements of Rule 15c2-12 as of the date of issuance of the Bonds, after taking into account any amendments or interpretations of Rule 15c2-12, as well as any change in circumstances;

(iii) the Agency shall have delivered to the Trustee an opinion of Securities Counsel, addressed to the Agency and the Trustee, to the same effect as set forth in clause 4.12(a)(ii) above;

(iv) either (A) a party unaffiliated with the Agency (such as the Trustee or bond counsel), acceptable to the Agency and the Trustee, has determined that the amendment or waiver does not materially impair the interests of the Beneficial Owners, or (B) the Bondholders consent to the amendment or waiver of this Agreement pursuant to the same procedures as are required for amendments to the Resolution with the consent of the Bondholders; and

(v) the Agency shall have delivered copies of such amendment or waiver to the State Repository, if any, and to either each National Repository or the MSRB.

(b) In addition to clause 4.12(a) above, the Agency and the Trustee may amend this Agreement, and any provision of this Agreement may be waived, if the Trustee shall have received an opinion of Securities Counsel, addressed to the

Agency and the Trustee, to the effect that the adoption and the terms of such amendment or waiver would not, in and of themselves, cause the undertakings herein to violate Rule 15c2-12, taking into account any subsequent change in or official interpretation of Rule 15c2-12.

(c) To the extent any amendment to this Agreement results in a change in the type of financial information or operating data provided pursuant to this Agreement, the first Annual Report provided thereafter shall include a narrative explanation of the reasons for the amendment and the impact of any such change(s).

(d) If an amendment is made to the basis on which financial statements for the Pledged Funds are prepared, the Annual Report for the year in which any change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. Such comparison shall include a qualitative and, to the extent reasonably feasible, quantitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information.

Section 4.13 Agency May Obtain Opinion of Securities Counsel. In rendering any determination under this Agreement as to whether an event is or shall be deemed to be "material" under applicable Federal securities law, the Agency may rely on and obtain an opinion or opinions of counsel including Securities Counsel, who may or may not be counsel to the Agency, in respect of any such determination.

Section 4.14 Governing Law. This Agreement shall be governed exclusively by and construed in accordance with the applicable laws of the State of New Jersey; provided that, to the extent this Agreement addresses questions of Federal securities laws, including Rule 15c2-12, this Agreement shall be construed in accordance with such Federal securities laws and official interpretations thereof.

Section 4.15 Termination of Agency's Continuing Disclosure Obligations. The continuing obligation of the Agency under Section 2.1 hereof to provide the Annual Report and any Disclosure Event Notice and to comply with the other requirements of said Section shall terminate upon the legal defeasance pursuant to the Resolution, the prior redemption or the payment in full of all of the Bonds.

Section 4.16 Binding Effect. This Agreement shall inure to the benefit of and shall be binding upon the Agency and the Trustee and their respective successors and assigns.

IN WITNESS WHEREOF, the NEW JERSEY HOUSING AND MORTGAGE FINANCE AGENCY and FIRST UNION NATIONAL BANK have caused this Agreement to be executed in their respective names, all as of the date first above written.

NEW JERSEY HOUSING AND MORTGAGE FINANCE AGENCY

By:

Name: Eileen A. Hawes
Title: Chief Financial Officer

FIRST UNIONAL NATIONAL BANK

By:

Name:
Title:

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# EXHIBIT H

## FINANCIAL STATEMENTS FOR THE FISCAL YEARS
## ENDED JUNE 30, 2001 and JUNE 30, 2000
## OF THE MULTI-FAMILY HOUSING REVENUE BOND RESOLUTION
## TOGETHER WITH INDEPENDENT AUDITORS REPORTS THEREON

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# *New Jersey Housing & Mortgage Finance Agency - Multi-Family Housing Revenue Bonds Resolution*

**Independent Auditors' Report**

**Financial Statements**
Years Ended June 30, 2001 and 2000

# NEW JERSEY HOUSING & MORTGAGE FINANCE AGENCY - MULTI-FAMILY HOUSING REVENUE BONDS RESOLUTION

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Deloitte & Touche

## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying balance sheets of the New Jersey Housing & Mortgage Finance Agency (a component unit of the State of New Jersey) Multi-Family Housing Revenue Bonds Resolution, as of June 30, 2001 and 2000, and the related statements of income and cash flows for the years then ended. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

As discussed in Note 1, the financial statements present only that portion of the financial reporting entity of the Agency that is attributable to the transactions of the Multi-Family Housing Revenue Bonds Resolution (the "Resolution") and are not intended to present fairly the financial position, results of operations, and cash flows of the New Jersey Housing & Mortgage Finance Agency (the "Agency").

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Resolution as of June 30, 2001 and 2000, and the results of its operations and its cash flows for the years then ended in conformity with the accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

August 17, 2001

Deloitte
Touche
Tohmatsu

# NEW JERSEY HOUSING & MORTGAGE FINANCE AGENCY - MULTI-FAMILY HOUSING REVENUE BONDS RESOLUTION

## BALANCE SHEETS
## JUNE 30, 2001 AND 2000
## (In Thousands)

| ASSETS | 2001 | 2000 |
|---|---|---|
| CASH AND CASH EQUIVALENTS - SUBSTANTIALLY RESTRICTED (Note 3) | $ 61,782 | $ 43,965 |
| INVESTMENTS - SUBSTANTIALLY RESTRICTED (Note 3) | 84,980 | 154,054 |
| ACCRUED INTEREST RECEIVABLE ON INVESTMENTS | 1,078 | 2,731 |
| MORTGAGE LOANS RECEIVABLE - Net (Note 4) | 511,467 | 339,588 |
| DEBT SERVICE ARREARS RECEIVABLE - Net (Note 5) | 226 | 115 |
| BOND ISSUANCE COSTS | 4,341 | 3,607 |
| DEFERRED ECONOMIC LOSS ON DEFEASANCE OF BONDS | 11,820 | 10,772 |
| OTHER ASSETS | 283 | 179 |
| TOTAL ASSETS | $ 675,977 | $ 555,011 |

| LIABILITIES AND RETAINED EARNINGS | | |
|---|---|---|
| LIABILITIES: | | |
| Bonds (Note 6) | $ 609,045 | $ 500,540 |
| Accrued interest payable on bonds and obligations | 5,991 | 7,271 |
| Minimum escrow requirement | 3,942 | 2,429 |
| Other liabilities | 908 | 1,056 |
| Due to other funds | 3,656 | 2,078 |
| Total liabilities | 623,542 | 513,374 |
| RETAINED EARNINGS (Note 7) - | | |
| Restricted under bond and obligation resolutions | 52,435 | 41,637 |
| Total retained earnings | 52,435 | 41,637 |
| TOTAL LIABILITIES AND RETAINED EARNINGS | $ 675,977 | $ 555,011 |

See notes to financial statements.

# NEW JERSEY HOUSING & MORTGAGE FINANCE AGENCY - MULTI-FAMILY HOUSING REVENUE BONDS RESOLUTION

## INCOME STATEMENTS
## YEARS ENDED JUNE 30, 2001 AND 2000
## (In Thousands)

| | 2001 | 2000 |
|---|---|---|
| OPERATING REVENUES: | | |
| Interest income: | | |
| Mortgage loans | $ 37,932 | $ 23,696 |
| Investments | 11,263 | 8,886 |
| Total interest income | 49,195 | 32,582 |
| Fees and charges | 2,542 | 1,421 |
| Other income - net | 304 | 86 |
| Unrealized appreciation (depreciation) in investment securities | 79 | (32) |
| Total operating revenues | 52,120 | 34,057 |
| OPERATING EXPENSES: | | |
| Interest | 35,971 | 23,770 |
| Service fees and other | 13 | 4 |
| Insurance costs | 512 | 440 |
| Salaries and related benefits | 3,381 | 2,013 |
| Professional services and financing costs | 439 | 353 |
| General and administrative expenses | 1,157 | 702 |
| Amortization of economic loss on defeasance of bonds | 700 | 632 |
| Provision for loan losses (Note 2) | 3,024 | 94 |
| Total operating expenses | 45,197 | 28,008 |
| NET INCOME BEFORE OPERATING TRANSFERS | 6,923 | 6,049 |
| OPERATING TRANSFERS FROM OTHER FUNDS | 3,875 | 1,613 |
| NET INCOME | 10,798 | 7,662 |
| RETAINED EARNINGS, BEGINNING OF YEAR | 41,637 | 33,975 |
| RETAINED EARNINGS, END OF YEAR | $ 52,435 | $ 41,637 |

See notes to financial statements.

# NEW JERSEY HOUSING & MORTGAGE FINANCE AGENCY - MULTI-FAMILY HOUSING REVENUE BONDS RESOLUTION

## STATEMENTS OF CASH FLOWS
## YEARS ENDED JUNE 30, 2001 AND 2000
## (In Thousands)

| | 2001 | 2000 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income | $ 6,923 | $ 6,049 |
| Adjustments to reconcile net income to net cash used in operating activities: | | |
| Amortization of economic loss on defeasance of bonds | 700 | 632 |
| Provision for loan losses | 3,024 | 94 |
| Net increase in loans | (175,014) | (93,252) |
| Decrease (increase) in accrued interest receivable on investments | 1,653 | (1,500) |
| Increase in bond issuance costs - net | (734) | (916) |
| Increase in economic loss on defeasance of bonds | (1,748) | - |
| Increase in other assets | (104) | (2) |
| Increase in due to other funds | 1,578 | 711 |
| Increase in minimum escrow requirement | 1,513 | 770 |
| (Decrease) increase in other liabilities | (148) | 841 |
| (Decrease) increase in accrued interest payable on bonds | (1,280) | 3,867 |
| Operating transfers from other funds | 3,875 | 1,613 |
| Net cash used in operating activities | (159,762) | (81,093) |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES: | | |
| Proceeds from the sale of bonds and obligations | 125,065 | 153,540 |
| Retirement of bonds and obligations | (16,560) | (6,965) |
| Net cash provided by noncapital financing activities | 108,505 | 146,575 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchases of investments | (61,234) | (96,530) |
| Sales/maturities of investments | 130,391 | 44,381 |
| Market value adjustment/premium discount | (83) | 83 |
| Net cash provided by (used in) investing activities | 69,074 | (52,066) |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 17,817 | 13,416 |
| CASH AND CASH EQUIVALENTS: | | |
| Beginning of year | 43,965 | 30,549 |
| End of year | $ 61,782 | $ 43,965 |

See notes to financial statements.

