REMARKETING – NOT A NEW ISSUE

Moody's Ratings:
Insured—Aa3
Underlying—A2
See "Ratings" herein

In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel to the Corporation, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, interest on the 2004B Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and such interest is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code and is not included in the adjusted current earnings of corporations for purposes of calculating the alternative minimum tax. In addition, in the opinion of Bond Counsel, under existing statutes, interest on the 2004B Bonds is exempt from all taxation by the State of Hawaii or any county or other political subdivision thereof, except for inheritance, transfer and estate taxes and except to the extent such income may be included in the measure of franchise taxes imposed on banks and other financial corporations pursuant to the laws of the State of Hawaii. See "TAX MATTERS" in this Remarketing Circular.

$20,875,000
HAWAII HOUSING FINANCE AND DEVELOPMENT CORPORATION
Hawaii Rental Housing System Revenue Bonds
2004 Refunding Series B

Dated: October 13, 2004 **Due: July 1, as shown on inside cover**
Remarketing Date: Date of Delivery

The 2004B Bonds were originally issued by the Housing and Community Development Corporation of Hawaii, the predecessor of the Hawaii Housing Finance and Development Corporation (the "Corporation"), to refund certain outstanding revenue bonds issued under the State of Hawaii Affordable Rental Housing Program and Rental Housing System Program, and are being remarketed in connection with the conversion of the 2004B Bonds from bearing auction rates to bearing fixed rates to maturity. See "PLAN OF REMARKETING."

The 2004B Bonds will be remarketed in fully registered form and will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. So long as DTC or its nominee is the registered owner of the 2004B Bonds, purchases of the 2004B Bonds will be made in book-entry form only, through brokers and dealers who are, or who act through, DTC participants; beneficial owners of the 2004B Bonds will not receive physical delivery of Bond certificates; payment of the principal of and interest and any premium on the 2004B Bonds will be made directly to DTC or its nominee; and disbursement of such payments to DTC participants will be the responsibility of DTC and disbursement of such payments to the beneficial owners will be the responsibility of DTC participants. Purchases of the 2004B Bonds may be made in the denomination of $5,000 or any integral multiple thereof. See "THE 2004B BONDS–Book-Entry System" herein.

The 2004B Bonds will bear interest from the remarketing date which is payable on January 1 and July 1 of each year, commencing January 1, 2010. The 2004B Bonds are subject to redemption prior to the stated maturity thereof as described herein.

The 2004B Bonds were issued pursuant to a Trust Indenture dated as of October 1, 2004 between the Housing and Community Development Corporation of Hawaii and U.S. Bank National Association, as supplemented (the "Indenture"), and are payable and secured on a parity with the outstanding bonds issued and additional bonds to be issued under the Indenture (collectively with the 2004B Bonds, the "Bonds"). The Bonds are general obligations of the Corporation and the principal of and interest thereon are payable from (i) Net Revenues derived by the Corporation from the operation of the Hawaii Rental Housing System Revenue Bond Program, (ii) funds and accounts held under the Indenture (except to the extent described in the Indenture), and (iii) certain other legally available funds, revenues and assets of the Corporation not appropriated for or committed to any other purpose (except to the extent described in the Indenture).

The Corporation has no taxing power. The Bonds, including the 2004B Bonds, are payable from Net Revenues and other funds and assets pledged under the Indenture. Subject to any agreements heretofore or hereafter made with the holders of any notes or bonds of the Corporation pledging any particular revenues or assets not pledged under the Indenture, the Bonds, including the 2004B Bonds, are general obligations of the Corporation payable from any of the legally available funds, revenues and assets of the Corporation not appropriated for or committed to any other purpose. The State is not obligated to appropriate moneys for payment on the Bonds, including the 2004B Bonds. The Bonds, including the 2004B Bonds, shall not constitute a general or moral obligation of the State of Hawaii or a charge upon the general fund of the State of Hawaii. The full faith and credit of neither the State of Hawaii nor any political subdivision thereof are pledged to the payment of the principal of and interest on the Bonds, including the 2004B Bonds.

The scheduled payment of principal of and interest on the 2004B Bonds when due is guaranteed under an insurance policy issued concurrently with the original delivery of the 2004B Bonds (October 13, 2004) by FINANCIAL SECURITY ASSURANCE INC. See "BOND INSURANCE" herein and "Appendix F" hereto for further information.

FSA®

This cover page contains certain information for quick reference only. It is not a summary of the bond issue. Prospective investors must read the entire Remarketing Circular (including the Appendices) to obtain information essential to the making of an informed investment decision.

In connection with the remarketing of the 2004B Bonds certain legal matters will be passed upon by Hawkins Delafield & Wood LLP, New York, New York, Bond Counsel to the Corporation. Certain legal matters will be passed upon for the Remarketing Agent by its counsel, McCorriston Miller Mukai MacKinnon LLP, Honolulu, Hawaii. It is expected that the remarketed 2004B Bonds in definitive form will be available for delivery through DTC in New York, New York, on or about June 10, 2009.

Merrill Lynch & Co.
(Remarketing Agent for the 2004B Bonds)

Dated: May 28, 2009

MATURITY SCHEDULE

$20,875,000
Hawaii Housing Finance and Development Corporation
Hawaii Rental Housing System Revenue Bonds
2004 Refunding Series B

Serial Maturities

Year (July 1)	Principal Amount	Interest Rate	Yield	Year (July 1)	Principal Amount	Interest Rate	Yield
2010	$ 490,000	4.000%	1.920%	2020	$ 740,000	4.500%	4.670%
2011	510,000	4.000	2.540	2021	775,000	4.625	4.790
2012	530,000	4.000	2.900	2022	810,000	4.750	4.920
2013	555,000	4.000	3.150	2023	850,000	4.750	4.970
2014	575,000	4.000	3.500	2024	895,000	5.000	5.060
2015	600,000	4.000	3.720	2025	940,000	5.000	5.160
2016	625,000	4.000	3.920	2026	990,000	6.000	5.260
2017	650,000	4.000	4.120	2027	1,055,000	6.000	5.330
2018	680,000	4.250	4.320	2028	1,120,000	6.000	5.400
2019	705,000	4.375	4.510	2029	1,190,000	6.000	5.460

Term Maturity

$5,590,000 6.500% Term Bonds Maturing July 1, 2033, yield 5.600%

The information contained in this Remarketing Circular has been obtained from the Hawaii Housing Finance and Development Corporation and other sources deemed reliable. No guaranty is made, however, as to the accuracy or completeness of such information. The Remarketing Agent has provided the following sentence for inclusion in this Remarketing Circular. The Remarketing Agent has reviewed the information in this Remarketing Circular in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Remarketing Agent does not guarantee the accuracy or completeness of such information. This Remarketing Circular, which includes the cover page and appendices, does not constitute an offer to sell the 2004B Bonds in any state to any person to whom it is unlawful to make such offer in such state. No dealer, salesman or other person has been authorized to give any information or to make any representations, other than those contained in this Remarketing Circular, in connection with the reoffering of the 2004B Bonds, and if given or made, such information or representations must not be relied upon. The information contained herein is subject to change without notice and neither the delivery of this Remarketing Circular nor any sale hereunder at any time implies that the information contained herein is correct as of any time subsequent to its date.

Other than with respect to information concerning Financial Security Assurance Inc. ("Financial Security") contained under the caption "Bond Insurance" and Appendix F, "Municipal Bond Insurance Policy" herein, none of the information in this Remarketing Circular 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 2004B Bonds; or (iii) the tax exempt status of the interest on the 2004B Bonds.

THE 2004B BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED IN SUCH ACT. THE 2004B BONDS HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE. IN CONNECTION WITH THIS OFFERING, THE REMARKETING AGENT MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE 2004B BONDS OFFERED HEREBY 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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REMARKETING CIRCULAR

$20,875,000
Hawaii Housing Finance and Development Corporation
Hawaii Rental Housing System Revenue Bonds
2004 Refunding Series B

INTRODUCTION

This Remarketing Circular, including the cover page and appendices hereto (the "Remarketing Circular"), is provided to furnish information with respect to the remarketing by the Hawaii Housing Finance and Development Corporation (the "Corporation") of its Hawaii Rental Housing System Revenue Bonds, 2004 Refunding Series B (the "2004B Bonds"). Concurrently with the original issuance of the 2004B Bonds, the Housing and Community Development Corporation of Hawaii, the Corporation's predecessor ("HCDCH"), issued $84,055,000 aggregate principal amount of its Hawaii Rental Housing System Revenue Bonds, 2004 Refunding Series A (the "2004A Bonds"). The 2004A Bonds are not being remarketed pursuant to this Remarketing Circular.

The 2004B Bonds were issued under, pursuant to and in full compliance with the Constitution of the State of Hawaii (the "State") and the statutes of the State, including in particular Part III of Chapter 39, Hawaii Revised Statutes, and Chapter 201G (superseded by Chapter 201H), Hawaii Revised Statutes (collectively, the "Act"), and under and pursuant to a resolution of the Board of Directors of HCDCH, duly adopted on September 16, 2004, and the Trust Indenture dated as of October 1, 2004 between HCDCH and U.S. Bank National Association, as trustee (the "Trustee"), as supplemented by the First Supplemental Trust Indenture dated as of October 1, 2004 (the Trust Indenture as heretofore and hereafter amended and supplemented, the "Indenture"). All capitalized terms used in this Remarketing Circular that are defined in the Indenture and not otherwise defined herein shall have the respective meanings set forth in the Indenture.

The Corporation, a public body and a body corporate and politic duly organized and existing under the provisions of Chapter 201H, Hawaii Revised Statutes, was established by Act 196, 2005 Session Laws of Hawaii, as amended by Act 180, 2006 Session Laws of Hawaii, in connection with the division of HCDCH into two separate agencies—the Corporation and the Hawaii Public Housing Authority ("HPHA"). The Corporation is tasked with developing and financing low- and moderate-income housing projects and administering homeownership programs, while HPHA is charged with managing federal and State public housing programs, including Section 8 and senior housing. HCDCH was established to consolidate the jurisdiction, functions, powers, duties and authority previously exercised by the Housing Finance and Development Corporation ("HFDC"), the Hawaii Housing Authority (the "Authority") and the Rental Housing Trust Fund of the State. Unless the context otherwise indicates, the term "Corporation" shall also be used to refer to HCDCH, HFDC and the Authority in describing or referring to powers originally granted to such agencies but transferred to the Corporation or to previous activities of such agencies which relate to such transferred functions. In addition to its multi-family programs described below, the Corporation is empowered under the Act to raise funds through the sale of revenue bonds and to make those funds available at affordable interest rates to meet the housing needs of persons and families of low and moderate income living in the State. See "THE CORPORATION – Home Ownership Programs."

The 2004B Bonds were originally issued (i) to refund certain outstanding revenue bonds issued under the State of Hawaii Affordable Rental Housing Program and Rental Housing System Program, and (ii) to pay the costs of issuance of the 2004B Bonds.

The 2004A Bonds and 2004B Bonds are the only two series of bonds issued under the Indenture. The Corporation is authorized to issue additional series of bonds under the Indenture, the proceeds of which will be used for the production of multi-family rental housing units to be included in the Program or to refund all or a portion of bonds outstanding under the Indenture or other indenture. Additional bonds and refunding bonds issued under the Indenture will rank pari passu with the 2004B Bonds. The 2004A Bonds, the 2004B Bonds and all such additional bonds and refunding bonds are hereinafter collectively referred to as the "Bonds".

All Bonds will be secured equally and ratably by the Net Revenues and by other funds and assets (except as otherwise expressly provided in the Indenture) pledged thereto under the Indenture and constituting the Trust Estate. In addition, subject to any agreements heretofore or hereafter made with the holders of any notes or bonds of the Corporation pledging any particular revenues or assets not pledged under the Indenture, the Bonds, including the

2004B Bonds, are general obligations of the Corporation payable from any of the legally available funds or revenues and assets of the Corporation not appropriated for or committed to any other purpose.

The Corporation has no taxing power. The Bonds, including the 2004B Bonds, are obligations only of the Corporation and shall not constitute a general or moral obligation of the State or a charge upon the general fund of the State, and the full faith and credit of neither the State nor any political subdivision thereof are pledged to the payment of the principal of and interest on the Bonds, including the 2004B Bonds. The Act does not provide that the Corporation may request payment on the Bonds by the State and the State is not obligated to appropriate moneys for such purpose.

This Remarketing Circular includes a description of the Corporation and its programs, including the Program, the Projects, the 2004B Bonds, the sources of payment and security for the Bonds, including the 2004B Bonds, and a summary of the Indenture. All references herein to the Indenture are qualified in their entirety by reference to the definitive form thereof, which may be obtained from or inspected at the offices of the Corporation, and all references to the Bonds, including the 2004B Bonds, are further qualified by reference to the information with respect to the Bonds, including the 2004B Bonds, contained in the Indenture.

PLAN OF REMARKETING

The 2004B Bonds are being remarketed in the aggregate principal amount of $20,875,000 in connection with the conversion of the 2004B Bonds from bearing interest at auction rates to fixed rates to maturity. Pursuant to the Indenture, the Corporation has the option to convert the interest payable with respect to the 2004B Bonds to fixed rates to maturity. In connection with the remarketing, Merrill Lynch, Pierce, Fenner & Smith Incorporated, as remarketing agent (the "Remarketing Agent"), will determine the fixed rates for the 2004B Bonds, as provided in the Indenture, and these rates will become effective on the delivery date of the remarketed 2004B Bonds.

The 2004B Bonds may be remarketed at a net premium. In such event, the premium will be used to pay costs of the remarketing and costs of capital improvement projects of the Corporation.

On the delivery date of the remarketed 2004B Bonds, Bond Counsel is expected to deliver an Approving Opinion. See "CERTAIN LEGAL MATTERS" and Appendix E, "Form of Opinion of Bond Counsel" herein. In the event that sufficient funds are not available for conversion, or Bond Counsel fails to deliver an Approving Opinion as expected, then the 2004B Bonds will not be converted to fixed rates, and the 2004B Bonds will continue to be outstanding as auction rate bonds.

THE 2004B BONDS

General

The 2004B Bonds are dated their original date of delivery (October 13, 2004) and will bear interest at the rates and mature on the dates and in the principal amounts set forth on the inside cover page of this Remarketing Circular. The 2004B Bonds will be remarketed in minimum denominations of $5,000 principal amount. Interest will accrue on the 2004B Bonds from the date of remarketing and will be due and payable semiannually on January 1 and July 1 of each year, commencing January 1, 2010.

Optional Redemption

The 2004B Bonds maturing on or after July 1, 2020 are subject to redemption at the option of the Corporation on or after July 1, 2019, in whole or in part at any time, from any maturities selected by the Corporation at a redemption price equal to 100% of the principal amount of the 2004B Bonds or portions thereof to be redeemed, plus accrued interest to the date of redemption.

Mandatory Redemption

The 2004B Bonds maturing on July 1, 2033 ("Term Bonds") are also subject to redemption, in part, on each of the dates and in the respective principal amounts set forth below, at a redemption price of 100% of the principal amount thereof, plus accrued interest to the date of redemption, from mandatory sinking fund installments which are required to be made in amounts sufficient to redeem the principal amount of the Term Bonds of such maturity specified for each of the years shown below:

Term Bonds
Maturing July 1, 2033

Year (July 1)	Principal Amount
2030	$ 1,265,000
2031	1,350,000
2032	1,440,000
2033*	1,535,000

* Final Maturity

Extraordinary Redemption

The 2004B Bonds shall be subject to redemption in whole or in part at any time in such order as the Corporation shall determine, at a redemption price equal to 100% of the principal amount thereof, plus accrued interest to the date of redemption, to the extent of funds deposited in the Debt Service Fund from (i) proceeds resulting from the condemnation of any Program Development in whole or in part or from agreements with, or action by, a public authority in the nature of, or in lieu of, condemnation proceedings, (ii) proceeds from insurance and related payments by the Corporation received in connection with the loss, damage or destruction of any Program Development or any portion thereof and if the Corporation shall not repair or replace the damaged or destroyed property forthwith, and (iii) proceeds resulting from the sale or disposition of a portion of any Program Development if the Corporation shall not deposit such amount in the Acquisition and Construction Fund in accordance with the Indenture to be applied to the acquisition of property constituting a portion of the Program.

Notice of Redemption

The Trustee will mail notice of redemption not less than 30 days nor more than 45 days prior to the redemption date by registered, certified or regular first class mail, to the registered owners of the 2004B Bonds or portions thereof which are to be redeemed, at their last addresses appearing upon the Bond Registry. The redemption notice may provide that such redemption is conditional upon the receipt by the Trustee of moneys sufficient to pay the redemption price of the 2004B Bonds proposed to be redeemed, or upon the satisfaction of any other condition, or that it may be rescinded upon the occurrence of any other event. The Corporation may also (but is not required to) cause such notice to be published at least once in such newspapers as provided in the Indenture not less than 30 days prior to the date fixed for redemption date. Failure of the Corporation to publish any such notice shall not affect the validity of the proceedings for the redemption of such 2004B Bonds. See "THE 2004B BONDS – Book-Entry System."

Effect of Redemption

If, on the redemption date, moneys for the redemption of all the 2004B Bonds or portions thereof of any maturity to be redeemed, together with interest to the redemption date, shall be held by the Corporation or Trustee so as to be available therefor on said date and if notice of redemption shall have been given as provided in the Indenture, then, from and after the redemption date, interest on the 2004B Bonds or portions thereof of such maturity so called for redemption shall cease to accrue and become payable. If such moneys shall not be so available on the redemption date, such 2004B Bonds or portions thereof shall continue to bear interest until paid at the same rate as they would have borne had they not been called for redemption.

Selection for Redemption

So long as the Book-Entry System for the 2004B Bonds is in effect, if less than all of the 2004B Bonds of any one maturity are to be redeemed, the particular 2004B Bonds or portions of 2004B Bonds of such maturity to be redeemed will be selected by DTC and its Participants in such manner as DTC and its Participants may determine. If the Book-Entry System for the 2004B Bonds is no longer in effect, selection for redemption of less than all 2004B Bonds of any one maturity will be made by the Trustee by lot as provided in the Indenture.

Book-Entry System

Information on DTC and Book-Entry System. Information concerning DTC and the Book-Entry System contained in this Remarketing Circular has been obtained from DTC and other sources that the Corporation and the

Remarketing Agent believe to be reliable, and is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by, the Remarketing Agent or the Corporation.

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the 2004B Bonds. The 2004B Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for the 2004B Bonds of each maturity, in the aggregate principal amount of such issue, and will be deposited with DTC.

DTC and its Participants. DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchase of Ownership Interests. Purchases of 2004B Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2004B Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2004B Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the 2004B Bonds, except in the event that use of the book-entry system for the 2004B Bonds is discontinued.

To facilitate subsequent transfers, all 2004B Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of 2004B Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2004B Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Notices and Other Communications. 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 DTC. If less than all of the 2004B Bonds of a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to 2004B Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Corporation 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 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and Interest Payments. Principal and interest payments on the 2004B Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Corporation or Trustee, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, Paying Agent, or the Corporation, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Corporation or Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

Discontinuance of Book-Entry System. DTC may discontinue providing its services as depository with respect to the 2004B Bonds at any time by giving reasonable notice to the Corporation or Trustee. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

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

Use of Certain Terms in Other Sections of the Remarketing Circular. In reviewing this Remarketing Circular it should be understood that while the 2004B Bonds are in the Book-Entry System, references in other sections of this Remarketing Circular to owners should be read to include the person for which the Participant acquires an interest in the 2004B Bonds, but (i) all rights of ownership must be exercised through DTC and the Book-Entry System and (ii) notices that are to be given to owners by the Corporation will be given only to DTC. DTC will forward (or cause to be forwarded) the notices to the Participants by its usual procedures so that such Participants may forward (or cause to be forwarded) such notices to the Beneficial Owners.

Corporation Disclaimer of Responsibility. The Corporation will have no responsibility or obligation to Direct Participants, to Indirect Participants or to Beneficial Owners with respect to (i) the accuracy of any records maintained by DTC, any Direct Participants or Indirect Participants, or (ii) the payment by DTC, any Direct Participants or any Indirect Participants of any amount in respect of principal or redemption price of or interest on the 2004B Bonds, or (iii) any notice which is permitted or required to be given to owners (except such notice as is required to be given by the Corporation to DTC), or (iv) the selection by DTC of any Participant to receive payment in the event of a partial redemption of the 2004B Bonds, or (v) any consent given or other action taken by DTC as Owner of the 2004B Bonds, or (vi) any other event or purpose.

So long as Cede & Co. is the registered owner of the 2004B Bonds, as nominee for DTC, references herein to the Bondholders or registered owners of the 2004B Bonds (other than under the captions "TAX MATTERS" and "CONTINUING DISCLOSURE" herein) shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners of the 2004B Bonds.

SOURCES OF PAYMENT AND SECURITY FOR THE BONDS

The Indenture provides the sources of payment and security for the Bonds, including the 2004B Bonds. Certain provisions of the Indenture are described below. See also Appendix C, "Summary of Certain Provisions of the Indenture." There will not be any mortgage on any of the Projects or other property of the Corporation to secure the Corporation's obligation to make debt service payments with respect to the Bonds.

Net Revenues

The Bonds, including the 2004B Bonds, are payable from and secured by the Net Revenues derived from the Program and all amounts in funds and accounts established under the Indenture (other than the Rebate Fund) as security for payment of the Bonds; provided, however that amounts on deposit in any Escrow Fund derived from the proceeds of sale of any series of Bonds shall be pledged as provided in the supplemental indenture providing for the issuance of the Bonds of such series. "Net Revenues" is defined by the Indenture to mean, for any period, the Revenues during such period less the Operation and Maintenance Costs during such period. "Revenues" is defined to mean all revenues, income, rents, fees, charges and receipts derived by the Corporation from or attributable to the ownership and operation of the Program, including the applicable portion of any federal, state or local rent subsidy payment, all amounts derived from investment of moneys held under the Indenture and required to be paid into the Revenue Fund, proceeds derived by the Corporation from the disposition of property and proceeds of insurance and condemnation awards, in each case arising out of the Corporation's ownership of the Program and deposited in the Revenue Fund, and any amounts specifically pledged or designated by the Corporation and deposited in the Revenue Fund as provided in a supplemental indenture. See also "Corporation General Obligation" below and Appendix C, "Summary of Certain Provisions of the Indenture."

Debt Reserve Fund

The Indenture provides for the establishment by the Trustee of a Debt Reserve Fund from the proceeds of the sale of 2004B Bonds or by deposit of a surety bond, insurance policy or letter of credit in an amount equal to the Debt Reserve Requirement. Under the Indenture, amounts credited to the Debt Reserve Fund shall be used to pay, when due, Principal Installments and accrued interest on the Bonds to the extent necessary to remedy a deficiency in the Debt Service Fund. The Debt Reserve Requirement with respect to the 2004B Bonds is $2,300,000 and has been provided for by deposit of an insurance policy issued by Financial Security Assurance Inc.

Corporation General Obligation

The Indenture provides that, in addition to the Trust Estate, and subject to any agreements heretofore or hereafter made with the holders of any notes or bonds of the Corporation pledging any particular revenues or assets not pledged under the Indenture, the Bonds, including the 2004B Bonds, are general obligations of the Corporation payable from any of the legally available funds, revenues and assets of the Corporation not appropriated for or committed to any other purpose. The Indenture does not restrict the ability of the Corporation to use, appropriate or commit funds, revenues or assets not pledged under the Indenture for any other purpose for which they may be used.

Currently, the principal source of such other security is the Dwelling Unit Revolving Fund ("DURF"), which is described above under "THE CORPORATION – Home Ownership Programs – Housing Development and Ownership Program." As of December 31, 2008, DURF had a balance of approximately $77.4 million (unaudited), but is pledged as security for certain other obligations of the Corporation and the amounts therein are also available for the use of the program for which it was created. The Corporation is not required to maintain any minimum balance in DURF and the cash balance can vary significantly. In addition, amounts in DURF are subject to transfers mandated by the State Legislature. The Legislature has mandated such transfers in the past and may so in the future. The transfers which have occurred are as follows (in $ millions): 1995 - $18.4; 1998 - $6.4; 2002 - $12.0; 2003 - $15.0; and 2004 - $10.0. Therefore, there can be no assurance that amounts will be available therein if needed in connection with the Bonds, including the 2004B Bonds, and the current balance in DURF should not be viewed as indicative of amounts that may be available at any time. See also "THE CORPORATION – Rental Housing Programs – Recent Legislation" regarding a transfer from DURF that may be required in fiscal year 2009-2010.

The Corporation's funds, other than amounts held by the Trustee under the Indenture or by another trustee to secure other obligations of the Corporation, are held in the State Treasury. The Director of Finance is responsible for the safekeeping of all monies paid into the State Treasury. The Director of Finance may invest any monies which in its judgment are in excess of the amounts necessary to meet the immediate requirements of the State. Cash is pooled with funds from other State agencies and departments and deposited with approved financial institutions or invested in the State Treasury investment pool. See the Corporation's financial statements and related notes attached as Appendix A hereto for additional information regarding the Corporation's cash and investments.

Obligation of the Corporation

The Bonds are obligations of the Corporation and shall not constitute a general or moral obligation of the State or a charge upon the general fund of the State, and the full faith and credit of neither the State nor any county or political subdivision thereof are pledged to the payment of the principal of and interest on the Bonds. The Act does not provide that the Corporation may request payment on the Bonds by the State and the State is not obligated to appropriate moneys for such purpose.

The covenants and agreements set forth in the Indenture to be performed by the Corporation are for the equal and proportionate benefit, security and protection of all owners of the Bonds, and all Bonds rank pari passu under the Indenture except as otherwise provided therein.

Additional Bonds

The Indenture permits the issuance of additional parity Bonds to provide funds for the Corporation's acquisition, construction and rehabilitation of Program Developments ("Additional Bonds") and to refund Outstanding Bonds issued under the Indenture ("Refunding Bonds"). See Appendix C, "Summary of Certain Provisions of the Indenture – Additional Bonds and Refunding Bonds." In addition, the Corporation may issue other evidences of indebtedness payable out of and secured by amounts in the General Reserve Fund maintained under the Indenture so long as the pledge of such amounts to such indebtedness shall be subordinate in all respects to the pledge of such amounts created for the benefit of the Bonds by the Indenture. The Corporation has no present intention to issue any Additional Bonds, Refunding Bonds or other evidences of indebtedness secured by the General Reserve Fund.

Rate Covenant

The Corporation has covenanted in the Indenture that if then permitted by law, the Corporation will, at all times while any of the Bonds shall be Outstanding, establish, fix, prescribe, maintain and collect rates, rents, fees and charges for the use and occupancy of Program Developments so as to provide (i) Net Revenues which, together with other lawfully available funds, shall be sufficient, in each Bond Year, to provide an amount equal to 1.25 times the Aggregate Debt Service on Outstanding Bonds for such Bond Year and (ii) Net Revenues which shall be sufficient, in each Bond Year, to provide an amount equal to 1.10 times the Aggregate Debt Service on Outstanding Bonds for such Bond Year. The Corporation must review its rates, rents, fees and charges at least annually and revise the same as necessary to comply with the foregoing rate covenant.

The failure by the Corporation to comply with the rate covenant shall not be deemed a default if (A) the Corporation presents a plan to the Trustee to remedy such failure within ninety (90) days from the date of notification of such failure by the Trustee and the Corporation implements such plan and pursues the same diligently until the failure is corrected or (B) upon the failure of the Corporation to present such plan within such ninety (90) days from the date of notification, (i) the Housing Consultant, upon request by the Trustee, presents such plan within sixty (60) days thereafter and the Corporation implements such plan provided by the Housing Consultant and pursues the same diligently until the failure is corrected or (ii) a Housing Consultant's certificate is delivered to the Trustee stating that the schedule of rates, rents, fees and charges which will comply with such covenant is impracticable at such time and the Corporation establishes a schedule of rates, rents, fees and charges, as recommended by the Housing Consultant, which permits the Corporation to comply as nearly as practicable with such rate covenant.

Proposed Amendments

The Indenture may be amended or supplemented by the Corporation and the Trustee with the consent of Owners of at least 51% in principal amount of the Bonds outstanding. The Corporation and the Trustee propose to enter into a Second Supplement Trust Indenture amending the Indenture in the manner described below (the "Proposed Amendments"). The Proposed Amendments will become effective upon the filing with the Trustee of written consents thereto of the Owners of at least 51% in principal amount of the Bonds outstanding and the written consent of Financial Security Assurance Inc., as insurer of the 2004A Bonds and 2004B Bonds. Following the reoffering of the 2004B Bonds, the Corporation will have $97,195,000 principal amount of Bonds outstanding. By their acceptance of the 2004B Bonds upon such reoffering, the owners of such 2004B Bonds, representing $20,875,000 principal amount of the Bonds, will be deemed to have consented to the Proposed Amendments.

The Proposed Amendments would amend certain provisions in the Indenture relating to the issuance of Additional Bonds to eliminate the requirement that the following documents be delivered to the Trustee before any Additional Bonds are authenticated and delivered: (i) a feasibility study prepared by a Housing Consultant concerning the Program Development to be financed, which study would include among other things an analysis of the rental market demand for such Program Development and the Revenues expected to be produced by such Program Development, and (ii) a certificate by the Housing Consultant confirming the reasonableness of the Corporation's estimate of future Revenues expected to be produced by the Program Development and the underlying assumption for such estimates. Delivery of a similar confirming certificate by the Housing Consultant also would be eliminated in connection with the issuance of any Refunding Bonds.

Additionally, the Proposed Amendments would amend the Indenture to eliminate the requirement for a confirming certificate by the Housing Consultant in the event that the Corporation determines not to reconstruct or replace any useful portion of a Program Development that has been damaged or destroyed, or the Corporation desires to add a multi-family rental housing development to the Program.

By acceptance of a 2004B Bond, the purchaser thereof will be deemed to have consented to the Proposed Amendments. Any consent to the Proposed Amendments may be revoked, as to any Bond, including a 2004B Bond, by the then current Owner thereof through written notice to the Trustee before the Proposed Amendments have been determined to have received the consent of the Owners of 51% in principal amount of the Bonds Outstanding. Any Beneficial Owner of Bonds desiring to revoke a consent given with respect to the Proposed Amendments must make arrangements with the DTC Participant or Indirect Participant through which such Beneficial Owner's ownership interest in the Bonds is recorded in order for such revocation to be made by the DTC Participant in whose account such ownership interest is recorded.

BOND INSURANCE

Bond Insurance Policy

Concurrently with the original issuance of the 2004B Bonds on October 13, 2004, Financial Security Assurance Inc. ("Financial Security") issued its Municipal Bond Insurance Policy for the 2004B Bonds (the "Policy"). The Policy guarantees the scheduled payment of principal of and interest on the 2004B Bonds when due as set forth in the form of the Policy included as Appendix F to this Remarketing Circular.

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

In November 2008, an affiliate of Dexia, the parent of Holdings, entered into a purchase agreement providing for the sale of Holdings to Assured Guaranty Ltd. ("Assured"), subject to the satisfaction of specified closing conditions, including regulatory approvals, absence of rating impairment and segregation or separation of Holdings' financial products operations (the "FP Business") from Holdings' financial guaranty operations. Pursuant to such agreement, the FP Business is expected to be separated from Holdings' financial guaranty operations and retained by Dexia. No assurance can be given that the acquisition of Holdings by Assured will be consummated.

As of December 31, 2008, the FP Business had guaranteed investment contracts and other investment agreements ("GICs") outstanding with a principal amount of $15.248 billion that provide for repayment in the event of a downgrade of Financial Security's financial strength ratings beyond certain thresholds absent collateralization of the GIC obligations. Bank affiliates of Dexia have entered into agreements intended to assume the credit and liquidity risk of the FP Business, including $8 billion of liquidity facilities for the FP Business intended to address the GIC repayment and collateralization consequences of a downgrade of Financial Security. Dexia has announced its intention to obtain Belgium and French government guaranties to backstop Dexia's support obligations with respect to the FP Business, and, according to Dexia, the European Commission has approved the issuance of such guaranties. No assurance can be given that the Belgium and French government guaranties will be issued. Absent those guaranties, Financial Security has significant exposure to Dexia in addressing the current and potential liquidity requirements of the FP Business. Any failure by Dexia to support the FP Business could have a material adverse effect on Financial Security.

At March 31, 2009, Financial Security's consolidated policyholders' surplus and contingency reserves were approximately $1,980,414,233 and its total net unearned premium reserve was approximately $2,476,302,376 in accordance with statutory accounting principles. At March 31, 2009, Financial Security's total shareholder's equity (net of any noncontrolling interest) was approximately $2,603,129,461 and its total net unearned premium reserve was approximately $2,605,459,851 in accordance with accounting principles generally accepted in the United States of America.

Portions of the following documents filed by Holdings with the Securities and Exchange Commission ("SEC") that relate to Financial Security are incorporated by reference into this Remarketing Circular and shall be deemed to be a part hereof:

(i) Annual Report of Holdings on Form 10-K for the year ended December 31, 2008; and
(ii) Quarterly Report of Holdings on Form 10-Q for the quarter ended March 31, 2009.

All information relating to Financial Security included in, or as exhibits to, documents filed by Holdings pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 after the filing of the last document referred to above and before the termination of the reoffering of the 2004B Bonds shall be deemed incorporated by reference into this Remarketing Circular and to be a part hereof from the respective dates of filing such documents. Copies of materials incorporated by reference are available over the internet at the SEC's website at http://www.sec.gov or at Holding's website at http://www.fsa.com or will be provided upon request to Financial Security Assurance Inc.: 31 West 52nd Street, New York, New York 10019, Attention: Communications Department (telephone (212) 826-0100).

Any information regarding Financial Security included herein under the captions "BOND INSURANCE – Financial Security Assurance Inc." and " – Recent Events Regarding Financial Security's Ratings" or included in a document incorporated by reference herein (collectively, the "Financial Security Information") shall be modified or superseded to the extent that any subsequently included Financial Security Information (either directly or through incorporation by reference) modifies or supersedes such previously included Financial Security Information. Any Financial Security Information so modified or superseded shall not constitute a part of this Remarketing Circular, except as so modified or superseded.

The Policy does not protect investors against changes in market value of the 2004B 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 2004B Bonds or the advisability of investing in the 2004B Bonds. Financial Security makes no representation regarding the Remarketing Circular, nor has it participated in the preparation thereof, except that Financial Security has provided to the Issuer the information presented under this caption for inclusion in the Remarketing Circular.

Recent Events Regarding Financial Security's Ratings

On May 20, 2009, Moody's Investors Service, Inc. placed Financial Security's "Aa3" insurance financial strength rating on review for possible downgrade.

On May 11, 2009, Fitch Ratings downgraded to "AA+" (Ratings Watch Negative) from "AAA" the insurer financial strength rating of Financial Security.

On April 21, 2009, Standard & Poor's Ratings Services ("S&P") affirmed Financial Security's "AAA" financial strength rating and removed it from Credit Watch with negative implications. In connection with such ratings affirmation, S&P assigned a negative outlook to Financial Security's "AAA" financial strength rating.

These ratings reflect only the views of the respective rating agencies, are not recommendations to buy, sell or hold securities and are subject to revision or withdrawal at any time by those rating agencies. See "RATINGS" herein.

THE CORPORATION

Purpose and Powers

The Corporation, a public body and a body corporate and politic organized and existing under Hawaii law, began operations on July 1, 2006 in connection with the bifurcation of HCDCH into two separate agencies—the Corporation and HPHA. HCDCH was established in 1998 as successor to the Authority and HFDC, and HFDC was established in 1987 to assume the housing finance, housing development and residential leasehold functions of the Authority. At that time, the Authority, a public body and a body corporate and politic in existence since 1935, retained its housing development (including construction and ownership) as well as management functions.

The Corporation assists in the delivery of affordable for-sale or rental housing throughout the State on a cost-effective basis through the provision of financing and development tools and resources. The Corporation also provides incentives, through tax credits, to developers and owners of private rental housing projects where the monthly rents are affordable to tenants with incomes of 60% or lower of the area median income.

The Corporation has been granted powers to acquire real or personal property by purchase or by exercise of the power of eminent domain to provide housing; to study and undertake projects for the clearing, replanning or reconstruction of areas in which unsafe or unsanitary dwelling or housing conditions exist; to counsel prospective homeowners and other persons and governmental agencies on housing issues and to apply for and receive federal assistance, insurance or guaranties. The Corporation has the power to issue bonds for its purposes and to secure payment thereof by a pledge of specified property of the Corporation.

The Legislature has authorized an aggregate principal amount of $375,000,000 in revenue bonds for the Corporation's rental housing programs, of which amount to date the Corporation has issued $227,280,000 of bonds. The Legislature has also authorized the Corporation to issue, with the approval of the Governor, revenue bonds in an aggregate principal amount of $2,275,000,000 to make funds available for single family housing programs, of which amount to date the Corporation has issued $1,751,740,000 of bonds for the Single Family Mortgage Purchase Program and $20,000,000 of bonds for the Home Mortgage Purchase Program described below. The Legislature has also authorized an aggregate principal amount of $500,000,000 in revenue bonds for privately owned multi-family rental housing projects, of which amount to date the Corporation has issued $167,798,000 of bonds.

As discussed under "THE PROGRAM – Hawaii Rental Housing System Revenue Bond Program" herein, the single largest component of the Corporation's Revenues is rental income received from the rental of units in the Projects. In addition, the Corporation receives contributions from the State in support of its programs, including $40 million in the Fiscal Year ended June 30, 2008. See Appendix B to this Remarketing Circular for a discussion of economic conditions that could affect the Corporation's rental income or the ability of the State to generate sufficient tax revenues to provide continued financial support for the Corporation's programs.

The audited financial statements of the Corporation for the year ended June 30, 2008 are attached hereto as Appendix A.

Organization

For administrative purposes only, the Corporation is considered a part of the State's Department of Business, Economic Development and Tourism. The Corporation's Board of Directors consists of nine members, six of whom are public members appointed by the Governor, with at least one from each of the counties of Honolulu, Hawaii, Maui and Kauai. The Director of Business, Economic Development and Tourism and the Director of Finance or their designated representatives and a representative of the Governor's office are ex-officio voting members. The Board of Directors selects from its public members a Chairperson and Vice-Chairperson. All Corporation action must be taken by the affirmative vote of at least five members. The members and officers of the Board and the dates of expiration of their respective terms are as follows:

Charles King, Chairman (Kauai). Owner and President, King Auto Centers and King Windward Nissan. Term expires June 30, 2010.

David Lawrence, Vice Chairman (Maui). Home Mortgage Consultant, Wells Fargo Home Mortgage of Hawaii. Term expires June 30, 2012.

Betty Lou Larson, Secretary (At-Large – Private Nonprofit). Housing Programs Director, Catholic Charities Hawaii. Term expires June 30, 2013.

Georgina Kawamura (Ex-Officio). Director of Finance, State of Hawaii, Department of Budget and Finance. Term is indeterminate.

Theodore E. Liu (Ex-Officio). Director, State of Hawaii, Department of Business, Economic Development and Tourism. Term is indeterminate.

Linda Smith (Ex-Officio). Senior Policy Advisor, Office of the Governor. Term is indeterminate.

Ralph Mesick (At-Large). Executive Vice President, Bank of Hawaii. Term expires June 30, 2012.

Allan Los Banos, Jr. (Oahu). Safety Coordinator/Program Specialist, Hawaii Masons and Plasterers Training Program. Term expires June 30, 2010.

Francis L. Jung (Hawaii). Senior Partner, Jung & Vassar P.C. Term expires June 30, 2013.

Staff

Principal members of the Corporation's staff with responsibilities for various aspects of the Program are as follows:

Karen Seddon, Executive Director. Ms. Seddon has served as the Executive Director of the Corporation since July 2008 and she previously held the position of HHFDC Development Branch Chief from December 2006. A graduate of Oregon State University's School of Engineering, Ms. Seddon began her career with Peter Kiewit Son's, Inc. She later joined Goodfellow Bros., Inc. and then was the Development Manager at Kapalua Land Company, Ltd. before becoming the Director of Land Development at D.R. Horton – Schuler Division.

Darren Ueki, Finance Manager. Mr. Ueki has served as Finance Manager for the Corporation since January 2001. Previously, Mr. Ueki served as a Project Resource Specialist for the Corporation since February 1990. Prior to joining the Corporation, Mr. Ueki was a Program Budget Analyst with the Department of Budget and Finance. He received a B.B.A. degree in Economics from the University of Hawaii.

Dean M. Sakata, Finance Specialist. Mr. Sakata has served as a Finance Specialist since December 2001. Prior to joining the Corporation, Mr. Sakata worked as a Relationship Manager at Key Community Development Corporation and at Bank of America. He received an M.B.A. from Portland State University and a B.B.A. degree in Finance from the University of Hawaii.

Lloyd Fukuoka, Housing Loan Specialist. Mr. Fukuoka has served as Finance Specialist since November 1997. He joined the Corporation as Housing Loan Specialist in the Loan Servicing Section in 1989. Prior to joining the Corporation, Mr. Fukuoka was a loan underwriter for Pioneer Federal. Received a B.B.A. degree in Management from the University of Hawaii.

Patrick Inouye, Finance Specialist. Mr. Inouye has served as Finance Specialist since May 2007. Prior to joining the Corporation, Mr. Inouye was an Assistant Vice President at Central Pacific Bank. Mr. Inouye has also worked for Bank of Hawaii, Hawaii National Bank, Bank of America, and Liberty Bank. Mr. Inouye has a B.B.A. degree in Accounting and Finance from the University of Hawaii.

Jocelyn K. Iwamasa, Finance Specialist. Mrs. Iwamasa has served as a Finance Specialist since July 2008. Prior to joining the Corporation, Mrs. Iwamasa worked as a residential loan officer at various lending institutions including HomeStreet Bank, First Horizon Home Loans, Washington Mutual, and North American Mortgage Company. She received a B.B.A. degree in Marketing from Loyola Marymount University.

Byron K. Chock, Finance Specialist. Mr. Chock has served as a Finance Specialist since July 2008. Prior to joining the Corporation, Mr. Chock was employed as a construction manager/residential mortgage loan officer with various financial institutions, including HomeStreet Bank and Wells Fargo Home Mortgage Center.

