

## **NEW ISSUE AND REFUNDING**

Fitch: AAA  
Moody's: Aaa  
Standard & Poor's: AAA  
(See "Ratings" herein)

*In the opinion of Hawkins, Delafield & Wood, Bond Counsel, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest on the 2002 Series A Bonds and the 2002 Series B Bonds (collectively, the 2002 Series 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"), (ii) interest on the 2002 Series A Bonds is treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code, and (iii) interest on the 2002 Series B Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. See "TAX MATTERS" herein. In addition, in the opinion of Bond Counsel, under existing laws of the State of Hawaii, the 2002 Series Bonds and the income therefrom are exempt from taxation by the State of Hawaii 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 the franchise tax imposed on banks and other financial corporations pursuant to the laws of the State of Hawaii.*

**\$36,775,000**

### **HOUSING AND COMMUNITY DEVELOPMENT CORPORATION OF HAWAII**

**(State of Hawaii)**

#### **Single Family Mortgage Purchase Revenue Bonds**

**\$34,965,000 2002 Series A (AMT)**

**\$1,810,000 2002 Series B (Non-AMT)**

**Dated:** Date of Delivery

**Due:** January 1 and July 1, as shown within

*The 2002 Series Bonds are issuable only as fully registered bonds without coupons. The 2002 Series Bonds will initially be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York, which will act as securities depository of the 2002 Series Bonds. Individual purchases will be made in book-entry form only in the principal amount of \$5,000 and integral multiples thereof. Purchasers will not receive certificates representing their interest in the 2002 Series Bonds.*

Interest on the 2002 Series Bonds is payable on January 1 and July 1 of each year, commencing January 1, 2003. Principal of and interest on the 2002 Series Bonds are payable by U.S. Bank National Association, as Trustee, to DTC, which will be responsible for remitting such principal and interest to its Participants, which will be responsible for remitting such principal and interest to the Beneficial Owners of such Bonds, as described under the caption "BOOK-ENTRY PROVISIONS" herein.

The 2002 Series A Bonds are being issued by Housing and Community Development Corporation of Hawaii (the "Corporation") to provide funds: (a) to purchase single pool mortgage-backed securities (the "Fannie Mae Securities") guaranteed as to timely payment of principal and interest by Fannie Mae, each backed by pools of mortgage loans which have been made by participating mortgage lenders to eligible borrowers in order to finance the purchase of newly constructed or existing single family residences (including townhouses and condominium units) located in the State of Hawaii, (b) to effect a redemption of a portion of certain series of Bonds previously issued by the Corporation, (c) to fund a Debt Service Reserve Account and (d) to pay certain costs of issuance in connection with the 2002 Series A Bonds.

The 2002 Series B Bonds are being issued by the Corporation to provide funds to effect redemptions of a portion of a series of Bonds previously issued by the Corporation.

The 2002 Series Bonds are subject to redemption on the terms and conditions and at the prices described in this Official Statement, including redemption at the option of the Corporation at par from certain unexpended 2002 Series Bond proceeds and other amounts, including Revenues. See "THE 2002 SERIES BONDS—Special Redemption."

**This cover page contains certain information for quick reference only. It is not a summary of relevant information. Investors must read the entire official statement to obtain information essential to the making of an informed investment decision.**

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**Maturities, Amounts, Interest Rates and Prices are set forth on the inside front cover.**

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**The 2002 Series Bonds are special obligations of the Corporation payable solely from Revenues and other moneys pledged under the Indenture, on a parity with other series of Bonds issued under the Indenture. The 2002 Series 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, and 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 2002 Series Bonds. The 2002 Series Bonds are not guaranteed as to the payment of principal and interest by Fannie Mae.**

The 2002 Series Bonds (other than the Placed Bonds, as defined herein, which are not being reoffered) are offered when, as and if issued and received by the Underwriter, subject to prior sale, or withdrawal or modification of the offer without notice, and to the approval of legality by Hawkins, Delafield & Wood, New York, New York, Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for the Underwriter by their counsel, Orrick, Herrington & Sutcliffe LLP, San Francisco, California. It is expected that the 2002 Series Bonds will be available for delivery in New York, New York, on or about March 20, 2002.