# NEW JERSEY HOUSING & MORTGAGE FINANCE AGENCY - MULTI-FAMILY HOUSING REVENUE BONDS RESOLUTION

## NOTES TO FINANCIAL STATEMENTS
## YEARS ENDED JUNE 30, 2001 AND 2000
## (Dollar Amounts in Thousands)

### 1. DESCRIPTION OF THE AGENCY AND THE MULTI-FAMILY HOUSING REVENUE BONDS RESOLUTION

***Authorizing Legislation and Organization*** - The New Jersey Housing & 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 & 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 Agency is considered to be a component unit of the State of New Jersey and, as such, is a nontaxable entity.

The initial legislation and subsequent amendment grant the Agency the power to obtain funds through bond sales and to use the proceeds 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 & 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 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. Certain bonds issued are separately secured, special and limited obligations of the Agency. The Agency has no taxing power, and the State of New Jersey is not liable on bonds, notes or other obligations issued by the Agency. See Note 6 for a more detailed discussion of the Resolution's bonds and obligations.

The Multi-Family Housing Revenue Bonds were issued by the New Jersey Housing & Mortgage Finance Agency. Under the 1995 Multi-Family Housing Revenue Bonds Resolution, bond proceeds have to be used to either finance or fund first or subordinate lien mortgage loans or to refund outstanding bonds of the agency, fund debt service reserves, and cost of issuance.

The financial statements included herein, prepared on the accrual basis of accounting, present the financial position, results of operations and cash flows of only that portion of the financial reporting entity of the Agency that is attributable to transactions of the Multi-Family Housing Revenue Bonds Resolution.

***Federal Subsidy Programs*** - Many of the Agency-financed Multi-Family Housing Revenue Bonds 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 4). 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.

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 146% 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 $44,953 and $34,772 for the years ended June 30, 2001 and 2000, respectively.

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 $13,327 and $5,299 for the years ended June 30, 2001 and 2000, respectively.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

***Description of Funds*** - Pursuant to the Multi-Family Housing Revenue Bonds Resolution (the Resolution), separate funds have been established to record all transactions relating to each of the bond issues. Within each fund there are accounts required by the bond resolution.

Assets under the 1995 Multi-Family Housing Revenue Bonds Resolution are restricted and are not available for any other purpose other than as provided.

***Cash Equivalents*** - Cash equivalents include amounts held in the State of New Jersey Cash Management Fund which include obligations of banking institutions of which a substantial portion are either secured by investments in governmental obligations or are FDIC insured. 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, and overnight repurchase agreements, all of which are readily convertible to known amounts of cash.

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

***Operations*** - Fees and charges income includes an annual servicing fee on the mortgages which generally ranges 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, accrued as due monthly.

Interest expense on the bonds and obligations include amortization of bond discount and premium using the effective interest method.

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 enacts foreclosure proceedings against Multi-Family loans at the direction of its executive director with the approval of the Agency's Board.

***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, and additional contributions by limited-dividend sponsors, the State of New Jersey Bond and Housing Assistance Funds, and the Agency. The Agency has provided allowances for loan losses aggregating $19,377 and $16,378 as of June 30, 2001 and 2000, respectively, against mortgage loans receivable, debt service arrears receivable, 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 probable 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.

***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.

***Bond Issuance Costs*** - This asset represents expenses paid to issue the bonds, which are being amortized over the life of the bonds.

***New Accounting Pronouncements*** - During 1999, the Governmental Accounting Standards Board issued Statement No. 34, *Basic Financial Statement - and Management's Discussion and Analysis - for State and Local Governments* ("GASB 34"). GASB 34 is effective for financial statements for periods beginning after June 15, 2001. The Agency has not completed the process of evaluating the impact on the financial statements of adopting GASB 34.

***Reclassifications*** - The 2000 financial statements contain the reclassification of certain amounts which have been made in order to conform to the classifications used in 2001.

***Use of Estimates*** - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

## 3. CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash, cash equivalents and investments are substantially restricted under the terms of the bond resolution primarily for the payment of bond principal and interest expense and the funding of mortgage loans. Substantially all the cash in the Multi-Family Housing Revenue Bonds Resolution consists of amounts related to payments for mortgages and those amounts are maintained in interest-bearing accounts until invested in accordance with the terms of the Multi-Family Housing Revenue Bonds Resolution (the "Resolution"). The Multi-Family Housing Revenue Bonds Resolution limits investments to obligations of the U.S. Government or its agencies, investments in certain certificates of deposit of commercial banks which are members of the Federal Reserve System, investments in the State of New Jersey Cash Management Fund, investment agreements and direct and general obligations of any State which meet the minimum requirements of the Resolution.

***Cash and Cash Equivalents*** - The carrying amount and the bank balance of the Agency's cash deposits as of June 30, 2001 and 2000 were as follows:

| | 2001 | | 2000 | |
|---|---|---|---|---|
| | Carrying Amount | Bank Balance | Carrying Amount | Bank Balance |
| New Jersey Cash Management Fund | $ 61,779 | $ 61,779 | $ 43,962 | $ 43,962 |
| Uninsured | 3 | 3 | 3 | 3 |
| Total | $ 61,782 | $ 61,782 | $ 43,965 | $ 43,965 |

***New Jersey Cash Management Fund*** - The State of New Jersey Cash Management Fund is managed by the State of New Jersey, Division of Investments under the Department of the Treasury. The Fund consists of U.S. Treasury obligations, government agency obligations, certificates of deposit and commercial paper.

***Investments*** - The Resolution's investments have been categorized to give an indication of the level of risk assumed by the Agency as of June 30, 2001 and 2000. Category 1 includes investments that are insured or registered or for which the securities are held by the Resolution or trustee in the Agency's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the trustee's trust department or agency. Category 3 includes uninsured and unregistered investments for which the securities are held by the trustee or by its trust department or agent, but not in the Agency's name. The investments are confined to those investments allowed by the Resolution documents which have been approved by the Agency's Board.

Investments held as of June 30, 2001 have been categorized as follows:

| | Category | | | Par | Market |
|---|---|---|---|---|---|
| | 1 | 2 | 3 | Value | Value |
| Investment agreements | $ - | $ 4,479 | $ 78,670 | $ 83,149 | $ 83,149 |
| U.S. Government and Agency securities | - | - | 1,755 | 1,755 | 1,831 |
| | $ - | $ 4,479 | $ 80,425 | $ 84,904 | $ 84,980 |

Investments held as of June 30, 2000 have been categorized as follows:

| | Category | | | Par | Market |
|---|---|---|---|---|---|
| | 1 | 2 | 3 | Value | Value |
| Investment agreements | $ - | $ 1,652 | $ 150,755 | $ 152,407 | $ 152,407 |
| U.S. Government and Agency securities | - | - | 1,650 | 1,650 | 1,647 |
| | $ - | $ 1,652 | $ 152,405 | $ 154,057 | $ 154,054 |

Investment agreements are entered into by the Trustees, at the Agency's instruction, whereby funds are invested with certain financial institutions.

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 year ended June 30, 2001, the maximum amount invested in repurchase agreements by the Resolution was $10,941. All repurchase agreements were invested overnight and uncollateralized.

Pursuant to the Resolution, 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 Resolution (funded by bond proceeds) are included in the cash equivalents and investment balances above and aggregate approximately $17,850 (market value) as of June 30, 2001 and 2000. In addition to the above investments, the debt service reserves may be satisfied with a Surety Bond issued by a qualified insurer. At June 30, 2001 and 2000, the Resolution had $49,759 and $39,931 of Surety Bonds outstanding, respectively.

## 4. MORTGAGE LOANS RECEIVABLE

The Multi-Family Housing Revenue Bonds mortgage loans receivable as of June 30, 2001 and 2000 consisted of the following:

| | 2001 | 2000 |
|---|---|---|
| Mortgage loans subject to subsidy contracts under Section 8 of the United States Housing Act | $ 136,337 | $ 80,250 |
| Mortgage loans subject to subsidy contracts under Section 236 of the National Housing Act | 190,013 | 141,637 |
| Unsubsidized mortgage loans | 184,189 | 86,065 |
| GNMA mortgage loans | 5,208 | - |
| | 515,747 | 307,952 |
| Allowance for loan losses (principal) | (12,933) | (11,554) |
| Construction advances (undisbursed) | 8,653 | 43,190 |
| | $ 511,467 | $ 339,588 |

These mortgage loans are repayable over terms originally up to 48 years and bear interest at rates from 4.3% to 12.5% 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.

## 5. 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 $3,822 and $2,033 at June 30, 2001 and 2000, respectively. A debt service allowance for loan losses was $3,758 and $2,072 at June 30, 2001 and 2000, respectively. A subsidy payment receivable of $156 and $154 was due at June 30, 2001 and 2000, respectively.