The Corporation has been authorized to employ up to 32 permanent positions with an additional authorization to retain 49 personnel on a contractual basis. The Corporation currently maintains approximately 81 positions (permanent and contractual) to manage, operate and maintain its various housing projects. The number of positions assigned to each of the housing program areas are: Central Administration/Technical/Support Services: 45 (25 permanent; 20 contractual); Housing Development: 19 (4 permanent; 15 contractual); and Housing Finance: 17 (3 permanent; 14 contractual).

The Corporation's office is located at 677 Queen Street, Suite 300, Honolulu, Hawaii 96813, and its telephone number is 808-587-0641.

Rental Housing Programs

General. In order to assist in the delivery of affordable rental housing throughout the State on a cost-effective basis, the Legislature has authorized the Corporation to issue, with the approval of the Governor, revenue bonds in an aggregate principal amount of $375,000,000 to finance or refinance rental housing projects developed or acquired by the Corporation. Under this authority the Corporation had established two multi-family rental housing programs, the Rental Housing System Program ("RHSP") and the State of Hawaii Affordable Rental Housing Program ("SHARP"). In 2004, the Corporation determined that it was in its best interest to consolidate RHSP and SHARP into a single multi-family rental housing program under the name Hawaii Rental Housing System Revenue Bond Program and referred to herein as the "Program". The Program is described below under "THE PROGRAM."

The housing programs described in this section, other than the Program, have no claim on the assets or the Net Revenues pledged under the Indenture, nor are the revenues generated from these programs pledged to secure payment of the Bonds, including the 2004B Bonds.

Multi-family Revenue Bond Program. The Legislature has authorized the Corporation to issue, with the approval of the Governor, revenue bonds in an aggregate principal amount of $500,000,000 to finance development of privately owned multi-family rental housing projects. Under this authority the Corporation operates a rental housing revenue bond program and provides project financing to qualified private developers of eligible multi-family rental housing projects by directly making, or by contracting with mortgage lenders to fund, such loans. The Corporation has issued ten series of bonds, including one refunding series, in the total aggregate principal amount of $167,798,000, of which $122,585,514 principal amount are presently outstanding, to make loans for construction or acquisition/rehabilitation of multi-family housing developments with a total of 1,511 units of which 1,303 are set aside for residents with low or moderate income. Each series of bonds is payable solely from revenues derived from the project financed.

Rental Assistance Program. The Rental Assistance Program ("RAP"), together with the Interim Construction Loan Program, is part of the Rental Assistance Revolving Fund. The Corporation uses the RAP to subsidize the rental payments of eligible persons and families. Program subsidies are committed to specific projects for tenants with incomes that do not exceed 80% of the area median income. Funding for the RAP is provided by the principal and investment income from the Rental Assistance Revolving Fund and from origination fees and interest earned on loans which are made under the Interim Construction Loan Program. The RAP has been used by the Corporation to provide assistance to tenants in five of the Projects which constitute the Program. See, "THE PROGRAM – The Projects." As of February 28, 2009, the balance in the Rental Assistance Revolving Fund was approximately $27.3 million (unaudited). The total original commitment for the RAP was approximately $87 million, of which approximately $55.4 million remains outstanding. The Corporation believes that it will have sufficient funding to fulfill its obligations under the RAP as such obligations become due.

Low Income Housing Tax Credit Program. This program provides incentives through tax credits to developers and owners of private rental housing projects where the monthly rents are affordable for tenants with incomes of 60% or lower of the area median income. Under this program, the Corporation allocates federal and state income tax credits to the owners of qualified projects who agree to maintain regulated rental rates for a specified period. To date, the Corporation had allocated credits for the development of 59 projects containing a total of 4,558 dwelling units. In addition, seventeen projects consisting of 1,999 units have been awarded credits and are in various stages of development.

Rental Housing Trust Fund Program. The Rental Housing Trust Fund Program ("RHTFP") provides "equity gap" low-interest loans or grants to qualified owners and developers constructing affordable rental housing units. Under RHTFP, the Corporation provides financing for capacity building for nonprofit organizations, as well as predevelopment, interim/construction and permanent financing for the purpose of constructing new, or rehabilitating existing, affordable rental housing. To date, awards totaling more than $179 million have been committed under RHTFP to 50 projects for the development of 3,938 rental units. RHTFP has also awarded 35 capacity building grants and one predevelopment loan. In 2001, the Legislature authorized the Corporation to issue up to $30 million of revenue bonds for RHTFP.

Recent Legislation. On May 7, 2009, the Legislature passed a bill which, if approved by the Governor, would require the Corporation to transfer to the general fund (i) all interest earned on short-term investments or deposits of moneys in the Rental Assistance Revolving Fund, the Housing Finance Revolving Fund and DURF from July 1, 2009 through June 30, 2015, which the Corporation estimates would total approximately $2.5 million per year during such period, (ii) up to $600,000 from DURF, and (iii) up to $20 million from the Housing Finance Revolving Fund. However, the State budget for fiscal biennium 2009-2011, also approved by the Legislature on May 7, 2009, includes appropriations of $20 million to DURF and $30 million to the Rental Housing Trust Fund.

Home Ownership Programs

General. The Legislature has authorized the Corporation to issue, with the approval of the Governor, revenue bonds in an aggregate principal amount of $2,275,000,000 to make funds available for single-family housing loan programs. The housing programs described in this section have no claim on the assets or Net Revenues pledged under the Indenture, nor are the revenues generated from these programs pledged to secure payment of the Bonds, including the 2004B Bonds.

Single Family Mortgage Purchase Program. The Single Family Mortgage Purchase Program has been the Corporation's primary program to assist low- and moderate-income borrowers to finance the purchase of owner occupied single-family residences. Under this program, the Corporation has issued bonds having an aggregate principal amount of $1,751,740,000, of which $195,070,000 principal amount are presently outstanding. As of February 28, 2009, proceeds of bonds previously issued under this program have been issued to purchase 10,025 mortgage loans with a total original principal amount of $1,071,190,319. The Corporation is presently authorized to purchase mortgage loans directly from originating mortgage lenders and to purchase Federal National Mortgage Association securities backed by mortgage loans originated by participating mortgage lenders in Hawaii.

Home Mortgage Purchase Program. In December 1981, the Corporation established a companion program of purchasing qualified mortgage loans made by eligible mortgage lenders which are secured by mortgages on owner occupied detached single-family and condominium dwellings for low- and moderate-income families. The Corporation funded this program through the issuance under a separate closed indenture of its Home Mortgage Purchase Revenue Bonds, 1981 Issue A, in the original principal amount of $20,000,000. The Corporation purchased $11,225,034 of mortgage loans under this program and applied the balance of proceeds in the mortgage loan acquisition fund to the redemption of a portion of the Home Mortgage Purchase Revenue Bonds. In 1994, the bonds then outstanding under this program were refunded with the proceeds of the Corporation's Single Family Mortgage Purchase Revenue Bonds, 1994 Series B, and the assets of this program were transferred to the Single Family Mortgage Purchase Program. The Corporation does not anticipate issuing any additional bonds under this program.

Housing Development and Ownership Program. Under this program the Corporation has the power to acquire land through condemnation, to develop and construct housing projects on its behalf or in partnership with private developers, to provide interim construction loans and other financing to qualified borrowers, and to request exemption from certain local zoning, planning and building ordinances in the development of State housing projects. The prior emphasis of this program was on providing low- and moderate-income families with the opportunity to purchase homes at a cost within their financial capabilities. The Corporation's current focus under this program is on facilitating the private for profit and nonprofit development or preservation of rental and for-sale units for lower-income families and special need groups. As of June 30, 2008, the Corporation has helped to provide 17,197 dwelling units under this program.

This program has been implemented from moneys in DURF created by the Legislature in 1970 and funded from the proceeds of general obligation bonds issued from time to time by the State in the aggregate principal amount of $125,000,000. The Corporation uses DURF to pursue a policy of providing housing for persons and families of low income. The Corporation has carried out this policy by, among other things, selling housing units constructed by the Corporation at prices which reflect no profit and by making developable land available and making low interest construction loans to private developers. As of December 31, 2008, the fund equity of DURF was approximately $77.4 million (unaudited).

Broadened Homesite Ownership Program. Historically, land in the State has been owned in fee simple by a few large landowners. These owners have leased their lands under long term leases. Widespread use of such long-term leasing has resulted in a shortage of affordable single-family residential land in fee simple. In 1967, the Legislature granted the Corporation the power to assist lessees of residential land in acquiring fee simple title to their land at a reasonable cost. This program authorizes the Corporation to acquire the leased fee interest in leased land through the use of eminent domain and to reconvey the leased fee interest to the lessees. The United States Supreme Court upheld the constitutionality of this use of the power of eminent domain in *Hawaii Housing Authority v. Midkiff*, 467 U.S. 229 (1984). As of June 30, 2008, the Corporation had assisted in the conversion of 14,688 residential lots. The Corporation has created a Fee Simple Residential Revolving Fund to assist lessees in financing the purchase of leased fee interests.

Mortgage Credit Certificate Program. In November 1990, the Corporation was authorized to issue mortgage credit certificates to eligible mortgage loan borrowers entitling such borrowers to take a direct credit against their federal income tax liability. The credits, which amount to 20% of mortgage loan interest, are intended to assist first time moderate-income home buyers to qualify for mortgage loans. As of March 2, 2009, the Corporation had traded in $345,440,000 of single-family mortgage revenue bond authority for $69,088,000 of mortgage credit certificate authority, and had assisted 1,202 families with mortgage credit certificates.

THE PROGRAM

Hawaii Rental Housing System Revenue Bond Program

The Hawaii Rental Housing System Revenue Bond Program (the "Program") is designed to assist in the delivery of affordable rental housing throughout the State on a cost-effective basis. The Program is designed to facilitate the development of multi-family rental housing projects which are owned by the Corporation (either through construction or acquisition) and financed from the proceeds of bonds issued by the Corporation or from other sources available to the Corporation. The Bonds issued for the Program are secured by a lien on and a pledge of all of the Net Revenues and other funds and assets of the Program and are payable (i) from Net Revenues derived by the Corporation from the operation of the Program, (ii) from funds and accounts held under the Indenture (except to the extent described in the Indenture) and (iii) as a general obligation of the Corporation, from any of the legally available funds, revenues and assets of the Corporation not appropriated for or committed to any other purpose (except to the extent described in the Indenture).

The single largest component of Revenues is the rental income received for the rental of the units in the Projects. See, "SOURCES OF PAYMENT AND SECURITY FOR THE BONDS – Net Revenues" and Table 1 below. The Corporation determines the rental rates for the Projects and recently completed a review of the rental rates that were in effect and the prevailing commercial rental rates in the market. In making its analysis, the Corporation gathered information from various sources, including the private contractors which manage the Projects (as described in "The Projects" below). Upon completion of the analysis, the Corporation increased rental rates for the Projects by 1.4% to 7.0% (effective November 1, 2008) so that the rates better relate to general market conditions. The Corporation intends to increase rental rates annually to accommodate increases in operating expenses and to set aside reserves for renovations and replacements.

The Program presently consists of six Projects. All have been completed and are in operation and are briefly described below. For further descriptions of the Projects, see "The Projects" below.

Projects	Description	Original Financing (Year and Amount)	
RHSP Projects			
La'ilani	200-unit project in Kailua-Kona, Hawaii	1987	$14,950,000
Honokowai Kauhale	184-unit project in West Maui	1989	$16,500,000
Kamakee Vista	226-unit high-rise residential and commercial mixed use project in the Kakaako District of Honolulu	1990	$33,500,000
Pohulani	262-unit high-rise residential and commercial mixed use project in the Kakaako District of Honolulu	1990	$35,700,000
SHARP Projects			
Kauhale Kakaako	268-unit high-rise residential, light industrial and commercial mixed use project with parking for tenants and the public in the Kakaako District of Honolulu	1993	$30,700,000
Kekuilani Courts	80 units of residential housing in 10 two-story buildings in Kapolei, West Oahu	1995	$7,020,000

Set forth as Appendix A hereto are the audited financial statements of the Corporation for the fiscal year ended June 30, 2008 (the most recent years for which audited financial information is available), which include specific information about the assets, liabilities, revenues, expenses and cash flow of the Program. In addition, set forth below in Table 1 are combined summaries of revenues and expenses of the Program for the fiscal years ended June 30, 2006 through 2008 and the Corporation's budget for fiscal year 2009.

TABLE 1

Hawaii Housing Finance and Development Corporation
Hawaii Rental Housing System Revenue Bond Program
(Fiscal Years ending June 30)

	2006	2007	2008	Budget 2009
Revenues				
Rental	$13,299,065	$13,726,149	$14,101,764	$15,405,428
Interest Earnings	1,046,590	1,437,545	1,026,770	1,124,000
Other	712,738	684,637	700,420	209,000
Total	$15,058,393	$15,848,331	$15,828,954	$16,738,428
Expenses				
Project Expenses	$ 6,683,936	$ 7,425,195	$ 7,561,951	$ 8,181,761
Other Operating Expenses	129,117	135,176	132,219	134,218
Total	$ 6,813,053	$ 7,560,371	$ 7,694,170	$ 8,315,979
Net Revenues Available for Debt Service on Bonds	$ 8,245,340	$ 8,287,960	$ 8,134,784	$ 8,422,449

The Projects

The Projects are each briefly described below. No bond proceeds were used to finance the commercial, light industrial or office space or any day-care facilities included in the Projects, except to the extent such facilities are used solely by governmental entities or as permitted by the law in effect at the time the respective financings were completed.

Each of the Projects is owned by the Corporation, operated by a contractor on behalf of the Corporation and has one unit set aside for a resident manager. Hawaii Affordable Properties, Inc., based in Kona, operates all of the

Projects except Honokowai Kauhale which is operated by Realty Laua, LLC, based in Honolulu. The operators are selected based upon responses to "Requests for Proposals" published by the Corporation. For each Project, the operator is paid a monthly management fee (ranging from $1,832 to $11,679) and reimbursed for certain costs associated with the operation of the Project (including salaries, benefits and employment taxes of employees assigned to a Project (such as the resident manager and building maintenance personnel), other taxes, accounting fees and liability insurance). The Projects are covered by the State's insurance program administered by the Office of Risk Management pursuant to Chapter 41D, Hawaii Revised Statutes.

Each of the Projects other than Kekuilani Courts has been accepted into the RAP which provides rental subsidies to families with low or moderate income. See, "THE CORPORATION – Rental Housing Programs – Rental Assistance Program" above. For the Projects in the RAP other than Pohulani, 60% of the units are included in the RAP and the rental subsidy per unit is up to $175 per month. For Pohulani, which is targeted for elderly couples and individuals, all of the units are included in the RAP and the monthly subsidy per unit is up to $250. The contracts pursuant to which the rental assistance payments are made were entered into at the times the projects commenced operations and last for approximately 30 years. The remaining commitments under these contracts total approximately $32 million.

La'ilani, Kailua-Kona, Hawaii

The La'ilani Project was the first development to be financed under the RHSP and was completed in 1988. The Project is located on Manawale'a Street, Kailua-Kona, Hawaii, on approximately 15.5 acres of land, and consists of 25 two-story buildings containing 200 rental units comprised of 32 one-bedroom apartments, 144 two-bedroom apartments and 24 three-bedroom apartments. The buildings are constructed on slab-on-grade with wood frames, and all units are equipped with a range with hood, refrigerator, smoke detector and wall-to-wall carpeting. Parking and laundry facilities are also provided. Occupancy during the twelve month period ending December 31, 2008 was 95.75%.

Honokowai Kauhale, Maui

The Honokowai Kauhale Rental Housing Development, completed in 1990, consists of 23 two-story buildings located at Honokowai, Maui, Hawaii, on approximately 11.9, acres, containing 184 affordable rental units comprised of 42 one-bedroom apartments, 112 two-bedroom apartments and 30 three-bedroom apartments. Each of the buildings is constructed on a concrete slab with a wood frame. All apartment units are equipped with a range with hood, refrigerator, smoke detector and wall-to-wall carpeting. Parking and laundry facilities are also provided. The Honokowai Project is constructed on land leased by the Corporation from the State Department of Land and Natural Resources. Occupancy during the twelve month period ending December 31, 2008 was 81.70%. Nineteen units in the project currently are unsuitable for occupancy due to mold and/or roof damage. The Corporation has contracted for the repair and renovation of eight of these units and anticipates that these will be suitable for occupancy by the end of May 2009. The Corporation is assessing the scope of work to repair the remaining eleven units.

Kamakee Vista, Honolulu, Oahu

The Kamakee Vista Rental Housing Development, completed in 1991, is located in the Kakaako District of Honolulu, Oahu, Hawaii, an area near the central business district of Honolulu. The Kamakee Project consists of a single 28-story building containing 226 affordable rental units comprised of 90 one-bedroom apartments and 136 two-bedroom apartments. In addition, 28,800 square feet of commercial/office space, a day-care facility and 288 parking spaces are included. Each apartment unit is equipped with a refrigerator, range with hood, wall-to-wall carpeting and ceiling fans. Laundry facilities and a landscaped recreation deck with barbecue areas are also provided. The Kamakee Vista Project is constructed on land leased by the Corporation from the Hawaii Community Development Authority, a public corporate body. Occupancy during the twelve month period ending December 31, 2008 was 88.75%.

Pohulani, Honolulu, Oahu

The Pohulani Rental Housing Development, completed in 1992, also located in the Kakaako District of Honolulu, consists of a single 25-story building containing 262 affordable rental units targeted for elderly couples and individuals, comprised of 128 studio apartments and 134 one-bedroom apartments. In addition, commercial/office space, retail space and 191 covered parking spaces are included. Each apartment unit is equipped with a refrigerator, range with hood, wall-to-wall carpeting, drapes and emergency call system. Amenities include a landscaped recreation deck containing a lap pool, Jacuzzi, jogging path, barbecue area, garden plots, multi-purpose room, central laundry facilities and secured entrance lobby. The Pohulani Project is constructed on land owned by the Corporation in fee simple. Occupancy during the twelve month period ending December 31, 2008 was 97.91%.

Kauhale Kakaako, Honolulu, Oahu

The Kauhale Kakaako Rental Housing Development, also located in the Kakaako District of Honolulu, is a 268-unit multi-family rental housing development completed in December 1993. This project has 116 one-bedroom and 152 two-bedroom units and is located on 71,614 square feet of land. This Project consists of a 29-story high-rise tower and a five-story parking structure. It includes 268 affordable rental apartment units with balconies, approximately 13,522 square feet of light industrial space, 200 square feet of commercial space for a convenience store and 698 parking stalls for tenants integrated with 500 stalls dedicated for public parking on a shared basis. All units are equipped with a refrigerator, range with hood and wall-to-wall carpeting. Occupancy during the twelve month period ending December 31, 2008 was 99.84%.

Kekuilani Courts, Honolulu, Oahu

The Kekuilani Courts Rental Housing Development is located on approximately 4,728 acres of land in the Villages of Kapolei, on the southwest coast of the island of Oahu, Hawaii. This Project consists of ten two-story buildings, each comprised of eight two-bedroom, one-bath units. The Project provides 80 affordable rental apartments. Each apartment provides 760 square feet of living area, plus a lanai. Each of the two-bedroom units includes a refrigerator, range with hood and wall-to-wall carpeting. A total of 160 parking stalls are available. Other amenities include a separate free-standing community center (with kitchen facilities), a tot lot, barbecue areas, and centralized laundry facilities. Occupancy during the twelve month period ending December 31, 2008 was 99.06%.

ANNUAL DEBT SERVICE REQUIREMENTS

Table 2 sets forth the annual debt service requirements of the Corporation for all outstanding Hawaii Rental Housing System Revenue Bonds, including the 2004B Bonds.

TABLE 2
Total Annual Debt Service
Hawaii Housing Finance and Development Corporation
Hawaii Rental Housing System Revenue Bonds
(including the 2004B Bonds)

FY Ending June 30	2004A Bonds	2004B Bonds Principal	2004B Bonds Interest	2004B Bonds Total	Total Debt Service
2010	$5,207,970.00	$ --	$ 617,258.44	$ 617,258.44	$5,825,228.44
2011	5,208,575.00	490,000.00	1,095,737.50	1,585,737.50	6,794,312.50
2012	5,213,098.75	510,000.00	1,075,737.50	1,585,737.50	6,798,836.25
2013	5,211,747.50	530,000.00	1,054,937.50	1,584,937.50	6,796,685.00
2014	5,210,575.00	555,000.00	1,033,237.50	1,588,237.50	6,798,812.50
2015	5,209,402.50	575,000.00	1,010,637.50	1,585,637.50	6,795,040.00
2016	5,212,882.50	600,000.00	987,137.50	1,587,137.50	6,800,020.00
2017	5,211,171.25	625,000.00	962,637.50	1,587,637.50	6,798,808.75
2018	5,208,321.25	650,000.00	937,137.50	1,587,137.50	6,795,458.75
2019	5,211,115.00	680,000.00	909,687.50	1,589,687.50	6,800,802.50
2020	5,209,233.75	705,000.00	879,815.63	1,584,815.63	6,794,049.38
2021	5,207,677.50	740,000.00	847,743.76	1,587,743.76	6,795,421.26
2022	5,213,452.50	775,000.00	813,171.88	1,588,171.88	6,801,624.38
2023	5,205,567.50	810,000.00	776,012.50	1,586,012.50	6,791,580.00
2024	5,211,472.50	850,000.00	736,587.50	1,586,587.50	6,798,060.00
2025	5,210,477.50	895,000.00	694,025.00	1,589,025.00	6,799,502.50
2026	5,207,582.50	940,000.00	648,150.00	1,588,150.00	6,795,732.50
2027	5,210,970.00	990,000.00	594,950.00	1,584,950.00	6,795,920.00

FY Ending June 30	2004A Bonds	2004B Bonds Principal	Interest	Total	Total Debt Service
2028	5,211,013.75	1,055,000.00	533,600.00	1,588,600.00	6,799,613.75
2029	5,207,803.75	1,120,000.00	468,350.00	1,588,350.00	6,796,153.75
2030	5,211,107.50	1,190,000.00	399,050.00	1,589,050.00	6,800,157.50
2031	5,211,962.50	1,265,000.00	322,237.50	1,587,237.50	6,799,200.00
2032	5,206,906.25	1,350,000.00	237,250.00	1,587,250.00	6,794,156.25
2033	5,211,637.50	1,440,000.00	146,575.00	1,586,575.00	6,798,212.50
2034	2,605,443.75	1,535,000.00	49,887.50	1,584,887.50	4,190,331.25

CONTINUING DISCLOSURE

The Corporation's predecessor, HCDCH, covenanted for the benefit of the Holders and Beneficial Owners of the 2004B Bonds to provide certain financial information and operating data relating to the Program not later than nine months following the end of its fiscal year (the "Annual Bond Disclosure Report"), and to provide notices of the occurrence of certain enumerated events, if material. The Annual Bond Disclosure Report will be filed with each Nationally Recognized Municipal Securities Information Repository and with the State Repository, if any. The notices of material events will be filed with the Municipal Securities Rulemaking Board and with the State Repository, if any. The specific nature of the information to be contained in the Annual Bond Disclosure Report and the notices of material events is set forth in Appendix D - Continuing Disclosure Certificate.

HCDCH and its predecessors made similar undertakings with respect to other bonds issued by them. In certain instances described below, HCDCH did not file its annual bond disclosure report in a timely manner. The Corporation has addressed the causes for such failures and is currently in compliance with the continuing disclosure requirements for all bonds for which it has an obligation to file an annual bond disclosure report. The Corporation believes that the actions it has taken will prevent any such delayed filings in the future.

The annual reports for bonds issued under the Corporation's Single Family Mortgage Purchase Program, including the 1997 Series A and B bonds and the 1998 Series A, B and C bonds, for the fiscal years ending June 30, 1997, and June 30, 1999, which should have filed prior to the end of March 1998 and March 2000, respectively, were filed on October 7, 1998, and April 27, 2000, respectively. All required annual reports for fiscal year 2000 and thereafter have been filed in a timely manner.

The annual reports for certain refunded bonds issued for SHARP for fiscal years 1996 through 2002 and the annual reports for bonds issued in 1995 by HFDC on behalf of the University of Hawaii for its Faculty Housing project for fiscal years 1995 through 2002 were inadvertently not filed as required on a timely basis. All of such annual reports for the SHARP bonds and for the University bonds were filed in July 2003. The annual report for the SHARP bonds for fiscal year 2003 was filed in a timely manner. For fiscal year 2003, the University was delayed in providing information about itself to HCDCH. As a result, the annual report for the University bonds for fiscal year 2003 was not filed until June 10, 2004. All required annual reports for fiscal year 2004 and thereafter have been filed in a timely manner.

Neither the Corporation nor any of its predecessors has failed to comply in any other respect with any previous undertaking pursuant to Rule 15c2-12 and, as noted above, the Corporation believes that the actions it has taken will prevent any such delayed filings in the future.

TAX MATTERS

The 2004B Bonds are being treated as a new issue of refunding bonds for federal tax purposes due to certain modifications being made to the 2004B Bonds in connection with their remarketing.

In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel to the Corporation, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, interest on the 2004B Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code") and such interest is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code and is not included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax. In rendering its opinion, Bond Counsel has relied on certain representations, certifications of fact, and statements of reasonable expectations made by the Corporation in connection with the 2004B Bonds, and Bond Counsel has assumed compliance by the Corporation with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the 2004B Bonds from gross income under Section 103 of the Code.

In addition, in the opinion of Bond Counsel, under existing statutes, interest on the 2004B Bonds is exempt from all taxation by the State of Hawaii or any county or any political subdivision thereof, except inheritance, transfer, and estate taxes and except to the extent such income may be included in the measure of franchise tax imposed on banks and other financial corporations pursuant to the laws of the State of Hawaii.

Bond Counsel expresses no opinion regarding any other Federal or state tax consequences with respect to the 2004B Bonds. Bond Counsel renders its opinion under existing statutes and court decisions as of the issue date, and assumes no obligation to update its opinion after the issue date to reflect any future action, fact or circumstance, or change in law or interpretation, or otherwise. Bond Counsel expresses no opinion on the effect of any action hereafter taken or not taken in reliance upon an opinion of other counsel on the exclusion from gross income for Federal income tax purposes of interest on the 2004B Bonds, or under state and local tax law.

Certain Ongoing Federal Tax Requirements and Covenants

The Code establishes certain ongoing requirements that must be met subsequent to the reoffering and delivery of the 2004B Bonds in order that interest on the 2004B Bonds be and remain excluded from gross income under Section 103 of the Code. These requirements include, but are not limited to, requirements relating to use and expenditure of gross proceeds of the 2004B Bonds, yield and other restrictions on investments of gross proceeds, and the arbitrage rebate requirement that certain excess earnings on gross proceeds be rebated to the Federal government. Noncompliance with such requirements may cause interest on the 2004B Bonds to become included in gross income for Federal income tax purposes retroactive to their issue date, irrespective of the date on which such noncompliance occurs or is discovered. The Corporation has covenanted to comply with certain applicable requirements of the Code to assure the exclusion of interest on the 2004B Bonds from gross income under Section 103 of the Code.

Certain Collateral Federal Tax Consequences

The following is a brief discussion of certain collateral Federal income tax matters with respect to the 2004B Bonds. It does not purport to address all aspects of Federal taxation that may be relevant to a particular owner of a 2004B Bond. Prospective investors, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the Federal tax consequences of owning and disposing of the 2004B Bonds.

Prospective owners of the 2004B Bonds should be aware that the ownership of such obligations may result in collateral Federal income tax consequences to various categories of persons, such as corporations (including S corporations and foreign corporations), financial institutions, property and casualty and life insurance companies, individual recipients of Social Security and railroad retirement benefits, individuals otherwise eligible for the earned income tax credit, and taxpayers deemed to have incurred or continued indebtedness to purchase or carry obligations the interest on which is not included in gross income for Federal income tax purposes. Interest on the 2004B Bonds may be taken into account in determining the tax liability of foreign corporations subject to the branch profits tax imposed by Section 884 of the Code.

Miscellaneous

Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the Federal or state level, may adversely affect the tax-exempt status of interest on the 2004B Bonds under Federal or state law and could affect the market price or marketability of the 2004B Bonds.

Prospective purchasers of the 2004B Bonds should consult their own tax advisors regarding the foregoing matters.

LEGALITY OF BONDS FOR INVESTMENT

Under the Act, the State and all of its public officers, municipal corporations, political subdivisions, and public bodies, all banks, bankers, trust companies, savings banks and institutions, including savings and loan associations, all investment companies, insurance companies, insurance associations, and other persons carrying on an insurance business in the State and all personal representatives, guardians, trustees and other fiduciaries in the State may legally invest any moneys or funds belonging to them or within their control and available for investment under other provisions of law, in any bonds or other obligations issued by the Corporation, and the 2004B Bonds and other obligations of the Corporation shall be authorized security for all public deposits and shall be fully negotiable in the State.

LITIGATION

There is currently no pending litigation seeking to restrain or enjoin the remarketing, sale, execution or delivery of the 2004B Bonds or in any other manner affecting the validity of the 2004B Bonds or the proceedings or authority pursuant to which they are to be remarketed.

Office of Hawaiian Affairs and Ceded Lands

In 1898, the former Republic of Hawaii transferred certain lands to the United States. Upon Hawaii's admission to the Union in 1959, the United States reconveyed title to those lands (collectively, the "Ceded Lands") to the State of Hawaii (the "State") to be held as a public trust for five purposes: (1) public education; (2) betterment of the conditions of native Hawaiians; (3) development of farm and home ownership; (4) making public improvements; and (5) provision of land for public use. In 1978, the State Constitution was amended expressly to provide that the Ceded Lands were to be held as a public trust for native Hawaiians and the general public, and to establish the Office of Hawaiian Affairs ("OHA") to administer and manage the proceeds and income derived from a pro rata portion of the Ceded Lands to better the conditions of native Hawaiians.

In 1979, the Legislature adopted HRS Chapter 10 ("Chapter 10"), which, as amended in 1980, specified, among other things, that OHA expend 20% of all funds derived by the State from the Ceded Lands for the betterment of native Hawaiians.

In 1987, in *Trustees of the Office of Hawaiian Affairs v. Yamasaki*, 69 Haw. 154 (1987) ("*Yamasaki*"), the Hawaii Supreme Court concluded that Chapter 10 was insufficiently clear regarding the amount of moneys OHA was entitled to receive from the public trust lands.

In 1990, in response to *Yamasaki*, the Legislature adopted Act 304, SLH 1990, which (i) defined "public land trust" and "revenue," (ii) reiterated that 20% of the now defined "revenue" derived from the "public land trust" was to be expended by OHA for the betterment of native Hawaiians, and (iii) established a process for OHA and the Director of Finance of the State jointly to determine the amount of moneys which the State would pay OHA to retroactively settle all of OHA's claims for the period June 16, 1980 through June 30, 1991. Since fiscal year 1992 and until the first quarter of fiscal year 2002, the State, through its departments and agencies, paid 20% of "revenues" to OHA on a quarterly basis.

In 1993, the Legislature enacted Act 35, SLH 1993, appropriating $136.5 million to pay the amount determined to be OHA's claims, with interest, for the period June 16, 1980 through June 30, 1991.

On January 14, 1994, OHA and its Board of Trustees (the "Plaintiffs") filed suit against the State (*OHA, et al. v. State of Hawaii*, et al., Civil No. 94-0205-01 (1st Cir.) ("*OHA I*")), claiming that the amount paid to OHA was inadequate and that the State had failed to account for and fully pay the pro rata share of proceeds and income derived from the public land trust. Among other things, the Plaintiffs sought an accounting of all proceeds and income, funds and revenue derived from the public land trust since 1978, and restitution or damages amounting to 20% of the proceeds and income derived from the public land trust, as well as interest thereon. In its answer to OHA's complaint, the State denied all of the Plaintiffs' substantive allegations, and asserted its sovereign immunity from suit and other jurisdictional and claim-barring defenses.

The Plaintiffs thereafter filed four motions for partial summary judgment as to the State's liability to pay OHA 20% of moneys it receives from (i) the Department of Transportation Airports Division's in-bound duty free airport concession (including receipts from the concessionaire's off-airport sales operations), (ii) the State-owned and operated Hilo Hospital, (iii) the State's public rental housing projects and affordable housing developments, and (iv) interest income, including investment earnings (collectively, the "Sources"). In response, the State filed a motion to dismiss on the basis of sovereign immunity and opposed Plaintiffs' four motions on the merits and raised several affirmative defenses.

On October 24, 1996, the circuit court filed an order denying the State's motion to dismiss and rejecting its affirmative defenses. Also on October 24, 1996, the circuit court filed an order granting Plaintiffs' four motions for partial summary judgment with respect to the State's liability to pay OHA 20% of the moneys it receives from each of the Sources, and deferred establishing amounts owed from those Sources for further proceedings or trial. The State's motion for leave to file an interlocutory appeal from both the order denying its motion to dismiss and the order granting Plaintiffs' four partial summary judgments was granted and all proceedings in the suit were stayed pending the Hawaii Supreme Court's disposition of the State's appeal.

On September 12, 2001, the Hawaii Supreme Court concluded *OHA I* by holding in *OHA v. State of Hawaii*, 96 Haw. 388 (2001) that Act 304 was effectively repealed by its own terms, and that there was no judicially manageable standard, i.e., a legal standard, by which to determine whether OHA was entitled to the revenues it sought from the Sources because the repeal of Act 304 revived the law which the court in Yamasaki had previously concluded was insufficiently clear to establish how much OHA was entitled to receive from the Ceded Lands. The Supreme Court dismissed *OHA I* for lack of justiciability, that is, that the case was not appropriate for review by the Court, noting that it was up to the Legislature to enact legislation to give effect to the right of native Hawaiians to benefit from the Ceded Lands under the State Constitution. Immediately thereafter, agencies ceased paying OHA any receipts from the Ceded Lands.

The Legislature took no action during the 2002, 2003, and 2004 legislative sessions to establish a new mechanism for establishing how much OHA was entitled to receive from the Ceded Lands. On January 10, 2003, and pending legislative action to establish such a mechanism, the Governor issued Executive Order No. 03-03 directing state agencies to resume transferring 20% of receipts from leases, licenses and permits indisputably paid for the use of improved or unimproved parcels of Ceded Lands to OHA, if federal or state law did not preclude all or any portion of the receipt from being used to better the conditions of native Hawaiians, and the transfer of all or any portion of the receipt to OHA would not cause the agency to renege on a preexisting pledge, rate covenant, or other preexisting obligation to holders of revenue bonds or other indebtedness of the State or the agency. During the 2003 legislative session, the Legislature appropriated moneys from the various funds into which the Ceded Lands receipts had been deposited after the decision in *OHA I* was issued and agencies ceased making payments to OHA, and directed the agencies to pay them to OHA.

OHA continues to pursue claims for a portion of the revenues from the Sources and other Ceded Lands that were made in *OHA I*. On July 21, 2003, OHA filed a new lawsuit, *OHA et al. v. State of Hawaii*, et al., Civil No. 03-1-1505-07 ("*OHA II*"). In September 1996, the Office of the Inspector General of the U.S. Department of Transportation ("DOT") issued a report (the "IG Report") concluding that payments to OHA between 1992 and 1995 of $28.2 million by the Hawaii Department of Transportation was a diversion of airport revenues in violation of applicable federal law as OHA provided no airport services in return. The Attorney General of Hawaii disagreed with the IG Report's conclusion, stating in November 1996 that the payments to OHA were an operating cost of the airports and not a diversion of airport revenues. In May 1997, the Acting Administrator of the FAA concurred in writing (the "FAA Memorandum") with the IG Report and opposed the Hawaii Attorney General's position. In support of its appeal of the circuit court's *OHA I* decision to the Hawaii Supreme Court, but differing with the original position of the Attorney General, the State noted in its May 1997 amended opening brief that "unless the federal government's position set forth in the IG Report changes, Act 304 prohibits the State from paying OHA airport-related revenues." In its June 1997 reply brief, the State stated that the "DOT Inspector General's determination shows that the federal government is on its way to finding such payments illegal and requiring the State to reimburse past payments of airport-related revenues to OHA." In November 1997, the Department of Transportation and Related Agencies Appropriation Act, 1998, PL 105-66, 1997 HR 2169 (the "DOT Appropriation Act") was enacted into federal law. Section 340 of the DOT Appropriation Act ("Section 340") essentially provides that in exchange for there being no further payments of airport revenues for claims related to Ceded Lands, any such payments received prior to May 1, 1996 need not be repaid. The Hawaii Attorney General submitted enactment of Section 340 to the Hawaii Supreme Court in December 1997, "for the Court's use" in conjunction with the *OHA I* appeal, whereupon the Court requested the parties to submit supplemental briefs to address whether Section 340 affected the Court's interpretation of Act 304. The State, in its March 1998 supplemental brief, stated, inter alia, that paying OHA a pro rata share of airport moneys violated federal law, and that there was no live, ripe controversy regarding those payments because the DOT Appropriation Act relieved the State and OHA of any obligation to return improper past payments.

Despite the adverse *OHA I* decision, the Plaintiffs in *OHA II* sued the State for alleged breaches of fiduciary duties as purported trustee of the Ceded Lands public trust, alleged violations of Act 304, Chapter 10, and Article XII, Sections 4, 5 and 6 of the Hawaii Constitution, violations of the Contract Clause of the U.S. Constitution, and misrepresentation and non-disclosure, by the following alleged acts (but not limited to these acts): (1) failing to oppose the positions set forth in the FAA Memorandum; (2) resolving its dispute with the FAA by obtaining a forgiveness of the prior $28.2 million payment in exchange for a promise not to make future airport revenue payments to OHA and not to appeal the positions set forth in the FAA Memorandum; (3) breaching the trust duty of impartiality by not opposing the positions set forth in the FAA Memorandum in order to use them as a sword in *OHA I*; (4) failing to timely advise OHA that the State was not going to continue to oppose the positions set forth in the FAA Memorandum or IG Report, and that it was planning to settle with the federal government, in order to provide OHA with a fair opportunity to take measures to step into the State's position to oppose the FAA; and (5) failing to obtain instructions from the Court on how to proceed given the State's conflict between defending the State against OHA in *OHA I*, and having a duty to oppose the positions set forth in the FAA Memorandum.

OHA further alleges that these alleged "breaches, errors and omissions" were substantial factors that resulted in the passing of Section 340 and the issuance of the Hawaii Supreme Court's opinion in *OHA I*. Plaintiffs claim that, accordingly, the State is liable to OHA for damages including, but not limited to: (1) the damages alleged by OHA in *OHA I*, and (2) amounts payable under Act 304 that have not been paid, including but not limited to, airport landing fees. Plaintiffs also sought declaratory and injunctive relief ordering the State to reinstate Act 304, pay airport-related revenues to OHA from sources other than airport revenues (and enjoining the State and its agents, employees, and officials from opposing any of the above), and sought appointment of an independent trustee to replace the State as trustee of the native Hawaiian public trust with respect to matters relating to reinstatement of Act 304 and the payment of airport-related revenues to OHA from sources other than airport revenues. On December 26, 2003, the court granted the State's motion to dismiss OHA's complaint in *OHA II*. The court entered a final judgment on May 19, 2004, encompassing the order dismissing the complaint and several procedural orders. On June 8, 2004, OHA filed a notice of appeal from the portions of the May 19, 2004 judgment dismissing its complaint in *OHA II*, denying leave to amend the complaint and denying a request for bifurcation of OHA's claims for liability and damages. The Hawaii Supreme Court affirmed the circuit court's order dismissing OHA's complaint in a decision issued September 9, 2005; granted OHA's motion for reconsideration in an order filed on December 23, 2005; and affirmed the circuit court's final judgment again in an opinion entered on April 28, 2006.

On January 17, 2008, OHA and the Governor signed a settlement agreement to finally and completely resolve and settle any and all claims and disputes relating to OHA's portion of income and proceeds from the lands of the Ceded Lands public trust under article XII, sections 4 and 6 of the Hawaii Constitution between November 7, 1978 and July 1, 2008, and to fix prospectively the minimum amount of income and proceeds from the lands of the Ceded Lands public trust OHA is to receive per fiscal year under those same provisions of the Hawaii Constitution at $15.1 million. The settlement is contingent on passage of a bill prepared jointly by OHA and the Attorney General without material changes, or, if the bill is changed, with the written approval of OHA and the Governor. The Legislature did not pass any bill for such purpose during its 2008 regular session, and directed instead that OHA and the Attorney General resume negotiations on the payment to be made by the State to resolve the dispute with OHA concerning the sum OHA should have received from November 7, 1978 to June 30, 2008, pursuant to article XII, sections 4 and 6 of the Hawaii Constitution.

Actions Related to Ceded Lands Specifically Involving the Corporation and HPHA

In a second lawsuit, OHA and four individuals filed complaints for declaratory and injunctive relief on November 4, 1994, and November 9, 1994 (*OHA v. Housing Finance and Development Corporation et al.*, Civil No. 94-4207-11 (1st Cir.)) to enjoin the State from alienating any Ceded Lands and extinguishing any rights Hawaiians may have in Ceded Lands that may be alienated. Alternatively, OHA sought a declaration that the amounts paid to OHA by the Housing Finance and Development Corporation ("HFDC," since succeeded by the Corporation) and the State for Ceded Lands that HFDC planned to use to develop and sell housing units pursuant to Act 318, SLH 1992, were insufficient. Act 318 established a separate process for valuing the Ceded Lands HFDC used for its two housing developments at Kealakehe and Lahaina, and quantifying the amounts of income and proceeds from the Ceded Lands that HFDC and the State were required to pay to OHA for conveying and using the parcels for the Corporation's two projects.

In December, 2002, following a trial on the issues, the trial court confirmed the State's authority to sell Ceded Lands, denied the declaratory ruling that the sale of Ceded Lands did not directly or indirectly release or limit Hawaiians' claims to those lands which the plaintiffs requested, and ordered that judgment be entered in the State's and HFDC's favor as to Counts I, II, and III of the Amended Complaint. The plaintiffs moved for and were granted leave to file immediate appeals from the court's rulings to the Hawaii Supreme Court.