**Salomon Smith Barney**

March 1, 2002

**\$36,775,000**  
**Housing and Community Development Corporation of Hawaii**  
**(State of Hawaii)**  
**Single Family Mortgage Purchase Revenue Bonds**

**Maturity Schedule**

**\$34,965,000 2002 Series A (AMT)**

**\$6,300,000 Serial Bonds**

<b><u>Due</u></b> <b><u>July 1</u></b>	<b><u>Amount</u></b>	<b><u>Interest</u></b> <b><u>Rate</u></b>	<b><u>Due</u></b> <b><u>July 1</u></b>	<b><u>Amount</u></b>	<b><u>Interest</u></b> <b><u>Rate</u></b>
2003	\$290,000	2.05%	2009	\$705,000	4.30%
2004	595,000	2.65	2010	505,000	4.45
2005	605,000	3.20	2011	525,000	4.55
2006	625,000	3.55	2012	545,000	4.65
2007	655,000	3.85	2013	575,000	4.80
2008	675,000	4.05			

**\$6,635,000 5.30% Term Bonds due July 1, 2022**  
**\$9,485,000 4.40% PAC Term Bonds due January 1, 2033**  
**\$4,045,000 5.375% Placed Bonds due January 1, 2033 (Not Re offered)**  
**\$8,500,000 5.375% Term Bonds due July 1, 2033**

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**\$1,810,000 2002 Series B (Non-AMT)**

**\$1,810,000 5.25% Term Bonds due January 1, 2028**

**Price of all Offered 2002 Series Bonds: 100%**

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No dealer, broker, salesman or other person has been authorized to give any information or to make any representations, other than those contained in this Official Statement, in connection with the offering of the 2002 Series Bonds described in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by the Corporation or the Underwriter. This Official Statement does not constitute an offer to sell or a solicitation of an offer to buy, nor shall there be any sale of the 2002 Series Bonds, by any person, in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

The information set forth in this Official Statement has been provided by the Corporation and by other sources believed by the Corporation to be reliable. The Underwriter has provided the following sentence for inclusion in this Official Statement: The Underwriter have reviewed the information in this Official Statement in accordance with, and as part of, its respective responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale hereunder shall create any implication that there has been no change in the financial condition or operations of the Corporation described herein since the date hereof.

This Official Statement contains statements relating to the Corporation's acquisition of Mortgage Loans and receipt of future Revenues that are "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995. When used in this Official Statement, the words "estimate," "intend," "expect," and similar expressions are intended to identify forward-looking statements. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof.

IN CONNECTION WITH THIS OFFERING THE UNDERWRITER MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE 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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**OFFICIAL STATEMENT**  
**of**  
**HOUSING AND COMMUNITY DEVELOPMENT CORPORATION OF HAWAII**  
**(State of Hawaii)**  
**relating to its**  
**\$36,775,000**  
**Single Family Mortgage Purchase Revenue Bonds**  
**\$34,965,000 2002 Series A (AMT)**  
**\$1,810,000 2002 Series B (Non-AMT)**

**INTRODUCTION**

This Official Statement, including the cover page, the inside cover page and appendices hereto (the "Official Statement"), is provided to furnish information with respect to the sale by the Housing and Community Development Corporation of Hawaii (the "Corporation") of its Single Family Mortgage Purchase Revenue Bonds, 2002 Series A and 2002 Series B (referred to individually as the "2002 Series A Bonds" and the "2002 Series B Bonds," respectively, and collectively as the "2002 Series Bonds").

The Corporation, a public body and a body corporate and politic duly organized and existing under the provisions of Chapter 201G, Hawaii Revised Statutes, as amended (the "Act"), was established by Act 350, Session Laws of Hawaii, 1997 Regular Session, effective July 1, 1998, for the purpose of consolidating 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. HFDC was itself established in 1987 for the purpose of assuming the housing finance, housing development and residential leasehold functions of the Authority. The Corporation has succeeded to all of the rights and powers previously exercised, and all of the duties and obligations incurred by HFDC, the Authority and the Rental Housing Trust Fund. The Act provides that nothing therein shall affect the validity or the terms and provisions of any bond heretofore issued by the State, the Authority or HFDC under prior law. Unless the context otherwise indicates, the term "Corporation" shall also be used to refer to the Authority and HFDC in describing or referring to powers originally granted to the Authority or HFDC but transferred to the Corporation or to previous activities of the Authority or HFDC which relate to such transferred functions. 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 of Hawaii (the "State"). See "THE CORPORATION—Purpose and Powers."

The 2002 Series Bonds are being issued under, pursuant to and in full compliance with the Constitution of the State and the statutes of the State, including particularly Part III of Chapter 39, Hawaii Revised Statutes, as amended, and Part III of Chapter 201G, Hawaii Revised Statutes, as amended, and under and pursuant to a resolution of the Board of Directors of the Corporation, duly adopted on November 14, 2001, and a Trust Indenture, dated as of January 1, 1980 (the "Trust Indenture"), between the Corporation and U.S. Bank National Association, as successor trustee (the "Trustee"), as amended and supplemented, and a Thirtieth Supplemental Trust Indenture, dated as of March 1, 2002 (the "Supplemental Indenture"), between the Corporation and the Trustee. The Trust Indenture, as heretofore amended and supplemented and as amended and supplemented by the Supplemental Indenture, is referred to as the "Indenture." See "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE—Certain Definitions" for the definitions of certain capitalized terms used in the Indenture and this Official Statement. All capitalized terms used in the Indenture and not defined in this Official Statement shall have the respective meanings set forth in the Indenture.