## 6. BONDS AND OBLIGATIONS

The Resolution obtains funds to finance its operations through the sale of bonds and other obligations. Interest on the bonds and obligations is payable quarterly and semiannually. Interest costs are met from interest earned on mortgage loans and investments. Generally, bond principal is due in annual or semiannual installments. Term bonds are generally subject to redemption by application of sinking fund installments. The Agency has authorized and issued as of June 30, 2001 and 2000 the following bonds and obligations:

| | Amount Outstanding | |
|---|---|---|
| | 2001 | 2000 |
| Housing Revenue Bonds: | | |
| 1995 Series A, 4.65% to 6.10%, due 2001 to 2030 | $ 147,135 | $ 150,970 |
| 1995 Series B, 4.70% to 6.20%, due 2001 to 2020 | 6,680 | 6,865 |
| 1995 Series C, 7.25%, due 2001 to 2012 | 2,045 | 2,160 |
| 1996 Series A, 4.90% to 6.25%, due 2002 to 2028 | 27,220 | 28,515 |
| 1996 Series B, 7.33% to 8.37%, due 2001 to 2028 | 15,015 | 15,585 |
| 1997 Series A, 4.15% to 5.65%, due 2001 to 2040 | 69,550 | 71,990 |
| 1997 Series B, 4.00% to 5.4%, due 2001 to 2028 | 11,365 | 11,535 |
| 1997 Series C, 6.32% to 7.42%, due 2001 to 2040 | 21,120 | 21,720 |
| 1999 Series A, 3.50% to 5.15%, due 2001 to 2030 | 23,150 | 29,850 |
| 1999 Series B, 3.40% to 4.70%, due 2001 to 2013 | 1,885 | 2,005 |
| 1999 Series C, 5.97% to 7.12%, due 2001 to 2030 | 5,740 | 5,805 |
| 2000 Series A1, 4.60% to 6.35%, due 2002 to 2032 | 32,105 | 32,105 |
| 2000 Series A2, 4.60% to 6.35%, due 2001 to 2029 | 2,965 | 2,965 |
| 2000 Series B, 4.50% to 6.25%, due 2001 to 2026 | 60,485 | 60,890 |
| 2000 Series C-1, 8.38%, due 2001 to 2032 | 42,580 | 42,580 |
| 2000 Series C-2, variable rates, due 2001 to 2032 | 15,000 | 15,000 |
| 2000 Series E-1, 4.30% to 5.75%, due 2001 to 2025 | 94,850 | - |
| 2000 Series E-2, 4.30% to 5.75%, due 2001 to 2025 | 10,215 | - |
| 2000 Series F, 7.93%, due 2001 to 2031 | 16,755 | - |
| 2000 Series G, 4.30% to 5.35%, due 2001 to 2013 | 3,185 | - |
| Total bonds and obligations | $ 609,045 | $ 500,540 |

In August 2000, the Agency issued Multi-family Housing Revenue Bonds 2000 Series E1, Series E2, Series F, and Series G in the aggregate amount of $125,065 to provide funds for first mortgage loans and to refund six existing Multi-family bond issues. The economic gain on this transaction was approximately $9,200, and the difference between the reacquisition price and the net carrying value of the refunded debt was $1,748, which is being deferred and amortized using the straight-line method over the life of the refunded debt as a component of interest expense.

As of June 30, 2001 and 2000, there was $77,598 and $143,795 of undisbursed proceeds from the sale of bonds and obligations, respectively. Such funds represent initial mortgage loan funds committed to Multi-Family Housing sponsors authorized under the Resolution.

***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:

| | Component | |
|---|---|---|
| | **Principal** | **Interest** |
| **June 30,** | | |
| 2002 | $ 13,070 | $ 35,799 |
| 2003 | 24,975 | 34,707 |
| 2004 | 16,580 | 33,685 |
| 2005 | 15,065 | 32,891 |
| 2006 | 16,220 | 32,074 |
| Thereafter | 523,135 | 398,594 |
| | $ 609,045 | $ 567,750 |

The table above states principal at the amount when originally issued and interest at the amount to be accreted by the respective maturity dates.

## 7. RETAINED EARNINGS

***Restricted under Bond and Obligation Resolutions*** - Monies within each Bond and Obligation Fund are pledged as security for the respective bondholders, and they are restricted as to their application.

## 8. RELATED PARTY

All employees are employees of the Agency and all salary, general and administrative expenses are allocated to the Resolution via an allocation calculation.

## 9. COMMITMENTS AND CONTINGENCIES

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, the ultimate disposition of these legal actions will not have a material adverse effect on the Multi-Family Bond Resolution's financial position.

## 10. SUBSEQUENT EVENTS

The Agency's Board of Directors is expected to authorize a Preliminary Official Statement for the issuance of Multi-Family Housing Revenue Bonds 2001 Series under the Resolution on or about August 23, 2001, contingent upon the approval of the Acting Governor.

* * * * * *

**EXHIBIT I**

**FORM OF MUNICIPAL BOND INSURANCE POLICY**

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FINANCIAL SECURITY ASSURANCE®

# MUNICIPAL BOND INSURANCE POLICY

ISSUER:

BONDS:

Policy No.: -N

Effective Date:

Premium: $

FINANCIAL SECURITY ASSURANCE INC. ("Financial Security"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of Financial Security, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which Financial Security shall have received Notice of Nonpayment, Financial Security will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by Financial Security, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in Financial Security. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by Financial Security is incomplete, it shall be deemed not to have been received by Financial Security for purposes of the preceding sentence and Financial Security shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, Financial Security shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by Financial Security hereunder. Payment by Financial Security to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of Financial Security under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless Financial Security shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment

SPECIMEN

made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to Financial Security which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

Financial Security may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to Financial Security pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to Financial Security and shall not be deemed received until received by both and (b) all payments required to be made by Financial Security under this Policy may be made directly by Financial Security or by the Insurer's Fiscal Agent on behalf of Financial Security. The Insurer's Fiscal Agent is the agent of Financial Security only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of Financial Security to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, Financial Security agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to Financial Security to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of Financial Security, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, FINANCIAL SECURITY ASSURANCE INC. has caused this Policy to be executed on its behalf by its Authorized Officer.

[Countersignature]

FINANCIAL SECURITY ASSURANCE INC.

By _____

By _____
Authorized Officer

A subsidiary of Financial Security Assurance Holdings Ltd.
350 Park Avenue, New York, N.Y. 10022-6022

(212) 826-0100

Form 500NY (5/90)

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# EXHIBIT J

# PARS PROVISIONS

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**EXHIBIT J**

**PARS PROVISIONS**

**Definitions**

In addition to the words and terms elsewhere defined in this Official Statement, the following words and terms as used in this Exhibit J and elsewhere in this Official Statement have the following meanings with respect to the Series 2001 C Bonds in a PARS Rate Period unless the context or use indicates another or different meaning or intent:

"Agent Member" means a member of, or participant in, the Securities Depository who will act on behalf of a Bidder.

"Auction" means each periodic implementation of the Auction Procedures.

"Auction Agent" means the auctioneer appointed in accordance with the provisions of the Resolution and will initially be The Bank of New York.

"Auction Agreement" means an agreement between the Auction Agent and the Tender and Paying Agent/Trustee pursuant to which the Auction Agent agrees to follow the procedures specified in the Resolution with respect to the Series 2001 C Bonds while bearing interest at a PARS Rate, as such agreement may from time to time be amended or supplemented.

"Auction Date" means, with respect to either series of the PARS Bonds, during any period in which the Auction Procedures are not suspended in accordance with the provisions of the Resolution , (i) if the PARS Bonds are in a daily Auction Period, each Business Day, (ii) if the PARS Bonds are in a Special Auction Period, the last Business Day of the Special Auction Period, and (iii) if the PARS Bonds are in any other Auction Period, the Business Day next preceding each Interest Payment Date for such PARS Bonds (whether or not an Auction will be conducted on such date); provided, however, that the last Auction Date with respect to a series of PARS Bonds in an Auction Period other than a daily Auction Period or a Special Auction Period will be the earlier of (a) the Business Day next preceding the Interest Payment Date next preceding the Conversion Date for the PARS Bonds or (b) the Business Day next preceding the Interest Payment Date next preceding the final maturity date for the PARS Bonds; and provided, further, that if the PARS Bonds are in a daily Auction Period, the last Auction Date will be the earlier of (x) the Business Day next preceding the Conversion Date for the PARS Bonds or (y) the Business Day next preceding the final maturity date for the PARS Bonds. The last Business Day of a Special Auction Period will be the Auction Date for the Auction Period which begins on the next succeeding Business Day, if any. On the Business Day preceding the conversion from a daily Auction Period to another Auction Period, there will be two Auctions, one for the last daily Auction Period and one for the first Auction Period following the conversion. The first Auction Dates for the Series 2001 C Bonds is set forth on the inside cover of this Official Statement.