On January 31, 2008, the Hawaii Supreme Court issued an opinion vacating the circuit court's judgment in favor of the State and HFDC, and "remand[ed] the case to the circuit court with instructions to issue an order granting the plaintiffs' request for an injunction against the defendants from selling or otherwise transferring to third parties (1) the parcel of ceded land on Maui and (2) any ceded lands from the public lands trust until the claims of the native Hawaiians to the ceded lands has [sic] been resolved." In accordance with the instructions of the Hawaii Supreme Court, the circuit court issued its order on June 4, 2008 granting plaintiffs' request for such injunction. Seeking a reversal of the January 31, 2008 decision of the Hawaii Supreme Court, the State filed a Petition for Writ of Certiorari on April 29, 2008 with the United States Supreme Court. The United States Supreme Court granted the petition for certiorari and on March 31, 2009 unanimously reversed the Hawaii Supreme Court's decision and remanded the case to the Hawaii Supreme Court for further proceedings not inconsistent with its opinion. The United States Supreme Court concluded that the State holds "absolute fee" title to the lands conveyed to it by the United States at statehood; that federal law did not prevent the Legislature from deciding, as it had, to sell a portion of the Ceded Lands for HFDC's two housing developments; and that the Supreme Court of Hawaii erred in reading the federal Apology Resolution "as recognizing claims inconsistent with the title held in 'absolute fee' by the United States . . . and conveyed to the State of Hawaii at statehood."

In a third lawsuit, OHA filed suit against the Hawaii Housing Authority ("HHA," since succeeded by HPHA), the executive director of HHA, the board members of HHA and the Director of Finance on July 27, 1995 (*OHA v. HHA, et al.*, Civil No. 95-2682-07 (1st Cir.)) to secure additional compensation and an itemized accounting of the sums previously paid to OHA for five specifically identified parcels of Ceded Lands which were transferred to HHA for its use to develop, construct and manage additional affordable public rental housing units. On January 11, 2000, all proceedings in this suit were stayed pending the Hawaii Supreme Court's decision in the State's appeal in *OHA I*. OHA disagrees that the repeal and revival of the pre-Yamasaki law by the Hawaii Supreme Court's September 12, 2001 decision in *OHA I* should also require dismissal of the claims OHA makes in *OHA v. HHA*, and the case remains pending.

HFDC and HHA were merged after the filings of the second and third lawsuits described above into HCDCH, which subsequently was bifurcated into the Corporation and HPHA. The Corporation has replaced HFDC as a defendant in the second lawsuit, and HPHA has replaced HHA as a defendant in the third lawsuit.

The State intends to defend vigorously against all of OHA's claims. It is currently unable to predict with reasonable certainty the magnitude of its potential liability, if any, for such claims. Resolution of all of OHA's claims in OHA's favor could have a material adverse effect on the State's financial condition.

CERTAIN LEGAL MATTERS

All legal matters incident to the reoffering of the 2004B Bonds are subject to the approval of Hawkins Delafield & Wood LLP, New York, New York, Bond Counsel to the Corporation. The form of the opinion Bond Counsel proposes to render is set forth in Appendix E hereto. Copies of the approving opinion of Bond Counsel will be available at the time of delivery of the reoffered 2004B Bonds. Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Remarketing Circular. Certain legal matters will be passed upon for the Remarketing Agent by its counsel, McCorriston Miller Mukai MacKinnon LLP, Honolulu, Hawaii.

RATINGS

Moody's Investors Service has assigned a rating of "Aa3" (on review for possible downgrade) to the 2004B Bonds based on the issuance of the Policy by Financial Security Assurance Inc., and an underlying rating (without regard to bond insurance) of "A2". These ratings reflect only the views of the rating agency. Any explanation of the significance of the ratings given by such rating agency may only be obtained from the rating agency. There is no assurance that the ratings assigned by the rating agency will continue for any given period of time or that they will not be revised downward or withdrawn entirely by the rating agency if, in its judgment, circumstances so warrant.

Any downward revision or withdrawal of any such rating may have an adverse effect on the market price of the 2004B Bonds.

REMARKETING

The 2004B Bonds are being purchased upon the reoffering thereof by Merrill Lynch, Pierce, Fenner & Smith Incorporated (the "Remarketing Agent") at an aggregate price of $21,209,018.41, being an amount equal to the principal amount of the 2004B Bonds, plus an original issue premium of $587,041.55, and less a remarketing agent's compensation of $253,023.14. The remarketing contract for the 2004B Bonds provides that the Remarketing Agent will purchase all the 2004B Bonds if any are purchased. The initial public reoffering prices are set forth on the inside cover page of this Remarketing Circular. The Remarketing Agent may offer and sell the 2004B Bonds to certain dealers (including depositing the 2004B Bonds into investment trusts) and others at prices lower than the initial public reoffering prices stated on the inside cover page hereof. The public reoffering prices may be changed from time to time by the Remarketing Agent.

CAUTIONARY STATEMENTS REGARDING FORWARD-LOOKING STATEMENTS IN THIS REMARKETING CIRCULAR

Certain statements included or incorporated by reference in this Remarketing Circular constitute "forward-looking statements." Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "budget" or similar words.

The achievement of certain results or other expectations contained in such forward looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performances or achievements described to be materially different from any future results, performances or achievements expressed or implied by such forward looking statements. The Corporation does not plan to issue any updates or revisions to those forward looking statements if and when changes to its expectations, or events, conditions or circumstances on which such statements are based, occur, unless such updates or revisions are made in the course of fulfilling its continuing disclosure obligation.

FINANCIAL STATEMENTS

The financial statements of the Corporation as of and for the year ended June 30, 2008 are included in Appendix A to this Remarketing Circular. The financial statements were audited by KMH LLP, independent auditors, as stated in their report appearing therein.

Except for funds pledged under the Indenture or otherwise committed to secure another obligation of the Corporation, the Corporation's funds are held in the State Treasury and invested on a pooled basis with funds of other State departments and agencies. Approximately 25% of these pooled investments are in the form of auction rate securities. Due to liquidity problems affecting auction rate securities in the marketplace, it is expected that a decrease in the fair value of these investments will be recorded in the State's audited financial statements for the fiscal year ended June 30, 2008, which have not yet been released. The Corporation's audited financial statements for such fiscal year reflect a decrease in fair value relating to the Corporation's funds held in the State Treasury. See Note 3 to the audited financial statements included in Appendix A to this Remarketing Circular.

MISCELLANEOUS

Any statements made in this Remarketing Circular involving matters of opinion or estimates, whether or not expressly so stated, are set forth as such and not as representations of fact, and no representations are made that any of the estimates will be realized.

The references to the Indenture and other documents referred to herein are brief summaries of certain provisions thereof. Such summaries do not purport to be complete and reference is made to such documents for full and complete statements of such provisions.

The execution and delivery of this Remarketing Circular has been duly authorized by the Corporation.

HAWAII HOUSING FINANCE AND
DEVELOPMENT CORPORATION

By /s/ Karen Seddon
Karen Seddon, Executive Director

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APPENDIX A

AUDITED FINANCIAL STATEMENTS OF THE CORPORATION

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Hawaii Housing Finance and Development Corporation

Financial Statements
June 30, 2008
Together with Independent Auditor's Report

Submitted by

THE AUDITOR
STATE OF HAWAII

Independent Auditor's Report

The Auditor
State of Hawaii

The Board of Directors
Hawaii Housing Finance and Development Corporation:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of governmental funds and proprietary funds all as listed under "basic financial statements" in the accompanying table of contents of Hawaii Housing Finance and Development Corporation (Corporation) as of and for the year ended June 30, 2008. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of the Corporation are intended to present the financial position, changes in financial position and cash flows, where applicable, of only that portion of the governmental activities, business-type activities, each major fund, and the aggregate other fund information of the State of Hawaii that is attributable to the transactions of the Corporation. They do not purport to, and do not, present fairly the financial position of the State of Hawaii as of June 30, 2008, and the changes in its financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 3 to the financial statements, the Corporation's cash and interest income, previously reported at $201,562,760 and $11,041,645, respectively, should have been $202,295,078 and $11,773,963, respectively. This discovery was made subsequent to the issuance of the financial statements. The financial statements have been restated to reflect this correction.

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In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of governmental funds and proprietary funds of the Corporation as of June 30, 2008, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis on pages 1 to 12 and Budgetary Comparison Schedules on page 71 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on Management's Discussion and Analysis or on the Budgetary Comparison Schedules.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Corporation's basic financial statements taken as a whole. The supplementary information as listed in the accompanying table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

KMH LLP

KMH LLP

Honolulu, Hawaii
March 27, 2009
Except for the second paragraph in Note 3 as to which the date is May 13, 2009

Hawaii Housing Finance and Development Corporation

Government-Wide
Statement of Net Assets
June 30, 2008

Assets	Governmental Activities	Business-type Activities	Total
Current Assets:			
Cash	$ -	$ 202,295,078	$ 202,295,078
Receivables:			
Mortgage loans	-	7,739,317	7,739,317
Notes and loans	-	11,863,626	11,863,626
Accrued interest	-	8,564,991	8,564,991
Tenant receivables, less allowance for doubtful accounts of $1,670,774	-	100,815	100,815
Other	-	2,855,424	2,855,424
	-	31,124,173	31,124,173
Due from other funds	-	3,306,698	3,306,698
Due from other governments	53,616	-	53,616
Internal balances	(53,616)	53,616	-
Due from other State of Hawaii Departments	181,729	20,844,391	21,026,120
Inventories --			
Developments in progress and dwelling units	-	22,060,985	22,060,985
Net investment in direct financing lease	-	570,486	570,486
Prepaid expenses and other assets	-	204,658	204,658
Deposits held in trust	-	5,717	5,717
Deferred bond issuance costs	-	129,272	129,272
Total current assets	181,729	280,595,074	280,776,803
Assets Held by Trustees Under Revenue Bond Programs:			
Cash and cash equivalent	-	34,823,630	34,823,630
Investments	-	273,182,373	273,182,373
	-	308,006,003	308,006,003
Investments	-	6,547,685	6,547,685
Mortgage Loans, net of current portion	-	121,891,904	121,891,904
Notes and Loans, net of current portion	-	29,054,552	29,054,552
Restricted Deposits and Funded Reserves	-	590,430	590,430
Net Investment in Financing Lease, net of current portion	-	14,461,804	14,461,804
Deferred Bond Issuance Costs, net of current portion	-	1,858,272	1,858,272
Capital Assets, less accumulated depreciation	389,197	107,408,318	107,797,515
Total assets	$ 570,926	$ 870,414,042	$ 870,984,968

The accompanying notes are an integral part of this statement.

Hawaii Housing Finance and Development Corporation

Government-Wide
Statement of Net Assets (continued)
June 30, 2008

Liabilities and Net Assets	Governmental Activities	Business-type Activities	Total
Current Liabilities:			
Accounts payable	$ -	$ 2,477,904	$ 2,477,904
Accrued expenses:			
Interest	-	7,908,934	7,908,934
Other	-	1,257,306	1,257,306
Accrued lease rent payable	-	696,800	696,800
Due to other funds	-	3,306,698	3,306,698
Due to State of Hawaii, including Office of Hawaiian Affairs	-	5,583,604	5,583,604
Security deposits	-	1,936,389	1,936,389
Notes payable	-	13,475	13,475
Mortgage payable	-	37,024	37,024
Revenue bonds payable, less deferred refunding cost	-	15,737,553	15,737,553
Deferred income	-	25,113,316	25,113,316
Deferred commitment fees	-	338,597	338,597
Deferred gain on sale of units and land	-	1,642,801	1,642,801
Estimated future costs of land sold	-	32,759,434	32,759,434
Total current liabilities	-	98,809,835	98,809,835
Deferred Commitment Fees, net of current portion	-	901,013	901,013
Arbitrage Rebate Payable	-	2,757,205	2,757,205
Notes Payable, net of current portion	-	248,564	248,564
Mortgage Payable, net of current portion	-	5,548,567	5,548,567
Revenue Bonds Payable, less deferred refunding costs, net of current portion	-	384,372,552	384,372,552
Commitments and Contingencies			
Net Assets:			
Invested in capital assets, net of related debt	389,197	3,789,321	4,178,518
Restricted by legislation and contractual agreements	-	308,596,433	308,596,433
Unrestricted	181,729	65,390,552	65,572,281
Total net assets	570,926	377,776,306	378,347,232
Total liabilities and net assets	$ 570,926	$ 870,414,042	$ 870,984,968

The accompanying notes are an integral part of this statement.

Hawaii Housing Finance and Development Corporation

Government-Wide
Statement of Activities
June 30, 2008

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Functions/Programs							
Governmental activities--							
Low income housing service and assistance program	$ 4,014,594	$ -	$ 2,854,400	$ -	$ (1,160,194)	$ -	$ (1,160,194)
Total governmental activities	4,014,594	-	2,854,400	-	(1,160,194)	-	(1,160,194)
Business-type activities:							
Rental assistance program	1,518,610	121,540	971,803	-	-	(425,267)	(425,267)
Housing development program	6,286,677	3,161,790	27,646,105	-	-	24,521,218	24,521,218
Multi-family mortgage loan programs	6,663,778	22,463,490	20,160,934	-	-	35,960,646	35,960,646
Single-family mortgage loan program	11,472,105	8,538,439	8,930,939	-	-	5,997,273	5,997,273
Rental housing program	17,351,713	15,174,177	1,041,222	-	-	(1,136,314)	(1,136,314)
Others	1,500,985	1,369,063	224,983	-	-	93,061	93,061
Total business-type activities	44,793,868	50,828,499	58,975,986	-	-	65,010,617	65,010,617
Total government-wide	$ 48,808,462	$ 50,828,499	$ 61,830,386	$ -	(1,160,194)	65,010,617	63,850,423
State Allotted Appropriations, net of lapses					101,657	-	101,657
Net Transfers					-	(1,563)	(1,563)
Total general revenues and transfers					101,657	(1,563)	100,094
Change in net assets					(1,058,537)	65,009,054	63,950,517
Net Assets, July 1, 2007					1,629,463	312,767,252	314,396,715
Net Assets, June 30, 2008					$ 570,926	$ 377,776,306	$ 378,347,232

The accompanying notes are an integral part of this statement.

Hawaii Housing Finance and Development Corporation

Governmental Funds
Balance Sheet
June 30, 2008

	General Fund	Nonmajor Governmental Fund	Total Governmental Funds
Assets			
Due from State	$ 181,729	$ -	$ 181,729
Due from other agencies	-	53,616	53,616
Total assets	$ 181,729	$ 53,616	$ 235,345
Liabilities and Fund Balance			
Liabilities --			
Internal balances	$ -	$ 53,616	$ 53,616
Total liabilities	-	53,616	53,616
Fund Balances - Unrestricted			
Reserved for encumbrances	181,729	-	181,729
Total liabilities and fund balance	$ 181,729	$ 53,616	$ 235,345

The accompanying notes are an integral part of this statement.

Hawaii Housing Finance and Development Corporation

Reconciliation of the Governmental Fund Balance to the
Statement of Net Assets
June 30, 2008

Total fund balance - governmental funds		$	181,729
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and therefore not reported in the funds. These assets consist of the following:			
Equipment	448,264		
Accumulated depreciation	(59,067)		
Total capital assets			389,197
Net assets of governmental activities		$	570,926

The accompanying notes are an integral part of this statement.

Hawaii Housing Finance and Development Corporation

Governmental Funds
Statement of Revenues, Expenditures, and Changes in Fund Balance
Year Ended June 30, 2008

	General Fund	Nonmajor Governmental Fund	Total Governmental Funds
Revenues:			
State allotted appropriations	$ 101,657	$ -	$ 101,657
Intergovernmental revenue	-	2,854,400	2,854,400
Total revenues	101,657	2,854,400	2,956,057
Expenditures:			
Low income housing services	898,772	-	898,772
Capital outlays	388,351	-	388,351
Project	-	2,765,782	2,765,782
Personnel services	101,657	54,809	156,466
Administration	-	33,809	33,809
Professional services	-	-	-
Total expenditures	1,388,780	2,854,400	4,243,180
Change in fund balance	(1,287,123)	-	(1,287,123)
Fund Balance at July 1, 2007	1,468,852	-	1,468,852
Fund Balance at June 30, 2008	$ 181,729	$ -	$ 181,729

The accompanying notes are an integral part of this statement.

Hawaii Housing Finance and Development Corporation

Reconciliation of the Change in Fund Balances of Governmental Funds to the Statement of Activities
June 30, 2008

Net change in fund balances - total governmental funds		$ (1,287,123)
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. In the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation expense during the year.		
Capital outlay	272,430	
Depreciation expense	(43,844)	
		228,586
Change in net assets - governmental activities		$ (1,058,537)

The accompanying notes are an integral part of this statement.

Hawaii Housing Finance and Development Corporation

Proprietary Funds
Statement of Net Assets
June 30, 2008

Assets	Rental Housing Trust Fund	Dwelling Unit Revolving Fund	Hawaii Rental Housing System Revenue Bond Fund	Single Family Mortgage Purchase Revenue Bond Fund	Multifamily Housing Revenue Bond Fund	Other Enterprise Funds	Total Enterprise Funds
Current Assets:							
Cash	$ 89,283,525	$ 79,364,266	$ 1,917,208	$ -	$ -	$ 31,730,079	$ 202,295,078
Receivables:							
Mortgage loans	349,190	62,628	-	696,059	6,567,553	63,887	7,739,317
Notes and loans	-	11,863,626	-	-	-	-	11,863,626
Accrued interest	2,558,202	1,159,330	44,458	3,803,797	204,425	794,779	8,564,991
Tenant receivables, less allowance for doubtful accounts of $1,670,774	-	12,577	64,004	-	-	24,234	100,815
Other	-	2,020,013	790,238	-	15,358	29,815	2,855,424
	2,907,392	15,118,174	898,700	4,499,856	6,787,336	912,715	31,124,173
Due from other funds	35	628,056	-	-	352,378	2,326,229	3,306,698
Internal balances	-	-	-	-	-	53,616	53,616
Due from other State of Hawaii Departments	-	20,844,391	-	-	-	-	20,844,391
Inventories	-	22,060,985	-	-	-	-	22,060,985
Net investment in financing lease	-	-	-	-	-	570,486	570,486
Prepaid expenses and other assets	-	29,952	62,322	7,205	-	105,179	204,658
Deposits held in trust	-	-	-	-	-	5,717	5,717
Deferred bond issuance costs	-	-	48,952	62,318	-	18,002	129,272
Total current assets	92,190,952	138,045,824	2,927,182	4,569,379	7,139,714	35,722,023	280,595,074
Assets Held by Trustees Under Revenue Bond Programs:							
Cash and cash equivalent	-	-	31,622,788	3,190,770	10,072	-	34,823,630
Investments	-	-	-	241,280,873	31,901,500	-	273,182,373
	-	-	31,622,788	244,471,643	31,911,572	-	308,006,003
Investments	-	-	-	-	-	6,547,685	6,547,685
Mortgage Loans, net of current portion	58,636,446	545,391	-	5,343,849	53,919,863	3,446,355	121,891,904
Notes and Loans, net of current portion	-	29,054,552	-	-	-	-	29,054,552
Restricted Deposits and Funded Reserves	-	-	-	-	-	590,430	590,430
Net Investment in Financing Lease, net of current portion	-	-	-	-	-	14,461,804	14,461,804
Deferred Bond Issuance Costs, net of current portion	-	-	681,430	950,350	-	226,492	1,858,272
Capital Assets, less accumulated depreciation	-	27,716,886	75,049,571	2,148	-	4,639,713	107,408,318
Total assets	$ 150,827,398	$ 195,362,653	$ 110,280,971	$ 255,337,369	$ 92,971,149	$ 65,634,502	$ 870,414,042

The accompanying notes are an integral part of this statement.

Hawaii Housing Finance and Development Corporation

Proprietary Funds
Statement of Net Assets (continued)
June 30, 2008

	Rental Housing Trust Fund	Dwelling Unit Revolving Fund	Hawaii Rental Housing System Revenue Bond Fund	Single Family Mortgage Purchase Revenue Bond Fund	Multifamily Housing Revenue Bond Fund	Other Enterprise Funds	Total Enterprise Funds
Liabilities and Net Assets							
Current Liabilities:							
Accounts payable	$ -	$ 835,448	$ 1,413,482	$ 51,895	$ -	$ 177,079	$ 2,477,904
Accrued expenses:							
Interest	16,335	-	1,718,973	5,109,217	864,863	199,546	7,908,934
Other	-	795,909	96,100	160,111	20,072	185,114	1,257,306
Accrued lease rent payable	-	696,800	-	-	-	-	696,800
Due to other funds	-	-	102,977	232,141	-	2,971,580	3,306,698
Due to State of Hawaii, including Office of Hawaiian Affairs	-	5,573,604	-	-	-	10,000	5,583,604
Security deposits	-	76,652	941,998	-	-	917,739	1,936,389
Notes payable	-	13,475	-	-	-	-	13,475
Mortgage payable	-	-	-	-	-	37,024	37,024
Revenue bonds payable, less deferred refunding cost	-	-	2,355,000	5,940,000	6,982,553	460,000	15,737,553
Deferred income	-	25,015,913	97,403	-	-	-	25,113,316
Deferred commitment fees	-	-	-	338,597	-	-	338,597
Deferred gain on sale of units and land	-	1,642,801	-	-	-	-	1,642,801
Estimated future costs of land sold	-	32,759,434	-	-	-	-	32,759,434
Total current liabilities	16,335	67,410,036	6,725,933	11,831,961	7,867,488	4,958,082	98,809,835
Deferred Commitment Fees, net of current portion	-	-	-	901,013	-	-	901,013
Arbitrage Rebate Payable	-	-	-	2,757,205	-	-	2,757,205
Notes Payable, net of current portion	-	248,564	-	-	-	-	248,564
Mortgage Payable, net of current portion	-	-	-	-	-	5,548,567	5,548,567
Revenue Bonds Payable, less deferred refunding cost, net of current portion	-	-	96,146,749	192,540,940	82,324,863	13,360,000	384,372,552
Commitments and Contingencies							
Net Assets:							
Invested in capital assets, net of related debt	-	27,454,847	(22,721,796)	2,148	-	(945,878)	3,789,321
Restricted by legislation and contractual agreements	-	-	31,622,788	244,471,643	31,911,572	590,430	308,596,433
Unrestricted	150,811,063	100,249,206	(1,492,703)	(197,167,541)	(29,132,774)	42,123,301	65,390,552
Total net assets	150,811,063	127,704,053	7,408,289	47,306,250	2,778,798	41,767,853	377,776,306
Total liabilities and net assets	$ 150,827,398	$ 195,362,653	$ 110,280,971	$ 255,337,369	$ 92,971,149	$ 65,634,502	$ 870,414,042

The accompanying notes are an integral part of this statement.

Hawaii Housing Finance and Development Corporation

Proprietary Funds
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Year Ended June 30, 2008

	Rental Housing Trust Fund	Dwelling Unit Revolving Fund	Hawaii Rental Housing System Revenue Bond Fund	Single Family Mortgage Purchase Revenue Bond Fund	Multifamily Housing Revenue Bond Fund	Other Enterprise Funds	Total Enterprise Funds
Operating Revenues:							
Interest on mortgages, notes, loans, mortgage-backed securities, and net investment in financing lease	$ 1,060,354	$ 1,730,765	$ -	$ 8,538,202	$ 1,291,058	$ 838,331	$ 13,458,710
Net increase in fair value of mortgage-backed securities	-	-	-	2,400,063	-	-	2,400,063
Conveyance tax	19,204,010	-	-	-	-	-	19,204,010
Sales of land	-	518,000	-	-	-	-	518,000
Sales of unit	-	380,000	-	-	-	-	380,000
Rental	-	1,267,920	14,101,764	-	-	362,341	15,732,025
Other	1,012	995,870	700,420	237	177,351	1,553,816	3,428,706
Total operating revenues	20,265,376	4,892,555	14,802,184	10,938,502	1,468,409	2,754,488	55,121,514
Operating Expenses:							
Cost of land and units sold	-	172,365	-	-	-	-	172,365
Project	-	1,525,226	6,779,378	-	-	-	8,304,604
Personnel services	111,718	2,761,400	400,067	403,481	92,714	1,132,077	4,901,457
Depreciation	-	108,525	4,676,729	804	-	153,415	4,939,473
Housing assistance payments	-	-	-	-	-	1,369,618	1,369,618
Administration	25,898	1,001,003	30,730	214,379	15,936	477,613	1,765,559
Provision for losses	-	44,577	106,004	-	-	125,858	276,439
Loan servicing fees	-	-	-	26,603	-	-	26,603
Professional services	20,814	170,265	6,089	49,083	17,709	139,796	403,756
Transitional and emergency housing grant	2,356,000	-	-	-	-	-	2,356,000
Insurance	-	-	-	10,767	-	-	10,767
Repairs and maintenance	1,119	452,627	1,864	15,672	1,865	27,313	500,460
Utilities	-	-	-	5,436	-	62,940	68,376
Capital expenditures	113	30,609	123,498	4,567	180	783	159,750
Interest expense	-	-	-	10,432,063	2,949,817	-	13,381,880
Other	-	16,560	175,325	-	215,345	33,910	441,140
Total operating expenses	2,515,662	6,283,157	12,299,684	11,162,855	3,293,566	3,523,323	39,078,247
Operating income (loss) carried forward	$ 17,749,714	$ (1,390,602)	$ 2,502,500	$ (224,353)	$ (1,825,157)	$ (768,835)	$ 16,043,267

The accompanying notes are an integral part of this statement.

Hawaii Housing Finance and Development Corporation

Proprietary Funds
Statement of Revenues, Expenses, and Changes in Fund Net Assets (continued)
Year Ended June 30, 2008

	Rental Housing Trust Fund	Dwelling Unit Revolving Fund	Hawaii Rental Housing System Revenue Bond Fund	Single Family Mortgage Purchase Revenue Bond Fund	Multifamily Housing Revenue Bond Fund	Other Enterprise Funds	Total Enterprise Funds
Operating income (loss) brought forward	$ 17,749,714	$ (1,390,602)	$ 2,502,500	$ (224,353)	$ (1,825,157)	$ (768,835)	$ 16,043,267
Nonoperating Revenues (Expenses):							
Interest income - cash and investments	1,143,569	915,340	1,026,770	6,530,606	1,307,947	849,731	11,773,963
Net increase in fair value of investments	-	-	-	-	2,709,418	161,507	2,870,925
Contribution from State	15,000,000	25,000,000	-	-	-	-	40,000,000
Interest expense	-	(3,520)	(4,190,199)	-	-	(907,655)	(5,101,374)
Trustee fees	-	-	(7,056)	(70,770)	(11,110)	-	(88,936)
Amortization of deferred bond issuance costs	-	-	(122,067)	(100,378)	-	(18,002)	(240,447)
Insurance expense	-	-	(125,163)	-	-	-	(125,163)
Arbitrage rebate	-	-	-	(124,101)	-	-	(124,101)
Other (expenses) revenues	-	-	(35,600)	-	-	38,083	2,483
Net nonoperating revenues (expenses)	16,143,569	25,911,820	(3,453,315)	6,235,357	4,006,255	123,664	48,967,350
Income (loss) before transfers	33,893,283	24,521,218	(950,815)	6,011,004	2,181,098	(645,171)	65,010,617
Net Operating Transfers	-	-	-	-	-	(1,563)	(1,563)
Change in net assets	33,893,283	24,521,218	(950,815)	6,011,004	2,181,098	(646,734)	65,009,054
Fund Net Assets, July 1, 2007	116,917,780	103,182,835	8,359,104	41,295,246	597,700	42,414,587	312,767,252
Fund Net Assets, June 30, 2008	$ 150,811,063	$ 127,704,053	$ 7,408,289	$ 47,306,250	$ 2,778,798	$ 41,767,853	$ 377,776,306

The accompanying notes are an integral part of this statement.

Hawaii Housing Finance and Development Corporation

Proprietary Funds
Statement of Cash Flows
Year Ended June 30, 2008

	Rental Housing Trust Fund	Dwelling Unit Revolving Fund	Hawaii Rental Housing System Revenue Bond Fund	Single Family Mortgage Purchase Revenue Bond Fund	Multifamily Housing Revenue Bond Fund	Other Enterprise Funds	Total Enterprise Funds
Cash Flows from Operating Activities:							
Cash received from renters	$ -	$ 1,313,692	$ 14,239,056	$ -	$ -	$ 403,670	$ 15,956,418
Cash received from borrowers:							
Principal repayments	382,863	17,804	-	1,443,461	734,519	332,266	2,910,913
Interest income	595,936	1,053,217	-	8,013,459	1,291,058	182,410	11,136,080
Cash received from net investment in financing lease	-	-	-	-	-	1,238,740	1,238,740
Cash received from sale of land	-	744,526	-	-	-	-	744,526
Cash received from conveyance taxes	19,204,010	-	-	-	-	-	19,204,010
Cash received for payments on mortgage-backed securities	-	-	-	17,674,276	-	-	17,674,276
Cash to borrower	-	-	-	-	(53,420,000)	-	(53,420,000)
Cash payments for grants	(2,356,000)	-	-	-	-	-	(2,356,000)
Cash payments for acquisition of mortgage-backed securities	-	-	-	(7,624,745)	-	-	(7,624,745)
Cash payments for issuance of loans receivable	(5,807,509)	(9,927,412)	-	-	-	-	(15,734,921)
Cash payments for interest	-	-	-	(10,558,721)	(2,807,797)	-	(13,366,518)
Cash payments to employees	(62,149)	(2,761,400)	(321,470)	(363,698)	(92,714)	(1,126,177)	(4,727,608)
Cash payments to suppliers	(92,710)	(2,684,975)	(7,504,778)	(366,922)	(251,553)	(2,299,337)	(13,200,275)
Cash (payments to) receipts from other funds	(1,425)	(226,664)	(90,889)	(26,958)	(58,611)	415,493	10,946
Other cash receipts (payments)	1,012	3,294,902	525,245	(10,570)	176,421	1,617,809	5,604,819
Net cash provided by (used in) operating activities	11,864,028	(9,176,310)	6,847,164	8,179,582	(54,428,677)	764,874	(35,949,339)
Cash Flows from Noncapital Financing Activities:							
Principal paid on revenue bond maturities and redemptions	-	-	-	(14,355,000)	-	-	(14,355,000)
Arbitrage rebate paid	-	-	-	(699,805)	-	-	(699,805)
Interest paid to the Department of Budget and Finance	-	-	-	-	-	(1,137)	(1,137)
Cash received from borrower	-	-	-	-	-	3,073,648	3,073,648
Operating transfers out	-	-	-	-	-	(1,563)	(1,563)
Net cash (used in) provided by noncapital financing activities	-	-	-	(15,054,805)	-	3,070,948	(11,983,857)
Cash Flows from Capital and Related Financing Activities:							
Principal paid on revenue bond maturities and redemptions	-	-	(2,310,000)	-	(1,124,519)	(435,000)	(3,869,519)
Other financing source - new bond issuance	-	-	-	-	53,420,000	-	53,420,000
Issuance of notes receivable	-	(4,054,552)	-	-	-	-	(4,054,552)
Principal paid on mortgage loans	-	-	-	-	-	(35,170)	(35,170)
Interest paid on revenue bonds	-	-	(4,209,575)	-	-	(911,818)	(5,121,393)
Principal payments on notes payable	-	(43,067)	-	-	-	-	(43,067)
Payments of interest	-	(3,520)	-	-	-	-	(3,520)
Payments for acquisition of property and equipment	-	(57,623,658)	(2,122,912)	-	-	-	(59,746,570)
Proceeds from sale of property and equipment		36,678,210					36,678,210
Contributions from State	15,000,000	25,000,000	-	-	-	-	40,000,000
Net cash provided by (used in) capital and related financing activities	15,000,000	(46,587)	(8,642,487)	-	52,295,481	(1,381,988)	57,224,419
Subtotal carried forward	$ 26,864,028	$ (9,222,897)	$ (1,795,323)	$ (6,875,223)	$ (2,133,196)	$ 2,453,834	$ 9,291,223

Hawaii Housing Finance and Development Corporation

Proprietary Funds
Statement of Cash Flows (continued)
Year Ended June 30, 2008

	Rental Housing Trust Fund	Dwelling Unit Revolving Fund	Hawaii Rental Housing System Revenue Bond Fund	Single Family Mortgage Purchase Revenue Bond Fund	Multifamily Housing Revenue Bond Fund	Other Enterprise Funds	Total Enterprise Funds
Subtotal brought forward	$ 26,864,028	$ (9,222,897)	$ (1,795,323)	$ (6,875,223)	$ (2,133,196)	$ 2,453,834	$ 9,291,223
Cash Flows from Investing Activities:							
Purchases of investments	-	-	-	(35,442,611)	(29,470,687)	-	(64,913,298)
Proceeds from maturities of investments	-	-	-	35,172,885	30,371,251	2,258	65,546,394
Receipts of interest	1,195,407	566,202	1,108,301	3,675,071	1,229,983	849,638	8,624,602
Net decrease in restricted deposits and funded reserves	-	-	-	-	-	(14,401)	(14,401)
Net cash provided by investing activities	1,195,407	566,202	1,108,301	3,405,345	2,130,547	837,495	9,243,297
Net increase (decrease) in cash and cash equivalents	28,059,435	(8,656,695)	(687,022)	(3,469,878)	(2,649)	3,291,329	18,534,520
Cash and Cash Equivalents, July 1, 2007	61,224,090	88,020,961	34,227,018	6,660,648	12,721	28,438,750	218,584,188
Cash and Cash Equivalents, June 30, 2008	$ 89,283,525	$ 79,364,266	$ 33,539,996	$ 3,190,770	$ 10,072	$ 31,730,079	$ 237,118,708

The accompanying notes are an integral part of this statement.

Hawaii Housing Finance and Development Corporation

Proprietary Funds
Statement of Cash Flows (continued)
Year Ended June 30, 2008

	Rental Housing Trust Fund	Dwelling Unit Revolving Fund	Hawaii Rental Housing System Revenue Bond Fund	Single Family Mortgage Purchase Revenue Bond Fund	Multifamily Housing Revenue Bond Fund	Other Enterprise Funds	Total Enterprise Funds
Cash Flows from Operating Activities:							
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:							
Operating income (loss)	$ 17,749,714	$ (1,390,602)	$ 2,502,500	$ (224,353)	$ (1,825,157)	$ (768,835)	$ 16,043,267
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:							
Net increase in fair value of mortgage-backed securities	-	-	-	(2,400,063)	-	-	(2,400,063)
Depreciation	-	108,525	4,676,729	804	-	153,415	4,939,473
Provision for losses	-	44,577	106,004	-	-	-	150,581
Changes in assets and liabilities:							
Mortgage loans receivable	(5,424,646)	(9,909,608)	-	1,443,461	(52,685,481)	222,393	(66,353,881)
Notes and loans receivable	-	-	-	-	-	-	-
Accrued interest receivable on mortgages, notes and loans	(464,418)	9,876	-	-	-	35,676	(418,866)
Tenant receivables	-	(2,373)	(18,845)	-	-	9,458	(11,760)
Other receivables	-	99,032	150	-	(930)	64,018	162,270
Due from other funds	(35)	(189,820)	-	95,232	(57,623)	(263,857)	(416,103)
Due from State of Hawaii	-	1,512,576	-	-	-	-	1,512,576
Inventories	-	(3,355,142)	-	-	-	-	(3,355,142)
Prepaid expenses and other assets	-	-	(61,477)	1,271	-	7,116	(53,090)
Net investment in lease financing	-	-	-	-	-	547,118	547,118
Investments in mortgage-backed securities	-	-	-	10,049,531	-	-	10,049,531
Accounts payable	-	108,959	(501,742)	(62,415)	-	7,159	(448,039)
Accrued interest payable	-	-	-	(328,252)	-	-	(328,252)
Accrued lease rent payable	-	696,800	-	-	-	-	696,800
Other accrued expenses	4,803	354,061	78,597	50,509	141,502	(76,675)	552,797
Due to other funds	(1,390)	(36,844)	(90,889)	(122,190)	(988)	686,144	433,843
Security deposits	-	44,349	91,443	-	-	141,744	277,536
Deferred income	-	3,796	64,694	-	-	-	68,490
Deferred refunding costs	-	-	-	200,790	-	-	200,790
Deferred commitment fees	-	-	-	(524,743)	-	-	(524,743)
Deferred gain on sale of units and land	-	(153,474)	-	-	-	-	(153,474)
Estimated future costs of land sold	-	2,879,002	-	-	-	-	2,879,002
Net cash provided by (used in) operating activities	$ 11,864,028	$ (9,176,310)	$ 6,847,164	$ 8,179,582	$ (54,428,677)	$ 764,874	$ (35,949,339)

The accompanying notes are an integral part of this statement.

Hawaii Housing Finance and Development Corporation

Fiduciary Fund
Statement of Fiduciary Net Assets
June 30, 2008

	Private Purpose Trust
Assets	
Cash	$ 203,484
Total assets	$ 203,484
Liabilities and Net Assets	
Liabilities	$ 185,608
Total liabilities	185,608
Net Assets --	
Held in trust	17,876
Total liabilities and net assets	$ 203,484

The accompanying notes are an integral part of this statement.

Hawaii Housing Finance and Development Corporation

Notes to Financial Statements
June 30, 2008

1. Organization and Significant Accounting Policies

a. General

Chapter 201E, Hawaii Revised Statutes and Act 337, Session Laws of Hawaii (SLH) 1987, created the Housing Finance and Development Corporation (HFDC). The HFDC was created to perform housing finance, housing development and residential leasehold functions. The Hawaii Housing Authority, State of Hawaii (Authority) was organized pursuant to the provisions of Chapter 356, Hawaii Revised Statutes. The Authority was created to provide safe and sanitary dwelling accommodations for low and moderate-income residents of Hawaii.

In accordance with Act 350, SLH 1997, effective July 1, 1998, the functions and employees of HFDC as well as those of the Authority and the Rental Housing Trust Fund Commission were transferred to the newly created Housing and Community Development Corporation of Hawaii (HCDCH). The purpose of Act 350, SLH 1997, was to consolidate all state housing functions previously administered by the Authority, HFDC and the Rental Housing Trust Fund Commission. HCDCH was a public body and a body corporate and politic and was, for administrative purposes only, considered to be a part of the State Department of Business, Economic Development and Tourism. In accordance with Act 92, SLH 2003, effective July 1, 2003, the functions and employees of HCDCH were transferred to the State Department of Human Services for administrative purposes.

In accordance with Act 196, SLH 2005, as amended by Act 180, SLH 2006, HCDCH was split into two organizations to more effectively concentrate on the development of affordable housing. Effective July 1, 2006 HCDCH was bifurcated into (1) the Hawaii Public Housing Administration (HPHA) and (2) the Hawaii Housing Finance and Development Corporation (the Corporation).

For financial reporting purposes, the Corporation includes all funds that are controlled by or dependent on the Corporation's Board of Directors. Control by or dependence on the Corporation was determined on the basis of statutory authority and monies flowing through the Corporation to each fund.

The financial statements of the Corporation are intended to present the financial position, changes in financial position, and cash flows where applicable, of only that portion of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the State of Hawaii that is attributable to the transactions of the Corporation. They do not purport to, and do not, present fairly the financial position of the

1. Organization and Significant Accounting Policies (continued)

a. General (continued)

State of Hawaii as of June 30, 2008, and the changes in its financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America. The State Comptroller maintains the central accounts for all State funds and publishes financial statements for the State annually, which include the Corporation's financial activities.

b. Government-Wide and Fund Financial Statements

The government-wide financial statements, the statement of net assets and the statement of activities, report information of all of the non-fiduciary activities of the Corporation. Governmental activities, which normally are supported by State allotments and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to customers who purchase, use, or directly benefit from goods or services provided by a given function. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. State allotments and other items not properly included among program revenues are reported instead as general revenues. Resources that are dedicated internally are reported as general revenues rather than program revenues. The Corporation does employ an indirect cost allocation system.

Net assets are restricted when constraints placed on them are either externally imposed or imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net assets. When both restricted and unrestricted resources are available for use, generally it is the Corporation's policy to use restricted resources first, then unrestricted resources as they are needed.

The fund financial statements are provided for governmental funds, proprietary funds, and fiduciary fund. Major individual governmental fund and major individual enterprise funds are reported as separate columns in the fund financial statements. Non-major funds are summarized into a single column. The Corporation's fiduciary fund is presented in the fund

1. Organization and Significant Accounting Policies (continued)

b. Government-Wide and Fund Financial Statements (continued)

financial statements. Since by definition their assets are being held for the benefit of a third party (other local governments, private parties, etc.) and cannot be used to address activities as obligations of the government, their funds are not incorporated into the government-wide statements.

c. Measurement Focus and Basis of Accounting

i. Government-Wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Interest expense of approximately $18,482,000 was included as direct function expenses during the year ended June 30, 2008.

ii. Governmental Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Corporation considers revenues to be available if they are collected within 60 days of the end of the current fiscal year end. In applying the susceptible to accrual concept to intergovernmental revenues, the provider should recognize liabilities and expenses and the recipient should recognize receivables and revenues when applicable requirements, including timing requirements are met.

Principal revenue sources considered susceptible to accrual include federal grants and interest on investments. Some revenue items that are considered measurable and available to finance operations during the year from an accounting perspective are not available for expenditure due to the State's present appropriation system. These revenues have been accrued in accordance with generally accepted accounting principles since they have been earned and are expected to be collected within 60 days of the end of the period. Other revenues are considered to be measurable and available only when cash is received by the Corporation.

1. Organization and Significant Accounting Policies (continued)

c. Measurement Focus and Basis of Accounting (continued)

ii. Governmental Fund Financial Statements (continued)

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Modifications to the accrual basis of accounting include employees' vested vacation, which is recorded as an expenditure when utilized or paid. The amount of unmatured long-term indebtedness related to accumulated vacation at June 30, 2008 has been reported in the government-wide financial statements.

iii. Proprietary Funds and Fiduciary Fund

The financial statements of proprietary funds and the fiduciary fund are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide statements described above.

Each proprietary fund has the option under Governmental Accounting Standards Board (GASB) Statement 20, *Accounting and Financial Reporting for Proprietary funds and Other Governmental Entities that Use Proprietary Fund Accounting*, to elect to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The Corporation has elected to not apply FASB statements after the applicable date.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services or goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. The principal operating revenues of the Corporation's enterprise funds are interest income, rental income, land sales and conveyance tax revenues. Interest income from investments are reported as nonoperating income.

d. Fund Accounting

The financial activities of the Corporation are recorded in individual funds, each of which is deemed to be a separate accounting entity. The Corporation uses fund accounting to report on its financial position and results of operations. Fund accounting is designed to demonstrate the legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts.

1. Organization and Significant Accounting Policies (continued)

d. Fund Accounting (continued)

GASB Statement 34 sets forth minimum criteria for the determination of major funds. The non-major funds are combined in a column in the fund financial statements and detailed in the combining section.

i. Governmental Funds

General Fund – The General Fund is the general operating fund of the Corporation. It is used to account for all financial activities except those required to be accounted for in another fund. The annual operating budget as authorized by the State Legislature provides the basic framework within which the resources and obligations of the general fund are accounted.

Federal Grant Program Fund – The Federal Grant Program Fund is used to account for all financial activities that are funded by federal grants. Substantially all of the fund's activity relates to providing affordable housing to residents of the State of Hawaii.

ii. Proprietary Funds

Enterprise Funds – These funds account for those activities for which the intent of management is to recover, primarily through user charges, the cost of providing goods or services to customers, or where sound financial management dictates that periodic determinations of results of operations are appropriate. Enterprise funds include the Rental Housing Trust Fund, the Dwelling Unit Revolving Fund, revenue bond funds and other funds.

Under the revenue bond funds, proceeds from bond issues are used to make below-market interest rate mortgage loans to persons and families of low to moderate income for the purchase of owner-occupied single-family and condominium dwellings; provide interim construction loans and permanent financing of affordable rental housing projects; and to finance multifamily housing projects. These funds include the Hawaii Rental Housing System Revenue Bond Fund, the Single Family Mortgage Purchase Revenue Bond Fund, the Multifamily Revenue Bond Fund, and the University of Hawaii Faculty Housing Program Revenue Bond Fund.

1. Organization and Significant Accounting Policies (continued)

d. Fund Accounting (continued)

ii. Proprietary Funds (continued)

The other funds include the Fee Simple Residential Revolving Fund, Rental Assistance Revolving Fund, Housing Finance Revolving Fund, Kekuilani Gardens Project, Disbursing Fund, Pineapple Workers and Retirees Housing Assistance Fund, Grant-in-aid Fund, Hamakua and Waialua.

The Corporation reports the following as major proprietary funds:

Rental Housing Trust Fund provides developers of qualified rental housing projects with loans and/or grants for the development, predevelopment, construction, acquisition, preservation and rehabilitation of rental housing units.

Dwelling Unit Revolving Fund accounts for state funds used for acquiring, developing, selling, leasing and renting residential, commercial and industrial properties, providing mortgage and interim financing and rental income and sales proceeds and interest earnings from the financing and investment of such funds.

Hawaii Rental Housing System Revenue Bond Fund accounts for special funds to account for housing projects or systems of housing projects financed from the proceeds of bonds secured under the same trust indenture. The fund accounts for six multifamily rental housing projects located throughout the State of Hawaii.

Single Family Mortgage Purchase Revenue Bond Fund accounts for the proceeds from the issuance of bonds used to make below-market interest rate mortgage loans and the repayment, interest, and earnings from such loans and investment of such funds.

Multifamily Housing Revenue Bond Fund accounts for the proceeds from the issuance of bonds to provide interim construction loans and/or permanent financing to facilitate the construction or rehabilitation of affordable rental housing projects.

iii. Fiduciary Fund

The private-purpose trust fund accounts for net assets held in a trustee capacity for others.

1. Organization and Significant Accounting Policies (continued)

e. Capital Assets

Capital assets, which include property and equipment, are reported in the applicable governmental or business-type activities in the government-wide financial statements and proprietary funds financial statements. Capital assets are defined by the Corporation as land and those assets with estimated useful lives greater than one year and with an acquisition cost greater than:

Land improvements	$ 100,000
Building and building improvements	$ 100,000
Equipment	$ 5,000

Purchased and constructed capital assets are valued at cost. Donated assets are recorded at their fair market value at the date of donation.

Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements.

Depreciation expense is recorded in the government-wide and proprietary funds financial statements. The Corporation utilizes the straight-line method over the assets' estimated useful life. No depreciation is recorded for land and land improvements. Generally, the useful lives are as follows:

	Governmental Activities	Proprietary Fund and Business-Type Activities
Building and building improvements	25 years	10 – 40 years
Equipment	7 years	1 – 10 years

f. Deferred Revenues

Deferred revenues at the fund level and government-wide level arise when the Corporation receives resources before it has a legal claim to them. In subsequent periods, when the revenue recognition criteria is met, or when the Corporation has a legal claim to the resources, the liability for deferred revenue is removed from the statement of net assets and revenue is recognized.

1. Organization and Significant Accounting Policies (continued)

g. Cash and Cash Equivalents

Cash and cash equivalents for the purpose of the statement of cash flows – proprietary funds, include all cash and investments with original purchased maturities of three months or less.

h. Investments

Investments in U.S. government securities, certificates of deposit and money market funds with maturities of one year or less when purchased are stated at cost. Non-participating investment contracts, generally repurchase agreements, are reported at cost. All other investments are reported at fair market value.

i. Inventories

Inventories consist of developments in progress and units available for sale. Developments in progress include construction in progress and land held for future development related to the remaining portions of three master planned community projects – Kapolei (Oahu), La`i`opua (Hawaii), and Leiali`i (Maui). Costs included in developments in progress relate to the infrastructure construction for these master planned communities. Units available for sale include constructed units, developed lots and repurchased units available for sale.

Inventories are stated at the lower of cost or estimated net realizable value. All estimated development, holding and disposition costs to the anticipated date of disposition are considered in the determination of estimated net realizable value. Estimated net realizable value represents management's estimates, based on management's plans and intentions, of sales price less development, holding and disposition costs, assuming that the development and disposition occurs in the normal course of business. Writedowns for estimated losses on inventories are recorded to the extent total estimated costs exceed total estimated revenues for a project.

The recognition of gain from the sale of units is dependent on a number of factors relating to the nature of the property sold, the terms of the sale and the future involvement of the Corporation in the property sold. If a real estate transaction does not meet established financial criteria, profit recognition is deferred and recognized under the installment or cost recovery method until such time as the criteria are met.

1. Organization and Significant Accounting Policies (continued)

j. Interfund Receivables and Payables

During the course of operations, transactions occur between funds that may result in amounts owed between funds. Those related to goods and service type transactions are classified as "due to and from other funds." Interfund receivables and payables between funds (noncurrent portion) are reported as "advances from and to other funds." Interfund receivables and payables between funds within business-type activities are eliminated in the accompanying statement of net assets. See Note 18 for details of interfund transactions, including receivables and payables at year end.

k. Amortization

Issuance costs of revenue bonds are deferred and amortized ratably over the term of the bond principal outstanding.

l. Vacation

Employees are credited with vacation at a rate of 168 hours per calendar year. Accumulation of such vacation credits is limited to 720 hours at calendar year end and is convertible to pay upon termination of employment. Liabilities for accumulated unpaid vacation are accrued at the end of each accounting period utilizing current salary rates. Such vacation credits are recorded as accrued wages and employee benefits payable in the government-wide and the enterprise funds financial statements at the balance sheet date. Accumulated unpaid vacation estimated to be used or paid during the next year is approximately $145,000. The change in accumulated unpaid vacation during the year is approximately as follows:

Balance at July 1, 2007	Additions	Reductions	Balance at June 30, 2008
$ 502,976	$ 277,183	$ 187,131	$ 593,028

m. Allocated Costs

The Corporation provides certain administrative services to its various funds. The cost of these services is allocated to the funds based on estimates of benefits provided to the funds.

1. Organization and Significant Accounting Policies (continued)

n. Post Retirement Health Care and Life Insurance Benefits

As of June 30, 2008, the Corporation adopted GASB Statement No. 45, *"Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions"*. This statement establishes standards of accounting and financial reporting for other postemployment benefit (OPEB) expenses, liabilities or assets.

o. Reservations of Fund Balances

General fund balances are reserved for continuing appropriations, which are comprised of encumbrances. Encumbrances represent outstanding commitments, which generally are liquidated in the subsequent fiscal year.

p. Risk Management

Liabilities related to certain types of losses (including torts, theft of, damage to, or destruction of assets, errors or omissions, natural disasters and injuries to employees) are reported when it is probable that the losses have occurred and the amount of those losses can be reasonably estimated.

q. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) 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 expenditures during the reporting period. Actual results could differ from those estimates.

2. Budgeting and Budgetary Control

The budget of the Corporation is a detailed operating plan identifying estimated costs and results in relation to estimated revenues. The budget includes (1) the programs, services and activities to be provided during the fiscal year, (2) the estimated revenues available to finance the operating plan, and (3) the estimated spending requirements of the operating plan. The budget represents a process through which financial policy decisions are made, implemented and controlled. Revenue estimates are provided to the State Legislature at the time of budget consideration and are revised and updated throughout the fiscal year. Amounts reflected as budgeted revenues in the accompanying Required

2. Budgeting and Budgetary Control (continued)

Supplementary Information – Budgetary Comparison Schedule are estimates as compiled by the Corporation and reviewed by the Department of Budget and Finance. Budgeted expenditures are derived primarily from acts of the State Legislature and from other authorizations contained in the State Constitution, the Hawaii Revised Statutes and other specific appropriation acts in various Session Laws of Hawaii.

Expenditures of these appropriated funds are made pursuant to the appropriations in the biennial budget as amended by subsequent supplemental appropriations. Budgetary control is maintained at the departmental level. Budget revisions and interdepartmental transfers may be affected with certain executive and legislative branch approvals.

The General Fund has a legally appropriated annual budget. The final legally adopted budget in the accompanying Required Supplementary Information – Budgetary Comparison Schedule represents the original appropriations, transfers and other legally authorized legislative and executive changes.

To the extent not expended or encumbered, General Fund appropriations generally lapse at the end of the fiscal year or grant period for which the appropriations were made. The State Legislature or Federal Government specifies the lapse dates and any other contingencies that may terminate the authorization for other appropriations. Known lapses occurring in the year of appropriation, if any, are included in the amended budgets, and are netted against revenues in the accompanying Required Supplementary Information – Budgetary Comparison Schedule.

A comparison of both the original budget and the final budget to the actual revenues and expenditures of the general and certain special revenue funds are presented in the accompanying Required Supplementary Information – Budgetary Comparison Schedule. Differences between revenues and expenditures reported on the budgetary basis and those reported in accordance with U.S. GAAP are mainly due to revenues and expenditures of unbudgeted funds and the different methods used to recognize resource uses. For budgeting purposes, resource uses are recognized when cash disbursements are made or funds are encumbered. For financial statements presented in accordance with U.S. GAAP, expenditures are recognized when incurred and encumbrances are not reported as resources used.

A summation of the differences between revenues and expenditures reported on the budgetary basis and those reported in accordance with U.S. GAAP for the General Fund for the year ended June 30, 2008 is set forth in the Required Supplementary Information.

3. Deposits

The State maintains a cash pool that is available to all funds. The Director of Finance is responsible for the safekeeping of all monies paid into the State Treasury. The Director of Finance may invest any monies of the State, which in the Director's judgment are in excess of the amounts necessary for meeting the immediate requirements of the State. Cash is pooled with funds from other State agencies and departments and deposited with approved financial institutions or invested in the State Treasury Investment Pool. Cash accounts that participate in the investment pool accrue interest based on the average weighted cash balances of each account.

At June 30, 2008, a portion of the State Treasury Investment Pool was invested in auction rate securities. Due to ongoing issues in the credit market of the United States, particularly related to auction rate securities, the State Treasury Investment Pool recorded a decrease in fair value related to its investments in auction rate securities. The Corporation initially recorded a change in fair value of approximately $5.9 million. Subsequent to issuing the financial statements, the methodology used to calculate the change in fair value was revised resulting in a decrease to the fair value adjustment of approximately $730,000. Management restated the financial statements to reflect this adjustment which is recorded against interest income in the accompanying financial statements.

The State requires that the depository banks pledge, as collateral, government securities held in the name of the State for deposits not covered by federal deposit insurance.

At June 30, 2008, total cash reported in the Statement of Net Assets consisted of the following:

State pool and petty cash	$ 199,718,833
Cash in bank (book balance)	2,576,245
	202,295,078
Cash and cash equivalents held by Trustee	34,823,630
Deposits held in trust	5,717
Total Cash	$ 237,124,425

The bank balance of cash in bank was approximately $2,625,000, of which $200,000 was covered by federal depositary insurance and $2,425,000 was covered by collateral held by the pledging financial institution's trust department or agent in the Corporation's name.

4. Investments

Investments at June 30, 2008 are summarized by maturity (in years) as follows:

	0 - 1	1 – 5	5 - 10	10 - 20	>20	Fair Value
Government sponsored enterprises	$ –	$ –	$ 5,485,171	$ 1,055,458	$ –	$ 6,540,629
Mortgage-backed securities	4,695,097	11,834,675	59,589,459	60,378,949	–	136,498,180
Repurchase agreements	–	–	–	–	108,287,731	108,287,731
Other fixed income	1,398,207	26,901,817	–	–	–	28,300,024
Guarantee investment contracts	–	–	–	–	103,494	103,494
Total investments	$ 6,093,304	$ 38,736,492	$65,074,630	$ 61,434,407	$ 108,391,225	$ 279,730,058

Investments summarized in the table above are reflected on the accompanying statement of net assets as follows:

Investments held by trustees under revenue bond programs	$ 273,182,373
Investments – non current	6,547,685
Total investments	$ 279,730,058

Interest Rate Risk – the Corporation does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk – the Revenue Bond Funds' trust indentures authorize the trustees to invest in certificates of deposit, money market funds, U.S. government or agency obligations, and repurchase agreements. The Corporation has no investment policy that would further limit its investment decisions. As of June 30, 2008, all investments are rated AA to AAA by Moody's, Fitch and Standard & Poors.

4. Investments (continued)

Concentration of Credit Risk – the Corporation places no limit on the amount the Corporation may invest in any one issuer. More than 5 percent of the Corporation's investments are in the Federal National Mortgage Association, the Societe Generale, the First American Government Obligation Fund, and the U.S. Treasury. These investments are 42 percent, 30 percent, 10 percent, and 9 percent, respectively, of the Corporation's total investments.

Custodial Risk - for an investment, custodial risk is the risk that, in the event of the failure of the counterparty, the Corporation will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Corporation's investments that are uninsured and unregistered are held by the Corporation's trust agent in the Corporation's name. The repurchase agreements are collateralized with securities held by the pledging financial institution's collateral agent but not in the Corporation's name. The underlying securities for repurchase agreements are required to be U. S. government or agency obligations of an equal or greater market value. The Corporation monitors the market value of these securities and obtains additional collateral when appropriate.

5. Mortgage Loans and Notes and Loans Receivable

Mortgage loans and other notes and loans receivable at June 30, 2008 are comprised of the following:

	Mortgage Loans	Notes and Loans
Mortgage loans bearing interest at 0.0% to 13.5%, maturing at various dates through 2059	$ 129,631,221	$ –
Promissory notes bearing interest at 4.72%, maturing in 2065	–	29,054,552
Promissory notes bearing interest at 5% to 6%, maturing in 2009	–	11,863,626
	129,631,221	40,918,178
Less current maturities	7,739,317	–
	$ 121,891,904	$ 40,918,178

5. Mortgage Loans and Notes and Loans Receivable (continued)

Mortgage and development loans are collateralized by real property. The revenue bond funds' mortgage loans are also subject to primary mortgage and mortgage pool insurance coverage that, subject to aggregate loss limitations, reimburses the Corporation for all losses incurred, if any, from the disposition of real property acquired through foreclosure.

The promissory notes are collateralized by a second mortgage on the improvements of Kukui Gardens (see Note 14).

6. Net Investment in Financing Lease

On November 1, 1995, the Corporation entered into a lease and sublease agreement (Agreement) with the Board of Regents, University of Hawaii (University). Under the Agreement, the Corporation leases the land under the housing project from the University for an annual rent of $1 and then subleases the leased land, buildings and improvements and equipment back to the University. The University will make certain lease rental payments to the Corporation, including amounts sufficient to pay the principal, premium, if any, and interest on the bonds as the same become due and payable. The Agreement expires on June 30, 2026. Upon expiration of the Agreement, the ownership of the buildings and improvements and equipment will revert to the University.

The following lists the components of the net investment in direct financing lease as of June 30, 2008:

Total minimum lease payments to be received	$ 22,048,055
Less unearned interest income	(7,015,765)
Net investment in direct financing lease	15,032,290
Less current portion	(570,486)
	$ 14,461,804

6. Net Investment in Financing Lease (continued)

The future approximate minimum lease payments to be received through 2013 and in five-year increments thereafter are as follows:

Year ending June 30,	
2009	$ 1,232,000
2010	1,235,000
2011	1,232,000
2012	1,232,000
2013	1,230,000
2014 – 2018	6,136,000
2019 – 2023	6,107,000
2024 – 2026	3,644,055
	$ 22,048,055

7. Revenue Bond Funds – Reserve Requirements

Under the trust indentures between the Corporation and the trustees for the Single Family Mortgage Purchase Revenue Bonds, investment assets and cash are required to be held by the trustees in various accounts and funds, including debt service reserve accounts, loan funds and mortgage loan reserve funds. The uses of these assets are restricted by the terms of the indentures.

At June 30, 2008, the following debt service reserves and mortgage loan reserves required by the indentures were included in assets held by trustees under Revenue Bond Programs in the Single Family Mortgage Purchase Revenue Bond Fund.

Debt service reserve requirements	$ 20,015,000
Mortgage loan reserve requirements	1,430,000
	$ 21,445,000

At June 30, 2008, approximately $39.6 million and $7.9 million of investment securities, at cost, were being held in the debt service reserve funds and mortgage loan reserve funds, respectively.

7. Revenue Bond Funds – Reserve Requirements (continued)

Under the trust indenture agreement between the Corporation and the trustee for the Hawaii Rental Housing System Revenue Bond Fund, the Corporation is required to provide net revenues (as defined in the trust indenture agreement) together with lawfully available funds of at least 1.25 times the aggregate debt service on outstanding bonds during the bond year. Additionally, the Corporation is to provide net revenues (as defined in the trust indenture agreement) of at least 1.10 times the aggregate debt service on outstanding bonds during the bond year. At June 30, 2008, the Hawaii Rental Housing System Revenue Bond Fund provided net revenues (as defined in the trust indenture agreement) together with lawfully available funds of 5.22 times the aggregate debt service on outstanding bonds during the year, respectively, and net revenues (as defined in the trust indenture agreement) of 1.23 times the aggregate debt service on outstanding bonds during the year, respectively.

The trust indenture agreement also requires that the mortgage loan reserves for these Revenue Bond Funds be funded from other than bond proceeds and, accordingly, the reserves have been funded by commitment fees at June 30, 2008.

8. Capital Assets

Capital asset activity for the year ended June 30, 2008 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets being depreciated--				
Equipment	$ 175,834	$ 272,430	$ -	$ 448,264
Less accumulated depreciation for--				
Equipment	15,223	43,844	-	59,067
Governmental-type activities capital assets, net	$ 160,611	$ 228,586	$ -	$ 389,197

8. Capital Assets (continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities				
Capital assets, not being depreciated:				
Land	$ 20,273,924	$ 23,260,576	$ (80,555)	$ 43,453,945
Construction in progress	836,500	-	(836,500)	-
Total capital assets not being depreciated	21,110,424	23,260,576	(917,055)	43,453,945
Capital assets being depreciated:				
Building and improvements	142,406,688	39,637,622	(36,810,586)	145,233,724
Equipment	1,792,612	-	-	1,792,612
Total capital assets being depreciated	144,199,300	39,637,622	(36,810,586)	147,026,336
Less accumulated depreciation for:				
Building and improvements	76,431,938	4,919,952	(40,566)	81,311,324
Equipment	1,741,118	19,521	-	1,760,639
Total accumulated depreciation	78,173,056	4,939,473	(40,566)	83,071,963
Business-type activities capital assets, net	$ 87,136,668	$ 57,958,725	$ (37,687,075)	$ 107,408,318

Current year depreciation expense was charged to function as follows:

Governmental activities--	
Low income housing service and assistance	$ 43,844
Business-type activities:	
Housing development program	$ 261,940
Single-family mortgage loan program	804
Rental housing programs	4,676,729
Total depreciation expense – business-type activities	$ 4,939,473

At June 30, 2008, capital assets for the proprietary funds consisted of the following:

	Revenue Bond Funds	Dwelling Unit Revolving Fund	Other Funds	Total
Land	$ 16,186,850	$ 26,194,595	$ 1,072,500	$ 43,453,945
Buildings and improvements	132,871,212	7,101,287	5,261,225	145,233,724
Equipment	1,507,952	204,257	80,403	1,792,612
	150,566,014	33,500,139	6,414,128	190,480,281
Less accumulated depreciation	75,514,295	5,783,253	1,774,415	83,071,963
Net capital assets	$ 75,051,719	$ 27,716,886	$ 4,639,713	$ 107,408,318

9. Mortgage and Notes Payable

The Kekuilani Gardens Project (Kekuilani) entered into a mortgage agreement in December 1996 in the amount of $5,213,614 with the U.S. Department of Agriculture (USDA) Farmers Home Administration, now known as the USDA – Rural Development (RD). The mortgage loan bears interest at 7.25 percent and is collateralized by the Kekuilani Gardens Project. Principal and interest are payable in monthly installments of $11,059 and matures on December 1, 2046. At June 30, 2008, the balance outstanding on the mortgage loan was $5,024,327.

Kekuilani also entered into an interest credit and rental assistance agreement in December 1996 with the USDA – RD, which reduces Kekuilani's principal and interest payments. During the period, Kekuilani realized approximately $256,000 of interest credit reducing the interest expense from approximately $367,000 to $111,000.

In addition, Kekuilani entered into a mortgage agreement in December 1996 in the amount of $696,267 with the Rental Housing Trust Fund. The mortgage loan bears interest at 1 percent and is collateralized by the Kekuilani Gardens Project. Principal and interest are payable in monthly installments of $1,475 and matures on January 1, 2047. At June 30, 2008, the balance outstanding on the mortgage loan was $561,264.

The Dwelling Unit Revolving Fund also has three mortgage notes payable to the USDA – RD. Two notes were originated in August 1976, and are payable in combined monthly installments of $2,207, including interest at 1 percent, with the final combined payment due in August 2009. The third note was originated in October 1994, and is payable in monthly installments of $1,315, including interest at 1 percent, due in October 2027. The notes are secured by property and rental receipts. At June 30, 2008, the balance outstanding on the mortgage note was $262,039.

Notes payable activity during the year was as follows:

	Balance at July 1, 2007	Addition	Reductions	Balance at June 30, 2008	Less Current Portion	Long-Term Portion
Mortgage payable	$ 5,620,761	$ -	$ 35,170	$ 5,585,591	$ 37,024	$ 5,548,567
Notes payable	305,106	-	43,067	262,039	13,475	248,564
Total	$ 5,925,867	$ -	$ 78,237	$ 5,847,630	$ 50,499	$ 5,797,131

9. Mortgage and Notes Payable (continued)

The approximate debt service requirement of notes payable through 2013 and in five-year increments thereafter to maturity are as follows:

	Principal	Interest	Total
Year ending June 30,			
2009	$ 50,000	$ 116,000	$ 166,000
2010	52,000	113,000	165,000
2011	54,000	111,000	165,000
2012	58,000	114,000	172,000
2013	60,000	111,000	171,000
2014-2018	345,000	517,000	862,000
2019-2023	442,000	432,000	874,000
2024-2028	552,000	313,000	865,000
2029-2033	693,000	148,000	841,000
2034-2038	965,000	12,000	977,000
2039-2043	1,355,000	6,000	1,361,000
2044-2047	1,221,630	2,000	1,223,630
	$ 5,847,630	$ 1,995,000	$ 7,842,630

10. Revenue Bonds Payable

Through June 30, 2008, approximately $2,183,318,000 of revenue bonds have been issued. The revenue bonds are payable from and secured solely by the revenues and other monies and assets of the revenue bond funds and other assets of the Corporation pledged under the indentures.

10. Revenue Bonds Payable (continued)

Revenue bonds payable at June 30, 2008 consist of the following issuances:

Single Family Mortgage Purchase revenue bonds:	
1997 Series A:	
Term bonds maturing annually through 2031 (5.00% to 5.75%)	$ 9,580,000
1997 Series B:	
Serial bonds maturing annually through 2009 (4.90% to 5.00%)	5,160,000
Term bonds maturing in 2010 through 2018 (5.45%)	29,405,000
	34,565,000
1998 Series A:	
Serial bonds maturing annually through 2014 (4.85% to 5.25%)	7,755,000
Term bonds maturing annually through 2031 (5.35% to 5.40%)	30,785,000
	38,540,000
1998 Series B:	
Term bonds maturing in 2019 through 2029 (5.30%)	11,085,000
1998 Series C:	
Term bonds maturing in 2019 through 2021 (5.35%)	4,060,000
2000 Series A:	
Term bonds maturing in 2021 through 2028 (6.275%)	25,000,000
2002 Series A:	
Serial bonds maturing annually through 2014 (4.05% to 4.80%)	3,080,000
Term bonds maturing in 2010 through 2034 (4.40% to 5.38%)	18,575,000
Placed bonds maturing in 2023 through 2034 (5.38%)	3,525,000
	25,180,000
2002 Series B:	
Term bonds maturing in 2026 through 2028 (5.25%)	1,810,000
2005 Series A:	
Term bonds maturing in 2027 through 2037 (5.00%)	6,655,000
Single Family Mortgage Purchase revenue bonds subtotal carried forward	$ 156,475,000

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10. Revenue Bonds Payable (continued)

Single Family Mortgage Purchase revenue bonds subtotal brought forward	$ 156,475,000
2005 Series B:	
Serial bonds maturing annually through 2016 (3.10% to 3.90%)	10,490,000
Term bonds maturing in 2012 through 2027 (3.70% to 4.30%)	33,180,000
	43,670,000
Total Single Family Mortgage Purchase revenue bonds	$ 200,145,000
Hawaii Rental Housing System revenue bonds:	
2004 Series A:	
Serial bonds maturing in 2009 through 2013 (2.60% to 3.70%)	$ 10,670,000
Term bonds maturing in 2014 through 2034 (3.80% to 4.75%)	67,455,000
	78,125,000
2004 Series B-	
Auction rate securities maturing July 1, 2033 (3.06%)	21,425,000
Total Hawaii Rental Housing System revenue bonds	$ 99,550,000
Multifamily Housing revenue bonds:	
1999 Series (Manana Gardens Project) – term bond maturing annually through 2035 (6.30%)	$ 3,480,000
2000 Series (Sunset Villas Project) – term bonds maturing annually through 2036 (5% to 5.75%)	25,340,000
2002 Series (Hale Hoaloha Project) – mortgage installment bonds maturing annually through 2028 (6.75% until 2012 and 7.75% thereafter)	1,598,061
2005 Series (Kauhale Olu Project):	
Mortgage Installment bonds maturing in 2036 (6.375%)	5,469,355
2007 Series (Kukui Gardens Project):	
Mortgage Installment bonds maturing annually through 2042 (2.45%)	45,000,000
2008 Series (Kahului Town Terrace Project):	
Mortgage Installment bonds maturing annually through 2043 (4.29%)	8,420,000
Total Multifamily Housing revenue bonds	$ 89,307,416

10. Revenue Bonds Payable (continued)

University of Hawaii Faculty Housing Program revenue bonds --	
1995 Series --	
Term bonds maturing annually from 2008 through 2026 (5.65% and 5.70%)	$ 13,820,000
Total Revenue Bonds:	
Revenue Bonds	402,822,416
Less deferred refunding costs (difference between reacquisition price and net carrying value of old debt)	2,712,311
Total revenue bonds	400,110,105
Less current portion	15,737,553
	$ 384,372,552

Interest on the fixed-rate Single Family Mortgage Purchase, Hawaii Rental Housing System, Multifamily Housing, and University of Hawaii Faculty Housing Program revenue bonds is payable semi-annually. The Hawaii Rental Housing System 2004 Refunding Series B bonds are auction rate securities with interest rates reset weekly based on the results of a Dutch auction process. In the event the auction process fails due to insufficient demand for the securities, the interest rate on the bonds is reset to a multiple of an index defined in the Indenture, up to a maximum interest rate of 12 percent.

The Single Family Mortgage Purchase and Hawaii Rental Housing System revenue bonds with designated maturity dates, the Multifamily Housing revenue bonds and the University of Hawaii Faculty Housing Program revenue bonds may be redeemed at the option of the Corporation commencing in 2001 for the Single Family Mortgage Purchase 1991 Series, 2004 for the Single Family Mortgage Purchase 1994 Series, 2007 for the Single Family Mortgage Purchase 1997 Series, subject to a redemption premium which ranges from 2 percent to zero; 2008 for the Single Family Mortgage Purchase 1998 Series, subject to a redemption premium that ranges from 1.5 percent to zero; 2010 for the Single Family Mortgage Purchase 2000 Series, and 2014 for the Single Family Mortgage Purchase 2002 Series, 2005 for the Hawaii Rental Housing System 2004 Series, 2010 for the Multifamily Housing 1999 Series, 2011 for the 2000 Series, subject to a redemption premium which ranges from 2 percent to zero; and 2005 for the University of Hawaii Faculty Housing Program 1995 Series subject to redemption premiums that range from 1 percent to zero. The revenue bonds may also be redeemed without premium prior to maturity, at the option of the Corporation, as funds become available from undisbursed bond proceeds, principal payments and prepayments of mortgages, excess amounts in the debt service reserve account or excess revenues (as defined in the bond indentures).

10. Revenue Bonds Payable (continued)

During February 2008, the auction process for the Hawaii Rental Housing System 2004 Refunding Series B bonds began to fail. Due to ongoing issues in the credit markets of the United States, particularly related to auction rate securities, management expects the auctions for these bonds to continue to fail. Accordingly, management is planning to refinance the bonds into fixed or variable rate securities. Management intends to cover any increased debt service costs through rent increases and existing reserves, if necessary, as provided for in the Indenture.

During the year ended June 30, 2008, early redemptions totaled $8,615,000.

Revenue bonds activity during the year was as follows:

	Balance at July 1, 2007	Additions	Reductions	Balance at June 30, 2008
Single Family Mortgage Purchase	$ 214,500,000	$ -	$ 14,355,000	$ 200,145,000
Hawaii Rental Housing System	101,860,000	-	2,310,000	99,550,000
Multifamily Housing	37,011,935	53,420,000	1,124,519	89,307,416
University of Hawaii Faculty Housing Program	14,255,000	-	435,000	13,820,000
	367,626,935	53,420,000	18,224,519	402,822,416
Less deferred refunding amount	2,985,042	-	272,731	2,712,311
Total	$ 364,641,893	$ 53,420,000	$ 17,951,788	$ 400,110,105

10. Revenue Bonds Payable (continued)

The approximate annual debt service requirements through 2013 and in five-year increments thereafter to maturity for revenue bonds are as follows:

	Principal	Interest	Total
Year ending June 30:			
2009	$ 15,738,000	$ 19,396,000	$ 35,134,000
2010	11,316,000	18,791,000	30,107,000
2011	10,475,000	18,325,000	28,800,000
2012	45,864,000	17,204,000	63,068,000
2013	12,415,000	15,725,000	28,140,000
2014 – 2018	63,503,000	69,304,000	132,807,000
2019 – 2023	69,826,000	52,729,000	122,555,000
2024 – 2028	87,234,000	31,960,000	119,194,000
2029 – 2033	60,821,000	12,395,000	73,216,000
2034 – 2038	20,905,000	2,595,000	23,500,000
2039 – 2043	4,725,416	629,700	5,355,116
	$ 402,822,416	$ 259,053,700	$ 661,876,116

In order to ensure the exclusion of interest on the Corporation's Hawaii Rental Housing System revenue bonds and Single Family Mortgage Purchase 1989 Series A, 1990 Series A, 1991 Series A and B and 1994 Series A and B revenue bonds from gross income for federal income tax purposes, the Corporation calculates rebates due to the U.S. Treasury annually. The rebates are calculated by bond series based on the amount by which the cumulative amount of investment income exceeds the amount that would have been earned had funds been invested at the bond yield. At June 30, 2008, the Corporation determined that $2,757,205 of rebates was due to the U. S. Treasury.

11. Conduit Debt Obligations

From time to time, the Corporation has issued revenue bonds to provide financial assistance to private sector entities for the acquisition and rehabilitation of multifamily rental housing developments. These bonds are special limited obligations of the Corporation, payable solely from and secured by a pledge of payments on the mortgage-backed securities. Neither the Corporation, the State, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. The bonds and related assets are reported in the accompanying financial statements.

As of June 30, 2008, there were six series of Conduit Revenue Bonds outstanding, with an aggregate principal amount payable of $89,307,416 reported as Multifamily Housing Revenue bonds.

12. Leases

a. Lessee

The Corporation leases land, buildings and improvements under various noncancellable operating leases expiring at various dates through 2056. Included in these leases is a noncancellable land lease that expires in 2031, with rent renegotiations scheduled for July 1, 2006, 2016 and 2026. In October 2008, the Corporation and the lessor agreed to new lease rent amounts that are effective retroactively to July 1, 2006. The new agreement calls for average annual lease rent payments of $385,000 through the next rent negotiation period on July 1, 2016. In accordance with the lease agreement, for the period July 1, 2006 through October 2008, the Corporation continued to pay its previously effective rent of $57,600 per year until the new rent was negotiated. Accordingly, as of June 30, 2008, the Corporation has accrued in the accompanying financial statements, approximately $696,800 in back lease rent due to the lessor.

The minimum rental commitments under operating leases through 2013 and in five-year increments thereafter, with consideration of a minimum annual rent increase are as follows:

Year ending June 30,	
2009	$ 769,000
2010	817,000
2011	830,000
2012	843,000
2013	857,000
2014 – 2018	4,680,000
2019 – 2023	5,054,000
2024 – 2028	5,314,000
2029 – 2033	4,899,000
2034 – 2038	3,857,000
2039 – 2043	4,367,000
2044 – 2048	4,629,000
2049 – 2053	5,240,000
2054 – 2056	3,144,000
	$ 45,300,000

Rent expense for the year ended June 30, 2008 totaled approximately $1,183,000.

12. Leases (continued)

b. Lessor

The Corporation leases land with a carrying value of approximately $25,866,000 to various developers and home buyers. The leases expire at various dates through December 2072. Lease rental income for the year ended June 30, 2008 was approximately $1,268,000.

As discussed in Note 14, the Corporation's lease related to Kukui Gardens was prepaid via a promissory note. The promissory note does not have fixed repayment terms. Accordingly, the minimum amounts to be received are excluded from the following table.

The future minimum lease rent from these operating leases at June 30, 2008 is as follows:

Year ending June 30:		
2009	$	355,000
2010		311,000
2011		310,000
2012		307,000
2013		307,000
2014 – 2018		1,652,000
2019 – 2023		1,529,000
2024 – 2027		1,137,000
	$	5,908,000

13. Commitments and Contingencies

a. Loan Guarantee

The Corporation has guaranteed up to $40,000,000 of the mortgage loans sold by it to the Employees' Retirement System of the State of Hawaii (ERS). Upon the 120th day of any delinquency or default, the Corporation is obligated to cure the arrearage of principal and interest or buy back the delinquent loan. At June 30, 2008, the outstanding balance of mortgage loans that have been sold to the ERS which are covered by the loan guarantee was approximately $32,000. At June 30, 2008, notes and loans receivables did not include any delinquent loans purchased back from the ERS.

13. Commitments and Contingencies (continued)

b. Construction Contracts

At June 30, 2008, the Dwelling Unit Revolving Fund had outstanding commitments to expend approximately $19,200,000 for land development and the construction and renovation of housing projects.

The Fiduciary Fund had outstanding construction contract commitments of approximately $203,000 at June 30, 2008.

c. Loan Commitments

At June 30, 2008, the Rental Housing Trust Fund had aggregate outstanding loan commitments in the amount of $494,998.

d. Development Costs

The Kapolei development project primarily consists of eight residential villages and certain commercial parcels spread over approximately 888 acres of land. As of June 30, 2008, all but remnant residential parcels and 42 acres of business mixed-use land have been developed and sold. The estimated future cost of land sold is recorded as a liability on the accompanying statement of net assets and relates primarily to the completion of certain infrastructure improvements at this project. This liability represents amounts charged to the cost of land sold in excess of costs incurred. Management believes that the future revenues from this project will meet or exceed the net amount of this liability and the remaining costs to be incurred on the project.

Additionally, the Corporation has been in the process of developing two master planned communities on the neighbor islands – the Leiali`i project located in the West Maui area and the Lai`o`pua project located in North Kona. As large portions of these projects are located on public trust ("ceded") land owned by the State of Hawaii, and subject to lawsuits seeking to prevent the Corporation's sale or transfer of this land, these projects have been delayed indefinitely. As of June 30, 2008, the Corporation has remaining development rights related to the second phase of the Leiali`i project and 57 acres of the Lai`o`pua project. Development costs related to the Leiali`i project were approximately $19.5 million at June 30, 2008. Management believes that the future revenues from these projects will meet or exceed the aggregate of the development costs at June 30, 2008 and the remaining costs to be incurred. Also, the Corporation has other development costs and dwelling units of approximately $2.6 million at June 30, 2008.

13. Commitments and Contingencies (continued)

e. Torts

The Corporation is involved in various actions, the outcome of which, in the opinion of management and the Attorney General, will not have a material adverse effect on the Corporation's financial position except for the OHA lawsuit described below. Losses, if any, are either covered by insurance or will be a liability against the State of Hawaii.

f. Workers' Compensation Policy

The Corporation has a retrospectively rated workers' compensation insurance policy. Based on available claim experience information, the minimum premium accrued for financial statement reporting purposes approximates the Corporation's ultimate workers' compensation cost.

g. Accumulated Sick Leave Pay

Sick leave accumulates at the rate of one and three-quarters working days for each month of service without limitation. It may be taken only in the event of illness and is not convertible to pay upon termination of employment. However, a State employee who retires or leaves government service in good standing with 60 days or more of unused sick leave is entitled to additional service credit in the Employees' Retirement System of the State of Hawaii (ERS). Accumulated sick leave at June 30, 2008 amounted to approximately $1,620,000.

h. Deferred Compensation Plan

In 1984, the State established a deferred compensation plan, which enables State employees to defer a portion of their compensation. The State Department of Human Resources Development has the fiduciary responsibility of administering the plan. Deferred compensation is not available to employees until termination, retirement, death or an unforeseeable emergency.

13. Commitments and Contingencies (continued)

i. Litigation

In November 1994, the Office of Hawaiian Affairs (OHA) filed a claim against the Corporation seeking declaratory and injunctive relief and for monetary damages pursuant to Sections 632-1 and 66-1 of the Hawaii Revised Statutes. The claim relates to certain ceded lands located in Lahaina, Maui. OHA seeks the following relief: (1) barring the Corporation from conveying and alienating the subject land from the public land trust and (2) finding any conveyance to a third party not an agency of the State or its political subdivision in violation of the Hawaii State Constitution.

In its claim, OHA also alleges that the Corporation is in violation of the Hawaii Revised Statutes Section 10-3.6 and Act 318, SLH 1992. In 1992, the Legislature enacted Act 318, which sets forth a plan to compensate OHA for land from the public land trust which was to be conveyed from the State Department of Land and Natural Resources (DLNR) to the Corporation for housing developments. Under Act 318, OHA is to be compensated 20 percent of the fair market value of ceded lands. OHA maintains that the fair market value of the Lahaina ceded lands was determined in May 1994. In November 1994, the ceded lands were conveyed from DLNR to the Corporation and a check for 20 percent of the fair market value of the property in the amount of $5,573,604 was presented to OHA. OHA claims that a timely appraisal was not performed, 90 days before the date of conveyance, and that the conveyance of the Lahaina property was illegal. The payment was rejected by OHA and a liability remains outstanding as of June 30, 2008.

In the event that OHA is not granted the injunctive and declaratory relief it seeks, OHA requests for a timely re-appraisal of the fair market value of the Lahaina ceded lands and payment in accordance with Act 318. The Corporation maintains that the fair market value was determined in August 1994 and therefore complies with the requirements of Act 318.

In November 1994, several individuals filed a claim similar to the OHA claim against DLNR and the Corporation seeking to enjoin the sale or transfer of certain ceded lands located in Lahaina, Maui, from the State to private individuals or entities. The claim alleges that the State does not have good marketable title of the ceded lands and any such sale or transfer would constitute an illegal conversion of lands. The plaintiffs seek an injunctive relief barring the Corporation from sale or transfer of the Lahaina ceded lands.

13. Commitments and Contingencies (continued)

i. Litigation (continued)

In response to the above claims, the State Department of Attorney General issued, in July 1995, its opinion as to whether the State has legal authority to sell or dispose of ceded lands. The Attorney General concluded that the State has been and remains empowered to sell trust lands subject to the terms of the trust. The above claims have resulted in delays in the Leiali'i and La'i'opua Master Planned Community projects. The Corporation is presently evaluating alternatives and remains optimistic and committed to these projects. The Corporation will continue to work with innovation and creativity to resolve these concerns fairly, while still delivering quality houses in quality communities.

In 1994, an action was filed by OHA against the State and various unnamed parties claiming the State's alleged failure to properly account for and pay to OHA monies due to OHA, under Article XII of the Hawaii State Constitution and Chapter 10 of the Hawaii Revised Statutes, for occupation by the State on certain ceded lands, as more fully described below.

In December, 2002, following a trial on the issues, the trial court confirmed the State's authority to sell ceded lands, denied the declaratory ruling that the sale of ceded lands did not directly or indirectly release or limit Hawaiian's claims to those lands which the plaintiffs requested, and ordered that judgment be entered in the State's and Corporation's favor as to Counts I, II, and III of the Amended Complaint. The plaintiffs moved for and were granted leave to file immediate appeals from the court's rulings to the Hawaii Supreme Court. Those appeals are now pending trial to determine the sufficiency of the proceeds paid to OHA by the Corporation and the State from the sale of ceded lands at issue has not been scheduled.

The ultimate outcome of appeal cannot presently be determined. Accordingly, no provision for any liability nor its effect on the projects' net realizable value, if any, that may result upon adjudication, has been made in the accompanying statement of net assets.

It has been alleged but without certainty that payments received by the Corporation for all projects developed on ceded lands are subject to the above claim. However, the ultimate outcome of the litigation and its effect on the Corporation, if any, cannot presently be determined. Accordingly, no provision for any liability, if any, that may result from the resolution of this matter has been made in the statement of net assets.