"Auction Period" means:

(i) a Special Auction Period;

(ii) with respect to the PARS Bonds in a daily Auction Period, a period beginning on each Business Day and extending to, but not including, the next succeeding Business Day;

(iii) with respect to the PARS Bonds in a seven-day Auction Period, a period of generally seven days beginning on a Thursday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Wednesday) and ending on the Wednesday thereafter (unless such Wednesday is not followed by a Business Day, in which case ending on the next succeeding day which is followed by a Business Day);

(iv) with respect to the PARS Bonds in a 28-day Auction Period, a period of generally 28 days beginning on a Thursday (or the last day of the prior Auction Period if the prior Auction Period does not end on a Wednesday)

and ending on the fourth Wednesday thereafter (unless such Wednesday is not followed by a Business Day, in which case ending on the next succeeding day which is followed by a Business Day);

(v) with respect to the PARS Bonds in a 35-day Auction Period, a period of generally 35 days beginning on a Thursday (or the last day of the prior Auction Period if the prior Auction Period does not end on a Wednesday) and ending on the fifth Wednesday thereafter (unless such Wednesday is not followed by a Business Day, in which case ending on the next succeeding day which is followed by a Business Day);

(vi) with respect to the PARS Bonds in a three-month Auction Period, a period of generally three months (or shorter period upon a conversion from another Auction Period) beginning on the day following the last day of the prior Auction Period and ending on the first day of the month that is the third calendar month following the beginning date of such Auction Period; and

(vii) with respect to the PARS Bonds in a six-month Auction Period, a period of generally six months (or shorter period upon a conversion from another Auction Period) beginning on the day following the last day of the prior Auction Period and ending on the next succeeding Semi-annual Interest Payment Date;

provided, however, that if there is a conversion of the PARS Bonds (i) from a daily Auction Period to a seven-day Auction Period, the next Auction Period will begin on the date of the conversion (*i.e.* the Interest Payment Date for the prior Auction Period) and will end on the next succeeding Wednesday (unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) from a daily Auction Period to a 28-day Auction Period, the next Auction Period will begin on the date of the conversion (*i.e.* the Interest Payment Date for the prior Auction Period) and will end on the Wednesday (unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 21 days but not more than 28 days from such date of conversion, and (iii) from a daily Auction Period to a 35-day Auction Period, the next Auction Period will begin on the date of the conversion (*i.e.* the Interest Payment Date for the prior Auction Period) and will end on the Wednesday (unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 28 days but no more than 35 days from such date of conversion.

"Auction Procedures" means the procedures for conducting Auctions for the PARS Bonds during a PARS Rate Period set forth in the Resolution and summarized in this Exhibit J.

"Auction Rate" means for each series of the PARS Bonds for each Auction Period, (i) if Sufficient Clearing Bids exist, the Winning Bid Rate, provided, however, if all of such PARS Bonds are the subject of Submitted Hold Orders, the Minimum Tax-Exempt PARS Rate with respect to the Series 2001 C Bonds and (ii) if Sufficient Clearing Bids do not exist, the Maximum Tax-Exempt PARS Rate with respect to the Series 2001 C Bonds.

"Available Bonds" means for each series of the PARS Bonds on each Auction Date, the aggregate principal amount of such Series of PARS Bonds that are not the subject of Submitted Hold Orders.

"Bid" has the meaning specified in subsection (a) of "Orders by Existing Owners and Potential Owners" of this Exhibit J.

"Bidder" means each Existing Owner and Potential Owner who places an Order.

"Broker-Dealer" means any entity that is permitted by law to perform the function required of a Broker-Dealer described in the Resolution that is a member of, or a direct participant in, the Securities Depository, that has been selected by the Agency, with the consent of Goldman, Sachs & Co., so long as Goldman, Sachs & Co. is a Broker-Dealer, and that is a party to a Broker-Dealer Agreement with the Auction Agent.

"Broker-Dealer Agreement" means an agreement among the Auction Agent, the Agency and a Broker-Dealer pursuant to which such Broker-Dealer agrees to follow the procedures described in the Resolution, as such agreement may from to time be amended or supplemented.

"Conversion Date" means the date on which a Series of PARS Bonds begin to bear interest at a Fixed Interest Rate.

"Default Tax-Exempt Rate" means, in respect of any Auction Period other than a daily Auction Period, a per annumrate equal to two hundred fifty percent (250%) of the PARS Index determined on the Auction Date next preceding the first day of such Auction Period or in the case of the Series 2001 C Bonds in a daily Auction Period, two hundred fifty percent (250%) of the PARS Index determined on the Auction Date which was the first day of such Auction Period, provided, however, the Default Tax-Exempt Rate will not exceed 14% per annum.

"Existing Owner" means a Person who is listed as the beneficial owner of the PARS Bonds in the records of the Auction Agent.

"Hold Order" has the meaning specified in subsection (a) of "Orders by Existing Owners and Potential Owners" of this Exhibit J.

"Initial Auction Period" means the period beginning on date of delivery of the PARS Bonds and ending on November 14, 2001.

"Interest Payment Date" shall mean: (i) the respective First Interest Payment Date set forth on the inside cover page during the Initial Period and (ii) during a PARS Rate Period: (a) when used with respect to any Auction Period other than a daily Auction Period or a Special Auction Period, the Business Day immediately following such Auction Period, (b) when used with respect to a daily Auction Period, the first Business Day of the month immediately succeeding such Auction Period, (c) when used with respect to a Special Auction Period of (i) seven or more but fewer than 92 days, the Business Day immediately following such Special Auction Period, of (ii) 92 or more days, each thirteenth Thursday after the first day of such Special Auction Period or the next Business Day if such Thursday is not a Business Day and on the Business Day immediately following such Special Auction Period, (d) after the Fixed Rate Conversion Date, each Semi-annual Interest Payment Date, (e) each Mandatory Tender Date, and (f) the Maturity Date.

"Maximum Tax-Exempt PARS Rate" means as of any Auction Date, the product of the PARS Indexmultiplied by the Tax-Exempt PARS Multiple; provided, however, that in no event will the Maximum Tax-Exempt PARS Rate exceed the lesser of (x) 14% or (y) the maximum rate permitted by applicable law, anything herein to the contrary notwithstanding.

"Minimum Tax-Exempt PARS Rate" means, as of any Auction Date, with respect to the Series 2001 C Bonds 55% of the PARS Index in effect on such Auction Date.

"No Auction Tax-Exempt Rate" means, as of any Auction Date, with respect to the Series 2001 C Bonds, the rate determined by multiplying the Percentage of PARS Index set forth below, based on the Prevailing Rating of the Series 2001 C Bonds in effect at the close of business on the Business Day immediately preceding such Auction Date, by the PARS Index:

| Prevailing Rating | Percentage of PARS Index |
|---|---|
| AAA/Aaa | 65% |
| AA/Aa | 75 |
| A/A | 85 |
| BBB/Baa | 100 |
| Below BBB/Baa | 150 |

provided, however, in no event will the No Auction Tax-Exempt Rate exceed the Maximum Tax-Exempt PARS Rate.

"Order" means a Hold Order, Bid or Sell Order.

"PARS" means the Series 2001 C Bonds while they bear interest at the PARS Rate.

"PARS Index" will have the meaning specified in "PARS Index" of this Exhibit J.

"PARS Rate" means for each series of the PARS Bonds, the rate of interest to be borne by the Bonds of such series during each Auction Period determined in accordance with the Resolution as summarized under "Determination of PARS Rate" of this Exhibit J; provided, however, in no event may the PARS Rate exceed 14% in the case of the Series 2001 C Bonds.

"PARS Rate Conversion Date" means with respect to the PARS Bonds, the date on which the Bonds of such series convert from an interest rate period other than a PARS Rate Period and begin to bear interest at a PARS Rate.

"PARS Rate Period" means, after the Initial Period, any period of time commencing on the day following the Initial Period and concluding, but not including, a Fixed Rate Conversion Date.

"Potential Owner" means any Person, including any Existing Owner, who may be interested in acquiring a beneficial interest in the PARS Bonds in addition to the PARS Bonds currently owned by such Person, if any.

"Prevailing Rating" means (a) AAA/Aaa, if the PARS Bonds will have a rating of AAA or better by S&P and a rating of Aaa or better by Moody's, (b) if not AAA/Aaa, AA/Aa if the PARS Bonds will have a rating of AA- or better by S&P and a rating of Aa3 or better by Moody's, (c) if not AAA/Aaa or AA/Aa, A/A if the PARS Bonds will have a rating of A- or better by S&P and a rating of A3 or better by Moody's, (d) if not AAA/Aaa, AA/Aa or A/A, BBB/Baa, if the PARS Bonds will have a rating of BBB- or better by S&P and a rating of Baa3 or better by Moody's and (e) if not AAA/Aaa, AA/Aa, A/A or BBB/Baa then below BBB/Baa, whether or not the PARS Bonds are rated by any securities rating agency. For purposes of this definition, S&P's rating categories of "AAA," "AA," "A-," and "BBB-" and Moody's rating categories of "Aaa," "Aa3," "A3," and "Baa3" will be deemed to refer to and include the respective rating categories correlative thereto in the event that any such Rating Agencies will have changed or modified their generic rating categories or if any successor thereto appointed in accordance with the definitions thereof will use different rating categories. If the PARS Bonds are not rated by a Rating Agency, the requirement of a rating by such Rating Agency will be disregarded. If the ratings for the PARS Bonds are split between two or more of the foregoing categories, the lower rating will determine the Prevailing Rating. If there is no rating, then the PARS Rate will be the Maximum PARS Rate.

"Principal Office" means, with respect to the Auction Agent, the office thereof designated in writing to the Agency, the Tender and Paying Agent/Trustee and each Broker-Dealer.

"Securities Depository" means The Depository Trust Company and its successors and assigns or any other securities depository selected by the Agency which agrees to follow the procedures required to be followed by such securities depository in connection with the PARS Bonds.

"Sell Order" has the meaning specified in "Orders by Existing Owners and Potential Owners" of this Exhibit J.

"Semi-Annual Interest Payment Date" means each May 1 and November 1.

"Special Auction Period" means any period of not less than seven nor more than 1,092 days which is not another Auction Period and which begins on an Interest Payment Date and ends on a Wednesday unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day.

"Submission Deadline" means 1:00 p.m., New York City time, on each Auction Date for a series of the PARS Bonds not in a daily Auction Period and 11:00 a.m., New York City time, on each Auction Date for a series of the PARS Bonds in a daily Auction Period, or such other time on such date as will be specified from time to time by the Auction Agent pursuant to the Auction Agreement as the time by which Broker-Dealers are required to submit Orders to the Auction Agent.