13. Commitments and Contingencies (continued)

i. Litigation (continued)

OHA et al. v. State of Hawaii, Civil No. 94-0205-01 (First Circuit)

The lands transferred to the United States by the Republic of Hawaii at Hawaii's annexation to the United States in 1898 are commonly referred to as the ceded lands. Upon Hawaii's admission to the Union in 1959, title to ceded lands still held by the United States and to lands, which the United States acquired, by exchange for ceded lands after 1898 was conveyed by the United States to the State of Hawaii. Section 5 of the Admission Act expressly provided that those lands were to be held by the State as a public trust. Certain rental housing projects of the Corporation are situated on parcels of land, which are to be held by the State as a public trust under Section 5.

In 1979, the State legislature (the "Legislature") adopted HRS Chapter 10 ("Chapter 10,"), which, as amended in 1980, specified, among other things, that OHA expend 20 percent of all funds derived by the State from the Ceded Lands for the betterment of Native Hawaiians.

In 1987, in Trustees of the Office of Hawaiian Affairs v. Yamasaki, 69 Haw. 154 (1987) ("Yamasaki"), the Hawaii Supreme Court concluded that Chapter 10 was insufficiently clear regarding the amount of monies OHA was entitled to receive from the public trust lands.

In 1990, in response to Yamasaki, the Legislature adopted Act 304, Session Laws of Hawaii 1990, which (i) defined "public land trust" and "revenue," (ii) reiterated that 20 percent of the now defined "revenue" derived from the "public land trust" was to be expended by OHA for the betterment of native Hawaiians, and (iii) established a process for OHA and the Director of Finance of the State jointly to determine the amount of monies which the State would pay OHA to retroactively settle all of OHA's claims for the period June 16, 1980 through June 30, 1991.

Since fiscal year 1992 and until the first quarter of fiscal year 2002, the State, through its departments and agencies paid 20 percent of "revenues" to OHA on a quarterly basis.

On January 14, 1994, OHA filed suit against the State alleging that the State failed to properly account for and fully pay the pro rata share of proceeds and income derived from the lands of public trust established by the Admission Act and the 1978 amendments to the State Constitution. OHA seeks an accounting of all proceeds and income, funds and revenues derived from the lands since 1978, and restitution or damages amounting to 20 percent of the proceeds and income derived from (a) the lands since November 7, 1978, (b) the lands since

13. Commitments and Contingencies (continued)

i. Litigation (continued)

June 16, 1980, and (c) the lands under Act 304, Session Laws of Hawaii 1990, as well as interest thereon. The State has denied all of OHA's substantive allegations, and asserted its sovereign immunity from suit and other jurisdictional and claim-barring defenses.

In May 1996, OHA filed four motions for partial summary judgment as to the State's liability to pay OHA 20 percent of monies from four specific sources, including rental housing projects of the Corporation situated on public trust lands. The State opposed those four motions. The State also filed a motion to dismiss on sovereign immunity grounds.

On October 24, 1996, the Circuit Court of the First Circuit of the State of Hawaii (First Circuit Court) denied the State's motion to dismiss and granted OHA's four motions for partial summary judgment. The State has filed an interlocutory appeal to the Hawaii Supreme Court from both orders. All other proceedings have been stayed pending the Hawaii Supreme Court's disposition of the appeal.

OHA's complaint and motions do not specify the State's alleged failures, nor do they state the dollar amount of the claims. The First Circuit Court's October 24, 1996 order granting OHA's motions for partial summary judgment did not determine the amounts owing. The basis and methodology for calculating any such amount are being disputed. OHA has not provided complete information for its claims for the period from 1981 through 1991, and has provided no information as to its claims for the period from 1991 to the present. The expert witness retained by OHA in this case has estimated that the State's potential liability for the four sources specified in OHA's summary judgment motions for the years 1981 through 1991 (but not thereafter) to be not less than $178,000,000, of which approximately $9,200,000 is related to gross rental income derived by the Corporation.

On June 30, 1997, the Governor approved Act 329, Session Laws of Hawaii, 1997. The purpose of this Act was to achieve a comprehensive, just and lasting resolution of all controversies relating to the proper management and disposition of the lands subject to public trust, and of the proceeds and income, which the lands generate. The Act also fixes the amount of proceeds and income OHA will receive during the two-year period at $15.1 million per year, and requires the completion, continued maintenance, and use of a comprehensive inventory of the public trust lands.

13. Commitments and Contingencies (continued)

i. Litigation (continued)

On September 12, 2001 the Hawaii Supreme Court concluded by holding that Act 304 was effectively repealed by its own terms, and that there was no judicial management standard, by which to determine whether OHA was entitled to the revenues it sought because the repeal of Act 304 revived the law which the court in Yamasaki had previously concluded was insufficiently clear to establish how much OHA was entitled to receive. The Supreme Court dismissed this case for lack of justicability. Immediately thereafter, agencies ceased paying OHA any receipts from the ceded lands.

The Legislature took no action during the 2002 and 2003 legislative sessions to establish a new mechanism for establishing how much OHA was to receive. On January 23, 2003, and pending legislative action to establish such a mechanism, the Governor issued Executive Order No. 03-03 directing state agencies to resume transferring receipts from the ceded lands to OHA. During the 2003 legislative session, the Legislature appropriated moneys from the various funds into which the ceded lands receipts had been deposited and directed the agencies to pay them to OHA. During the 2004 legislative session, the Legislature did not appropriate any moneys from the various funds. OHA continues to pursue its claims for a portion of the revenues from the ceded lands.

<u>OHA et al. v. HHA et al., Civil No. 95-2682-07 (First Circuit)</u>

On July 27, 1995, OHA filed suit against the Hawaii Housing Authority and the State Director of Finance to secure additional compensation and an itemized accounting of the sums previously paid to OHA for five specifically identified parcels of ceded lands, which were transferred to the Authority for rental housing projects. On January 11, 2000, all proceedings in this suit were stayed pending the Hawaii Supreme Court's decision in the State's appeal.

The State's potential liability, if any, therefore, may be determined either (1) by the ruling by the Hawaii Supreme Court on the State's interlocutory appeal and, if such ruling is adverse to the State, the conclusion of any subsequent trial and related appeals, or (2) by legislation enacted as a result of the process set out in Act 329. Given all of the above, and the uncertain timing of any final disposition of the case, the State is not able to predict either the ultimate outcome of the case, or the magnitude of its potential liability, if any, with any reasonable certainty. A legislative resolution or judicial decision adverse to the State could have a material adverse effect on the State's financial condition.

13. Commitments and Contingencies (continued)

i. Litigation (continued)

A legislative resolution or judicial decision adverse to the State could have a material adverse effect on the Corporation's financial condition if an adverse resolution or decision against the State includes liability for gross rental income derived by the Corporation from rental housing projects situated on lands in the public trust and the liability is imposed upon the Corporation. However, the ultimate outcome of the litigation and its effect on the Corporation, if any, cannot be determined. Accordingly, no estimate of loss has been made in the accompanying statement of net assets of the Corporation.

14. Kukui Gardens

On December 18, 2007, DURF purchased a portion of Kukui Gardens (the Project), an affordable housing project in Honolulu, Hawaii, for approximately $59,569,000. Concurrent with DURF's purchase of the Project, DURF sold the Project's improvements (including apartment units) and operating cash of approximately $38,527,000 to EAH (an unrelated third party) for no gain or loss, and leased the underlying land of approximately $21,042,000 to EAH pursuant to the terms of a 65-year land lease that expires on December 18, 2072.

To assist in financing the acquisition and redevelopment of the Project, the State contributed $25 million to DURF during December 2007. Additionally, the Multifamily Revenue Bond Fund issued $45 million of revenue bonds to provide conduit financing to EAH for their acquisition of the Project's improvements and operating cash, as well as to provide capital for rental operations and the planned renovation of the apartment units. Accordingly, the Multifamily Revenue Bond Fund has both notes receivable and revenue bonds payable of $45 million related to the Project on the accompanying statement of net assets as of June 30, 2008.

14. Kukui Gardens (continued)

Additionally, EAH executed three promissory notes to DURF in an aggregate amount of $29,055,000, including approximately $4,055,000 related to cash advanced from DURF to EAH and $25 million related to the terms of the land lease. Additionally, DURF recorded $25 million of deferred income on the accompanying statement of net assets related to this transaction. The deferred income will be amortized to rental income on a straight-line basis and the notes receivable will be reduced as cash is collected. Deferred income at June 30, 2008 related to the Project was approximately $24,776,000. Management believes that the $224,000 of rental income recognized during 2008 related to the Project is realizable. The notes bear interest at 4.72% and are for a term of 58 years, with a final maturity date of December 17, 2065. Repayment of the notes is distributed into three periods as follows: (1) December 18, 2007 to December 31, 2012, no payments due; (2) January 1, 2013 to December 31, 2042, beginning April 1, 2013, 85% of the residual cash flow generated by the rental operations of the Project after expenses, as defined; and (3) January 1, 2043 to December 17, 2065, beginning April 1, 2043, 90% of the residual cash flow generated by the rental operations of the Project after expenses, as defined, with any unpaid principal sum and accrued interest together with any other costs, expenses and other charges due to be paid at maturity.

15. Retirement Plan

All eligible employees of the State and Counties are required by Chapter 88 of the Hawaii Revised Statutes to become members of the Employees' Retirement System of the State of Hawaii (ERS), a cost-sharing multiple-employer public employee retirement plan. The ERS provides retirement benefits as well as death and disability benefits. The ERS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for ERS. That report may be obtained from them.

The ERS consists of a contributory plan and a noncontributory plan. Employees covered by Social Security on June 30, 1984 were given the option of joining the noncontributory plan or remaining in the contributory plan. All new employees hired after June 30, 1984, who are covered by Social Security, are generally required to join the noncontributory plan. Both plans provide a monthly retirement allowance based on the employee's age, years of credited service, and average final compensation (AFC). The AFC is the average salary earned during the five highest paid years of service, including the vacation payment, if the employee became a member prior to January 1, 1971. The AFC for members hired on or after this date is based on the three highest paid years of service excluding the vacation payment. All benefits vest after five and ten years of credited service for the contributory and noncontributory plans, respectively. All contributions, benefits and eligibility requirements are governed by Chapter 88.

15. Retirement Plan (continued)

Most covered employees of the contributory plan are required to contribute 7.8 percent of their salary. Police officers, firefighters, investigators of the department of the prosecuting attorney and the attorney general, narcotics enforcement investigators, and public safety investigators are required to contribute 12.2 percent of their salary. The actuarial cost or funding method used to calculate the total employer contribution required is the entry age normal actuarial cost method. Under this method, the total employer contributions to the ERS is comprised of normal cost plus level annual payments required to amortize the unfunded actuarial accrued liability over the closed period ending June 30, 2029.

The Corporation's contributions for the fiscal years 2008, 2007 and 2006 of approximately $388,000, $313,000 and $1,896,000, respectively, were equal to the required contributions for each year.

16. Post Retirement Health Care and Life Insurance Benefits

The Corporation contributes to the Employers Union Trust Fund (EUTF), an agent multiple-employer defined benefit plan that replaced the Hawaii Public Employees Health Fund effective July 1, 2003, pursuant to Act 88, SLH of 2001. The EUTF was established to provide a single delivery system of health benefits for state and county workers, retirees, and their dependents. The eligibility requirements for retiree health benefits are as follows:

For employees hired before July 1, 1996, the Corporation pays the entire base monthly contribution for employees retiring with 10 years or more of credited service, and 50% of the base monthly contribution for employees retiring with fewer than ten years of credited service. A retiree can elect family plan to cover dependents.

For employees hired after June 30, 1996 but before July 1, 2001, and who retire with at less than 10 years of service, the Corporation makes no contributions. For those retiring with at least 10 years but fewer than 15 years of service, the Corporation pays 50% of the base monthly contribution. For those retiring with at least 15 years but fewer than 25 years of service, the Corporation pays 75% of the base monthly contribution. For those employees retiring with at least 25 years of service, the Corporation pays 100% of the base monthly contribution. Retirees in this category can elect family plan to cover dependents.

16. Post Retirement Health Care and Life Insurance Benefits (continued)

For employees hired on or after July 1, 2001, and who retire with less than 10 years of service, the Corporation makes no contributions. For those retiring with at least 10 years but fewer than 15 years of service, the Corporation pays 50% of the base monthly contribution. For those retiring with at least 15 years but fewer than 25 years of service the Corporation pays 75% of the base monthly contribution. For those employees retiring with at least 25 years of service, the Corporation pays 100% of the base monthly contribution. Only single plan coverage is provided for retirees in this category. Retirees can elect family coverage but must pay the difference.

The Corporation contributed approximately $238,000, $152,000 and $137,000, respectively for the fiscal years 2008, 2007 and 2006.

Annual OPEB Cost and Net OPEB Obligation

It is the State's policy that measurement of the actuarial valuation and the annual required contribution (ARC) are made for the state as a whole and are not separately computed for the individual state departments and agencies such as the Corporation. The state allocates the ARC to the various departments and agencies based upon a systematic methodology. The Corporation's contribution for the year ended June 30, 2008 was $237,658, which represented 36% of the Corporation's share of the ARC for postretirement healthcare and life insurance benefits of $661,152.

The following is a summary of changes in postretirement liability during the fiscal year ended June 30, 2008:

Balance at June 30, 2007	$	-
Additions		661,152
Deletions		(237,658)
Balance at June 30, 2008	$	423,494

The State's CAFR includes the required footnote disclosure and required supplementary information on the State's post-retirement health care and life insurance benefit plans.

17. Related Party Transactions

Amounts due from other State of Hawaii Departments include approximately $475,000 of miscellaneous advances previously made to other departments and approximately $20,369,000 of amounts due from the Department of Hawaiian Home Lands (DHHL) related to a previous agreement to transfer certain land and development rights to DHHL. Pursuant to this agreement, DHHL was required to commence 15 annual $2.2 million payments to the Corporation in December 2004. Effective at that time, the Corporation recorded the sale of the land and development rights at the net present value of the estimated future cash flow from DHHL using an imputed interest rate of approximately 3.3 percent. As of June 30, 2008, amounts due from DHHL include approximately $20,038,000 of principal, net of approximately $3,861,000 of imputed interest, and approximately $331,000 of accrued interest receivable. Interest income related to imputed interest on payments due from DHHL was approximately $687,000 during the year ended June 30, 2008.

The Rental Assistance Revolving Fund provides rent subsidies to certain lessees of the Corporation's various projects. Total rent subsidies provided to lessees of the Corporation's various projects approximated $957,000 during the year ended June 30, 2008. These amounts have been recorded by the Corporation as rental income in the Hawaii Rental Housing System Revenue Bond Fund. In addition, the Corporation relocated its offices to the Pohulani building in September 1992. During the year ended June 30, 2008, the Hawaii Rental Housing System Revenue Bond Fund recorded rental income of approximately $1,042,000, which was allocated as office rental expense to various funds of the Corporation. In addition, the State Department of Accounting and General Services (DAGS) incurred $885,165 in rent to the Hawaii Rental Housing System Revenue Bond Fund for leased space in the Pohulani building. The term of the lease with DAGS is from September 1992 through August 2022. The minimum annual rental is determined by multiplying the previous year's minimum annual rent by one hundred three percent (103%).

18. Segment Information

In addition to the revenue bond funds reported as major proprietary funds, the Corporation has also issued a revenue bond through the University of Hawaii Faculty Housing Program Revenue Bond Fund to provide interim and permanent financing for the construction or rehabilitation of affordable housing projects. Investors in the revenue bond rely solely on the revenue generated by the individual activities for repayment.

18. Segment Information (continued)

Condensed Statement of Net Assets, Activities and Cashflows ($ in thousands)

Assets:		
Cash	$	474
Investment in financing lease		15,032
Receivables		28
Other assets		245
Total assets	$	15,779
Liabilities:		
Bonds payable	$	13,820
Other liabilities		218
Total liabilities		14,038
Net Assets -		
Unrestricted		1,741
Total liabilities and net assets	$	15,779
Revenues – Interest	$	692
Expenses – Operating expenses		34
Operating income		658
Nonoperating (Expenses) Income:		
Interest expense		(791)
Other		19
Total nonoperating expenses		(772)
Change in net assets		(114)
Net Assets at July 1, 2007		1,855
Net Assets at June 30, 2008	$	1,741
Net Cash Provided by (Used in):		
Operating activities	$	1,257
Capital and related financing activities		(1,232)
Net increase in cash and cash equivalents		25
Cash and Cash Equivalents at July 1, 2007		449
Cash and Cash Equivalents at June 30, 2008	$	474

Hawaii Housing Finance and Development Corporation

Notes to Financial Statements
June 30, 2008

19. Interfund Receivables and Payables

The composition of interfund balances as of June 30, 2008 is as follows:

Due from	Rental Housing Trust Fund	Dwelling Unit Revolving Fund	Multifamily Housing Revenue Bond Fund	Nonmajor – Proprietary
Single Family	$ -	$ -	$ -	$ (232,141)
Hawaii Rental Housing System	-	-	-	(102,977)
Nonmajor – Proprietary	35	628,056	352,378	(310,233)
TOTAL	$ 35	$ 628,056	$ 352,378	$ (645,351)

All other balances are due to interfund goods or services provided or reimbursable expenditures and payments between funds.

20. Contribution from State

During the year ended June 30, 2008, the State contributed $40 million to the Corporation. Of the $40 million, $15 million was for the purpose of assisting with the financing of various housing projects and $25 million was to assist with the purchase of Kukui Gardens. The Corporation expended approximately $2.4 million of to finance the development of the Kahikolu `Ohana O Wai`anae Project (Project), a transitional and emergency housing project.

21. Subsequent Events

On July 1, 2008, the Corporation redeemed $5,075,000 of outstanding revenue bonds from the Single Family Mortgage Purchase Revenue Bond Fund.

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APPENDIX B

GENERAL INFORMATION ABOUT THE STATE OF HAWAII

The statistical information presented by this Appendix B is the most current information available to the State. Because such information becomes available at different times, the dates of such information, as presented herein, are not the same.

INTRODUCTION

General

The State was admitted into the Union on August 21, 1959, as the fiftieth state. It is an archipelago of eight major islands, seven of which are inhabited, plus 124 named islets, totaling 6,425 square miles in land area, located in the Pacific Ocean in the Northern Hemisphere, mostly below the Tropic of Cancer, about 2,400 statute miles from San Francisco. The State is slightly larger than the combined area of the States of Connecticut and Rhode Island and ranks forty-seventh of the fifty states in land area, being also larger in area than the State of Delaware. The island of Hawaii is the largest island, with 4,028 square miles in area. The other inhabited islands, in order of size, are Maui, Oahu, Kauai, Molokai, Lanai and Niihau. According to the U.S. Census, the total population of the State was 422,770 in 1940, 499,794 in 1950, 632,772 in 1960, 769,913 in 1970, 964,691 in 1980, 1,115,274 in 1990, and 1,211,537 in 2000, making the State the forty-second most populous state in the Union as of 2000. The City and County of Honolulu consists of the island of Oahu (plus some minor islets) with a land area of 599.8 square miles. The capital of the State and the principal port are located on Oahu. According to the 2000 U.S. Census, about 72.3% of the population of the State lives on Oahu. Hawaii's population exhibits greater ethnic diversity than other states because it is descended from immigrants from the Far East as well as from Europe and the mainland United States. Based on the 2000 U.S. Census, approximately 41.6% of the State's population is of Asian descent and about 24.3% of the State's population is Caucasian. Native Hawaiians and other Pacific Islanders constitute 9.4% of the population. The balance consists of people of mixed races and other races, such as African Americans and American Indians.

State Government

The Constitution of the State provides for three separate branches of government: the legislative branch, the executive branch and the judicial branch. The legislative power is vested in a bicameral Legislature consisting of a Senate of twenty-five members elected for four-year terms and a House of Representatives of fifty-one members elected for two-year terms. The Legislature convenes annually. The executive power is vested in a Governor elected for a four-year term. In the event of the absence of the Governor from the State, or his or her inability to exercise and discharge the powers and duties of his or her office, the Lieutenant Governor, also elected for a four-year term, serves as the chief executive. Under the Constitution, the judicial power is vested in a Supreme Court, one intermediate appellate court, circuit courts, district courts, and such other courts as the Legislature may from time to time establish. Pursuant to statute, the Legislature has established four circuit courts, four district courts and an intermediate appellate court. The executive and administrative offices are limited to not more than twenty principal departments under the supervision of the Governor. The executive functions have in fact been grouped into eighteen departments. The heads of the departments are appointed by the Governor, with the advice and consent of the Senate, and hold office for a term to expire with the term of the Governor. The Department of Budget and Finance is one of the principal departments permitted by the Constitution of the State, with the head of said department being designated as the Director of Finance. Under the general direction of the Governor, the Department of Budget and Finance administers the State's multi-year program and financial plan, the State budget, and financial management programs of the State.

The Counties and Their Relationship to the State

There are four counties in the State: the City and County of Honolulu, the County of Maui, the County of Hawaii and the County of Kauai (and one quasi-county, Kalawao). Each of the counties has a separate charter for its government, each of which provides for an elected mayor and an elected council. The mayor is the chief executive and the council is the legislative body. There are no independent or separate cities or other municipalities, school districts or townships. The State government of Hawaii has total responsibility for many functions that are performed by or shared by local governments in most other parts of the United States. For example, the State pays all costs in connection with the public school system, libraries, public welfare, and judiciary. The greatest expenditures by the State in past years have been in the areas of education and public welfare. The counties' major areas of responsibility and expenditure are in police and fire protection, waste disposal, water and sewer facilities, and secondary streets and highways.

GENERAL ECONOMIC INFORMATION

General

The following material pertaining to economic factors in the State under the captions "State of the Economy" through and including "Table 10" has been excerpted from the Hawaii State Department of Business, Economic Development and Tourism ("DBEDT"), Quarterly Statistical and Economic Report ("QSER"), Second Quarter 2009, or otherwise prepared by DBEDT, some of which may be found at http://www.hawaii.gov/dbedt/. Unless otherwise stated, the following information is historical, estimated figures are used only when the definitive figures are unavailable. Unless otherwise specifically stated, all references to years and quarters in the following information are to calendar years and calendar quarters, respectively. The text refers to certain enumerated tables found under "GENERAL ECONOMIC INFORMATION." Following descriptions of the various components of the State's economy and DBEDT's outlook for the economy, there is a brief description of the impact of these components on the State's fiscal position.

DBEDT's latest QSER indicates that the State's Gross Domestic Product ("GDP") (the value of all goods and services produced within the State, formerly called the Gross State Product or "GSP") grew by an estimated 3.0 percent in nominal terms, or 0.3 percent in real terms (adjusting for inflation), in 2008. In real terms, DBEDT predicts a decline of 1.6 percent in 2009 compared to 2008 followed by a 0.4 percent increase in 2010.

State of the Economy

Hawaii's economy continued to slow through the first quarter of 2009, primarily the result of worsening national economic conditions and the decline of visitor industry activity in the State. Wage and salary jobs in the first quarter decreased from the year before, as gains in government jobs were more than offset by job losses in the private sector. In the private sector, only Health Care and Social Assistance and Educational Services showed positive job growth in the first quarter of 2009. Total civilian employment also decreased significantly. Combined with a small decrease in the civilian labor force, the number of unemployed and the unemployment rate jumped from the same quarter in 2008. Visitor arrivals, visitor expenditures, new private building authorizations, government contracts awarded and total tax collections distributed to the State general fund revenues all declined for the quarter.

According to the most recent data available, in the fourth quarter of 2008, total personal income before adjusting for inflation increased $1,289 million or 2.5 percent from the same quarter of 2007. The sharpest growth was in personal current transfer receipts (11.6 percent), reflecting increases in government payments to individuals. Wage and salary disbursements, the largest component of personal income, increased by 1.6 percent. Proprietors' income decreased 3.5 percent, and dividends, interest, and rent also decreased 1.0 percent.

In the second half of 2008, Honolulu's consumer price index ("CPI") increased 3.6 percent – 1.3 percentage points lower than the increase in the first half of 2008.

In the first quarter of 2009, total tax collections distributed to the State general funds totaled $954.1 million, a $184.5 million or 16.2 percent decrease over the first quarter of 2008. General Excise and Use Tax (GET) revenues totaled $589.9 million, a decrease of $88.6 million or 13.1 percent. Net Individual Income Tax revenues increased $70.9 million or 21.1 percent to $265.5 million. Transient Accommodations Tax (TAT) revenues were down $9.7 million or 15.7 percent. In 2008, State general fund tax revenues totaled $4,611.2 million, down $71.8 million or 1.5 percent from 2007.

In the first quarter of 2009, the total number of visitors arriving by air to Hawaii decreased 14.4 percent. Increases in the length of stay helped to limit the reduction in the average daily census to 12.6 percent, but nominal visitor expenditures decreased 17.9 percent, compared to the same quarter last year due to decreases in per person per day spending. The average hotel occupancy rate was down 9.7 percentage points to 69.0 percent in the first quarter from a year earlier.

The indicators of Hawaii's construction industry were mostly negative. In the first quarter of 2009, construction jobs showed a significant decline from the previous year's comparable quarter, down 10.3 percent or 4,000 jobs. The value of private building authorizations decreased $199.0 million or 26.8 percent compared to the same quarter of 2008. The value of government contracts awarded also decreased $28.9 million or 14.8 percent in the first quarter. In the existing housing market for both single-family and condominium units, the median resale prices and the numbers of units resold were down in the first quarter of 2009 compared to the same quarter last year.

Outlook for the Economy

Based on sharper declines now forecast for the national and international economies in 2009, DBEDT has lowered its forecast for Hawaii's economy in 2009 and 2010. Assuming national growth turns positive in 2010, Hawaii's economy should begin to see some improvement in 2010 and modest growth by 2011. Real personal income, total wage and salary jobs, and State real GDP are all forecast to show negative growth in 2009. Visitor arrivals are expected to decrease 5.9 percent in 2009 and to increase 1.2 percent in 2010.

Nominal personal income growth rates for 2009 and 2010 are forecast at 0.1 percent and 1.5 percent, respectively. Real personal income growth rates for 2009 and 2010 are expected to be negative 1.1 percent and 0.0 percent, respectively, after deflating the nominal values by Honolulu's CPI-U. Honolulu's CPI is expected to rise 1.2 percent in 2009 and 1.5 percent in 2010.

In 2008, Hawaii's GDP is estimated to increase 3.0 percent in nominal terms and 0.3 percent in real terms. Real GDP growth is projected to be negative 1.6 percent and positive 0.4 percent, respectively, in 2009 and 2010.

The outlook for Hawaii's economy is linked to the U.S. and Japanese economies. According to the May 2009 Blue Chip Economic Consensus Forecasts, real U.S. GDP is expected to decline by 2.8 percent for 2009 as a whole and to grow by 1.9 percent in 2010. For Japan, real GDP is projected to decline 5.9 percent in 2009 before growing by a modest 0.8 percent in 2010.

Based on the latest data and the outlook in coming months, in 2009 total visitor arrivals, total visitor days, and total nominal (current dollar) visitor expenditures are expected to decline 5.9 percent, 3.4 percent and 7.9 percent, respectively. For 2010, visitor arrivals, visitor days and visitor expenditures are forecast to increase 1.2 percent, 0.9 percent and 5.2 percent, respectively, from 2009.

Major indicators of construction activity in 2008 and the first quarter of 2009 suggest slower construction activity in Hawaii in the near future. Increases in the value of government contracts awarded in 2008 were more than countered by declines in the value of private building authorizations. Going forward, increased government activity is unlikely to completely offset construction declines in the private sector. In the first quarter of 2009, the value of government contracts awarded also decreased compared to the same quarter of 2008.

Beyond 2010, gradual recovery is expected to continue with modest job growth of around 0.5 percent in 2011. Visitor arrivals are expected to show a healthier 4.3 percent increase in 2011. Hawaii's GDP growth in 2011 is expected to reach 0.9 percent. This gradual recovery will continue into 2012, assuming national and international economic conditions continue to improve.

INFORMATION ON EMPLOYMENT, WAGES AND SALARIES, TAX REVENUES AND TAX BASE

Table 1

SELECTED ECONOMIC ACTIVITIES

Series	1st Quarter 2008	1st Quarter 2009	% Change Year Ago	Full Year 2007	Full Year 2008	% Change Year Ago
Civilian labor force, NSA (persons) [1]	651,050	647,000	-0.6	649,100	661,250	1.9
Civilian employed, NSA	632,400	604,950	-4.3	631,900	634,800	0.5
Civilian unemployed, NSA	18,650	42,050	125.5	17,150	26,450	54.2
Unemployment rate, NSA (%) [1,2]	2.9	6.5	3.6	2.6	4.0	1.4
Total wage and salary jobs, NSA	631,750	612,550	-3.0	630,050	630,050	0.0
Total non-agric. wage & salary jobs	625,350	606,750	-3.0	623,550	623,900	0.1
Nat. Resources, Mining, Constr.	38,950	34,950	-10.3	39,000	38,950	-0.1
Manufacturing	15,050	14,350	-4.7	15,200	15,100	-0.7
Wholesale Trade	18,800	18,350	-2.4	18,400	18,550	0.8
Retail Trade	70,350	68,200	-3.1	70,100	70,450	0.5
Transp., Warehousing, Util.	32,150	28,000	-12.9	32,800	29,950	-8.7
Information	10,000	9,450	-5.5	10,750	10,500	-2.3
Financial Activities	29,550	28,800	-2.5	30,050	29,700	-1.2
Professional & Business Services	76,050	73,600	-3.2	76,100	76,550	0.7
Educational Services	14,550	14,700	1.0	14,200	14,900	5.3
Health Care & Social Assistance	58,800	59,400	1.0	58,650	59,500	1.4
Arts, Entertainment & Recreation	11,750	10,950	-6.8	12,050	11,250	-6.6
Accommodation	39,250	35,850	-8.7	39,150	38,000	-2.9
Food Services & Drinking Places	58,350	56,200	-3.7	58,700	58,400	-0.5
Other Services	27,200	26,900	-1.1	26,550	27,200	2.4
Government	124,500	127,050	2.0	122,000	124,950	2.4
Federal	31,700	32,550	2.7	31,650	32,100	1.4
State	74,750	75,900	1.5	72,400	74,300	2.6
Local	18,100	18,600	2.8	17,950	18,550	3.3
Agriculture wage and salary jobs	6,400	5,800	-9.4	6,550	6,150	-5.4
State general fund revenues ($1,000)	1,138,545	954,075	-16.2	4,683,086	4,611,240	-1.5
General excise and use tax revenues	678,489	589,891	-13.1	2,623,514	2,570,492	-2.0
Income-individual	336,354	265,502	-21.1	1,579,138	1,564,708	-0.9
Declaration estimated taxes	101,818	60,701	-40.4	440,518	397,434	-9.8
Payment with returns	13,686	16,097	17.6	213,194	185,703	-12.9
Withholding tax on wages	365,291	346,959	-5.0	1,312,449	1,399,554	6.6
Refunds	-144,441	-158,255	9.6	387,024	417,982	8.0
Transient accommodations tax	61,952	52,211	-15.7	232,542	224,122	-3.6
Honolulu County Surcharge [3]	44,423	43,907	-1.2	148,514	182,341	22.8
Visitor days - by air	17,689,965	15,290,038	-13.6	69,135,310	62,905,608	-9.0
Domestic	13,897,788	11,732,277	-15.6	55,100,441	49,505,107	-10.2
International	3,792,177	3,557,762	-6.2	14,034,869	13,400,502	-4.5
Visitor arrivals - by air	1,831,135	1,567,132	-14.4	7,496,820	6,699,424	-10.6
Domestic	1,345,192	1,106,464	-17.7	5,582,530	4,902,270	-12.2
International	485,943	460,668	-5.2	1,914,290	1,797,154	-6.1
Hotel occupancy rates (%) [2]	78.7	69.0	-8.3	75.0	70.4	-4.6
Visitor expend. - arrivals by air ($Mil.)	3,171	2,602	-17.9	12,578.3	11,335.9	-9.9

[1] Department of Labor & Industrial Relations monthly and annual data. Quarterly averages computed by DBEDT.

[2] Change represents absolute change in rates rather than percentage change in rates.

[3] Effective January 1, 2007, a surcharge of 0.5% was added to the State general excise tax to pay for Oahu's mass transit system. Includes taxpayers who have business activities on Oahu but whose businesses are located outside Oahu.

Source: DBEDT (http://hawaii.gov/dbedt/info/economic/data_reports/info/economic/data_reports/qser/); Hawaii State Department of Labor & Industrial Relations (http://www.hiwi.org/cgi/dataanalysis/?PAGEID=94>); Hawaii State Department of Taxation (http://www.hawaii.gov/tax/a5_3txcolrpt.htm), and Hospitality Advisors, LLC.

Key Economic Indicators

Table 2

ACTUAL AND FORECAST KEY ECONOMIC INDICATORS FOR HAWAII

Economic Indicators	2007	2008	2009	2010	2011	2012
		(Actual)			(Forecast)	
Total population (thousands)	1,277	1,288	1,298	1,309	1,319	1,329
Visitor arrivals (thousands) [1]	7,628	6,807	6,407	6,482	6,758	7,122
Visitor days (thousands) [1]	70,075	63,913	61,747	62,330	64,908	68,428
Visitor expenditures (million dollars) [1]	12,811	11,347	10,448	10,991	11,800	12,773
Honolulu CPI-U (1982-84=100)	219.5	228.9	231.7	235.2	239.9	245.4
Personal income (million dollars)	50,126	52,159	52,211	53,005	54,606	56,517
Real personal income (millions of 2000$) [2]	40,260	40,180	39,731	39,737	40,134	40,605
Total wage & salary jobs (thousands)	630.1	625.4	612.4	612.4	615.6	620.8
Gross domestic product (million dollars) [3]	61,532	63,398	63,484	64,627	66,501	68,984
Real gross domestic product (millions of 2000$) [3]	49,860	49,995	49,212	49,414	49,850	50,599
Gross domestic product deflator (2000=100)	123.4	126.8	129.0	130.8	133.4	136.3
	Annual Percentage Change					
Total population	0.2	0.8	0.8	0.8	0.8	0.8
Visitor arrivals [1]	0.0	-10.8	-5.9	1.2	4.3	5.4
Visitor days [1]	0.3	-8.8	-3.4	0.9	4.1	5.4
Visitor expenditures [1]	2.6	-11.4	-7.9	5.2	7.4	8.2
Honolulu CPI-U	4.9	4.3	1.2	1.5	2.0	2.3
Personal income	5.9	4.1	0.1	1.5	3.0	3.5
Real personal income [2]	1.0	-0.2	-1.1	0.0	1.0	1.2
Total wage & salary jobs	1.0	-0.7	-2.1	0.0	0.5	0.8
Gross domestic product [3]	4.9	3.0	0.1	1.8	2.9	3.7
Real gross domestic product [3]	3.0	0.3	-1.6	0.4	0.9	1.5
Gross domestic product deflator	1.9	2.8	1.7	1.4	2.0	2.2

[1] Visitor arrivals by air or cruise ship.

[2] DBEDT calculated using BEA estimate of nominal personal income deflated by U.S. Bureau of Labor Statistics Honolulu CPI-U.

[3] 2008 value is estimated by DBEDT.

Source: DBEDT May 18, 2009.

Labor Force and Jobs

In the first quarter of 2009, Hawaii's civilian labor force totaled 647,000 people, a decrease of 4,050 people or 0.6 percent from the same quarter of 2008. In 2008, the civilian labor force grew 1.3 percent from 2007.

In the first quarter of 2009, Hawaii's total civilian employment averaged 604,950 people, which is 27,450 people or 4.3 percent less than that in the first quarter of 2008. For the year of 2008, total civilian employment decreased 0.1 percent from the previous year.

The slight decrease in labor force and rapid decrease in civilian employment contributed to the increase in the number of unemployed. The number of civilian unemployed averaged 42,050 in the first quarter of 2009, a 125.5 percent increase from the first quarter of 2008. In 2008, the number of unemployed averaged 25,850, 51.6 percent greater than in 2007. Due to a rapid increase in the number of unemployed, the unemployment rate (not seasonally adjusted) increased from 2.9 percent in the first quarter of 2008 to 6.5 percent in the first quarter of 2009. In 2008, the unemployment rate averaged 3.9 percent, significantly higher than in 2007.

In the first quarter of 2009, Hawaii's civilian wage and salary jobs averaged 612,550, a decrease of 19,200 jobs or 3.0 percent from the same quarter of 2008. In 2008, wage and salary jobs decreased 1.0 percent from 2007.

During the first quarter of 2009, government added 2,550 jobs or 2.0 percent compared to the same quarter of 2008. The federal government added 850 jobs, State government added 1,150 jobs, and local government added 500 jobs in the first quarter of 2009 compared with the first quarter of 2008.

Only two private sectors experienced job growth in the first quarter of 2009 compared to the first quarter of 2008—Health Care and Social Assistance added 600 jobs, or 1.0 percent, followed by Educational Services with 150 jobs, or 1.0 percent. Transportation, Warehousing, and Utilities lost 4,150 jobs, or 12.9 percent, compared to the same quarter of 2008; Natural Resources, Mining and Construction lost 4,000 jobs, or 10.3 percent; Accommodation lost 3,400 jobs, or 8.7 percent; Professional and Business Services lost 2,450 jobs, or 3.2 percent; Food Services and Drinking Places lost 2,150 jobs, or 3.7 percent; Retail Trade lost 2,150 jobs, or 3.1 percent; Arts, Entertainment, and Recreation lost 800 jobs, or 6.8 percent; Financial Activities lost 750 jobs, or 2.5 percent; Manufacturing lost 700 jobs, or 4.7 percent; Information lost 550 jobs, or 5.5 percent; and Wholesale Trade lost 450 jobs, or 2.4 percent. Agriculture also lost 600 wage and salary jobs, or 9.4 percent.

Table 3

CIVILIAN LABOR FORCE AND EMPLOYMENT
(Not Seasonally Adjusted Data)

Year	Civilian Labor Force	% Change Civilian Labor Force	Civilian Employment	% Change Civilian Employment	Civilian Unemployment Rate
1999	606,650	0.4	576,300	1.1	5.0
2000	609,000	0.4	584,850	1.5	4.0
2001	615,250	1.0	589,200	0.7	4.2
2002	608,950	-1.0	584,350	-0.8	4.0
2003	616,300	1.2	592,450	1.4	3.9
2004 [1]	618,150	0.3	598,200	1.0	3.2
2005 [1]	630,600	2.0	613,350	2.5	2.7
2006 [1]	642,900	2.0	627,050	2.2	2.5
2007 [1]	645,950	0.5	628,900	0.3	2.6
2008 [1]	654,250	1.3	628,450	-0.1	3.9
(Q1) 2009 [2]	647,000	-0.6	604,950	-4.3	6.5

[1] Data for 2004 through 2008 have been benchmarked by the Department of Labor & Industrial Relations in March 2009.

[2] All data are preliminary.

Source: Department of Labor & Industrial Relations monthly and annual data. Quarterly averages computed by DBEDT.

Income and Prices

Hawaii's total personal income continued to increase but at a slower pace during the fourth quarter of 2008 (the latest period for which income data are available from the U.S. Bureau of Economic Analysis) over the same quarter of 2007. The rate of increase was the highest for Personal Current Transfer Receipts. Earnings increased but at a much lower rate compared to previous quarters. Earnings increases in the government sector were partially offset by earnings losses in the private sector. Proprietors' Income and Dividends, Interest, and Rent both decreased in the fourth quarter of 2008.

In the fourth quarter of 2008, total nominal personal income (i.e., not adjusted for inflation) increased $1,289 million or 2.5 percent from the fourth quarter of 2007. For the year of 2008, total personal income increased 4.1 percent from 2007.

During the fourth quarter of 2008, Wage and Salary Disbursements, the largest component of personal income, increased $467 million or 1.6 percent from the fourth quarter of 2007. For 2008, Wage and Salary Disbursements grew 3.2 percent from 2007, lower than the 5.6 percent growth between 2006 and 2007. Wage and Salary Disbursements comprised about 57 percent of total personal income.

Supplements to Wages and Salaries, consisting of employer payments to retirement plans, private group health insurance plans, private workers compensation plans, and other such benefits, increased $323 million or 4.0 percent in the fourth quarter of 2008 from the same quarter of 2007. For 2008, Supplements to Wages and Salaries increased 4.7 percent, slightly lower than the 4.8 percent annual increase between 2006 and 2007.

Proprietors' Income, the income most closely related to entrepreneurial activity, decreased 3.5 percent in the fourth quarter of 2008 over that of 2007. For 2008, Proprietors' Income was down 1.9 percent from 2007, compared to a 5.5 percent decrease between 2006 and 2007.

Dividends, Interest, and Rent decreased $82 million or 1.0 percent in the fourth quarter of 2008 from the same quarter of 2007. For the year of 2008, Dividends, Interest, and Rent were up 3.0 percent from 2007, compared to 8.7 percent growth between 2006 and 2007.

Personal Current Transfer Receipts grew by $771 million or 11.6 percent in the fourth quarter of 2008 from the same quarter of 2007. For 2008, Personal Current Transfer Receipts grew at a rate of 10.3 percent compared to 9.7 percent growth in 2007.

In the fourth quarter of 2008, Contributions to Government Social Insurance, which is subtracted from total personal income, increased $85 million or 2.1 percent compared to the fourth quarter of 2007. For 2008, Contributions to Government Social Insurance grew 3.1 percent from 2007.

In the fourth quarter of 2008, total non-farm private sector earnings decreased $260 million or 1.0 percent from the fourth quarter of 2007. In dollar terms, the largest decrease occurred in Construction, followed by Transportation and Warehousing, Retail Trade, Information, and Real Estate and Rental and Leasing. The largest increase occurred in Health Care and Social Assistance, followed by Professional and Technical Services, Finance and Insurance, and Educational Services. During the fourth quarter of 2008, total government earnings increased $980 million or 7.4 percent from the fourth quarter of 2007.

In the second half of 2008, Honolulu's consumer price index (CPI) increased 3.6 percent from the same period last year, compared to the U.S. average CPI increase of 3.4 percent for the same period. The Honolulu CPI increase in the second half of 2008 was primarily due to increases in Food and Beverages, Other Goods and Services, Education and Communication, and Transportation components, which increased 6.7 percent, 5.2 percent, 3.5 percent, and 3.3 percent, respectively, in the second half of 2008 compared to the second half of 2007.

Table 4

PERSONAL INCOME FOR HAWAII BY MAJOR SOURCES
(In millions of dollars at seasonally adjusted annual rates)

Series	Fourth Quarter 2007	Fourth Quarter 2008	Annual Average 2007	Annual Average 2008	Percentage Change: 2008 Q4 from 2007 Q4	Percentage Change: Annual Ave. 2008 from 2007
PERSONAL INCOME	50,999	52,288	50,126	52,159	2.5	4.1
Earnings By Place of Work	40,081	40,766	39,524	40,763	1.7	3.1
Wage and salary disbursements	29,005	29,472	28,561	29,483	1.6	3.2
Supplements to wages and salaries	8,104	8,427	7,993	8,366	4.0	4.7
Emp'er contrib. for emp'ee pension & ins. funds	6,157	6,448	6,050	6,378	4.7	5.4
Employer contributions for gov't social ins.	1,946	1,978	1,943	1,987	1.6	2.3
Proprietors' income	2,972	2,868	2,970	2,915	-3.5	-1.9
Farm proprietors' income	-8	-51	-6	-45	[1]	[1]
Nonfarm proprietors' income	2,980	2,918	2,976	2,959	-2.1	-0.6
Dividends, interest, and rent	8,325	8,243	8,096	8,341	-1.0	3.0
Personal current transfer receipts	6,650	7,421	6,538	7,212	11.6	10.3
State unemployment insurance benefits	125	358	108	241	186.4	122.6
Personal current transfer receipts exc State U.I.	6,525	7,063	6,429	6,971	8.2	8.4
Less: Contributions for gov't social insurance	4,057	4,142	4,032	4,156	2.1	3.1
Personal contributions for gov't social insurance	2,110	2,164	2,089	2,169	2.6	3.9
Employer contributions for gov't social insurance	1,946	1,978	1,943	1,987	1.6	2.3
Earnings By Industry	40,081	40,766	39,524	40,763	1.7	3.1
Farm Earnings	213	178	213	181	-16.4	-15.0
Nonfarm Earnings	39,868	40,589	39,312	40,583	1.8	3.2
Private earnings	26,886	26,626	26,544	26,905	-1.0	1.4
Forestry, fishing, related activities, and other	41	60	42	59	46.3	42.2
Mining	56	64	55	62	14.3	12.7
Utilities	311	330	306	326	6.1	6.5
Construction	3,252	3,017	3,188	3,156	-7.2	-1.0
Manufacturing	994	990	1,003	1,012	-0.4	0.9
Durable goods	385	391	387	394	1.6	1.7
Nondurable goods	609	599	616	619	-1.6	0.4
Wholesale trade	1,189	1,187	1,150	1,202	-0.2	4.5
Retail trade	2,528	2,482	2,506	2,540	-1.8	1.4
Transportation and warehousing	1,643	1,448	1,620	1,514	-11.9	-6.6
Information	775	730	759	744	-5.8	-1.9
Finance and insurance	1,284	1,330	1,291	1,320	3.6	2.3
Real estate and rental and leasing	981	939	1,018	971	-4.3	-4.6
Professional and technical services	2,458	2,589	2,380	2,534	5.3	6.4
Management of companies and enterprises	632	666	655	655	5.4	0.0
Administrative and waste services	1,589	1,606	1,583	1,616	1.1	2.1
Educational services	570	606	552	596	6.3	8.0
Health care and social assistance	3,418	3,622	3,362	3,550	6.0	5.6
Arts, entertainment, and recreation	485	490	471	481	1.0	2.1
Accommodation and food services	3,427	3,199	3,373	3,297	-6.7	-2.3
Other services, except public administration	1,252	1,271	1,232	1,271	1.5	3.2
Government and government enterprises	12,982	13,962	12,768	13,677	7.5	7.1
Federal	7,834	8,436	7,745	8,291	7.7	7.1
Federal, civilian	2,971	3,234	2,974	3,142	8.9	5.6
Military	4,863	5,202	4,771	5,150	7.0	7.9
State and local	5,147	5,526	5,023	5,386	7.4	7.2

[1] Percentage changes involving zero or negative values are not meaningful.

Source: U.S. Department of Commerce, Bureau of Economic Analysis, State Quarterly Personal Income, March 24, 2009 (http://www.bea.doc.gov/bea/regional/sqpi).

Table 5

PERSONAL INCOME
(In millions of dollars at seasonally adjusted annual rates)

Year	Annual Average	% Change
1999	32,646	2.8
2000	34,451	5.5
2001	35,126	2.0
2002	36,370	3.5
2003	37,837	4.0
2004	41,027	8.4
2005 [1]	44,111	7.5
2006 [1]	47,335	7.3
2007 [1]	50,126	5.9
2008 [1]	52,159	4.1

[1] Source data for 2005Q1 to 2008Q3 have been revised.

Source: U.S. Department of Commerce, Bureau of Economic Analysis, State Quarterly Personal Income, March 24, 2009 (http://www.bea.doc.gov/bea/regional/sqpi/).

Table 6

HONOLULU and U.S. CONSUMER PRICE INDEX, ALL URBAN CONSUMERS (CPI-U)
(1982-84=100. Data are not seasonally adjusted)

		Honolulu								
Period	U.S.	All Items	Food & Beverages	Housing	Apparel	Transport.	Medical Care	Recreation	Edu. & Comm [1]	Other Goods & Services
1990	130.7	138.1	137.8	141.5	107.0	131.1	154.2	(NA)	(NA)	160.4
1991	136.2	148.0	145.9	152.8	110.5	139.3	171.3	(NA)	(NA)	175.7
1992	140.3	155.1	148.5	161.7	114.2	147.4	182.6	(NA)	(NA)	189.0
1993	144.5	160.1	152.9	166.5	116.5	150.5	197.4	(NA)	(NA)	200.1
1994	148.2	164.5	153.4	171.6	118.7	156.4	206.0	(NA)	(NA)	209.6
1995	152.4	168.1	156.8	174.7	117.5	162.4	209.8	(NA)	(NA)	216.8
1996	156.9	170.7	156.6	176.8	118.5	167.0	215.0	(NA)	(NA)	226.5
1997	160.5	171.9	159.2	177.1	117.3	166.2	217.3	(NA)	(NA)	239.0
1998	163.0	171.5	159.1	176.0	112.2	162.5	226.1	100.8	99.1	256.1
1999	166.6	173.3	162.9	175.8	105.4	162.2	231.3	101.9	104.5	275.6
2000	172.2	176.3	164.8	177.9	103.5	169.6	239.8	102.8	106.5	279.7
2001	177.1	178.4	169.5	179.1	101.0	174.5	[2]	101.6	104.6	289.3
2002	179.9	180.3	171.9	181.2	102.6	170.9	[2]	99.5	107.8	302.2
2003	184.0	184.5	174.9	186.2	98.5	176.4	[2]	100.4	112.5	307.6
2004	188.9	190.6	180.2	194.3	101.2	182.4	275.9	102.3	113.5	312.4
2005	195.3	197.8	185.9	205.2	102.5	191.6	[2]	97.8	114.3	321.0
2006	201.6	209.4	194.2	222.5	104.4	202.1	[2]	101.1	114.0	332.1
2007	207.342	219.504	204.942	238.428	104.145	205.027	[2]	102.572	113.967	347.499
2008	215.303	228.861	216.625	248.700	105.277	213.998	318.0	105.290	117.118	365.441
1995H1	151.5	166.9	156.5	173.4	118.1	160.0	207.8	(NA)	(NA)	214.4
H2	153.2	169.4	157.1	176.0	116.9	164.9	211.8	(NA)	(NA)	219.2
1996H1	155.8	170.5	156.9	176.8	120.0	166.3	214.9	(NA)	(NA)	220.6
H2	157.9	171.0	156.3	176.8	116.9	167.7	215.0	(NA)	(NA)	232.4
1997H1	159.9	172.1	159.4	177.3	119.8	167.8	215.6	(NA)	(NA)	232.5
H2	161.2	171.8	159.0	177.0	114.8	164.6	219.1	(NA)	(NA)	245.5
1998H1	162.3	172.0	160.0	176.3	116.4	163.2	222.5	101.4	98.9	254.3
H2	163.7	171.0	158.2	175.7	108.0	161.8	229.8	100.3	99.3	258.0
1999H1	165.4	172.7	162.4	175.5	106.0	162.3	231.0	101.3	102.6	273.9
H2	167.8	173.8	163.5	176.0	104.9	162.0	231.5	102.5	106.4	277.3
2000H1	170.8	175.9	165.5	177.3	104.5	167.7	235.9	103.1	107.3	277.5
H2	173.6	176.7	164.1	178.5	102.6	171.5	243.8	102.6	105.6	281.9
2001H1	176.6	178.1	168.3	178.8	99.7	176.0	246.1	102.1	103.5	287.5
H2	177.5	178.7	170.7	179.3	102.3	173.0	[2]	101.1	105.8	291.1
2002H1	178.9	180.1	172.3	180.5	106.2	171.7	[2]	99.9	106.9	299.1
H2	180.9	180.4	171.6	181.9	99.1	170.1	266.5	99.2	108.7	305.3
2003H1	183.3	183.2	173.7	184.7	99.2	175.2	[2]	99.3	111.1	307.0
H2	184.6	185.7	176.0	187.7	97.8	177.7	[2]	101.5	113.8	308.2
2004H1	187.6	189.2	179.5	192.2	102.6	180.2	274.8	102.6	113.5	309.6
H2	190.2	191.9	180.9	196.3	99.9	184.6	277.0	102.0	113.6	315.2
2005H1	193.2	195.0	184.7	199.9	104.9	188.2	[2]	98.5	115.8	318.6
H2	197.4	200.6	187.1	210.5	100.0	195.1	[2]	97.0	112.8	323.3
2006H1	200.6	206.4	191.6	216.9	104.1	201.6	[2]	100.9	114.3	329.5
H2	202.6	212.3	196.8	228.0	104.7	202.6	[2]	101.3	113.7	334.7
2007H1	205.709	216.620	202.952	233.606	102.648	204.402	[2]	102.058	112.887	343.703
H2	208.976	222.388	206.932	243.250	105.642	205.652	309.195	103.087	115.047	351.295
2008H1	214.429	227.334	212.390	246.676	105.917	215.519	317.380	105.600	115.126	361.286
H2	216.177	230.387	220.859	250.725	104.637	212.477	318.531	104.979	119.110	369.596

Data on U.S. CPI are released monthly and Honolulu CPI twice a year in February and August for the half (H) year previous.

NA = Not Available.

[1] New indexes as of January 1998. Base period is December 1997. The former "Entertainment" index has been discontinued.

[2] No data were available or data did not meet U.S. Bureau of Labor Statistics' publication criteria.

Source: U.S. Bureau of Labor Statistics, Consumer Price Index-All Urban Consumers (Current Series) (http://data.bls.gov/cgi-bin/dsrv), and BLS Honolulu CPI News Releases (http://www.bls.gov/ro9/cpihono.htm), accessed February 20, 2009.

Table 6 (continued)

HONOLULU and U.S. CONSUMER PRICE INDEX, ALL URBAN CONSUMERS (CPI-U)
(Percentage change from the same period in previous year)

		Honolulu								
Period	U.S.	All Items	Food & Beverages	Housing	Apparel	Transport.	Medical Care	Recreation	Edu. & Comm [1]	Other Goods & Services
1991	4.2	7.2	5.9	8.0	3.3	6.3	11.1	(NA)	(NA)	9.5
1992	3.0	4.8	1.8	5.8	3.3	5.8	6.6	(NA)	(NA)	7.6
1993	3.0	3.2	3.0	3.0	2.0	2.1	8.1	(NA)	(NA)	5.9
1994	2.6	2.7	0.3	3.1	1.9	3.9	4.4	(NA)	(NA)	4.7
1995	2.8	2.2	2.2	1.8	-1.0	3.8	1.8	(NA)	(NA)	3.4
1996	3.0	1.5	-0.1	1.2	0.9	2.8	2.5	(NA)	(NA)	4.5
1997	2.3	0.7	1.7	0.2	-1.0	-0.5	1.1	(NA)	(NA)	5.5
1998	1.6	-0.2	-0.1	-0.6	-4.3	-2.2	4.0	(NA)	(NA)	7.2
1999	2.2	1.0	2.4	-0.1	-6.1	-0.2	2.3	1.1	5.4	7.6
2000	3.4	1.7	1.2	1.2	-1.8	4.6	3.7	0.9	1.9	1.5
2001	2.8	1.2	2.9	0.7	-2.4	2.9	[2]	-1.2	-1.8	3.4
2002	1.6	1.1	1.4	1.2	1.6	-2.1	[2]	-2.1	3.1	4.5
2003	2.3	2.3	1.7	2.8	-4.0	3.2	[2]	0.9	4.4	1.8
2004	2.7	3.3	3.0	4.4	2.7	3.4	[2]	1.9	0.9	1.6
2005	3.4	3.8	3.2	5.6	1.3	5.0	[2]	-4.4	0.7	2.8
2006	3.2	5.9	4.5	8.4	1.9	5.5	[2]	3.4	-0.3	3.5
2007	2.8	4.8	5.5	7.2	-0.2	1.4	[2]	1.5	0.0	4.6
2008	3.8	4.3	5.7	4.3	1.1	4.4	[2]	2.6	2.8	5.2
1996H1	2.8	2.2	0.3	2.0	1.6	3.9	3.4	(NA)	(NA)	2.9
H2	3.1	0.9	-0.5	0.5	0.0	1.7	1.5	(NA)	(NA)	6.0
1997H1	2.6	0.9	1.6	0.3	-0.2	0.9	0.3	(NA)	(NA)	5.4
H2	2.1	0.5	1.7	0.1	-1.8	-1.8	1.9	(NA)	(NA)	5.6
1998H1	1.5	-0.1	0.4	-0.6	-2.8	-2.7	3.2	(NA)	(NA)	9.4
H2	1.6	-0.5	-0.5	-0.7	-5.9	-1.7	4.9	(NA)	(NA)	5.1
1999H1	1.9	0.4	1.5	-0.5	-8.9	-0.6	3.8	-0.1	3.7	7.7
H2	2.5	1.6	3.4	0.2	-2.9	0.1	0.7	2.2	7.2	7.5
2000H1	3.3	1.9	1.9	1.0	-1.4	3.3	2.1	1.8	4.6	1.3
H2	3.5	1.7	0.4	1.4	-2.2	5.9	5.3	0.1	-0.8	1.7
2001H1	3.4	1.3	1.7	0.8	-4.6	4.9	4.3	-1.0	-3.5	3.6
H2	2.2	1.1	4.0	0.4	-0.3	0.9	[2]	-1.5	0.2	3.3
2002H1	1.3	1.1	2.4	1.0	6.5	-2.4	[2]	-2.2	3.3	4.0
H2	1.9	1.0	0.5	1.5	-3.1	-1.7	[2]	-1.9	2.7	4.9
2003H1	2.5	1.7	0.8	2.3	-6.6	2.0	[2]	-0.6	3.9	2.6
H2	2.0	2.9	2.6	3.2	-1.3	4.5	[2]	2.3	4.7	0.9
2004H1	2.3	3.3	3.3	4.1	3.4	2.9	[2]	3.3	2.2	0.8
H2	3.0	3.3	2.8	4.6	2.1	3.9	[2]	0.5	-0.2	2.3
2005H1	3.0	3.1	2.9	4.0	2.2	4.4	[2]	-4.0	2.0	2.9
H2	3.8	4.5	3.4	7.2	0.1	5.7	[2]	-4.9	-0.7	2.6
2006H1	3.8	5.8	3.7	8.5	-0.8	7.1	[2]	2.4	-1.3	3.4
H2	2.6	5.8	5.2	8.3	4.7	3.8	[2]	4.4	0.8	3.5
2007H1	2.5	5.0	5.9	7.7	-1.4	1.4	[2]	1.1	-1.2	4.3
H2	3.1	4.8	5.1	6.7	0.9	1.5	[2]	1.8	1.2	5.0
2008H1	4.2	4.9	4.7	5.6	3.2	5.4	[2]	3.5	2.0	5.1
H2	3.4	3.6	6.7	3.1	-1.0	3.3	3.0	1.8	3.5	5.2

Data on U.S. CPI are released monthly and Honolulu CPI twice a year in February and August for the half (H) year previous.

NA = Not Available.

[1] New indexes as of January 1998. Base period is December 1997. The former "Entertainment" index has been discontinued.

[2] No data were available or data did not meet U.S. Bureau of Labor Statistics' publication criteria.

Source: U.S. Bureau of Labor Statistics, Consumer Price Index-All Urban Consumers (Current Series) (http://data.bls.gov/cgi-bin/dsrv), and BLS Honolulu CPI News Releases (http://www.bls.gov/ro9/cpihono.htm), accessed February 20, 2009.

Tourism

In the first quarter of 2009, Hawaii's tourism sector continued the negative growth started in the second quarter of 2008. Domestic arrivals and international arrivals both decreased significantly. In the first quarter of 2009, average daily visitor census, visitor expenditures, total air capacity, and hotel occupancy also decreased substantially.

The total number of visitors arriving by air to Hawaii decreased by 264,003 people or 14.4 percent in the first quarter of 2009 compared to the same quarter of 2008. Similarly, the total average daily census was down 24,506 or 12.6 percent in the quarter. For the year of 2008, total visitor arrivals by air decreased 797,396 people or 10.9 percent from that of 2007, while average daily census decreased 17,539 or 8.1 percent from 2007.

The decrease was more severe in domestic arrivals. Total visitor arrivals on domestic flights decreased 238,728 or 17.7 percent in the first quarter of 2009 from the first quarter in 2008. In 2008, domestic arrivals were down 680,260 or 12.2 percent from 2007. Arrivals on international flights decreased 25,275 or 5.2 percent in the first quarter of 2009 compared to the first quarter of 2008. In 2008, international arrivals were down 117,136 or 6.1 percent from 2007.

In terms of major market areas, from the first quarter of 2008 to the first quarter of 2009, arrivals from the U.S. West decreased 127,722 or 17.7 percent, the fourth largest quarter-over-quarter decrease since 1990 for this market, while arrivals from the U.S. East decreased 84,260 or 17.0 percent. This was the seventh consecutive quarterly decline in the U.S. East market. Similarly, arrivals from Japan decreased 17,657 or 5.9 percent. In the fifteen quarters from the third quarter of 2005 to the first quarter of 2009, only one quarter had a quarter-over-quarter increase in the Japanese market. For the year of 2008, arrivals from U.S. West were down 457,784 or 14.7 percent from that of 2007; arrivals from the U.S. East were down 218,829 or 11.5 percent; and Japanese arrivals were down 135,691 or 10.5 percent from 2007.

The total average daily visitor census was down 12.6 percent or 24,506 visitors per day in the first quarter of 2009 over the same quarter of 2008. Domestic average daily census decreased 14.6 percent or 22,364 visitors per day, while international average daily census decreased 5.1 percent or 2,142 visitors per day. In 2008, domestic average daily census decreased 15,700 or 10.4 percent from that of 2007, and international average daily census decreased 1,838 or 4.8 percent from the previous year.

Nominal visitor expenditures by air totaled $2,602.3 million in the first quarter of 2009, down 17.9 percent from the same quarter of 2008. In 2008, visitor expenditures decreased $1,242.4 million or 9.9 percent from 2007.

Total airline capacity, as measured in terms of the number of available seats flown to Hawaii, decreased substantially in the first quarter of 2009 compared to the same quarter of 2008. A 20.7 percent or 403,285 decrease in domestic seats combined with a 10.4 percent or 71,452 decrease in international seats led to a 18.0 percent or 474,737 seats decrease in the number of total available seats for the quarter. For the year of 2008, the number of total available seats decreased 10.2 percent or 1,064,855 seats from 2007.

In the first quarter of 2009, statewide hotel occupancy rate averaged 69.0 percent, down 9.7 percentage points from the same quarter of 2008. For all of 2008, the occupancy rate averaged 70.4 percent, down 4.6 percentage points from 2007. In the first quarter of 2009, the hotel occupancy rate decreased the most in Hawaii County (lost 14.5 percentage points to 58.9 percent), followed by Kauai (lost 12.0 percentage points to 65.1 percent), Maui (lost 11.5 percentage points to 69.2 percent), and Honolulu (lost 6.9 percentage points to 72.6 percent).

Table 7

VISITOR ARRIVALS BY AIR, AVERAGE DAILY VISITOR CENSUS, VISITOR EXPENDITURES AND AIR SEATS OPERATED TO HAWAII

	Full Year		First Quarter		Percentage Change	
Category	**2007**	**2008 [1]**	**2008 [1]**	**2009 [1]**	**2007 - 2008 [1]**	**2008 Q1 - 2009 Q1 [1]**
Visitor Arrivals by Air [2]						
Domestic	5,582,530	4,902,270	1,345,192	1,106,464	-12.2	-17.7
International	1,914,290	1,797,154	485,943	460,668	-6.1	-5.2
Total	7,496,820	6,699,424	1,831,135	1,567,132	-10.6	-14.4
Average Daily Visitor Census						
Domestic	150,960	135,260	152,723	130,359	-10.4	-14.6
International	38,452	36,613	41,672	39,531	-4.8	-5.1
Total	189,412	171,873	194,395	169,889	-9.3	-12.6
Visitor Expenditures ($M) [3]	12,578	11,336	3,171	2,602	-9.9	-17.9
Air Seats Operated to Hawaii [4]						
Domestic	7,560,822	6,807,424	1,949,847	1,546,562	-10.0	-20.7
International	2,843,006	2,531,549	686,991	615,539	-11.0	-10.4
Total	10,403,828	9,338,973	2,636,838	2,162,101	-10.2	-18.0

[1] 2008 and 2009 data are preliminary.

[2] Overnight stay or longer.

[3] By persons arriving by air and staying overnight or longer. Excludes supplemental business expenditures.

[4] Includes scheduled and chartered seats.

Source: DBEDT (http://www.hawaii.gov/dbedt/info/visitor-stats).

Table 8

HOTEL OCCUPANCY RATE (%)

Year	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Annual Average
1982	79.0	65.9	70.9	66.7	70.4
1983	75.2	68.1	71.7	66.5	69.7
1984	84.0	75.6	74.6	75.1	76.0
1985	88.1	69.1	75.0	72.5	76.1
1986	87.0	78.8	79.9	76.8	81.7
1987	88.0	77.1	82.1	77.8	81.1
1988	81.7	75.1	81.3	75.1	78.5
1989	85.9	73.9	81.0	75.7	79.0
1990	83.9	75.5	81.0	74.3	78.8
1991	68.2	70.7	79.7	72.5	72.4
1992	75.3	68.6	75.5	75.2	72.7
1993	75.3	67.9	73.8	72.5	72.0
1994	80.9	72.7	79.1	74.8	76.5
1995	79.5	70.3	79.2	75.1	75.8
1996	81.9	72.3	77.1	70.0	75.2
1997	79.5	70.8	75.5	69.9	73.9
1998	77.4	68.7	72.9	67.7	71.5
1999	77.0	67.7	75.0	68.7	72.1
2000	79.2	75.2	78.5	73.1	76.0
2001	80.7	70.7	70.3	57.2	69.2
2002	71.7	67.9	72.5	67.1	69.7
2003	74.4	67.1	77.4	71.3	72.6
2004	80.2	75.7	81.5	73.4	77.7
2005	83.8	78.4	84.8	77.2	81.1
2006	83.6	78.2	82.5	74.1	79.5
2007	77.5	72.0	78.6	72.0	75.0
2008	78.7	69.0	70.6	63.7	70.4
2009	69.0	(NA)	(NA)	(NA)	(NA)

Quarterly averages are computed by DBEDT from PKF-Hawaii monthly averages through January 1995 and Hospitality Advisors LLC monthly averages from February 1995.

Source: DBEDT, PFK-Hawaii and Hospitality Advisors LLC.

Construction

In the first quarter of 2009, the indicators of Hawaii's construction industry were mostly negative. Both the value of government contracts awarded and the value of private building authorizations decreased compared to the same quarter last year. Only the State Government Capital Improvement Project (CIP) expenditures increased slightly in the quarter. Reflecting the decrease in private construction, construction jobs also decreased substantially in the quarter.

Construction was one of the major contributors to job growth in Hawaii. Over the five-year period from 2002 to 2007, construction job growth averaged 8.2 percent per year. In the first quarter of 2009, however, the Natural Resources, Mining and Construction sector lost 4,000 jobs, a decrease of 10.3 percent compared with the same quarter last year. This is the fourth negative quarter-over-quarter growth since the first quarter of 2002. In 2008, construction jobs decreased 2.8 percent or 1,100 jobs compared to 2007.

In the first quarter of 2009, the total value of private building authorizations decreased $199.0 million or 26.8 percent compared with the first quarter of 2008. In the first quarter of 2009, the value of new residential permits was down $76.9 million or 21.8 percent, that of new commercial and industrial permits was down $55.1 million or 58.7 percent, and that of additions and alternations permits was down $67.0 million or 22.8 percent, compared to the same quarter last year. In 2008, total private building authorizations decreased $678.9 million or 18.9 percent compared with that of 2007.

In the first quarter of 2009, the value of total private building permits decreased from the same quarter of 2008 in all counties except Kauai County. In dollar terms, Hawaii County decreased the most at $163.0 million or 66.9 percent, followed by Honolulu County at $61.8 million or 20.0 percent, and Maui County at $35.3 million or 32.8 percent. Kauai County increased $61.2 million or 76.7 percent.

Government contracts awarded also decreased $28.9 million or 14.8 percent in the first quarter of 2009 compared to the same quarter of 2008. In 2008, government contracts awarded increased $83.3 million or 9.6 percent compared with that of 2007. State Government CIP expenditures, however, increased $8.4 million or 2.3 percent in the first quarter of 2009 from the same quarter in 2008. In 2008, CIP expenditures increased $72.1 million or 4.9 percent from 2007.

Single-family unit authorizations decreased 19.5 percent in the first quarter of 2009 compared to the same quarter of 2008. In 2008, single-family unit authorizations decreased 36.4 percent from 2007. The value of multi-family units authorized was up 412.1 percent in the first quarter of 2009 compared to the same quarter last year. In 2008, the number of multi-family units authorized was down 17.4 percent compared to 2007.

The Honolulu Construction Cost Index for Single Family Residences increased 2.6 percent in the first quarter of 2009 over that of 2008, while the comparable index for High-Rise Buildings rose 2.8 percent.

In the first quarter of 2009, Honolulu's median price for single family resales was $570,000, an 8.1 percent decrease from the same quarter in 2008, and the median price for condominium resales was $300,000, a 9.1 percent decrease from the same quarter last year. In the first quarter of 2009, the number of single-family unit and condominium unit resales was down 34.8 percent and 45.3 percent, respectively, from the first quarter of 2008.

Table 9

ESTIMATED VALUE OF COMPLETED CONSTRUCTION, NEW PRIVATE BUILDING AUTHORIZATIONS, AND GOVERNMENT CONTRACTS AWARDED

(In millions of dollars)

Year	Contracting Tax Base [1]	Private Building Authorizations [4]: Total Private Authorizations	Residential [4]	Commercial & Industrial [2]	Additions & Alterations	Government Contracts Awarded
1996	3,285.1	1,117.8	487.0	252.8	378.0	885.5
1997	2,944.4	1,179.2	542.5	264.5	372.2	615.6
1998	3,016.0	1,054.3	485.5	205.6	363.2	685.1
1999	2,991.2	1,320.2	628.8	306.2	385.3	584.8
2000 [3]	3,613.5	1,512.6	800.1	246.2	466.2	810.9
2001	3,766.4	1,585.7	882.4	329.1	374.2	715.7
2002 [4]	4,275.0	1,772.0	1,112.9	254.2	404.9	768.3
2003 [4]	4,536.3	2,351.8	1,335.1	509.2	507.5	633.4
2004 [4]	4,921.5	2,726.5	1,767.7	303.3	655.6	1,384.6
2005 [4]	5,851.0	3,492.0	2,259.3	433.6	799.1	725.1
2006 [4, 5]	7,223.3	3,770.1	1,811.8	732.0	1,226.2	853.8
2007 [4, 5]	8,072.9	3,585.4	1,855.4	703.9	1,026.2	869.5
2008 [4, 5]	7,987.1	2,906.6	1,381.6	427.1	1,097.9	952.8
2006 1 Qtr. [4, 5]	1,714.7	766.2	481.1	61.1	224.0	297.2
2 Qtr. [4, 5]	1,677.1	908.1	451.6	160.7	295.9	174.4
3 Qtr. [4, 5]	1,920.2	1,051.5	460.5	206.5	384.5	220.6
4 Qtr. [4, 5]	1,911.3	1,044.2	418.6	303.8	321.8	161.6
2007 1 Qtr. [4, 5]	1,991.0	737.1	412.1	59.7	265.3	180.1
2 Qtr. [4, 5]	2,081.1	1,085.7	668.8	222.6	194.2	317.7
3 Qtr. [4, 5]	1,924.9	896.3	412.1	144.3	339.9	255.1
4 Qtr. [4, 5]	2,075.9	866.3	362.3	277.2	226.8	116.5
2008 1 Qtr. [4, 5]	1,885.1	741.1	353.2	94.0	293.9	196.2
2 Qtr. [4, 5]	1,977.5	1,048.5	517.4	154.7	376.5	132.8
3 Qtr. [4, 5]	2,095.9	690.0	346.5	132.3	211.3	351.8
4 Qtr. [4, 5]	2,028.6	426.9	164.5	46.2	216.2	272.0
2009 1 Qtr. [4]	(NA)	542.2	276.3	38.8	227.0	167.2

First Hawaiian Bank has discontinued compiling Government Contracts Awarded. DBEDT has compiled preliminary estimates beginning with the fourth quarter 1997 based on data in *Building Industry*.

1 Formerly, this category was "Value of Construction Completed", subject to revision by Hawaii State Department of Taxation.

2 Includes hotels.

3 Kauai County Private Building Authorizations data for November consist of residential data only.

4 Beginning with 2002 Kauai Private Building Authorizations data available for residential only.

5 Contracting tax base data have been revised.

Source: Hawaii State Department of Taxation; county building departments; U.S. Census Bureau; First Hawaiian Bank; *Building Industry*.

Table 10

ESTIMATED VALUE OF PRIVATE BUILDING CONSTRUCTION AUTHORIZATIONS, BY COUNTY
(In thousands of dollars)

Year	State	% Change	City & County of Honolulu	% Change	Hawaii County	% Change	Kauai County	% Change	Maui County	% Change
1996	$1,117,760	-27.0	$ 698,697	-28.8	$ 171,017	-36.0	$ 101,981	29.2	$ 146,065	-28.6
1997	1,179,182	5.5	772,825	10.6	155,776	-8.9	97,808	-4.1	152,773	4.6
1998	1,054,281	-10.6	624,226	-19.2	178,220	14.4	88,196	-9.8	163,638	7.1
1999	1,320,218	25.2	706,358	13.2	243,852	36.8	140,846	59.7	229,162	40.0
2000 [1]	1,512,601	14.6	694,224	-1.7	321,705	31.9	141,313	0.3	355,361	55.1
2001	1,585,739	4.8	682,660	-1.7	380,248	18.2	210,094	48.7	312,738	-12.0
2002 [2]	1,772,027	11.7	876,051	28.3	449,600	18.2	172,662	-17.8	273,717	-12.5
2003 [2]	2,351,762	32.7	1,109,568	26.7	619,675	37.8	153,242	-11.2	469,277	71.4
2004 [2]	2,726,537	15.9	1,320,552	19.0	826,494	33.4	130,660	-14.7	448,830	-4.4
2005 [2]	3,491,965	28.1	1,364,029	3.3	1,008,388	22.0	288,132	120.5	831,416	85.2
2006 [2]	3,770,051	8.0	1,625,328	19.2	926,019	-8.2	239,294	-17.0	979,412	17.8
2007 [2]	3,585,447	-4.9	1,676,232	3.1	912,529	-1.5	268,915	12.4	727,772	-25.7
2008 [2]	2,906,578	-18.9	1,481,272	-11.6	704,317	-22.8	277,149	3.1	443,840	-39.0
2006 1 Qtr. [2]	766,238	8.4	299,983	-1.6	257,258	54.0	28,616	-77.3	180,380	66.7
2 Qtr. [2]	908,136	24.7	406,075	18.4	217,061	13.5	70,557	-18.1	214,443	98.1
3 Qtr. [2]	1,051,476	0.1	473,556	53.6	254,057	-31.9	91,856	117.7	232,007	-29.0
4 Qtr. [2]	1,044,202	3.8	445,714	9.3	197,642	-28.6	48,265	44.3	352,582	22.3
2007 1 Qtr. [2]	737,121	-3.8	353,732	17.9	209,681	-18.5	58,575	104.7	115,132	-36.2
2 Qtr. [2]	1,085,692	19.6	540,310	33.1	306,363	41.1	41,091	-41.8	197,928	-7.7
3 Qtr. [2]	896,293	-14.8	469,854	-0.8	188,762	-25.7	102,612	11.7	135,064	-41.8
4 Qtr. [2]	866,342	-17.0	312,336	-29.9	207,722	5.1	66,637	38.1	279,648	-20.7
2008 1 Qtr. [2]	741,141	0.5	309,828	-12.4	243,855	16.3	79,728	36.1	107,730	-6.4
2 Qtr. [2]	1,048,550	-3.4	528,685	-2.2	186,956	-39.0	91,645	123.0	241,264	21.9
3 Qtr. [2]	690,037	-23.0	379,567	-19.2	175,904	-6.8	88,683	-13.6	45,883	-66.0
4 Qtr. [2]	426,849	-50.7	263,191	-15.7	97,602	-53.0	17,094	-74.3	48,963	-82.5
2009 1 Qtr. [2]	542,152	-26.8	247,996	-20.0	80,818	-66.9	140,896	76.7	72,440	-32.8

[1] Kauai County data for November consist of residential data only.

[2] Beginning with 2002, Kauai data available for residential only. Values shown for 2001 are all private authorizations, however percentage change 2001-2002 is based on residential only or 2001Q1 of 32,006; 2001Q2 of 22,290; 2001Q3 of 26,613; 2001Q4 of 53,344 and 2001 of 134,253.

Source: County building departments.

Federal Government Expenditures in Hawaii

According to the most recent data available, total federal direct expenditures or obligations in Hawaii reached $14.1 billion in the federal fiscal year ending September 30, 2007, an increase of 4.2 percent over the previous year. Between federal fiscal years 1997 and 2007, the annual average growth rate for federal expenditures was about 5.6 percent. In 2008, total federal government compensation of employees in Hawaii reached $8,291.5 million, an increase of 7.1 percent from 2007. Between 1998 and 2008, the annual average growth rate for federal government compensation of employees in Hawaii was 6.8 percent. According to the most recent data available, federal government accounted for about 13.6 percent of State GDP in Hawaii in 2006, much of which is defense-related.

The latest data from the U.S. Department of Commerce indicate that the total earnings of federal government personnel in the fourth quarter of 2008 increased 7.7 percent compared to the same quarter of 2007. Total military earnings and total federal civilian earnings increased 7.0 percent and 8.9 percent, respectively, for the quarter.

Military spending for construction in Hawaii for the federal fiscal year 2009, which begins on October 1, 2008, would total $544 million under the $3.1 trillion budget request President Bush unveiled on February 4, 2008 and is about the same as the federal fiscal year 2008 allotment. Appropriations for federal fiscal year 2008 defense projects in Hawaii total nearly $742 million. This includes a military construction program of $533.6 million, and $208 million for defense-related projects. In addition, $5.5 million is to be provided to improve infrastructure and educational programs for Hawaii's public schools with high enrollments of military children. Further, the federal education budget includes $48.2 million in impact aid funding for Hawaii's public schools. Ongoing programs to privatize construction, renovation and operation of military housing will contribute an estimated $3 billion over the next decade.

Banks and Other Financial Institutions

As of December 31, 2008, total assets of all State-chartered financial institutions, including banks, savings and loan associations and industrial loan companies, were reported at $29.89 billion, a 0.82 percent increase from December 31, 2007. The five State-chartered banks accounted for $29.20 billion of such assets.

Transportation

Because the State's population resides on seven islands, the State is dependent on fast, efficient, low-cost transportation, both interstate and intrastate.

Sea Transportation. The State is dependent on regular shipping service for overseas lifeline support. While nearly all visitors to the State arrive by air, sea transportation provides the State with the bulk of both its imported goods and delivery of exported local products. Overseas and inter-island cargo shipments for the fiscal years 2005 through 2008 amounted to 20.2 million, 20.7 million, 21.5 million, and 21.1 million short tons, respectively.

The Harbors System is comprised of eleven commercial harbors which are operated and maintained by the Department of Transportation as a single integrated system for financial and management purposes. The harbors are: (1) Honolulu Harbor, Kalaeloa Barbers Point Harbor and Kewalo Basin on the island of Oahu, comprising the Oahu District; (2) Hilo Harbor and Kawaihae Harbor on the island of Hawaii, comprising the Hawaii District; (3) Nawiliwili Harbor and Port Allen Harbor on the island of Kauai, comprising the Kauai District; (4) Kahului Harbor and Hana Harbor on the island of Maui, Kaunakakai Harbor on the island of Molokai, and Kaumalapau Harbor on the island of Lanai, comprising the Maui District. The Harbors System managed Kewalo Basin for its landowner, the Hawaii Community Development Authority. Effective March 1, 2009, the Hawaii Community Development Agency assumed management and operations of Kewalo Basin. Kewalo Basin's inclusion as a program under the Harbors System will cease on June 30, 2009. Act 200, SLH 2008, authorized the transfer of Hana Harbor on the island of Maui to the jurisdiction of the Harbors System, effective July 1, 2008.

The State uses nine harbors, with the exception of Kewalo Basin and Hana Harbor, to facilitate the movement of goods from and between the mainland, foreign and inter-island ports. The number of commercial vessels entering all ports was 9,714 in fiscal year 2005, 10,465 in fiscal year 2006, 10,541 in fiscal year 2007 and 11,005 in fiscal year 2008.

Honolulu Harbor is the hub of the Statewide Commercial Harbors System. It serves as a major distribution point of overseas cargo to the neighbor islands and is the primary consolidation center for the export of overseas cargo. Overseas and inter-island cargo tonnage handled through Honolulu Harbor was 9.8 million short tons in fiscal year 2005, 9.8 million short tons in fiscal year 2006, 10.2 million short tons in fiscal year 2007 and 10.1 million short tons in fiscal year 2008. The State manages, maintains and operates the statewide harbors system to provide for the efficient movement of cargo and passengers.

Hawaii has experienced growth in cruise ship passenger volumes in recent years. From 2006 to 2007, the number of cruise ship visitor arrivals increased 20.6 percent from 415,967 to 501,698. However, as described in the next paragraph, two cruise ships were redeployed away from the Hawaii market during the first half of 2008, significantly reducing capacity.

Norwegian Cruise Lines America ("NCLA") homeported three cruise ships in Hawaii—the Pride of Hawaii, the Pride of America and the Pride of Aloha—providing the State with year-round inter-island service. In February 2008, however, NCLA withdrew the Pride of Hawaii from Hawaii service to operate in Europe as the Norwegian Jade. Then in May 2008, NCLA deployed the Pride of Aloha to Asia, leaving only the Pride of America to serve the Hawaii market. NCLA and other foreign cruise ships utilize the new cruise passenger terminal constructed at Pier 2, Honolulu Harbor.

In addition, Hawaii Superferry, Inc. ("HSF"), a private ferry operator, briefly operated a large-capacity roll on/roll off high-speed ferry service for the transport of passengers and vehicles, including cars, trucks and commercial vehicles, between Honolulu and Kahului Harbors. After HSF commenced service on August 26, 2007, the Hawaii Supreme Court ruled that an environmental assessment must be performed with respect to certain improvements at Kahului Harbor intended for use by HSF. A related circuit court decision ruled that HSF could not operate at Kahului Harbor until an environmental assessment was completed. These court actions halted HSF operations until the Hawaii State Legislature convened a special session and enacted Act 2, Second Special Session 2007, on November 2, 2007 to allow large-capacity ferry vessel companies, such as HSF, to operate under certain conditions while the required environmental reviews are conducted. Daily service between Honolulu and Kahului Harbors re-commenced on December 13, 2007. On March 16, 2009, however, the Hawaii Supreme Court ruled that Act 2 violated the State's constitutional prohibition against legislative special treatment for special interests. As a result of this decision, HSF ceased operations on March 19, 2009. On May 30, 2009, HSF and its parent, HSF Holding Inc., filed Chapter 11 bankruptcy petitions in the United States Bankruptcy Court, District of Delaware, and announced their plan to liquidate.

Act 200, Session Laws of Hawaii, 2008, was enacted to authorize a statewide Harbors Modernization Plan to address harbor infrastructure improvements to Kahului Harbor on Maui, Nawiliwili Harbor on Kauai, Hilo and Kawaihae Harbors on Hawaii, and Honolulu and Kalaeloa Harbors on Oahu. In addition to the six commercial harbors included in the plan, the law placed Hana Harbor on Maui under the jurisdiction of the Harbors System and included appropriations for its upgrade. Act 200 also designated the Aloha Tower Development Corporation as the entity responsible for the management and implementation of the Harbors Modernization Plan under the direction of the Department of Transportation. The Act authorizes the Department of Transportation to issue harbor revenue bonds to finance the improvements. The cost of the plan is estimated at $618 million.

Air Transportation. The State operates and maintains 15 airports on six islands within the State. The principal airport which provides facilities for overseas flights (i.e., other than inter-island flights within the State) is Honolulu International Airport (HNL) on the island of Oahu. HNL is located approximately five miles by highway from the center of the downtown area of Honolulu. It has four runways, two of which (12,000 feet and 12,300 feet) are among the nation's longest. Approximately 60 aircraft can be handled at one time at the terminal complex, including 36 wide-bodied aircraft. With 29 overseas gate positions, 18 inter-island and commuter positions and public parking stalls increasing from 4,579 to 6,379 vehicles as a result of a new parking structure opened in February 2009 at HNL. HNL is the most important in the State airports system. The airfield at Barber's Point Naval Air Station became Kalaeloa Airport, a general aviation reliever airport for HNL, in July 1999.

Kahului Airport on the island of Maui, Hilo International Airport (renamed from General Lyman Field) at Hilo and Kona International Airport at Keahole (both on the island of Hawaii), and Lihue Airport on the island of Kauai, also service direct flights to and from the continental United States.