"Submitted Bid" has the meaning specified in the "Determination of PARS Rate" section of this Exhibit J.

"Submitted Hold Order" has the meaning specified in the "Determination of PARS Rate" section of this Exhibit J.

"Submitted Order" has the meaning specified in the "Determination of PARS Rate" section of this Exhibit J.

"Submitted Sell Order" has the meaning specified in the "Determination of PARS Rate" section of this Exhibit J.

"Sufficient Clearing Bids" means with respect to a series of the PARS Bonds, an Auction for which the aggregate principal amount of the PARS Bonds of such series that are the subject of Submitted Bids by Potential Owners specifying one or more rates not higher than the Maximum PARS Rate is not less than the aggregate principal amount of the PARS Bonds of such series that are the subject of Submitted Sell Orders and of Submitted Bids by Existing Owners specifying rates higher than the Maximum PARS Rate.

"Tax-Exempt PARS Multiple" means, as of any Auction Date, the Percentage of PARS Index (in effect on such Auction Date) determined as set forth below, based on the Prevailing Rating of the Series 2001 C Bonds in effect at the close of business on the Business Day immediately preceding such Auction Date:

| Prevailing Rating | Percentage of PARS Index |
|---|---|
| AAA/Aaa | 125% |
| AA/Aa | 150 |
| A/A | 175 |
| BBB/Baa | 200 |
| Below BBB/Baa | 225 |

"Winning Bid Rate" means with respect to a series of PARS Bonds the lowest rate specified in any Submitted Bid for such series which if selected by the Auction Agent as the PARS Rate would cause the aggregate principal amount of the PARS Bonds of such series that are the subject of Submitted Bids specifying a rate not greater than such rate to be not less than the aggregate principal amount of Available Bonds of such series.

**Auction Procedures**

***Orders by Existing Owners and Potential Owners.***

(a) Prior to the Submission Deadline on each Auction Date:

(i) each Existing Owner may submit to a Broker-Dealer, in writing or by such other method as will be reasonably acceptable to such Broker-Dealer, information as to:

(A) the principal amount of the PARS Bonds, if any, held by such Existing Owner which such Existing Owner irrevocably commits to continue to hold for the next succeeding Auction Period without regard to the rate determined by the Auction Procedures for such Auction Period;

(B) the principal amount of the PARS Bonds, if any, held by such Existing Owner which such Existing Owner irrevocably commits to continue to hold for the next succeeding Auction Period if the rate determined by the Auction Procedures for such Auction Period will not be less than the rate per annum then specified by such Existing Owner (and which such Existing Owner irrevocably offers to sell on the next

succeeding Interest Payment Date (or the same day in the case of a daily Auction Period) if the rate determined by the Auction Procedures for the next succeeding Auction Period will be less than the rate per annum then specified by such Existing Owner); and/or

(C) the principal amount of the PARS Bonds, if any, held by such Existing Owner which such Existing Owner irrevocably offers to sell on the next succeeding Interest Payment Date (or on the same day in the case of a daily Auction Period) without regard to the rate determined by the Auction Procedures for the next succeeding Auction Period.

(ii) for the purpose of implementing the Auctions and thereby to achieve the lowest possible interest rate on the PARS Bonds, the Broker-Dealers will contact Potential Owners, including Persons that are Existing Owners, to determine the principal amount of the PARS Bonds, if any, which each such Potential Owner irrevocably offers to purchase if the rate determined by the Auction Procedures for the next succeeding Auction Period is not less than the rate per annum then specified by such Potential Owner.

For the purposes hereof, an Order containing the information referred to in clause (i)(A) above is herein referred to as a "Hold Order", an Order containing the information referred to in clause (i)(B) or (ii) above is herein referred to as a "Bid", and an Order containing the information referred to in clause (i)(C) above is herein referred to as a "Sell Order."

(b)(i) A Bid by an Existing Owner will constitute an irrevocable offer to sell:

(A) the principal amount of the PARS Bonds specified in such Bid if the rate determined by the Auction Procedures on such Auction Date will be less than the rate specified therein; or

(B) such principal amount or a lesser principal amount of the PARS Bonds to be determined as described in subsection (a)(v) of the section below entitled "Allocation of PARS Bonds" if the rate determined by the Auction Procedures on such Auction Date will be equal to such specified rate; or

(C) a lesser principal amount of the PARS Bonds to be determined as described in subsection (b)(iv) of the section below entitled "Allocation of PARS Bonds" if such specified rate will be higher than the Maximum PARS Rate and Sufficient Clearing Bids do not exist.

(ii) A Sell Order by an Existing Owner will constitute an irrevocable offer to sell:

(A) the principal amount of the PARS Bonds specified in such Sell Order; or

(B) such principal amount or a lesser principal amount of the PARS Bonds as described in subsection (b)(iv) of the section below entitled "Allocation of PARS Bonds" if Sufficient Clearing Bids do not exist.

(iii) A Bid by a Potential Owner will constitute an irrevocable offer to purchase:

(A) the principal amount of the PARS Bonds specified in such Bid if the rate determined by the Auction Procedures on such Auction Date will be higher than the rate specified therein; or

(B) such principal amount or a lesser principal amount of the PARS Bonds as described in subsection (a)(vi) of the section below entitled "Allocation of PARS Bonds" if the rate determined by the Auction Procedures on such Auction Date will be equal to such specified rate.

(c) Anything herein to the contrary notwithstanding:

(i) for purposes of any Auction, any Order which specifies the PARS Bonds to be held, purchased or sold in a principal amount which is not $25,000 or an integral multiple thereof will be rounded down to the nearest $25,000, and the Auction Agent will conduct the Auction Procedures as if such Order had been submitted in such lower amount;

(ii) for purposes of any Auction other than during a daily Auction Period, any portion of an Order of an Existing Owner which relates to a PARS Bond which has been called for redemption on or prior to the Interest Payment Date next succeeding such Auction will be invalid with respect to such portion and the Auction Agent will conduct the Auction Procedures as if such portion of such Order had not been submitted;

(iii) for purposes of any Auction other than during a daily Auction Period, no portion of a PARS Bond which has been called for redemption on or prior to the Interest Payment Date next succeeding such Auction will be included in the calculation of Available Bonds for such Auction; and

(iv) the Auction Procedures will be suspended during the period commencing on the date of the Auction Agent's receipt of notice from the Tender and Paying Agent/Trustee or the Agency of the occurrence of an Event of Default resulting from a failure to pay principal, premium or interest on any PARS Bond when due (provided however that for purposes of this provision only, payment by the Bond Insurer under the Policy will be deemed to cure such Event of Default and no such suspension of the Auction Procedures will occur) but will resume two Business Days after the date on which the Auction Agent receives notice from the Tender and Paying Agent/Trustee that such Event of Default has been waived or cured, with the next Auction to occur on the next regularly scheduled Auction Date occurring thereafter.

***Submission of Orders by Broker-Dealers to Auction Agent.***

(a) Each Broker-Dealer will submit to the Auction Agent in writing or by such other method as will be reasonably acceptable to the Auction Agent, including such electronic communication acceptable to the parties, prior to the Submission Deadline on each Auction Date, all Orders obtained by such Broker-Dealer and, if requested, specifying with respect to each Order:

(i) the name of the Bidder placing such Order;

(ii) the aggregate principal amount of the PARS Bonds of each series, if any, that are the subject of such Order;

(iii) to the extent that such Bidder is an Existing Owner:

(A) the principal amount of the PARS Bonds of each series, if any, subject to any Hold Order placed by such Existing Owner;

(B) the principal amount of the PARS Bonds of each series, if any, subject to any Bid placed by such Existing Owner and the rate specified in such Bid; and

(C) the principal amount of the PARS Bonds of each series, if any, subject to any Sell Order placed by such Existing Owner.

(iv) to the extent such Bidder is a Potential Owner, the rate specified in such Bid.

(b) If any rate specified in any Bid contains more than three figures to the right of the decimal point, the Auction Agent will round such rate up to the next highest one thousandth of one percent (0.001%).

(c) If an Order or Orders covering all of the PARS Bonds of a particular series held by an Existing Owner is not submitted to the Auction Agent prior to the Submission Deadline, the Auction Agent will deem a Hold Order to have been submitted on behalf of such Existing Owner covering the principal amount of the PARS Bonds of such series held by such Existing Owner and not subject to Orders submitted to the Auction Agent; provided, however, that if there is a conversion from one Auction Period to another Auction Period and Orders have not been submitted to the Auction Agent prior to the Submission Deadline covering the aggregate principal amount of the PARS Bonds of the series to be converted held by such Existing Owner, the Auction Agent will deem a Sell Order to have been submitted on behalf of

such Existing Owner covering the principal amount of the PARS Bonds of such series to be converted held by such Existing Owner not subject to Orders submitted to the Auction Agent.

(d) If one or more Orders covering in the aggregate more than the principal amount of Outstanding PARS Bonds of a series held by any Existing Owner are submitted to the Auction Agent, such Orders will be considered valid as follows:

(i) all Hold Orders will be considered Hold Orders, but only up to and including in the aggregate the principal amount of the PARS Bonds of such series held by such Existing Owner;

(ii) (A) any Bid of an Existing Owner will be considered valid as a Bid of an Existing Owner up to and including the excess of the principal amount of the PARS Bonds of such series held by such Existing Owner over the principal amount of the PARS Bonds of such series subject to Hold Orders referred to in paragraph (i) above;

(B) subject to clause (A) above, all Bids of an Existing Owner with the same rate will be aggregated and considered a single Bid of an Existing Owner up to and including the excess of the principal amount the PARS Bonds of such series held by such Existing Owner over the principal amount of the PARS Bonds of such series held by such Existing Owner subject to Hold Orders referred to in paragraph (i) above;

(C) subject to clause (A) above, if more than one Bid with different rates is submitted on behalf of such Existing Owner, such Bids will be considered Bids of an Existing Owner in the ascending order of their respective rates up to the amount of the excess of the principal amount of the PARS Bonds of such series held by such Existing Owner over the principal amount of the PARS Bonds of such series held by such Existing Owner subject to Hold Orders referred to in paragraph (i) above; and

(D) the principal amount, if any, of such PARS Bonds of such series subject to Bids not considered to be Bids of an Existing Owner under this paragraph (ii) will be treated as the subject of a Bid by a Potential Owner.