In fiscal year 2008, HNL recorded 304,839 aircraft operations, as compared to 320,112 in fiscal year 2007. In addition, HNL passenger counts decreased from 20,908,614 in fiscal year 2007 to 20,808,838 in fiscal year 2008.

Until March 31, 2008, inter-island air travel in Hawaii was primarily served by Aloha Airlines and Hawaiian Airlines. In June 2006, Mesa Air Group began inter-island service as go! Airlines. On March 20, 2008, Aloha Airlines, Inc. filed a petition for relief under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court of the District of Hawaii. On March 31, 2008, Aloha Airlines ceased all passenger operations. On April 29, 2008, Aloha Airlines, which had handled approximately 85% of Hawaii's inter-island air cargo, ceased all air cargo operations and well as maintenance cleaning services. Almost immediately thereafter, such operations were taken over by Aeko Kula, Inc. (cargo) and Aloha Contract Services LLC (maintenance services). Both the bankruptcy of Aloha Airlines and the rising cost of fuel have led to decreased statewide enplanement activities of 10%, comparing May 2007 and 2008. In

October 2008, Mokulele Airlines expanded its inter-island service utilizing a portion of the former Aloha Airlines hold rooms and baggage areas.

In October 2007, the Airports Division and a majority of the airlines executed the First Amended Lease Extension Agreement effective January 1, 2008. The terms and conditions of the Airport-Airline Lease were amended to reflect a rate-making methodology that recovers costs of specific Airports System facilities from the airlines that directly use them. An Airport System Support Charge Cost Center is set up to serve as the residual cost center to ensure Airport System operating revenues are sufficient to cover Airport System operating costs.

The Airports Division is in the process of implementing a modernization program which will include significant capital improvements for several of the major airports in the State, including Honolulu, Kahului, Kona and Lihue. The program is currently estimated to cost in excess of $2.0 billion through 2021 and will be paid for from a variety of sources including cash, grants, passenger facility charges and revenue bonds.

Land Transportation. In the State, three levels of government have authority to construct and maintain public highways, streets and roads. These levels of government are the State, the counties and various federal agencies. The State is served by approximately 4,234.75 linear miles of public highways, streets and roads administered by the Department of Transportation and the counties. An additional 117.64 miles of public highways, streets and roads open to the public in national parks and military reservations are the responsibility of various federal agencies, including the United States National Park Service and the military services.

The State Highway System, which is administered by the Department of Transportation, consists of 932.27 linear miles of roadways. The most important component of the State Highway System is the 55 miles of interstate system on Oahu, which includes Interstates H-1, H-2, H-3 and H-201.

The following table shows the motor vehicle registrations in the State for the years 2002 through 2008, inclusive.

Table 11

MOTOR VEHICLE REGISTRATION

Year	Vehicles
2002	987,598
2003	1,030,845
2004	1,072,211
2005	1,119,838
2006	1,127,467
2007	1,134,542
2008	1,160,643

Source: Hawaii State Department of Transportation.

Education

The State operates a statewide public school system for elementary, intermediate, and high schools and colleges and universities. In the 2008-2009 school year, system enrollment decreased from a total of 178,369 in the 2007-2008 school year to a total of 177,871 in 285 K-12 public schools. The public education system at all levels (elementary, intermediate, high school, colleges and universities) is financed at the State level rather than the local level. This includes both capital outlays and costs of operation. Within the total student count, the number of students in Department of Education schools has decreased, while the number of charter school students has increased.

The University of Hawaii was established in 1907 on the model of the American system of land-grant universities created initially by the Morrill Act of 1862. In the 1960s and 1970s, the University was developed into a system of accessible and affordable campuses. These institutions currently include:

- a research university at Manoa, offering a comprehensive array of undergraduate, graduate and professional degrees through the doctoral level, including law and medicine;

- a comprehensive, primarily baccalaureate institution at Hilo, a College of Pharmacy with a four-year curriculum leading to a Doctor of Pharmacy degree, seated its inaugural class in the fall of 2007; offering professional programs based on a liberal arts foundation and selected graduate degrees;

- a baccalaureate institution at West Oahu, offering degrees in the liberal arts and professional studies; and

- a system of seven open-door community colleges spread across the islands of Kauai, Oahu, Maui and Hawaii, offering quality liberal arts and workforce programs.

In the fall of 2007, 50,454 students attended the University of Hawaii system, 20,051 of them on the Manoa Campus. In the fall of 2008, 53,526 students attended the University of Hawaii system, 20,169 of them on the Manoa Campus.

State Housing Programs

Since 1970, the State has undertaken a program to alleviate the shortage of housing in the State under a comprehensive housing law. The law recognizes that all phases of housing are related to one another and consequently attempts to cover all such phases, from construction through permanent financing, and also attempts to solve or mitigate the housing problem by using both the public and private sectors. To this end the State has undertaken, among other things, facilitating the development of real property and the construction of dwelling units thereon in partnerships with qualified developers and contractors. The State's participation in such partnerships has consisted of construction financing (interim financing), including land acquisition. Other State efforts include construction and permanent financing for developers of residential housing; development by the State itself of single and multifamily residential housing units on land owned by the State or on land purchased or to be purchased for such purpose or on land to be leased from others; and loans to qualified residents of the State who are qualified purchasers of affordable dwelling units.

The State also administers federal and state housing assistance programs for low-income families. Included are the management of low-rent public housing units, the administration of the Section 8 tenant-based housing assistance program and other federal and State programs intended to provide very low to low-income residents with safe, decent and sanitary housing.

The State housing programs previously were carried out by the Housing and Community Development Corporation of Hawaii (the "HCDCH"). On July 1, 2006, pursuant to Act 196, SLH 2005, as amended by Act 180, SLH 2006, the HCDCH was bifurcated into the Hawaii Public Housing Authority (the "HPHA") and the Hawaii Housing Finance and Development Corporation (the "HHFDC"). The assets, obligations and functions of the HCDCH were transferred to the HHFDC and to the HPHA, as provided by such Acts. The HHFDC performs the function of housing finance and development. The HHFDC is empowered to raise funds through the issuance of revenue bonds and to use such funds for housing purposes. The bonds are special obligations of the HHFDC and do not impact the debt limit of the State, nor do the bonds constitute general obligations of the State. The HPHA performs the function of developing and maintaining public housing.

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SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

The following is a summary of certain provisions of the Indenture. This summary does not purport to be comprehensive or definitive and is subject to all of the terms and provisions of the Indenture, to which reference is hereby made, and copies of which are available from the Corporation. Certain provisions of the Indenture have been summarized in the sections of the Remarketing Circular entitled "THE 2004B BONDS" and "SOURCES OF PAYMENT AND SECURITY FOR THE BONDS".

Certain Definitions

The following are definitions in summary form of certain terms contained in the Indenture and used in this Remarketing Circular:

Accrued Aggregate Debt Service means, as of any date of calculation, the sum of the amounts of Debt Service that have accrued with respect to all Series of Bonds, calculating the Debt Service that has been accrued with respect to each Series of Bonds as an amount equal to the sum of (i) the interest on the Bonds of such Series that has accrued and is unpaid and that will have accrued or is estimated to accrue by the end of the then current calendar month, and (ii) that portion of the next due Principal Installment for the Bonds of such Series that would have accrued (if deemed to accrue in the manner set forth in the definition of "Debt Service" in this Summary) by the end of the then current calendar month.

Aggregate Debt Service means, as of any date of calculation and with respect to any period, the sum of the amounts of Debt Service for all Series of Bonds for such period.

Authorized Officer means the Executive Director, the Administrative Services Officer or the Finance Manager of the Corporation or any other officer or employee of the Corporation authorized by the by-laws or a resolution of the Board to perform the act or sign the document in question.

Bondowner or Owner or Owner of Bonds, or any similar term, means any person who shall be the registered owner of any Bond.

Certified Interest Rate means with respect to any Series of Variable Rate Bonds, the long-term rate of interest as certified by the Corporation at the time of issuance thereof; provided that in no event shall a Certified Interest Rate be less than 75% of the average weighted coupon rate of all Bonds (other than Variable Rate Bonds) Outstanding at the time of issuance of a Series of Variable Rate Bonds.

Corporation means the Hawaii Housing Finance and Development Corporation, a public body and a body corporate and politic, duly organized and existing under the laws of the State or any successor or successors thereto hereafter provided by law.

Cost of Acquisition and Construction means, with respect to any Program Development, the Corporation's cost properly attributable to the acquisition, construction, equipping, clearing, improving, rehabilitating, planning, development and financing thereof, and costs of preparing the same for use and occupancy, including but not limited to all costs of preparation and issuance of Bonds and related obligations; all properly chargeable initial costs of credit enhancement and liquidity facilities for Bonds; the cost of acquisition by or for the Corporation of real or personal property or any interest therein; costs of physical construction, purchasing and installing equipment, utilities, fixtures and apparatus necessary or convenient for the use and occupancy of any Program Development; costs of the Corporation incidental to such acquisition, construction, equipping, clearing, improving, rehabilitating, planning, development and financing; interest during acquisition or construction and for a period of time thereafter; the cost of any indemnity, performance, payment, maintenance and surety bonds and premiums on insurance during construction; engineering, architectural, supervisory, inspection, legal and clerical fees and expenses; costs of audits, fees and expenses of the Fiduciaries and costs of training, testing, financing, administrative and general overhead and keeping accounts and making reports required by the Indenture; amounts, if any, required by the Indenture to be paid into the Acquisition and Construction Fund, to be remitted into the Acquisition and Construction Interest Account, the Debt Reserve Fund, the Renewal and Contingency Fund or any other reserve funds created under the Indenture upon the issuance of any Series of Bonds; payments when due (whether at the maturity of principal or the due date of interest or upon redemption) of any indebtedness of the Corporation (other than the Bonds) incurred for such Program Development, and costs required for the commencement of the use and occupancy of such Program Development; and shall include reimbursement to the Corporation for any such items of Cost of Acquisition and Construction theretofore paid by or on behalf of the Corporation, prior to the issuance of Bonds.

Debt Reserve Requirement means, as of the date of calculation, (i) with respect to any Series of Bonds, the amount required to be maintained in the Debt Reserve Fund with respect to such Series of Bonds in the Supplemental Indenture providing for the issuance of such Series of Bonds, and (ii) with respect to all Series of Bonds Outstanding, an amount equal to the aggregate of all Debt Reserve Requirements established in the Supplemental Indentures providing for the issuance of such Bonds.

Debt Service means, as of any date of calculation and with respect to any period for any Series, an amount equal to the sum of: (i) the interest accruing during such period on the Bonds of such Series, except to the extent that such interest is to be paid from (w) amounts on deposit in the Acquisition and Construction Interest Account in the Acquisition and Construction Fund, (x) amounts on deposit in the Debt Service Fund, (y) amounts on deposit in an Escrow Fund, or (z) any other provisions made for the payment of interest other than a Support Facility, and (ii) that portion of each Principal Installment for the Bonds of such Series that would have accrued during such period if each such Principal Installment were deemed to accrue daily in equal amounts from the next preceding Principal Installment due date (or, in the event there shall have been no such preceding Principal Installment due date, then from a date one year preceding the due date of such Principal Installment or from the date of issuance of the Bonds of such Series, whichever is later). Such interest and Principal Installments shall be calculated on the assumption that no Bonds of such Series Outstanding at the date of calculation will cease to be Outstanding except by reason of the payment of each Principal Installment for the Bonds of such Series on the due date thereof. The interest rate on Variable Rate Bonds shall be determined as follows: (a) with respect to a Series of Variable Rate Bonds at the time of calculation then Outstanding, the interest rate shall be the higher of (1) the weighted average interest rate per annum borne by such issue of Variable Rate Bonds for the twelve month period then ended at the time of calculation or (2) the weighted average interest rate per annum on such issue of Variable Rate Bonds (computed on an actual day basis) for the three most recently completed calendar months and (b) with respect to Variable Rate Bonds then proposed to be issued, the interest rate shall be assumed to be the Certified Interest Rate. For all purposes of calculating the Debt Reserve Requirement under the Indenture, Debt Service shall not include Debt Service on Bonds to the extent principal of and interest on such Bonds are secured by and payable from amounts on deposit in an Escrow Fund.

Escrow Fund means any escrow fund established pursuant to a Supplemental Indenture in connection with a Series of Bonds that serves as a repository for Proceeds of such Series of Bonds pending disbursement in accordance with the terms of such Supplemental Indenture.

Estimated Net Revenues means for any Fiscal Year, the Estimated Revenues for such Fiscal Year less the projected Operation and Maintenance Costs for such Fiscal Year.

Estimated Revenues means for any Fiscal Year, the projected Revenues for such Fiscal Year.

Existing Program Developments means the presently existing facilities of the Program.

Fiscal Year means a period beginning on July 1 in any year and ending on June 30 of the succeeding year or such other one year period as the Corporation shall determine and certify to the Trustee.

Housing Consultant means an independent consultant or firm of consultants not under the control of the Corporation recognized to be knowledgeable in housing matters relating to multi-family rental housing developments, such consultant or consultants to be selected by or on behalf of the Corporation.

Investment Securities means and includes any of the following securities, if and to the extent the same are at the time legal for investment of the Corporation's moneys and are not prohibited by a Rating Agency:

(i) direct obligations of or obligations guaranteed by the United States of America or obligations of any state of the United States of America or any political subdivision of such a state, assigned by a Rating Agency its highest rating and payment of which is secured by an irrevocable pledge of such obligations of the United States;

(ii) (A) bonds, debentures or other obligations issued by Student Loan Marketing Association, Federal Land Banks, Federal Intermediate Credit Banks, Banks for Cooperatives, Federal Home Loan Banks, Tennessee Valley Authority, the United States Postal Service, Federal Farm Credit System, Federal Home Loan Mortgage Corporation, Export Import Bank, World Bank, International Bank for Reconstruction and Development and Inter-

American Development Bank; or (B) bonds, debentures or other obligations issued by Federal National Mortgage Association (excluding mortgage securities which are valued greater than par on the portion of unpaid principal or mortgage securities which represent payments of principal only or interest only with respect to the underlying mortgage loans);

(iii) any obligations of an agency controlled or supervised by or acting as an instrumentality of the United States Government pursuant to authority granted by the Congress of the United States;

(iv) obligations issued by public agencies or municipalities and fully secured as to the payment of both principal and interest by a pledge of annual contributions under an annual contributions contract or contracts with the United States of America, or temporary notes, preliminary loan notes or project notes issued by public agencies or municipalities and fully secured as to the payment of both principal and interest by a requisition or payment agreement with the United States of America;

(v) time deposits, certificates of deposit or any other deposit with a bank, trust company, national banking association, savings bank, federal mutual savings bank, savings and loan association, federal savings and loan association or any other institution chartered or licensed by any state or the U.S. Comptroller of the Currency 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 secured, to the extent not insured by the Federal Deposit Insurance Corporation, by any of the obligations described in (i) above having a market value (exclusive of accrued interest) not less than the uninsured amount of such deposit or (b) (1) unsecured or (2) secured to the extent, if any, required by the Corporation and made with an institution whose unsecured debt securities are rated at least the then existing ratings on the Bonds (or the highest ratings of short-term obligations if the investment is a short-term obligation) by a Rating Agency;

(vi) repurchase agreements backed by or related to obligations described in (i), (ii) or (iii) above (A) with any institution whose unsecured debt securities are rated at least the then existing ratings on the Bonds (or the highest rating of short-term obligations if the investment is a short-term obligation) by a Rating Agency or (B) with members of the Association of Primary Dealers which do not qualify under (A);

(vii) investment agreements, (A) secured or unsecured as required by the Corporation, with any institution whose debt securities are rated at least the then existing ratings on the Bonds (or the highest rating of short-term obligations if the investment is a short-term obligation) by a Rating Agency or (B) fully secured by obligations described in (i) with members of the Association of Primary Dealers who do not qualify under (A);

(viii) 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, and certificates of participation in obligations of the State including obligations the payment of which is subject to annual appropriations, if such obligations are rated at least the then existing ratings on the Bonds by a Rating Agency;

(ix) direct and general obligations of or obligations guaranteed by any state, municipality or political subdivision or agency thereof, which obligations are rated in the two highest rating categories of a Rating Agency;

(x) bonds, debentures, or other obligations issued by any bank, trust company, national banking association, insurance company, corporation, government or governmental entity (foreign or domestic), provided, that such bonds, debentures or other obligations are (a) payable in any coin or currency of the United States of America which at the time of payment will be legal tender for the payment of public and private debts, and (b) rated in the two highest rating categories of a Rating Agency;

(xi) commercial paper (having original maturities of not more than 270 days) rated in the highest category of a Rating Agency;

(xii) money market funds which invest in obligations described in clause (i) and which funds have been rated in the two highest rating categories by a Rating Agency; or

(xiii) any investments authorized in a Supplemental Indenture authorizing Bonds rated by a Rating Agency.

provided, that it is expressly understood that the definition of Investment Securities shall be, and be deemed to be, expanded, or new definitions and related provisions shall be added to the Indenture by a Supplemental Indenture, thus permitting investments with different characteristics from those permitted which the Board deems from time to time to be in the interests of the Corporation to include as Investment Securities 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 ratings assigned to them by the Rating Agencies.

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

Operation and Maintenance Costs means all actual operation and maintenance costs of the Program incurred by the Corporation in any particular Fiscal Year or period to which said term is applicable or charges made therefor during such Fiscal Year or period, including amounts reasonably required to be set aside as reserves for items of Operation and Maintenance Costs to the extent such amounts have not been previously spent for actual operation and maintenance costs of the Program.

Such Operation and Maintenance Costs include, but are not limited to, expenses for ordinary repairs, renewals and replacements of the Program, portions of salaries and wages, employees' health, hospitalization, pension and retirement expenses, fees for services, materials and supplies, rents, administrative and general expenses, insurance expenses, legal, architectural, engineering, accounting and financial advisory fees and expenses and costs of other consulting and technical services of the Corporation which are properly allocable and chargeable to the Program as provided in the annual budget of the Corporation and in accordance with generally accepted accounting principles and are not funded from proceeds of Bonds, taxes, payments in lieu of taxes and other governmental charges and any other current expenses or obligations required to be paid by the Corporation under the provisions of the Indenture or by law, all to the extent properly allocable to the Program, and the fees and expenses of the Fiduciaries.

Such Operation and Maintenance Costs do not include depreciation or obsolescence charges or reserves therefor, amortization of intangibles or other bookkeeping entries of a similar nature, interest charges and charges for the payment of principal, or amortization, of bonded or other indebtedness of the Corporation, costs, or charges made therefor, for capital additions, replacements, betterments, extensions or improvements to or retirements from the Program which under generally accepted accounting principles are properly chargeable to the capital account or the reserve for depreciation, and do not include losses from the sale, abandonment, reclassification, revaluation or other disposition of any properties of the Program nor such property items, including taxes, which are capitalized pursuant to the then existing accounting practice of the Corporation.

Operation Date, when used in reference to a Program Development or Program Developments being acquired, constructed, reconstructed, rehabilitated or improved by the Corporation means the date by which (i) certificates of occupancy have been issued by municipal or State officials having jurisdiction thereof and (ii) a Written Certificate of the Corporation is delivered to the Trustee certifying that such Program Development has received a certificate of occupancy from the proper governmental body and has been placed in substantial commercial operation in accordance with the prudent practice of the multi-family residential housing development industry.

Outstanding means, as of any date of calculation, all Bonds theretofore executed, issued and delivered by the Corporation and authenticated by the Trustee or the Authenticating Agent under the Indenture except:

(a) Bonds theretofore canceled by the Trustee or surrendered for cancellation;

(b) Bonds in lieu of, or in exchange for which, other Bonds shall have been issued;

(c) Bonds (or portions of Bonds) for the payment or redemption of which moneys, equal to the principal amount or Redemption Price thereof, as the case may be, with interest to the date of maturity or redemption date, shall be held in trust under the Indenture and set aside for such payment or redemption (whether at or prior to the maturity or redemption date), provided that if such Bonds (or portions of Bonds) are to be redeemed, irrevocable notice of such redemption shall have been given as provided in the Indenture or provision satisfactory to the Trustee shall have been made for the giving of such notice; and

(d) Bonds deemed to have been paid or defeased as provided in the Indenture.

For purposes of the Indenture, in the event any Bonds are issued and sold at a price such that a portion or all of the interest thereon is intended to be earned by accrual of original issue discount, the amount of such Bonds deemed to be Outstanding for the purpose of calculating the principal amount of any such Bonds and the principal amount of Bonds Outstanding in connection with the exercise of any voting right or privilege, the giving of any consent or direction or taking of any other action that the Owners of the Bonds are entitled to take pursuant to the Indenture or the determination of principal amounts payable to and the delivery of notices or requests by Bondowners upon an event of default under the Indenture, shall be the accreted value thereof. The accreted value of any such Bond on any date shall be the present value thereof on the immediately preceding interest payment date (or if such date is an interest payment date, on such date) determined by computing the present worth of all payments of principal and interest remaining to be paid thereon using a discount factor equal to the yield at which such Bond was initially offered to the public. Prior to the issuance and delivery of any Bonds described in this paragraph, there shall be filed with the Trustee a certificate of the Corporation setting forth the accreted value thereof as of each interest payment date to the stated maturity date thereof, which certificate, if approved by the Trustee, shall be conclusive.

Principal Installment means, as of any date of calculation and with respect to any Series, so long as any Bonds thereof are Outstanding: (i) the principal amount of Bonds of such Series due on a certain future date for which no Sinking Fund Installments have been established, or (ii) the unsatisfied balance of any Sinking Fund Installment due on a certain future date for Bonds of such Series, plus the amount of the sinking fund redemption premiums, if any, which would be applicable upon redemption of such Bonds on such future date in a principal amount equal to such unsatisfied balance of such Sinking Fund Installment, or (iii) if such future dates coincide as to different Bonds of such Series, the sum of such principal amount of Bonds and of such unsatisfied balance of such Sinking Fund Installment due on such future date plus such applicable redemption premiums, if any, except to the extent any such Principal Installments are to be paid from amounts on deposit in an Escrow Fund.

Program means the system of multi-family rental housing developments owned and operated by or on behalf of the Corporation consisting of all Program Developments. "Program" shall not include any separate rental multi-family housing system established by the Corporation as permitted by the Indenture or any separate multi-family rental housing development not designated as part of the Program.

Program Development means one or more of the facilities within the Existing Program Developments and/or any real and personal property, buildings and improvements, commercial space, lands for farming and gardening, and community facilities acquired or constructed or to be acquired or constructed, and all tangible or intangible assets held or used in connection therewith, or any one or more of the foregoing, or any combination thereof, if and to the extent that the same shall be designated by the Corporation as a Program Development to be included in the Program in a Supplemental Indenture authorizing the issuance of Bonds for such Program Development or in a certificate of the Corporation, in the case of a Program Development not financed with Bond proceeds.

Rating Agency means each of Fitch Ratings, Moody's Investors Service Inc. and Standard & Poor's Ratings Services, and their respective successors and assigns, in each case and at any time only if the same is maintaining a rating on the Bonds at the request of the Corporation.

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 Indenture or any Supplemental Indenture.

Renewal and Contingency Fund Requirement means (i) with respect to the Existing Program Developments, $7,300,000, (ii) with respect to each additional Program Development, an amount equal to six percent (6%) of the construction cost or estimated construction cost of such Program Development as set forth in the certificate of the Corporation filed with the Trustee upon the Operation Date of such Program Development, and (iii) with respect to the Program, the aggregate of the amounts determined pursuant to clause (i) and clause (ii).

Revenues means (i) all revenues, income, rents, fees, charges and receipts derived by the Corporation from or attributable to the ownership and operation of the Program, including the applicable portion for any period of a federal, State or local rent subsidy payment; (ii) all interest, profits or other income derived from the investment of any moneys held pursuant to the Indenture and required to be paid into the Revenue Fund; (iii) proceeds derived by the Corporation directly or indirectly from the sale, lease, or other disposition of property arising out of the Corporation's ownership of the Program which are deposited in the Revenue Fund in accordance with the provisions of the Indenture; (iv) proceeds of insurance and condemnation awards arising out of the Corporation's ownership of the Program deposited in the Revenue Fund in accordance with the provisions of the Indenture; and (v) any amounts specifically pledged or designated by the Corporation and deposited in the Revenue Fund as provided in a Supplemental Indenture. "Revenues" shall not include amounts on deposit in the Rebate Fund, investment earnings on any Escrow Fund except to the extent provided in a

Supplemental Indenture or the proceeds of separate rental housing system obligations issued pursuant to the Indenture or payments under a Support Facility except to the extent provided in a Supplemental Indenture.

Series means all of the Bonds designated as being of the same Series authenticated and delivered on original issuance in a simultaneous transaction, and any Bonds thereafter authenticated and delivered in lieu thereof or in substitution therefor pursuant to the Indenture.

Support Facility means any instrument such as a letter of credit, a line of credit, insurance policy, surety bond, standby bond purchase agreement, any guaranty or similar instrument or any combination of the foregoing, and issued by a bank or banks, or other financial institution or institutions, or any combination of the foregoing, which Support Facility provides for the payment of (i) purchase price, including accrued interest, on Bonds delivered to a remarketing agent or any depository, tender agent or other party pursuant to a remarketing agreement or Supplemental Indenture and discount, if any, incurred in remarketing such Bonds, and/or (ii) principal of and interest on all Bonds becoming due and payable during the term thereof.

Value of Investment Securities and words of like import means the amortized value thereof, provided, however, that all United States of America, United States Treasury Obligations--State and Local Government Series shall be valued at par and those obligations which are redeemable at the option of the holder shall be valued at the price at which such obligations are then redeemable. The computations shall include accrued interest on the Investment Securities paid as a part of the purchase price thereof and not collected. For the purposes of this definition "amortized value", when used with respect to a security purchased at par means the purchase price of such security and when used with respect to a security purchased at a premium above or discount below par, means as of any subsequent date of valuation, the value obtained by dividing the total premium or discount by the number of interest payment dates remaining to maturity on any such security after such purchase and by multiplying the amount as calculated by the number of interest payment dates having passed since the date of purchase and (i) in the case of a security purchased at a premium, by deducting the product thus obtained from the purchase price, and (ii) in the case of a security purchased at a discount, by adding the product thus obtained to the purchase price.

Pledge of the Indenture; General Obligation of the Corporation (Indenture, Section 5.01)

The Bonds are obligations of the Corporation payable from and secured by the funds pledged therefor. There are pledged for the payment of the principal of, and Redemption Price and interest on, the Bonds in accordance with their terms and the provisions of the Indenture, subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture: (i) the proceeds of sale of the Bonds, except proceeds of a Series on deposit in an Escrow Fund which shall be pledged as set forth in the Supplemental Indenture providing for the issuance thereof, (ii) the Net Revenues, and (iii) all funds and accounts other than the Escrow Funds or Rebate Funds established by the Indenture, and the Bondowners shall have a lien on, and a security interest in, such proceeds and the Revenues and funds and accounts for such purpose and subject to such provisions of the Indenture.

Subject to any agreements heretofore or hereafter made with the holders of any notes or bonds of the Corporation pledging any particular revenues or assets not pledged under the Indenture or any other Indenture, resolution or other proceedings, the Bonds shall be general obligations of the Corporation, payable from any of the legally available funds, revenues or assets of the Corporation not appropriated for or committed to any other purpose.

Establishment and Flow of Funds (Indenture, Section 5.02)

The Trustee will hold the following Funds established pursuant to the Indenture: the Acquisition and Construction Fund, Revenue Fund, Debt Service Fund, Debt Reserve Fund, Renewal and Contingency Fund, General Reserve Fund and Rebate Fund, The Trustee will also hold any Escrow Fund established pursuant to a Supplemental Indenture, as well as certain accounts within the funds mentioned in the preceding sentence.

Acquisition and Construction Fund (Indenture, Section 5.03)

The Acquisition and Construction Fund will include a Program Development Account for each Program Development to be constructed or acquired and may include a corresponding Acquisition and Construction Interest Account. There shall be paid into the Acquisition and Construction Fund the proceeds of Bonds as required by the Indenture or any Supplemental Indenture. In addition, the proceeds of insurance maintained pursuant to the Indenture against physical loss or damage to the Program Development, or of contractors' performance bonds, pertaining to the period of construction thereof shall be paid into the Program Development Account. The Corporation shall pay the Costs of Acquisition and Construction for the Program Development from the Program Development Account. Unless otherwise provided in the applicable Supplemental Indenture, investment earnings on the amounts deposited in the Program

Development Account shall be retained in the Program Development Account and applied with other moneys on deposit in such Program Development Account to the purposes specified by the Indenture.

A Supplemental Indenture may require the Corporation to deposit into an Acquisition and Construction Interest Account proceeds of the Bonds authorized thereby to pay interest on such Bonds. Investment earnings on amounts on deposit in an Acquisition and Construction Interest Account are to be retained therein until the amount deposited therein is sufficient to pay all of the interest on the applicable Series of Bonds through the estimated Operation Date of the applicable Program Development, and thereafter such investment earnings are to be deposited in the corresponding Program Development Account. The Trustee shall transfer from each Acquisition and Construction Interest Account to the Debt Service Fund the portion of such interest payment payable from such Acquisition and Construction Interest Account. Upon receipt of the certificate of the Corporation referred to in the following paragraph, the balance, if any, in the Acquisition and Construction Interest Account is to be transferred to the corresponding Program Development Account.

The substantial completion of construction, reconstruction, rehabilitation or improvement of each Program Development or the acquisition of any Program Development financed with Bond proceeds will be evidenced by a certificate of the Corporation, filed with the Trustee, stating: (i) that the construction, reconstruction, rehabilitation or improvement of such Program Development has been completed substantially in accordance with the plans and specifications or that such Program Development has been acquired and is now owned by the Corporation; (ii) the date of such substantial completion or acquisition; (iii) the estimated Operation Date for such Program Development; (iv) an evaluation of the amount remaining in the Acquisition and Construction Interest Account available to pay the interest due on the Bonds; (v) the amounts, if any, required in the opinion of the Corporation for the payment of any remaining part of the Cost of Acquisition and Construction of such Program Development; and (vi) the construction cost or estimated construction cost of such Program Development. Amounts not required to be retained in the Acquisition and Construction Fund to pay remaining costs shall be transferred to the Debt Reserve Fund if necessary to cure any deficiency therein or the Debt Service Fund to redeem Bonds.

Funds and Payments from Funds (Indenture, Sections 5.04 through 5.10)

All Revenues received by the Corporation or its agents are required to be deposited promptly by the Corporation in the Revenue Fund. All Revenues received by the Trustee shall be promptly deposited in the Revenue Fund. Amounts in the Revenue Fund are to be applied or paid to other funds established by the Indenture in the following order of priority.

1. As promptly as practicable after the first day of each month, the Trustee shall apply the amount on deposit in the Revenue Fund to the payment of Operation and Maintenance Costs.

2. On each interest payment date for Bonds the Trustee shall make transfers from the Revenue Fund to the Debt Service Fund of the amount, if any, required to pay interest on and any Principal Installment of the Bonds due on such interest payment date, taking into account amounts to be transferred from any Acquisition and Construction Interest Account or Escrow Fund. The Trustee, unless otherwise provided in a Supplemental Indenture in respect of a Series of Bonds which are secured by a Support Facility, shall pay from the Debt Service Fund the Principal Installments and interest on the Bonds on the due dates therefor and the Redemption Price and interest on Bonds to be redeemed on the date fixed for the redemption.

Amounts accumulated in the Revenue Fund or Debt Service Fund with respect to any Sinking Fund Installment may, and, if so directed by the Corporation, shall, be applied to the purchase of Bonds to satisfy such Sinking Fund Installment, provided, however that no Bonds shall be so purchased during the interval between the date on which notice of redemption of such Bonds from Sinking Fund Installments is given and the date of redemption set forth in such notice, unless the Bonds so purchased are Bonds called for redemption in such notice,

Amounts held in the Debt Service Fund may be used to reimburse any institution providing a Support Facility for a draw on such Support Facility made to provide funds for the payment of principal and Redemption Price and interest on Bonds.

3. On or before each January 1 and July 1, the Trustee shall transfer to the Debt Reserve Fund the amount, if any, required so that the balance in the Debt Reserve Fund equals the Debt Reserve Requirement if amounts are not available for such purpose in the General Reserve Fund or Renewal and Contingency Fund. Any amounts required to eliminate a deficiency in the Debt Reserve Fund to the extent not remedied by transfers from the Renewal and Contingency Fund or the General Reserve Fund shall be accumulated from Revenues over a 36- month period. The failure of the Corporation to accumulate such moneys is not a default under the Indenture if the Corporation presents to the Trustee and implements a plan to remedy such failure, or upon the failure of the Corporation to so act, either (i) the Housing Consultant

provides such plan and the Corporation implements such plan or (ii) the Housing Consultant provides a certificate stating that the rates, rents, fees and charges necessary to provide for such accumulation are impracticable and the Corporation establishes rates, rents, fees and charges as recommended by the Housing Consultant which will as nearly as practicable permit such accumulation. In the event no Housing Consultant is then currently serving the Corporation, the Trustee may retain a Housing Consultant at the expense of the Corporation for the sole purpose of assisting in the preparation of a plan for presentation to the Trustee.

If the moneys in the Debt Service Fund are insufficient, the Trustee shall transfer amounts from the General Reserve Fund and, to the extent amounts in the General Reserve Fund are insufficient, amounts in the Renewal and Contingency Fund. If moneys in the Debt Service Fund continue to be insufficient after such transfers, the Trustee shall transfer amounts, if any, in the Debt Reserve Fund and, if necessary, seek payment under any surety bond or insurance policy on deposit therein. Whenever the amount in the Debt Reserve Fund, together with the amount in the Debt Service Fund, is sufficient to pay in full all Outstanding Bonds in accordance with their terms, the funds on deposit in the Debt Reserve fund shall be transferred to the Debt Service Fund. Whenever moneys on deposit in the Debt Reserve Fund exceed the Debt Reserve Requirement, the excess may be transferred by the Trustee at the written direction of the Corporation to the Revenue Fund.

In the event of the issuance of a Series of Bonds, unless upon the delivery of such Bonds there shall then already be on deposit in the Debt Reserve Fund an amount equal to the total of the Debt Reserve Requirement for all Series of Bonds to be Outstanding upon the issuance of such Series, the amount of such requirement shall be deposited from Bond proceeds.

When Bonds are to be refunded in whole or in part or otherwise provided for so that such Bonds are no longer Outstanding, moneys may be withdrawn from the Debt Reserve Fund to provide for the payment of such Bonds, or may be transferred and applied to any reserve fund or account established for Bonds issued to refund such refunded Bonds; provided that immediately after such withdrawal or transfer there shall be on credit to the Debt Reserve Fund an amount equal to the Debt Reserve Requirement.

In lieu of the deposit of moneys into the Debt Reserve Fund, the Corporation may cause to be so credited a surety bond, insurance policy or letter of credit payable to the Trustee for the benefit of the Owners of Bonds or a letter of credit in an amount equal to the difference between the Debt Reserve Requirement and the amounts then on deposit in the Debt Reserve Fund and meeting other requirements set forth in the Indenture.

4. On or before each January 1 and July 1, the Trustee shall transfer to the Renewal and Contingency Fund the amount necessary to be deposited therein to fund the Renewal and Contingency Fund Requirement and such additional amounts as may be budgeted by the Corporation. The amounts in the Renewal and Contingency Fund shall be used: (i) to reserve unexpended funds previously and currently budgeted for ordinary and anticipated renewals and replacements of the Program; (ii) to reserve unexpended funds previously budgeted for ordinary and anticipated Operation and Maintenance Costs; (iii) to pay the cost of extraordinary and unanticipated renewals and replacements (including those required to restore damage, loss or destruction of the Program, but only to the extent not covered by the proceeds of insurance or other moneys, and those required to provide for the safe and efficient operation of the Program or to prevent loss of Revenues); and (iv) to the payment of extraordinary and unanticipated Operation and Maintenance Costs.

The Corporation shall calculate the Renewal and Contingency Fund Requirement for each Program Development: (i) upon the issuance of Bonds to finance such Program Development, and (ii) upon the Operation Date for such Program Development. The amount in the Renewal and Contingency Fund shall be at least equal to the Renewal and Contingency Fund Requirement for the Program; provided however, that to the extent the Renewal and Contingency Fund Requirement is being accrued from Net Revenues the amount in the Renewal and Contingency Fund must at least equal the amount required to be deposited as of such date.

Upon the issuance of a Series of Bonds the Corporation will pay into the Renewal and Contingency Fund the amount, if any, of the proceeds of the sale of such Series as specified in the Supplemental Indenture providing for the issuance of such Bonds. To the extent not theretofore funded with Bond proceeds or Revenues, the Reserve and Contingency Fund Requirement for any Program Development shall be funded from Revenues over a ten-year period after the Operation Date of the Program Development. Any deficiencies in the Renewal and Contingency Fund resulting from withdrawals therefrom to the extent not remedied from the General Reserve Fund shall be accumulated from Net Revenues over a 36-month period. The failure of the Corporation to so accumulate such moneys is not a default under the Indenture if the Corporation provides and implements a plan to remedy such failure or, upon the failure of the Corporation to so act, either (i) the Housing Consultant provides such plan and the Corporation implements such plan or (ii) the Housing Consultant provides a certificate stating that the rates, rents, fees and charges necessary to provide for such accumulation are impracticable, and the Corporation establishes rates, rents, fees and charges which will as nearly as practicable permit such accumulation.

If at any time the amount in the Debt Service Fund shall be less than the requirement of such fund or the amount in the Debt Reserve Fund shall be less than the amount required to be deposited therein and there shall not be on deposit in the General Reserve Fund sufficient moneys to cure such deficiency, then there shall be transferred from the Renewal and Contingency Fund to the Trustee for deposit in the appropriate fund the amount necessary (or all the moneys in said Renewal and Contingency Fund if less than the amount necessary) to remedy or lessen such deficiency.

Any balance of moneys and securities in the Renewal and Contingency Fund in excess of the minimum amount required or budgeted and reserved to be on deposit therein and not required to meet any such deficiencies in the Debt Service Fund or Debt Reserve Fund or needed for any of the purposes for which such funds were established, may be deposited in the General Reserve Fund or the Revenue Fund.

5. On or before each January 1 and July 1, the Trustee shall transfer to the General Reserve Fund, the balance, if any, in the Revenue Fund. The Trustee shall transfer, at any time, from the General Reserve Fund to the Debt Service Fund and the Debt Reserve Fund the amount necessary (or all the moneys in the General Reserve Fund if less than the amount necessary) to make up any deficiencies in payments to such Funds required by the Indenture. Such transfer shall be made prior to the use of any moneys on deposit in the Renewal and Contingency Fund to cure such deficiencies. The General Reserve Fund is also required to be used to remedy deficiencies in the Renewal and Contingency Fund, Amounts in the General Reserve Fund not required to meet any of the foregoing deficiencies may be used for anyone or more the following: (i) transfer to the Revenue Fund; (ii) transfer to the Debt Service Fund for the purchase or redemption of Bonds including any expenses in connection thereof; (iii) payments of principal or Redemption Price of or any interest on any subordinated indebtedness; (iv) payments into any Program Development Account or Accounts established in the Acquisition and Construction Fund; (v) improvements, extensions, betterments, renewals and replacements of any properties of the Program; (vi) any other purposes of the Corporation in connection with the Program, including, without limitation, payment of the costs of preliminary and development work including architectural, engineering, legal and financial studies in connection with the planning and development of Program Developments and the determination of the feasibility thereof; (vii) any purpose of a separate rental housing system or separate rental housing development of the Corporation; and (viii) any other public purpose of the Corporation, but only if the Corporation has determined pursuant to a resolution adopted by the Board of the Corporation to terminate the operation of the Program pursuant to the terms of the Indenture.

Rebate Fund (Indenture, Section 5.11)

If and to the extent necessary to comply with any covenant established in a Supplemental Indenture with respect to a Series of Bonds regarding maintaining the exclusion from gross income of interest on such Bonds for federal income tax purposes, the Corporation shall establish in the Supplemental Indenture with respect to a Series of Bonds an account in the Rebate Fund with respect to such Series of Bonds and shall establish terms, provisions and covenants regarding deposits or credits to and withdrawals from such account necessary in order to maintain the exclusion from gross income of interest on such Series of Bonds for federal income tax purposes.

Investment of Certain Funds (Indenture, Section 10.03)

Moneys held in the Debt Service Fund and the Debt Reserve Fund shall be invested and reinvested by the Trustee, to the fullest extent practicable only in those investments defined in clauses (i), (ii) and (iii) of the definition of Investment Securities which mature not later than such times as shall be necessary to provide moneys when needed for payments to be made from the Debt Service Fund or the Debt Reserve Fund. Moneys held by the Trustee in the Revenue Fund shall be deposited with any qualified depositary and invested and reinvested by the Trustee at the direction of the Corporation in any Investment Securities which mature not later than such times as shall be necessary to provide moneys when needed for payments to be made from such fund. Moneys held by the Trustee in the Renewal and Contingency Fund shall be deposited with any qualified depositary and invested and reinvested by the Trustee at the direction of the Corporation in any Investment Securities, provided moneys shall be available for the purposes specified for such Fund. Moneys held by the Trustee in the General Reserve Fund may be invested at the direction and in the sole discretion of the Corporation in Investment Securities, provided that the Corporation shall make sufficient moneys available for the purposes specified for such Fund. Net interest earned on any moneys or investments in the Revenue Fund, the Debt Service Fund, the Debt Reserve Fund, the Renewal and Contingency Fund and the General Reserve Fund, if in excess of the requirements for such Funds shall be paid into the Revenue Fund.

Amounts in the Acquisition and Construction Fund shall be invested and reinvested at the direction of the Trustee at the direction of the Corporation in Investment Securities so as to provide funds to make all required payments from such

Fund. Net interest earned on any moneys or investments in the Acquisition and Construction Fund shall be retained in such Fund.

Additional Bonds and Refunding Bonds (Indenture, Section 2.03)

After issuance of the 2004B Bonds, the Corporation may issue one or more Series of Additional Bonds from time to time in such principal amount as the Corporation may determine for the purpose of paying all or a portion of the Cost of Acquisition and Construction of a Program Development or repayment of moneys borrowed by the Corporation through the issuance of subordinated indebtedness for the purpose of paying all or a portion of the Cost of Acquisition and Construction of a Program Development.