(iii) all Sell Orders will be considered Sell Orders, but only up to and including a principal amount of the PARS Bonds of such series equal to the excess of the principal amount of the PARS Bonds of such series held by such Existing Owner over the sum of the principal amount of the PARS Bonds considered to be subject to Hold Orders pursuant to paragraph (i) above and the principal amount of the PARS Bonds of such series considered to be subject to Bids of such Existing Owner pursuant to paragraph (ii) above.

(e) If more than one Bid is submitted on behalf of any Potential Owner, each Bid submitted with the same rate will be aggregated and considered a single Bid and each Bid submitted with a different rate will be considered a separate Bid with the rate and the principal amount of the PARS Bonds specified therein.

(f) Any Bid submitted for the PARS Bonds by an Existing Owner or a Potential Owner specifying a rate lower than the Minimum Tax-Exempt PARS Rate will be treated as a Bid specifying the Minimum Tax-Exempt PARS Rate.

(g) Neither the Agency, the Tender and Paying Agent/Trustee nor the Auction Agent will be responsible for the failure of any Broker-Dealer to submit an Order to the Auction Agent on behalf of any Existing Owner or Potential Owner.

***Determination of PARS Rate.***

(a) Not later than 9:30 a.m., New York City time, on each Auction Date for each series of the PARS Bonds, the Auction Agent will advise the Broker-Dealers and the Tender and Paying Agent/Trustee by telephone or other electronic communication acceptable to the parties of (i) the Minimum Tax-Exempt PARS Rate, the Maximum Tax-Exempt PARS Rate and the PARS Index for the Series 2001 C Bonds.

(b) Promptly after the Submission Deadline on each Auction Date for each series of the PARS Bonds, the Auction Agent will assemble all Orders submitted or deemed submitted to it by the Broker-Dealers (each such Order as submitted or deemed submitted by a Broker-Dealer being hereinafter referred to as a "Submitted Hold Order," a "Submitted Bid" or a "Submitted Sell Order," as the case may be, and collectively as a "Submitted Order") and will determine (i) the Available Bonds, (ii) whether there are Sufficient Clearing Bids, and (iii) the Auction Rate.

(c) Promptly after the Auction Agent has made the determinations pursuant to subsection (b) above, the Auction Agent will advise the Tender and Paying Agent/Trustee by telephone (promptly confirmed in writing), telex or facsimile transmission or other electronic communication acceptable to the parties, of the Auction Rate for the next succeeding Auction Period and the Tender and Paying Agent/Trustee will promptly notify the Securities Depository of such Auction Rate.

(d) In the event the Auction Agent fails to calculate, or for any reason fails to timely provide, the Auction Rate for any Auction Period, the PARS Rate for such Auction Period, with respect to the Series 2001 C Bonds, will be the No Auction Tax-Exempt Rate; provided, however, that if the Auction Procedures are suspended due to the failure to pay principal of, premium or interest on any Series 2001 C Bond, the PARS Rate for the next succeeding Auction Period will be the Default Tax-Exempt Rate.

(e) In the event of a failed conversion with respect to the Series 2001 C Bonds to a Fixed Rate Period or in the event of a failure to change the length of the current Auction Period due to the lack of Sufficient Clearing Bids at the Auction on the Auction Date for the first new Auction Period, the PARS Rate for the next Auction Period will be the Maximum Tax-Exempt PARS Rate and the Auction Period will be a seven-day Auction Period, unless the Agency otherwise selects an Auction Period.

(f) If the Series 2001 C Bonds are not rated or if the Series 2001 C Bonds are no longer maintained in book-entry-only form by the Securities Depository, then the PARS Rate will be the Maximum Tax-Exempt PARS Rate.

For purposes of clause (d) above, payment by the Bond Insurer of a claim for principal and/or interest shall constitute payment thereof.

***Allocation of Series 2001 C Bonds.***

(a) In the event of Sufficient Clearing Bids for a series of the PARS Bonds, subject to the further provisions of subsections (c) and (d) below, Submitted Orders for such series will be accepted or rejected as follows in the following order of priority:

(i) the Submitted Hold Order of each Existing Owner will be accepted, thus requiring each such Existing Owner to continue to hold the PARS Bonds that are the subject of such Submitted Hold Order;

(ii) the Submitted Sell Order of each Existing Owner will be accepted and the Submitted Bid of each Existing Owner specifying any rate that is higher than the Winning Bid Rate will be rejected, thus requiring each such Existing Owner to sell the PARS Bonds that are the subject of such Submitted Sell Order or Submitted Bid;

(iii) the Submitted Bid of each Existing Owner specifying any rate that is lower than the Winning Bid Rate will be accepted, thus requiring each such Existing Owner to continue to hold the PARS Bonds that are the subject of such Submitted Bid;

(iv) the Submitted Bid of each Potential Owner specifying any rate that is lower than the Winning Bid Rate will be accepted, thus requiring each such Potential Owner to purchase the PARS Bonds that are the subject of such Submitted Bid;

(v) the Submitted Bid of each Existing Owner specifying a rate that is equal to the Winning Bid Rate will be accepted, thus requiring each such Existing Owner to continue to hold the PARS Bonds that are the subject of such Submitted Bid, but only up to and including the principal amount of the PARS Bonds obtained by multiplying (A) the

aggregate principal amount of Outstanding PARS Bonds which are not the subject of Submitted Hold Orders described in paragraph (i) above or of Submitted Bids described in paragraphs (iii) or (iv) above by (B) a fraction the numerator of which will be the principal amount of Outstanding PARS Bonds held by such Existing Owner subject to such Submitted Bid and the denominator of which will be the aggregate principal amount of Outstanding PARS Bonds subject to such Submitted Bids made by all such Existing Owners that specified a rate equal to the Winning Bid Rate, and the remainder, if any, of such Submitted Bid will be rejected, thus requiring each such Existing Owner to sell any excess amount of the PARS Bonds;

(vi) the Submitted Bid of each Potential Owner specifying a rate that is equal to the Winning Bid Rate will be accepted, thus requiring each such Potential Owner to purchase the PARS Bonds that are the subject of such Submitted Bid, but only in an amount equal to the principal amount of the PARS Bonds obtained by multiplying (A) the aggregate principal amount of Outstanding PARS Bonds which are not the subject of Submitted Hold Orders described in paragraph (i) above or of Submitted Bids described in paragraphs (iii), (iv) or (v) above by (B) a fraction the numerator of which will be the principal amount of Outstanding PARS Bonds subject to such Submitted Bid and the denominator of which will be the sum of the aggregate principal amount of Outstanding PARS Bonds subject to such Submitted Bids made by all such Potential Owners that specified a rate equal to the Winning Bid Rate, and the remainder of such Submitted Bid will be rejected; and

(vii) the Submitted Bid of each Potential Owner specifying any rate that is higher than the Winning Bid Rate will be rejected.

(b) In the event there are not Sufficient Clearing Bids for a series of the PARS Bonds, subject to the further provisions of subsections (c) and (d) below, Submitted Orders, for each series of the PARS Bonds will be accepted or rejected as follows in the following order of priority:

(i) the Submitted Hold Order of each Existing Owner will be accepted, thus requiring each such Existing Owner to continue to hold the PARS Bonds that are the subject of such Submitted Hold Order;

(ii) the Submitted Bid of each Existing Owner specifying any rate that is not higher than the Maximum Tax-Exempt PARS Rate with respect to the Series 2001 C Bonds will be accepted, thus requiring each such Existing Owner to continue to hold the applicable Series of PARS Bonds that are the subject of such Submitted Bid;

(iii) the Submitted Bid of each Potential Owner specifying any rate that is not higher than (a) the Maximum Tax-Exempt PARS Rate with respect to the Series 2001 C Bonds will be accepted, thus requiring each such Potential Owner to purchase the applicable Series of PARS Bonds that are the subject of such Submitted Bid;

(iv) the Submitted Sell Orders of each Existing Owner will be accepted as Submitted Sell Orders and the Submitted Bids of each Existing Owner specifying any rate that is higher than the Maximum Tax-Exempt PARS Rate with respect to the Series 2001 C Bonds will be deemed to be and will be accepted as Submitted Sell Orders, only up to and including the principal amount of the applicable Series of PARS Bonds obtained by multiplying (A) the aggregate principal amount of the PARS Bonds subject to Submitted Bids described in paragraph (iii) of this subsection (b) by (B) a fraction the numerator of which will be the principal amount of Outstanding PARS Bonds held by such Existing Owner subject to such Submitted Sell Order or such Submitted Bid deemed to be a Submitted Sell Order and the denominator of which will be the principal amount of Outstanding PARS Bonds subject to all such Submitted Sell Orders and such Submitted Bids deemed to be Submitted Sell Orders, and the remainder of each such Submitted Sell Order or Submitted Bid will be deemed to be and will be accepted as a Hold Order and each such Existing Owner will be required to continue to hold such excess amount of the PARS Bonds; and

(v) the Submitted Bid of each Potential Owner specifying any rate that is higher than the Maximum Tax-Exempt PARS Rate with respect to the Series 2001 C Bonds will be rejected.

(c) If, as a result of the procedures described in subsection (a) or (b) above, any Existing Owner or Potential Owner would be required to purchase or sell an aggregate principal amount of the PARS Bonds which is not an integral multiple of $25,000 on any Auction Date, the Auction Agent will by lot, in such manner as it will determine

in its sole discretion, round up or down the principal amount of the PARS Bonds to be purchased or sold by any Existing Owner or Potential Owner on such Auction Date so that the aggregate principal amount of the PARS Bonds purchased or sold by each Existing Owner or Potential Owner on such Auction Date will be an integral multiple of $25,000, even if such allocation results in one or more of such Existing Owners or Potential Owners not purchasing or selling any PARS Bonds on such Auction Date.

(d) If, as a result of the procedures described in subsection (a) above, any Potential Owner would be required to purchase less than $25,000 in principal amount of the PARS Bonds on any Auction Date, the Auction Agent will by lot, in such manner as it will determine in its sole discretion, allocate the PARS Bonds for purchase among Potential Owners so that the principal amount of PARS Bonds purchased on such Auction Date by any Potential Owner will be an integral multiple of $25,000, even if such allocation results in one or more of such Potential Owners not purchasing the PARS Bonds on such Auction Date.

***Notice of PARS Rate.***

(a) On each Auction Date, the Auction Agent will notify by telephone or other telecommunication device or other electronic communication acceptable to the parties or in writing each Broker-Dealer that participated in the Auction held on such Auction Date of the following with respect to each series of the PARS Bonds for which an Auction was held on such Auction Date:

(i) the PARS Rate determined on such Auction Date for the succeeding Auction Period;

(ii) whether Sufficient Clearing Bids existed for the determination of the Winning Bid Rate;

(iii) if such Broker-Dealer submitted a Bid or a Sell Order on behalf of an Existing Owner, whether such Bid or Sell Order was accepted or rejected and the principal amount of the PARS Bonds, if any, to be sold by such Existing Owner;

(iv) if such Broker-Dealer submitted a Bid on behalf of a Potential Owner, whether such Bid was accepted or rejected and the principal amount of the PARS Bonds, if any, to be purchased by such Potential Owner;

(v) if the aggregate principal amount of the PARS Bonds to be sold by all Existing Owners on whose behalf such Broker-Dealer submitted Bids or Sell Orders is different from the aggregate principal amount of the PARS Bonds to be purchased by all Potential Owners on whose behalf such Broker-Dealer submitted a Bid, the name or names of one or more Broker-Dealers (and the Agent Member, if any, of each such other Broker Dealer) and the principal amount of the PARS Bonds to be (A) purchased from one or more Existing Owners on whose behalf such other Broker-Dealers submitted Bids or Sell Orders or (B) sold to one or more Potential Owners on whose behalf such Broker-Dealer submitted Bids; and

(vi) the immediately succeeding Auction Date.

(b) On each Auction Date, with respect to each series of the PARS Bonds for which an Auction was held on such Auction Date, each Broker-Dealer that submitted an Order on behalf of any Existing Owner or Potential Owner will: (i) advise each Existing Owner and Potential Owner on whose behalf such Broker-Dealer submitted an Order as to (A) the PARS Rate determined on such Auction Date, (B) whether any Bid or Sell Order submitted on behalf of each such Owner was accepted or rejected and (C) the immediately succeeding Auction Date; (ii) instruct each Potential Owner on whose behalf such Broker-Dealer submitted a Bid that was accepted, in whole or in part, to instruct such Existing Owner's Agent Member to pay to such Broker-Dealer (or its Agent Member) through the Securities Depository the amount necessary to purchase the principal amount of the PARS Bonds to be purchased pursuant to such Bid (including, with respect to the PARS Bonds in a daily Auction Period, accrued interest if the purchase date is not an Interest Payment Date for such Bond) against receipt of such PARS Bonds; and (iii) instruct each Existing Owner on whose behalf such Broker-Dealer submitted a Sell Order that was accepted or a Bid that was rejected, in whole or in part, to instruct such Existing Owner's Agent Member to deliver to such Broker-Dealer (or its Agent Member) through the

Securities Depository the principal amount of the PARS Bonds to be sold pursuant to such Bid or Sell Order against payment therefor.

***PARS Index.***

(a) The PARS Index on any Auction Date with respect to the PARS Bonds in any Auction Period of 35 days or less will be the Seven-Day "AA" Composite Commercial Paper Rate on such date. The PARS Index with respect to the PARS Bonds in any Auction Period greater than 35 days will be the rate on United States Treasury Securities having a maturity which most closely approximates the length of the Auction Period, as last published in *The Bond Buyer*. If either rate is unavailable, the PARS Index will be an index or a rate agreed to by all Broker-Dealers and consented to by the Agency.

"Seven-Day 'AA' Composite Commercial Paper Rate" on any date of determination, means the interest equivalent of the seven-day rate on commercial paper placed on behalf of non-financial Agencies whose corporate bonds are rated AA by S&P, or the equivalent of such rating by S&P, as made available on a discount basis or otherwise by the Federal Reserve Bank of New York for the Business Day immediately preceding such date of determination, or (B) if the Federal Reserve Bank of New York does not make available any such rate, then the arithmetic average of such rates, as quoted on a discount basis or otherwise, by Goldman, Sachs & Co., Lehman Commercial Paper Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated or, in lieu of any thereof, their respective affiliates or successors which are commercial paper dealers (the "Commercial Paper Dealers"), to the Auction Agent before the close of business on the Business Day immediately preceding such date of determination.

For purposes of the definition of Seven-Day "AA" Composite Commercial Paper Rate, the "interest equivalent" means the equivalent yield on a 360-day basis of a discount-basis security to an interest-bearing security. If any Commercial Paper Dealer does not quote a commercial paper rate required to determine the Seven-Day "AA" Composite Commercial Paper Rate, the Seven-Day "AA" Composite Commercial Paper Rate will be determined on the basis of the quotation or quotations furnished by the remaining Commercial Paper Dealer or Commercial Paper Dealers and any substitute commercial paper dealer not included within the definition of Commercial Paper Dealer above, which may be CS First Boston Corporation or Morgan Stanley Dean Witter or their respective affiliates or successors which are commercial paper dealers (a "Substitute Commercial Paper Dealer") selected by the Tender and Paying Agent/Trustee (who will be under no liability for such selection) to provide such commercial paper rate or rates not being supplied by any Commercial Paper Dealer or Commercial Paper Dealers, as the case may be, or if the Tender and Paying Agent/Trustee does not select any such Substitute Commercial Paper Dealer or Substitute Commercial Paper Dealers, by the remaining Commercial Paper Dealer or Commercial Paper Dealers.

(b) If for any reason on any Auction Date the PARS Index will not be determined as hereinabove provided in this Section, the PARS Index will be the PARS Index for the Auction Period ending on such Auction Date.

(c) The determination of the PARS Index as provided herein will be conclusive and binding upon the Agency, the Tender and Paying Agent/Trustee, the Broker-Dealers, the Auction Agent and the Owners of the PARS Bonds.

***Miscellaneous Provisions Regarding Auctions.***

(a) In this Exhibit J, each reference to the purchase, sale or holding of a series of "PARS Bonds" will refer to beneficial interests in such series of PARS Bonds, unless the context clearly requires otherwise.

(b) During a PARS Rate Period with respect to the Series 2001 C Bonds, the provisions of the Resolution and the definitions contained therein and described in this Exhibit J, including without limitation the definitions of Maximum Tax-Exempt PARS Rate, Minimum Tax-Exempt PARS Rate, No Auction Tax-Exempt Rate, PARS Index, Default Tax-Exempt Rate, Interest Payment Date, Tax-Exempt PARS Multiple and PARS Rate, may be amended pursuant to the Resolution, by obtaining the consent of the owners of all Outstanding Series 2001 C Bonds bearing interest at a PARS Rate and of the Bond Insurer as follows. If on the first Auction Date occurring at least 20 days after the date on which the Tender and Paying Agent/Trustee mailed notice of such proposed amendment to the registered owners of the Outstanding Series 2001 C Bonds as required by the Resolution, (i) the PARS Rate which is determined on such date is the Winning Bid Rate and (ii) there is delivered to the Agency and the Tender and Paying Agent/Trustee and the Bond Insurer an Opinion of Bond Counsel to the effect that such amendment will not adversely affect the validity of the Series 2001 C Bonds or any exemption from federal income tax to which the interest on the Series 2001 C Bonds would otherwise be entitled, the proposed amendment will be deemed to have been consented to by the owners of all affected Outstanding Series 2001 C Bonds bearing interest at a PARS Rate of such series.

(c) If the Securities Depository notifies the Agency that it is unwilling or unable to continue as owner of the PARS Bonds or if at any time the Securities Depository will no longer be registered or in good standing under the Securities Exchange Act of 1934, as amended, or other applicable statute or regulation and a successor to the Securities Depository is not appointed by the Agency within 90 days after the Agency receives notice or becomes aware of such condition, as the case may be, the Agency will execute and the Tender and Paying Agent/Trustee will authenticate and deliver certificates representing the PARS Bonds. Such PARS Bonds will be registered in such names and authorized denominations as the Securities Depository, pursuant to instructions from the Agent Members or otherwise, will instruct the Agency and the Tender and Paying Agent/Trustee.