Each Series of Additional Bonds shall be authenticated and delivered by or upon the direction of the Trustee only upon receipt by the Trustee of the following documents in addition to any other requirements of the Indenture:

(i) An opinion of counsel to the effect that the Corporation is authorized to undertake the Program Development financed by the Additional Bonds;

(ii) If a Program Development is to be constructed, reconstructed, rehabilitated or improved by the Corporation, an Engineer's Certificate setting forth the estimated Cost of Acquisition and Construction of the Program Development, or if a Program Development is to be acquired by the Corporation, a certificate of the Corporation setting forth the estimated Cost of Acquisition and Construction of the Program Development and, in either case, a certificate of the Corporation setting forth the estimated Operation Date of such Program Development; and

(iii) A certificate of the Corporation setting forth: (a) the Debt Service for each Fiscal Year of the Bonds of such Series; or (b) the Aggregate Debt Service for all Outstanding Bonds including the Series of Bonds being issued, for each Fiscal Year, and any other statements necessary to show compliance with the provisions of the Indenture.

The Trustee must also receive the following in the case of Additional Bonds issued and delivered to pay the Cost of Acquisition and Construction of any Program Development for which Bonds have not previously been issued:

(1) An Accountant's Certificate that Net Revenues produced in each of the three Fiscal Years preceding the issuance of such Additional Bonds were at least equal to 1.10 times the Aggregate Debt Service on Outstanding Bonds for each such Fiscal Year;

(2) A certificate of the Corporation that estimated Net Revenues produced in each of the five Fiscal Years following the Operation Date of the Program Development to be financed with such Additional Bonds will be at least equal to 1.10 times the Aggregate Debt Service on Outstanding Bonds, including such Additional Bonds, for each such Fiscal Year, and a confirming certificate of the Housing Consultant as to the reasonableness of the Corporation estimates and the underlying assumptions for such estimates. For purposes of estimating Net Revenues, the Corporation may rely on projected rent increases deemed feasible by the Corporation as approved by the Housing Consultant; and

(3) A feasibility study prepared by a Housing Consultant concerning the Program Development to be financed with such Additional Bonds including an analysis of the rental market demand for such Program Development and the Revenues expected to be produced by such Program Development; provided however, that a feasibility study need not be prepared if: (i) a certificate of the Corporation approved by the Housing Consultant is delivered to the Trustee setting forth that Net Revenues produced in each of the five Fiscal Years following the issuance of such Additional Bonds will be at least equal to 1.10 times the Aggregate Debt Service on Outstanding Bonds, including such Additional Bonds, for each such Fiscal Year without taking into account Revenues to be produced during any such Fiscal Year by the Program Development to be financed by the issuance of such Additional Bonds, or (ii) the Program Development is to be leased to or operated by a department, agency or instrumentality of the State under a lease or operating agreement that obligates the lessee or operator to pay the Operation and Maintenance Costs of the Program Development and an amount equal to 1.10 times the Aggregate Debt Service on the Bonds to be issued to finance such Program Development.

The Trustee must also receive each of the foregoing items in the case of Additional Bonds issued and delivered to pay the Cost of Acquisition and Construction of any Program Development for which Bonds have previously been issued, provided however, that:

(1) The certificate for the Corporation setting forth the estimated Net Revenues and the confirming certificate of the Housing Consultant as to the reasonableness of the Corporation estimates and the underlying assumptions for such estimates shall show that Net Revenues in at least the fourth and fifth Fiscal Years following the Operation Date

of the Program Development to be financed with such Additional Bonds will be at least equal to 1.10 times the Aggregate Debt Service on Outstanding Bonds, including such Additional Bonds, for each Fiscal Year; and

(2) The feasibility study prepared by the Housing Consultant concerning the Program Development to be financed with such Additional Bonds must be prepared and delivered regardless of any estimates of Net Revenues.

The provisions for the issuance of Additional Bonds contained in the preceding two paragraphs will not apply to any Series of Bonds necessary to be issued to provide funds for additions, extraordinary repairs, renewals, replacements, expansions, betterments, modifications, capital additions and improvements for any Program Development: (a) which are required by any governmental agency or authority; or (b) which in the opinion of the Corporation are necessary or desirable to improve the efficient use and occupancy the Program, to prevent a loss of Revenues or for safety, public health or environmental purposes.

One or more Series of Refunding Bonds may be issued in such principal amount which, when taken together with funds otherwise provided by the Corporation will provide the Corporation with funds sufficient for the purpose of refunding all or a portion of Outstanding Bonds of one or more Series, or of one or more maturities within a Series without meeting any additional bonds tests described above with respect to Additional Bonds, but upon the satisfaction of certain other conditions set forth in the Indenture. These requirements include that if the Debt Service on the Series of Refunding Bonds proposed to be issued will be greater than the Debt Service on the Bonds to be refunded, the Trustee must receive a certificate of the Corporation demonstrating that estimated Net Revenues produced in each of the five Fiscal Years following the issuance of the proposed Refunding Bonds will be at least equal to 1.10 times the Aggregate Debt Service on Outstanding Bonds, including such Refunding Bonds for each such Fiscal Year and a confirming certificate of the Housing Consultant as to the reasonableness of the Corporation's estimates and, the underlying assumption for such estimates. The Corporation may simultaneously issue Additional Bonds to finance the Cost of Acquisition and Construction of a Program Development and Refunding Bonds pursuant to a Supplemental Indenture.

Subordinated Indebtedness (Indenture, Section 2.05)

The Corporation may at any time issue indebtedness payable out of and secured by a pledge of amounts in the General Reserve Fund as may from time to time be available for the purpose of paying such indebtedness provided however that: (i) such indebtedness may be incurred only to pay the Cost of Acquisition and Construction of a Program Development and the proceeds of such indebtedness shall be applied only for such purpose; (ii) such pledge shall be expressly subordinate in all respects to the pledge of the Net Revenues, moneys, securities and funds created by the Indenture; (iii) the instrument pursuant to which such subordinated indebtedness is issued shall contain a provision to the effect that the trustee for, and the holders of, such subordinated indebtedness will have no right to cause the acceleration of the payment of the principal of or interest on such subordinated indebtedness unless and until the payment of the principal of and interest on the Outstanding Bonds has been accelerated under the Indenture; and (iv) no payment out of the General Reserve Fund shall be made for such indebtedness if there shall occur an Event of Default under the Indenture. Nothing in the Indenture prevents the Corporation, for purposes of hedging, from entering into interest rate swaps, exchange or similar agreements which are payable from Net Revenues, on a basis subordinate, junior and inferior to all Bonds.

Separate Program Developments and Separate Programs (Indenture, Section 2.06)

The Corporation may issue indebtedness to acquire or construct separate rental housing developments not included within the, Program, which separate rental housing developments may be included in a separate rental housing system and which indebtedness shall be payable solely from the revenues or other income derived from the ownership or operation of such separate system; provided, however, that the Corporation will not issue indebtedness for the purpose of acquiring or constructing a separate rental housing development whether or not included in a separate rental housing system unless the Corporation shall deliver a certificate to the Trustee to the effect that the acquisition, construction or operation of such rental housing development will not result in a reduction of the Net Revenues for each of the next succeeding five Fiscal Years below the amount required to be maintained by the Indenture.

Variable Rate Bonds (Indenture, Section 2.07)

The Corporation is authorized by the Indenture to issue Variable Rate Bonds. The Supplemental Indenture providing for the issuance of such Variable Rate Bonds may provide for the Corporation to obtain a Support Facility or Facilities or alternate Support Facilities and enter into Support Agreements in connection therewith, enter into Remarketing Agreements and appoint Remarketing Agents, appoint tender agents to accept mandatory or optional tenders of Variable Rate Bonds, provide for interest to be payable and the interest rate redetermined on such dates and interest to accrue over such periods as set forth in such Supplemental Indenture, provide for the establishment, use, composition, adjustment and change of interest indices or modes or the establishment and use of alternate interest indices or the establishment of a fixed interest rate or rates, provide for the establishment and investment of special funds and accounts in connection with the issuance of such Variable Rate Bonds, including Escrow Funds, provide for special redemption or purchase provisions for such Variable Rate Bonds and establish notice provisions in connection with the purchase, redemption, delivery or tender of such Variable Rate Bonds. Any Supplemental Indenture providing for the issuance of Variable Rate Bonds may provide for the Corporation to issue to the provider or providers of a Support Facility or Facilities a Bond or Bonds to evidence the Corporation's obligations to such provider or providers.

Covenants of the Corporation (Indenture, Article VI)

Encumbrances. The Corporation covenants in the Indenture that the Corporation will not create a mortgage upon the Program or any facilities of the Program while any Bonds are Outstanding. The Corporation will use its best efforts to prevent the creation of any lien upon the Program or any property essential to the proper operation of the Program or to the maintenance of the Revenues other than as permitted by the Indenture. The Corporation will not create, or permit the creation of, any pledge, lien, charge or encumbrance upon the Revenues except as permitted the Indenture.

Disposition of Property. The Corporation may not sell, lease, exchange, remove or otherwise dispose of the Program or any property of the Program except in accordance with law and as follows:

(a) Prior to the Operation Date of any Program Development, any payments to the Corporation under or in connection with any lease, contract, license, easement or right in respect of any Program Development or any part thereof, and any proceeds of sale, exchange, lease, removal or disposition thereof not used to replace property so sold, leased, exchanged, removed or disposed of, shall be deposited into any Program Development Account in the Acquisition and Construction Fund selected by the Corporation.

(b) The Corporation may sell, lease, exchange, remove or otherwise dispose of at any time and from time to time any property or facilities constituting a part of the Program only if the Corporation shall file with the Trustee a certificate stating that the sale, lease, exchange, removal or disposal of such property from the Program will not impair the ability of the Corporation to comply with its rate covenant under the Indenture during the current Fiscal Year and during each Fiscal Year through and including the fifth Fiscal Year after such sale, exchange or removal and will not impair the ability of the Corporation to meet its obligations under the Indenture. The proceeds, if any, of any such sale, lease exchange, removal or disposal not used to acquire other property necessary or desirable for the safe or efficient operation of the Program shall be deposited in the Revenue Fund or in the Debt Service Fund to be applied to the purchase or redemption of Bonds. Property and facilities removed by the Corporation from the Program and not sold, leased, exchanged or otherwise disposed of may be used by the Corporation for any public purpose of the Corporation, the revenues from which shall be free and clear from the pledge, lien and security interest created by the Indenture.

(c) Except as otherwise provided in (b) above, any payments received by the Corporation pursuant to (a) above from the sale, lease, exchange, removal or disposition of property from the Program under or in connection with any lease, contract, license, arrangement, easement or right in respect of the Program or any part thereof shall constitute Revenues.

Operation and Maintenance of the Program. The Corporation will operate the Program continuously in an efficient and economical manner, and will maintain, preserve and keep the Program, including all parts thereof, in good repair, working order and condition. The Corporation will from time to time make all necessary and proper repairs and replacements so that the business carried on in connection with the Program by the Corporation at all times may be properly conducted in a manner consistent with prudent management.

Insurance. The Corporation is required to carry, or cause to be carried, insurance with generally recognized responsible insurers with policies payable to the Corporation, including the State, against risks, accidents or casualties at least to the extent that similar insurance is usually carried by multi-family rental housing programs operating properties similar to the Program. Any insurance carried by the Corporation pursuant to the Indenture may be procured and maintained as part of or in conjunction with any other policy or policies carried by the Board, the Corporation or the State. The Board may create and establish special funds for self-insurance.

Accounts, Reports and Annual Budget. The Corporation will keep books of record and accounts in accordance with generally accepted accounting principles in which complete and accurate entries shall be made of all transactions relating to the Program and the Revenues. The books of record and accounts are subject to the inspection of the Trustee, or the Owners of not less than 10% of the Bonds then Outstanding, or their representatives authorized in writing.

The Corporation will file with the Trustee annually within 270 days after the close of each Fiscal Year, while any Bonds are Outstanding, a financial statement in reasonable detail for the preceding Fiscal Year showing the Revenues and all expenses together with a balance sheet in reasonable detail reflecting the balance of all funds relating to the Program as of the end of each Fiscal Year, which financial statement and balance sheet are to be accompanied by a certificate of a certified public accountant regarding compliance with generally accepted accounting principles.

The Corporation will adopt and file with the Trustee an annual budget prior to the beginning of each Fiscal Year setting forth for the coming Fiscal Year: (i) the estimated Revenues; (ii) the Aggregate Debt Service Requirement; (iii) the estimated Operation and Maintenance Costs; (iv) the estimated requirements for the Debt Reserve Fund and the Renewal and Contingency Fund, if any; (v) the outstanding subordinated debt service requirements if any; and (vi) any other requirements of the Program and the Indenture,

Rates, Rents, Fees and Charges. If then permitted by law, the Corporation will, while any Bonds are Outstanding, establish, fix, prescribe, maintain and collect rates, rents, fees and charges for the use and occupancy of Program Developments so as to provide: (a) Net Revenues, which together with other lawfully available funds, shall be sufficient in each Fiscal Year, to provide an amount equal to 1.25 times the Aggregate Debt Service on Outstanding Bonds for such Fiscal Year; and (b) Net Revenues which shall be sufficient in each Fiscal Year, to provide an amount equal to 1.10 times the Aggregate Debt Service on Outstanding Bonds for such Fiscal Year. The Corporation shall establish, adopt and review not less than annually rates, rents, fees and charges.

The failure by the Corporation to comply with the foregoing rate covenant shall not be deemed a default in the observance of a covenant under the Indenture if (A) the Corporation presents a plan to the Trustee to remedy such failure within ninety (90) days from the date of notification of such failure by the Trustee and the Corporation implements such plan and pursues the same diligently until the failure is corrected or (B) upon the failure of the Corporation to present such plan within such ninety (90) day period, either (i) the Housing Consultant, upon request by the Trustee, presents such plan within sixty (60) days thereafter and the Corporation implements such plan provided by the Housing Consultant and pursues the same diligently until the failure is corrected or (ii) a Housing Consultant's Certificate is delivered to the Trustee stating that the schedule of rates, rents, fees and charges which will comply with such covenant is impracticable at such time and the Corporation establishes a schedule of rates, rents, fees and charges, as recommended by the Housing Consultant, which permits the Corporation to comply as nearly as practicable with such covenant. In the event no Housing Consultant is then currently serving the Corporation, the Trustee may retain a Housing Consultant at the expense of the Corporation for the sole purpose of assisting in the preparation of a plan for presentation to the Trustee.

Additions to the Program. The Corporation will not include a multi-family rental housing development in the Program unless the Corporation files with the Trustee a certificate and a concurring certificate of the Housing Consultant stating that the addition of such multi-family rental housing development to the Program will not impair the ability of the Corporation to comply, during the current Fiscal Year or any Fiscal Year through and including the fifth Fiscal Year after such addition, with its rate covenant, and will not impair the ability of the Corporation to meet its obligations under the Indenture,

Amending and Supplementing the Indenture (Indenture, Section Article VIII)

Any provision of the Indenture may be amended by the Corporation by a Supplemental Indenture upon the consent: (i) of the Owners of at least 51% in principal amount of all Bonds then Outstanding; and (ii) if less than all Series of Outstanding Bonds are affected, of the Owners of at least 51% in principal amount of the Bonds of each affected Series; and (iii) if the amendment changes the terms of any Sinking Fund Installment, of the Owners of at least 51% in principal amount of the Bonds of the Series and maturity for which such Sinking Fund Installment was established; excluding, in each case, from such consent, and from the Outstanding Bonds, the Bonds of any Series and maturity if such amendment by its terms will not take effect while any of such Bonds are Outstanding. No such amendment may permit a change in the terms of redemption or maturity of the principal of any Outstanding Bond or any installment of interest or a reduction in principal or Redemption Price or interest without the consent of the Owner, or reduce the percentages or otherwise affect the classes of Bonds the consent of the Owners of which is required for any such amendment.

The Corporation may adopt (without the consent of any Owners of the Bonds) Supplemental Indentures for any of the following purposes among others: (i) to cure or clarify any ambiguity, supply any omission or correct any defect or inconsistent provision in the Indenture; (ii) to clarify matters or questions arising under the Indenture and not contrary to or inconsistent with the Indenture; (iii) to further restrict or impose limitations upon the issuance of Bonds or other evidences of indebtedness; (iv) to add to the covenants and agreements of the Corporation contained in the Indenture; (v) to add to the restrictions contained in the Indenture; (vi) to authorize Bonds of a Series; (vii) to confirm any pledge under the Indenture of Net Revenues or other moneys, securities or funds; (viii) to obtain or maintain ratings; (ix) to add or modify any provision of the Indenture as the result of enactment of any state or federal law which changes the treatment of the Bonds or interest thereon for tax purposes, and (x) to provide that the Corporation may hold the Revenue Fund, Renewal and Contingency Fund or General Reserve Fund, if the Corporation determines such holding will provide for more efficient operation of the Program.

Events of Default and Remedies of Owners of the Bonds (Indenture, Article IX)

Events of Default. Events of default (each an "Event of Default") under the Indenture include:

(i) failure to pay principal or Redemption Price of any Bond, whether at maturity, by proceedings for redemption, by declaration, by tender or otherwise;

(ii) failure to pay any installment of interest on any Bond or any Sinking Fund Installment when due and payable;

(iii) failure to observe any covenant, agreement or condition and continuation of such failure for 90 days after written notice thereof is delivered to the Corporation by the Trustee or the Owners of not less than 25 % in aggregate principal amount of the Bonds, unless such failure cannot be corrected within such 90 day period and corrective action is instituted and diligently pursued;

(iv) certain events of bankruptcy or insolvency;

(v) the entry of an order or decree with the consent of the Corporation appointing a receiver of the Program or any substantial part thereof so as to adversely affect Revenues or the entry of such an order without the consent of the Corporation, if such order shall not be vacated or stayed within 90 days of the date of entry thereof; and

(vi) an event provided in a Supplemental Indenture to constitute an Event of Default.

Remedies. If any Event of Default has occurred and has not been remedied, the Trustee or the Owners of not less than 25% in principal amount of the Bonds Outstanding (100% in the case of an Event of Default described in (iii) or (vi) above) shall be entitled, upon notice in writing to the Corporation (in the case of action by the Owners notice shall be delivered to both the Corporation and the Trustee) to declare the principal of and accrued interest on all of the Bonds then Outstanding to be due and payable immediately (subject to a rescission of such declaration upon the curing of such default).

If an Event of Default has occurred and has not been remedied, the Corporation will, upon demand of the Trustee, pay over to the Trustee forthwith all Revenues and all moneys, securities and funds then held by the Corporation in any fund or account under the Indenture. The Trustee will apply such Revenues and such moneys, securities and funds and the income therefrom in the following order: (i) to payment of the reasonable and proper charges, expenses and liabilities of the Trustee, including the cost of securing the services of any Housing Consultant (or other consultant) retained to render advice to the Trustee;(ii) to the payment of the reasonable and proper charges and expenses of the Program including repairs and replacement of facilities of the Program, necessary in the discretion of the Trustee to prevent loss of Revenues; and (iii) to the payment of interest and principal or the Redemption Price of Bonds. In addition, the Trustee will have the right to apply in an appropriate proceeding for appointment of a receiver of the Program. The Trustee shall not apply the proceeds of any draw on a Support Facility for purposes of items (i) and (ii) above.

If an Event of Default has occurred and has not been remedied, the Trustee may, or on request of the Owners of not less than 25% in principal amount of Bonds Outstanding must, proceed to protect and enforce its rights and the rights of the Owners under the Indenture forthwith by a suit or suits in equity or at law, whether for the specific performance of any covenant in the Indenture or of any power granted in the Indenture or any remedy granted under the Act, or in the enforcement of any other legal or equitable right as the Trustee deems most effectual to enforce any of its rights or to perform any of its duties under the Indenture. The Trustee may and upon the request of the Owners of a majority in principal amount of the Bonds Outstanding and upon being furnished with reasonable security and indemnity must, institute and maintain proper actions to prevent any impairment of the security under the Indenture or to preserve or protect the interest of the Trustee and of the Owners. All rights of action under the Indenture may be enforced by the Trustee.

No Owner of a Bond shall have any right to institute any suit, action or proceeding for the enforcement of any provision of the Indenture or the execution of any trust under the Indenture or for any remedy under the Indenture, unless: (i) such Owner previously has given the Trustee written notice of an Event of Default; (ii) the Owners of at least 25% in principal amount of Bonds Outstanding have filed a written request with the Trustee and have afforded the Trustee a reasonable opportunity either to exercise its powers or to institute such action, suit or proceeding; (iii) there have been offered to the Trustee adequate security and indemnity against its costs, expenses and liabilities to be incurred; and (iv) the Trustee has refused to comply with such request within 60 days.

The Owners of not less than a majority in principal amount of Bonds Outstanding may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or of exercising any trust or power conferred upon the Trustee, subject to the Trustee's right to decline to follow such direction upon advice of counsel that an action may not be taken or upon the Trustee's good faith determination that such action would involve the Trustee in personal liability or would be unjustly prejudicial to Owners not parties to such direction.

Nothing in the Indenture or in the Bonds shall affect or impair the obligation of the Corporation to pay Bonds or interest thereon when due or any Owner to enforce such payment.

Notice of Default. The Trustee shall promptly mail notice of the occurrence of any Event of Default to each Owner of Bonds Outstanding.

Defeasance (Indenture, Article XI)

If the Corporation shall pay or cause to be paid the principal or Redemption Price, if applicable, and interest due or to become due on all Bonds Outstanding, then the pledge of Net Revenues, and other moneys, securities and funds pledged under the Indenture and all covenants, agreements and other obligations of the Corporation to the Owners shall at the option of the Corporation expressed in writing thereupon cease, terminate and become void and be discharged and satisfied. If the Corporation shall pay or caused to be paid the principal or Redemption Price, if applicable, and interest due or to become due on any Bonds Outstanding, such Bonds shall cease to be entitled to any lien, benefit or security under the Indenture, and all covenants, agreements and obligations of the Corporation to the Owners of such Bonds shall thereupon cease, terminate and become void and be discharged and satisfied.

Bonds will be deemed to have been paid within the meaning of the preceding paragraph when the following conditions are met: (i) in case of Bonds to be redeemed prior to maturity, the Corporation has given to the Trustee irrevocable instructions to mail notice of redemption thereof; (ii) there have been deposited with the Trustee either moneys in an amount which shall be sufficient, or certain specified Investment Securities the principal of and the interest on which when due will provide moneys which, together with other moneys deposited with the Trustee, will be sufficient to pay when due the principal or Redemption Price, if applicable, and interest due and to become due on such Bonds on and prior to the Redemption Date or at maturity, plus all fees and expenses, including reasonable attorneys' fees relating to such Bonds which are or will be due on such date or dates, as the case may be; and (iii) in the event such Bonds are not subject to redemption within the next succeeding 60 days, the Corporation has given the Trustee irrevocable instructions to mail, as soon as practicable, a notice to the Owners of such Bonds that such deposit has been made with the Trustee and that such Bonds are deemed to be paid and stating the maturity or Redemption Date upon which moneys are to be available to pay the principal or Redemption Price, if applicable, on such Bonds. If a Support Facility has been established to pay such Bonds then: (i) the deposit required by clause (ii) above must be made from moneys drawn or paid under such Support Facility; or (ii) the Trustee must receive an opinion of counsel, nationally recognized in matters relating to bankruptcy law and acceptable to each Rating Agency, that the deposit required by clause (ii) above to be made from moneys other than those drawn or paid under such Support Facility is not subject to a preference under U.S. bankruptcy law.

Appointment and Removal of Trustee (Indenture, Sections 7.07 and 7.12)

The Indenture contains provisions regarding the appointment, resignation and removal of the Trustee. The Corporation may at any time remove the Trustee; provided that such removal is subject to revocation by the Owners of 10% of the Bonds Outstanding. The Corporation shall review the desirability of removing the Trustee every three Fiscal Years beginning with Fiscal Year 2008. No removal may be effected if an Event of Default has occurred and is continuing, or there is any deficiency in any fund or account, or if such removal would result in a reduction or withdrawal of the ratings of the Bonds by any Rating Agency.

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CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Undertaking (the "Undertaking") is dated and made as of October 1, 2004 by the Housing and Community Development Corporation of Hawaii (the "Corporation") in connection with the issuance of the Corporation's Hawaii Rental Housing System Revenue Bonds, 2004 Refunding Series A and 2004 Refunding Series B (the "Bonds"). As authorized by Section 8 of Resolution No. 092, adopted by the Board of Directors of the Corporation on September 16, 2004, the Corporation agrees as follows:

ARTICLE I

The Undertaking

Section 1.1. Purpose. This Undertaking is being executed, delivered and make solely to assist the underwriter of the Bonds in complying with subsection (b)(5) of the Rule.

Section 1.2. Annual Financial Information.

(a) The Corporation shall provide Annual Financial Information with respect to each fiscal year of the Corporation, commencing with the fiscal year ending June 30, 2004, by no later than nine months after the end of the respective fiscal year, to each NRMSIR and the SID.

(b) The Corporation shall provide, in a timely manner, notice of any failure of the Corporation to provide the Annual Financial Information by the date specified in subsection (a) above to (i) either the MSRB or each NRMSIR, and (ii) the SID.

Section 1.3. Audited Financial Statements. If not provided as part of Annual Financial Information by the date required by Section 1.2(a) hereof, the Corporation shall provide Audited Financial Statements, when and if available, to each NRMSIR and the SID.

Section 1.4 Material Event Notices.

(a) If a Material Event occurs, the Corporation shall provide, in a timely manner, notice of such Material Event to (i) either the MSRB or each NRMSIR, (ii) the SID, and (iii) the Trustee.

(b) Any such notice of a defeasance of Bonds shall state whether the Bonds have been escrowed to maturity or to an earlier redemption date and the timing of such maturity or redemption.

Section 1.5. Additional Disclosure Obligations. The Corporation acknowledges and understands that other state and federal laws, including but not limited to the Securities Act of 1933 and Rule 10b-5 promulgated under the Securities Exchange Act of 1934, may apply to the Corporation and that, under some circumstances, additional disclosures or other action in addition to those required by this Undertaking may be required to enable the Corporation to fully discharge all of its duties and obligations under such laws.

Section 1.6. Additional Information. Nothing in this Undertaking shall be deemed to prevent the Corporation from disseminating any other information, using the means of dissemination set forth in this Undertaking or any other means of communication, or including any other information in any Annual Financial Information or notice of Material Event hereunder, in addition to that which is required by this Undertaking. If the Corporation chooses to do so, the Corporation shall have no obligation under this Undertaking to update such additional information or include it in any future Annual Financial Information or notice of a Material Event hereunder.

Section 1.7. No Previous Non-Compliance. The Corporation represents that, except as disclosed in the Official Statement with respect to the Bonds, since July 3, 1995, it has not failed to comply in any material respect with any previous undertaking in a written contract or agreement specified in paragraph (b)(5)(i) of the Rule.

ARTICLE II

Operating Rules

Section 2.1. Reference to Other Documents. It shall be sufficient for purposes of Section 1.2 hereof if the Corporation provides Annual Financial Information by specific reference to documents (i) either (1) provided to each NRMSIR existing at the time of such reference and the SID or (2) filed with the SEC, or (ii) if such document is an Official Statement, available from the MSRB.

Section 2.2. Submission of Information. Annual Financial Information may be provided in one document or multiple documents, and at one time or in part from time to time.

Section 2.3. Material Event Notices. Each notice of a Material Event hereunder shall be captioned "Notice of Material Event" and shall prominently state the title, date and CUSIP numbers of the Bonds.

Section 2.4. Filing with Certain Dissemination Agents. The Corporation may satisfy its obligations hereunder to file any notice, document or information with a NRMSIR or SID by filing the same with any dissemination agent or conduit, including any "central post office" or similar entity, assuming or charged with responsibility for accepting notices, documents or information for transmission to such NRMSIR or SID, to the extent permitted by the SEC or SEC staff or required by the SEC. For this purpose, permission shall be deemed to have been granted by the SEC staff if and to the extent the agent or conduit has received an interpretive letter, which has not been revoked, from the SEC staff to the effect that using the agent to transmit information to the NRMSIRs and the SID will be treated for purposes of the Rule as if such information were transmitted directly to the NRMSIRs and the SID.

Section 2.5. Transmission of Information and Notices. Unless otherwise required by law and, in the Corporation's sole determination, subject to technical and economic feasibility, the Corporation shall employ such methods of information and notice transmission as shall be requested or recommended by the herein-designated recipients of the Corporation's information and notices.

Section 2.6. Fiscal Year.

(a) The Corporation's current fiscal year is the twelve-month period ending on June 30. The Corporation shall promptly notify (i) each NRMSIR, (ii) the SID and (iii) the Trustee of each change in its fiscal year.

(b) Annual Financial Information shall be provided at least annually notwithstanding any fiscal year longer than 12 calendar months.

ARTICLE III

Effective Date. Termination, Amendment and Enforcement

Section 3.1. Effective Date; Termination.

(a) This Undertaking shall be effective upon the issuance of the Bonds.

(b) The Corporation's obligations under this Undertaking shall terminate upon a legal defeasance, prior redemption or payment in full of all of the Bonds.

(c) This Undertaking, or any provision hereof, shall be null and void in the event that the Corporation (1) receives an opinion of Counsel to the effect that those portions of the Rule which require this Undertaking, or such provision, as the case may be, do not or no longer apply to such Bonds, whether because such portions of the Rule are invalid, have been repealed, or otherwise, as shall be specified in such opinion, and (2) delivers copies of such opinion to each NRMSIR and the SID.

Section 3.2. Amendment.

(a) This Undertaking may be amended, by written agreement of the parties, without the consent of the holders of the Bonds (except to the extent required under clause (4)(ii) below), if all of the following conditions are satisfied: (1) such amendment 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 Corporation or the type of business conducted thereby, (2) this Undertaking as so amended would have complied with the requirements of the Rule as of the date of this Undertaking, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances, (3) the Corporation shall have received an opinion of Counsel to the effect as set forth in clause (2) above, (4) either (i) the Corporation shall have received either an opinion of Counsel or a determination by a person, in each case unaffiliated with the Corporation, to the effect that the amendment does not materially impair the interests of the holders of the Bonds or (ii) the holders of the Bonds consent to the amendment to this Undertaking pursuant to the same procedures as are required for amendments to the Indenture with consent of holders of Bonds pursuant to the Indenture as in effect on the date of this Undertaking, and (5) the Corporation shall have delivered copies of such opinion(s) and amendment to each NRMSIR and the SID.

(b) This Undertaking may be amended without the consent of the holders of the Bonds, if all of the following conditions are satisfied: (1) an amendment to the Rule is adopted, or a new or modified official interpretation of the Rule is issued, after the effective date of this Undertaking which is applicable to this Undertaking, (2) the Corporation shall have received an opinion of Counsel, to the effect that performance by the Corporation under this Undertaking as so amended will not result in a violation of the Rule and (3) the Corporation shall have delivered copies of such opinion and amendment to each NRMSIR and the SID.

(c) To the extent any amendment to this Undertaking results in a change in the type of financial information or operating data provided pursuant to this Undertaking, the first Annual Financial Information provided thereafter shall include a narrative explanation of the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

(d) If an amendment is made to the accounting principles to be followed by the Corporation in preparing its financial statements, the Annual Financial Information for the fiscal year in which the 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 3.3. Benefit; Third-Party Beneficiaries; Enforcement.

(a) The provisions of this Undertaking shall constitute a contract with, and inure solely to the benefit of, the holders from time to time of the Bonds, except that beneficial owners of Bonds shall be third-party beneficiaries of this Undertaking and shall be deemed to be holders of Bonds for purposes of Section 3.3(b) hereof. The provisions of this Undertaking shall create no rights in any person or entity except as provided in this subsection (a) and Section 3.3(b).

(b) The obligations of the Corporation to comply with the provisions of this Undertaking shall be enforceable (i) in the case of enforcement of obligations to provide financial statements, financial information, operating data and notices, by any holder of Outstanding Bonds, or (ii), in the case of challenges to the adequacy of the financial statements, financial information and operating data so provided, by the holders of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding. The holders' rights to enforce the provisions of this Undertaking shall be limited solely to a right, by action in mandamus or for specific performance, to compel performance of the Corporation's obligations under this Undertaking.

(c) Any failure by the Corporation to perform in accordance with this Undertaking shall not constitute a default or an Event of Default under the Indenture, and the rights and remedies provided by the Indenture upon the occurrence of a default or an Event of Default shall not apply to any such failure.

(d) This Undertaking shall be construed and interpreted in accordance with the laws of the State, and any suits and actions arising out of this Undertaking shall be instituted in a court of competent jurisdiction in the State; provided, however, that to the extent this Undertaking addresses matters of federal securities laws, including the Rule, this Undertaking shall be construed in accordance with such federal securities laws and official interpretations thereof.

ARTICLE IV

Definitions

Section 4.1. Definitions. The following terms used in this Undertaking shall have the following respective meanings:

(1) "Annual Financial Information" means, collectively, (i) the financial information and operating data with respect to the Program, for each fiscal year of the Corporation, of the types included in the Official Statement under the caption "The Program" including information of the type shown in Table 1 for the five most recent fiscal years, and (ii) the information regarding amendments to this Undertaking required pursuant to Sections 3.2(c) and (d) of this Undertaking. Annual Financial Information shall include Audited Financial Statements, if available, or Unaudited Financial Statements.

The descriptions contained in clause (i) of the preceding paragraph of financial information and operating data constituting Annual Financial Information are of general categories of financial information and operating data. When such descriptions include information that no longer can be generated because the operations to which it related have been materially changed or discontinued, a statement to that effect shall be provided in lieu of such information.

(2) "Audited Financial Statements" means the annual financial statements, if any, with respect to the Program, audited by such auditor as shall then be required or permitted by State law or the Indenture. Audited Financial Statements shall be prepared in accordance with GAAP.

(3) "Counsel" means Hawkins Delafield & Wood LLP or other nationally recognized bond counselor counsel expert in federal securities laws.

(4) "GAAP" means generally accepted accounting principles as prescribed from time to time for governmental units by the Governmental Accounting Standards Board, the Financial Accounting Standards Board, or any successor to the duties and responsibilities of either of them.

(5) "Indenture" means the Trust Indenture between the Corporation and U.S. Bank National Association, as trustee, dated as of October 1, 2004, as supplemented by the First Supplemental Trust Indenture also dated as of October 1, 2004, between the Corporation and the Trustee, providing for the issuance of the Bonds.

(6) "Material Event" means any of the following events with respect to the Bonds, whether relating to the Corporation or otherwise, if material:

(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 security;

(vii) modifications to rights of security holders;

(viii) bond calls;

(ix) defeasances;

(x) release, substitution, or sale of property securing repayment of the securities; and

(xi) rating changes.

(7) "MSRB" means the Municipal Securities Rulemaking Board established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934.

(8) "NRMSIR" means, at any time, a then-existing nationally recognized municipal securities information repository, as recognized from time to time by the SEC for the purposes referred to in the Rule. NRMSIRs currently are identified on the SEC website at www.sec.gov/consumer/nrmsir.htm.

(9) "Official Statement" means each of the Official Statements dated October 5 and 7, 2004 related to the Bonds.

(10) "Rule" means Rule 15c2-12 promulgated by the SEC under the Securities Exchange Act of 1934 (17 CFR Part 240, §240.15c2-12), as in effect on the date of this Undertaking, including any official interpretations thereof issued either before or after the effective date of this Undertaking which are applicable to this Undertaking.

(11) "SEC" means the United States Securities and Exchange Commission.

(12) "SID" means, at any time, a then-existing state information depository, if any, as operated or designated as such by or on behalf of the State for the purposes referred to in the Rule. As of the date of this Undertaking, there is no SID.

(13) "Unaudited Financial Statements" means the same as Audited Financial Statements, except that they shall not have been audited.

HOUSING AND COMMUNITY
DEVELOPMENT CORPORATION OF HAWAII

By: ______________________________
Executive Director

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APPENDIX E

FORM OF OPINION OF BOND COUNSEL

June __, 2009

Hawaii Housing Finance and Community Development
Corporation
677 Queen Street, Suite 300
Honolulu, Hawaii 96813

Dear Board of Directors:

HAWAII HOUSING FINANCE AND DEVELOPMENT CORPORATION
HAWAII RENTAL HOUSING SYSTEM REVENUE BONDS,
2004 REFUNDING SERIES B,
$20,875,000

As bond counsel to the Hawaii Housing Finance and Development Corporation (the "Corporation"), we have examined into the validity of $20,875,000 Hawaii Rental Housing System Revenue Bonds, 2004 Refunding Series B (the "Bonds"), of the Corporation. The Bonds are dated as of October 13, 2004, are being converted on the date hereof to Bonds bearing interest at rates fixed to maturity, and as so converted are issuable in fully registered form without coupons, in the denomination of $5,000 or any integral multiple of $5,000. The Bonds mature on July 1 in each of the years and in the principal amounts set forth below, with the Bonds maturing on a particular date bearing interest payable January 1, 2010, and semiannually each January 1 and July 1 thereafter, at the rate per annum opposite such date, as follows:

Maturity	Principal Amount Maturing	Interest Rate	Maturity	Principal Amount Maturing	Interest Rate
2010	$ 490,000	4.000%	2020	$ 740,000	4.500%
2011	510,000	4.000	2021	775,000	4.625
2012	530,000	4.000	2022	810,000	4.750
2013	555,000	4.000	2023	850,000	4.750
2014	575,000	4.000	2024	895,000	5.000
2015	600,000	4.000	2025	940,000	5.000
2016	625,000	4.000	2026	990,000	6.000
2017	650,000	4.000	2027	1,055,000	6.000
2018	680,000	4.250	2028	1,120,000	6.000
2019	705,000	4.375	2029	1,190,000	6.000
			2033	5,590,000	6.500

The Bonds are subject to redemption prior to maturity upon the terms and conditions and at the prices, and are transferable, as set forth therein.

The Bonds recite that they are issued under the authority of and in full compliance with the Constitution and statutes of the State of Hawaii, including particularly Part III of Chapter 39, and Chapter 201G (now Chapter 201H), Hawaii Revised Statutes (collectively, the "Act"), and under and pursuant to a Trust Indenture by and between the Housing and Community Development Corporation of Hawaii ("HCDCH"), the predecessor of the Corporation, and U.S. Bank National Association, as trustee thereunder (the "Trustee"), dated as of October 1, 2004 (the "Trust Indenture"), as supplemented by the First Supplemental Trust Indenture between such parties dated as of October 1, 2004, and the Second Supplemental Trust Indenture dated as of May 1, 2009 and Third Supplemental Trust Indenture, dated as of June 1, 2009, each by and between the Corporation and the Trustee (collectively, the "Indenture"), and that the Bonds are part of an issue of bonds issued, or to be issued, under the

Indenture as supplemented from time to time, unlimited as to amount except as provided in the Indenture or as may be provided by law.

We have examined the Constitution and statutes of the State of Hawaii, a duplicate executed copy of the Indenture, certified copies of proceedings of HCDCH and the Corporation authorizing the issuance of the Bonds and the execution and delivery of the Indenture, such other records and documents as we have considered necessary or appropriate for the purposes of this opinion and a specimen Bond.

In our opinion:

1. The Bonds have been duly authorized and issued in accordance with the Constitution and statutes of the State of Hawaii and constitute valid general obligations of the Corporation, payable from and secured by a lien upon and pledge of the Net Revenues (as defined in the Indenture) and other funds and assets pledged under the Indenture and also payable out of any of the Corporation's legally available funds, revenues and assets, subject to the terms of the Indenture.

2. The Trust Indenture and aforesaid First Supplemental Trust Indenture have been duly authorized, executed and delivered by HCDCH, the aforesaid Second Supplemental Trust Indenture and Third Supplemental Trust Indenture have been duly authorized, executed and delivered by the Corporation and, assuming the due authorization, execution and delivery thereof by the Trustee, the Trust Indenture and such Supplemental Trust Indentures constitute valid instruments of the Corporation in accordance with the terms thereof, and the Bonds are entitled to the security and benefits of the Indenture for the payment thereof in accordance with the terms thereof, equally and ratably with any bonds heretofore or hereafter issued under the Indenture in accordance with the terms thereof, except as otherwise expressly provided in the Indenture.

3. Under existing statutes and court decisions and assuming continuing compliance with certain tax covenants (i) interest on the Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code") and (ii) interest on the Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code and is not included in the adjusted current earnings of corporations for the purpose of calculating the alternative minimum tax. In rendering this opinion, we have relied on certain representations, certifications of fact, and statements of reasonable expectations made by the Corporation in connection with the Bonds, and assumed compliance by the Corporation with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the Bonds from gross income under Section 103 of the Code.

4. Under existing laws of the State of Hawaii, the Bonds and the income therefrom are exempt from taxation by the State or any county or other political subdivision thereof, except inheritance, transfer and estate taxes and except to the extent such income may be included in the measure of franchise taxes imposed on banks and other financial institutions pursuant to the laws of the State of Hawaii.

We express no opinion regarding any other Federal or state tax consequences with respect to the Bonds. We render our opinion under existing statutes and court decisions as of the issue date, and we assume no obligation to update our opinion after the issue date to reflect any future action, fact or circumstance, or change in law or interpretation, or otherwise. We express no opinion on the effect of any action hereafter taken or not taken in reliance upon an opinion of other counsel on the exclusion from gross income for Federal income tax purposes of interest on the Bonds, or under state and local tax law.

It is to be understood that the rights of the holders of the Bonds under the Bonds and under the Indenture and the enforceability thereof may be subject to the valid exercise of judicial discretion, the sovereign police powers of the State of Hawaii and the constitutional powers of the United States of America, and to valid bankruptcy, insolvency, reorganization, moratorium and other laws affecting creditors' rights.

Very truly yours,

APPENDIX F

MUNICIPAL BOND INSURANCE POLICY

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FINANCIAL SECURITY ASSURANCE®

MUNICIPAL BOND INSURANCE POLICY

ISSUER: Housing and Community Development Corporation of Hawaii

Policy No.: 203645-N

BONDS: $107,055,000 in aggregate principal amount of Hawaii Rental Housing System Revenue Bonds, consisting of $84,055,000 principal amount of 2004 Refunding Series A and $23,000,000 prinicipal amount of 2004 Refunding Series B

Effective Date: October 13, 2004

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 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.

FINANCIAL SECURITY ASSURANCE INC.

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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