During a PARS Rate Period, so long as the ownership of the PARS Bonds is maintained in book-entry form by the Securities Depository, an Existing Owner or a beneficial owner may sell, transfer or otherwise dispose of a PARS Bond only pursuant to a Bid or Sell Order in accordance with the Auction Procedures or to or through a Broker-Dealer, provided that (i) in the case of all transfers other than pursuant to Auctions such Existing Owner or its Broker-Dealer or its Agent Member advises the Auction Agent of such transfer and (ii) a sale, transfer or other disposition of the PARS Bonds from a customer of a Broker-Dealer who is listed on the records of that Broker-Dealer as the holder of such PARS Bonds to that Broker-Dealer or another customer of that Broker-Dealer will not be deemed to be a sale, transfer or other disposition for purposes of this paragraph if such Broker-Dealer remains the Existing Owner of the PARS Bonds so sold, transferred or disposed of immediately after such sale, transfer or disposition.

***Changes in Auction Period or Auction Date.***

(a) Changes in Auction Period. (i) During any PARS Rate Period, the Agency may with the consent of the Bond Insurer in the case of a change to an Auction Period of longer duration, from time to time on any Interest Payment Date, change the length of the Auction Period with respect to all of the PARS Bonds of any series in a PARS Rate Period among daily, seven-days, 28-days, 35-days, three months, six months and a Special Auction Period in order to accommodate economic and financial factors that may affect or be relevant to the length of the Auction Period and the interest rate borne by such PARS Bonds; provided, however, in the case of a change from a Special Auction Period, the date of such change will be the Interest Payment Date immediately following the last day of such Special Auction Period. The Agency will initiate the change in the length of the Auction Period by giving written notice to the Tender and Paying Agent/Trustee, the Bond Insurer, the Auction Agent, the Broker-Dealers and the Securities Depository that the Auction Period will change if the conditions described herein are satisfied and the proposed effective date of the change, at least 10 Business Days prior to the Auction Date for such Auction Period.

(ii) Any such changed Auction Period will be for a period of one day, seven-days, 28-days, 35-days, three months, six months or a Special Auction Period and will be for all of the PARS Bonds of a series in a PARS Rate Period.

(iii) The change in the length of the Auction Period for any series of the PARS Bonds will not be allowed unless Sufficient Clearing Bids existed at both the Auction before the date on which the notice of the proposed change was given as provided in this subsection (a) and the Auction immediately preceding the proposed change.

(iv) The change in length of the Auction Period for any series of the PARS Bonds will take effect only if (A) the Tender and Paying Agent/Trustee and the Auction Agent receive, by 11:00 a.m., New York City time, on the Business Day before the Auction Date for the first such Auction Period, a certificate from the Agency consenting to the change in the length of the Auction Period specified in such certificate and (B) Sufficient Clearing Bids exist at the Auction on the Auction Date for such first Auction Period. For purposes of the Auction for such first Auction Period only, each Existing Owner will be deemed to have submitted Sell Orders with respect to all of its PARS Bonds except to the extent such Existing Owner submits an Order with respect to such PARS Bonds. If the condition referred to in (A) above is not met, the Auction Rate for the next Auction Period will be determined pursuant to the Auction Procedures and the Auction Period will be the Auction Period determined without reference to the proposed change. If the condition referred to in (A) is met but the condition referred to in (B) above is not met, the Auction Rate for the next Auction Period will be the Maximum Tax-Exempt PARS Rate and the Auction Period will be a seven-day Auction Period.

(v) On the conversion date for the PARS Bonds selected for conversion from one Auction Period to another, any PARS Bonds which are not the subject of a specific Hold Order or Bid will be deemed to be subject to a Sell Order.

(b) Changes in Auction Date. During any PARS Rate Period, the Auction Agent, with the written consent of the Agency, may specify an earlier Auction Date for any series (but in no event more than five Business Days earlier) than the Auction Date that would otherwise be determined in accordance with the definition of "Auction Date" in order to conform with then current market practice with respect to similar securities or to accommodate economic and financial factors that may affect or be relevant to the day of the week constituting an Auction Date and the interest rate borne on the PARS Bonds. The Auction Agent will provide notice of its determination to specify an earlier Auction Date for an Auction Period by means of a written notice delivered at least 45 days prior to the proposed changed Auction Date to the Tender and Paying Agent/Trustee, the Agency, the Broker-Dealers ,the Bond Insurer and the Securities Depository. In the event the Auction Agent specifies an earlier Auction Date, the days of the week on which an Auction Period begins and ends, the day of the week on which a Special Auction Period ends and the Interest Payment Date relating to a Special Auction Period will be adjusted accordingly.

***Conversions from PARS Rate Periods.***

At the option of the Agency, with the consent of the Bond Insurer unless the PARS Rate is at the Maximum Tax-Exempt Rate, all or a portion of a series of PARS Bonds may be converted from a PARS Rate Period to a Fixed Rate Period, and upon occurrence of the Maximum Tax-Exempt PARS Rate for a period of 60 days, all of the 2001 Series C Bonds shall be converted to a Fixed Rate Period unless that Bond Insurer otherwise consents and unless the Agency is unable to convert for reasons beyond its control, provided that after any partial conversion there are no less than $10,000,000 of the Series of PARS Bonds outstanding, bearing interest at a PARS Rate, unless consented to by all Broker-Dealers as follows:

(i) The Fixed Rate Conversion Date will be the Interest Payment Date following the final Auction Period.

(ii) The Agency will give written notice of any such conversion to the Bond Insurer, the Tender and Paying Agent/Trustee, the Auction Agent, the Remarketing Agent, if any, and the Broker-Dealer not less than seven (7) Business Days prior to the date on which the Tender and Paying Agent/Trustee is required to notify the Bondholders of the conversion pursuant to subparagraph (iii) below. Such notice will specify the proposed Fixed Rate Conversion Date. Together with such notice, the Agency will file with the Bond Insurer and the Tender and Paying Agent/Trustee, an Opinion of Bond Counsel to the effect that the proposed conversion of the Series of PARS Bonds to a Fixed Rate Period, including the assignment of maturity dates and sinking fund payment dates, will not adversely affect the validity of the Series of PARS Bonds or any exemption from federal income taxation to which interest on the Series of PARS Bonds would otherwise be entitled. No change to a Fixed Rate Period will become effective unless the Agency will also file with the Bond Insurer and the Tender and Paying Agent/Trustee, such an Opinion of Bond Counsel dated the Fixed Rate Conversion Date.

(iii) Not less than twenty (20) days prior to the Fixed Rate Conversion Date, the Tender and Paying Agent/Trustee will mail a written notice of the conversion to the holders of all Series of PARS Bonds to be converted, specifying the Fixed Rate Conversion Date and setting forth the matters required to be stated pursuant to the Resolution with respect to purchases of the Series of PARS Bonds.

(iv) If on a Fixed Rate Conversion Date any condition precedent to such conversion required under the Resolution is not satisfied, the Trustee will give written notice by first class mail postage prepaid as soon as practicable and in any event not later than the next succeeding Business Day to the Series of PARS Bondholders, the Agency and the Bond Insurer that such conversion has not occurred, that the Series of PARS Bonds will not be purchased on the failed Fixed Rate Conversion Date, that the Auction Agent will continue to implement the Auction Procedures on the Auction Dates with respect to the Series of PARS Bonds which otherwise would have been converted excluding however, the Auction Date falling on the Business Day next preceding the failed Fixed Rate Conversion Date, and that the interest rate will continue to be the PARS Rate; provided, however, that the interest rate borne by the Series of PARS Bonds during the Auction Period commencing on such failed Fixed Rate Conversion Date will be the Maximum PARS Rate, and the Auction Period will be the seven-day Auction Period.

**Auction Agent**

***Auction Agent.***

(a) The Auction Agent will be appointed by the Tender and Paying Agent/Trustee at the written direction of the Agency, to perform the functions specified in the Resolution. The Auction Agent will designate its Principal Office and signify its acceptance of the duties and obligations imposed upon it under the Resolution by a written instrument, delivered to the Agency, the Tender and Paying Agent/Trustee and each Broker-Dealer which will set forth such procedural and other matters relating to the implementation of the Auction Procedures as will be satisfactory to the Agency and the Tender and Paying Agent/Trustee.

(b) Subject to any applicable governmental restrictions, the Auction Agent may be or become the owner of or trade in the Series of PARS Bonds with the same rights as if such entity were not the Auction Agent.

***Qualifications of Auction Agent; Resignation; Removal***.

The Auction Agent will be (a) a bank or trust company organized under the laws of the United States or any state or territory thereof having a combined capital stock, surplus and undivided profits of at least $30,000,000, or (b) a member of NASD having a capitalization of at least $30,000,000 and, in either case, authorized by law to perform all the duties imposed upon it by the Resolution and a member of or a participant in, the Securities Depository. The Auction Agent may at any time resign and be discharged of the duties and obligations created by the Resolution by giving at least ninety (90) days notice to the Agency, the Bond Insurer and the Tender and Paying Agent/Trustee. The Auction Agent may be removed at any time by the Agency by written notice, delivered to the Auction Agent, the Agency, the Bond Insurer and the Tender and Paying Agent/Trustee. The Agency shall remove the Auction Agent upon the occurrence of the Maximum Tax-Exempt Rate for a period of 30 days. Upon any such resignation or removal, the Tender and Paying Agent/Trustee will appoint a successor Auction Agent meeting the requirements of the Resolution. In the event of the resignation or removal of the Auction Agent, the Auction Agent will pay over, assign and deliver any moneys and the PARS Bonds held by it in such capacity to its successor. The Auction Agent will continue to perform its duties until its successor has been appointed by the Tender and Paying Agent/Trustee. In the event that the Auction Agent has not been compensated for its services, the Auction Agent may resign by giving sixty (60) days notice to the Agency and the Tender and Paying Agent/Trustee even if a successor Auction Agent has not been appointed.

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