The 2002 Series A Bonds and the 2002 Series B Bonds are the twenty-fifth and twenty-sixth series of bonds, respectively, authorized to be issued under the Indenture. The Corporation previously issued \$1,639,810,000 aggregate principal amount of its Single Family Mortgage Purchase Revenue Bonds to implement the Program described below. As of July 1, 2001, the Corporation had outstanding \$652,565,000 of such bonds secured under the Indenture, of which bonds \$26,470,000 are expected to be redeemed or retired with the proceeds of the 2002 Series Bonds and certain other available funds. The Indenture provides for the issuance of additional bonds to further the

Program (as hereinafter defined) or to refund outstanding bonds. All bonds outstanding under the Indenture, including previously issued bonds, the 2002 Series Bonds and all such additional bonds, are hereinafter collectively called the "Bonds". All Bonds are and will be secured equally and ratably by the pledge and covenants contained in the Indenture.

The Bonds are special obligations of the Corporation payable solely from the Revenues and other moneys pledged under the Indenture. "Revenues" include all amounts paid or required to be paid with respect to principal and interest from time to time on the mortgage loans purchased with the proceeds of the Bonds (the "Mortgage Loans"), including Mortgage Loans held in the form of single pool mortgage-backed securities (the "Fannie Mae Securities") guaranteed as to timely payment of principal and interest by Fannie Mae. "Revenues" also include all interest received on moneys or securities held pursuant to the Indenture and paid into the Revenue Fund. The Bonds are secured by a pledge of all of the Mortgage Loans, the Revenues and all moneys and securities held in any of the funds or accounts established under the Indenture.

**The Bonds 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. 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 Bonds are not guaranteed as to the payment of principal and interest by Fannie Mae.**

The 2002 Series Bonds are being issued by the Corporation to provide funds: (a) to purchase Fannie Mae Securities each backed by pools of Mortgage Loans which have been made by participating mortgage lenders (the "Mortgage Lenders") to eligible borrowers in order to finance the purchase of newly constructed or existing single family residences (including townhouses and condominium units) located in the State, (b) to effect a redemption of certain Bonds previously issued by the Corporation, (c) to fund a Debt Service Reserve Account, and (d) to pay certain costs of issuance in connection with the 2002 Series Bonds.

The proceeds of the 2002 Series B Bonds and a portion of the proceeds of the 2002 Series A Bonds will be used to provide funds to replace and refund \$17,780,000 principal amount of the Corporation's previously issued Bonds (together with the Refunded 1990 Series A Bonds defined below, the "Refunded Bonds"), thereby making available additional funds for the purchase of Fannie Mae Securities. A portion of the proceeds of the 2002 Series Bonds will be used to fund a Debt Service Reserve Account.

A portion of the proceeds of the 2002 Series A Bonds will be used, together with other available funds, within 90 days of the date of issuance thereof, to redeem \$8,690,000 principal amount of the Corporation's 1990 Series A Bonds (the 1990 Series A Bonds to be refunded are referred to as the "Refunded 1990 Series A Bonds"). Mortgage Loans previously allocated to the Refunded 1990 Series A Bonds (the "Prior Mortgage Loans"), which are already pledged to the payment of the Bonds, will become allocated to the 2002 Series A Bonds.

The Prior Mortgage Loans were originated as fixed rate mortgages with substantially level monthly payments to fully amortize over their respective terms. See "PORTFOLIO INFORMATION WITH RESPECT TO THE PROGRAM - Status of Mortgage Loan Portfolio" for certain information with respect to the Prior Mortgage Loans.

The Corporation intends to use proceeds of the 2002 Series Bonds and certain other amounts to implement a program to acquire Fannie Mae Securities backed by Mortgage Loans (the "2002 Lending Program"). There can be no assurance that the Corporation will be able to purchase Fannie Mae Securities in amounts sufficient to utilize the initial deposits in the 2002 Series Loan Accounts allocated to the financing of Mortgage Loans. See "STRUCTURE ASSUMPTIONS, YIELD AND CASH FLOW REQUIREMENTS AND BONDHOLDER'S RISK—Special Considerations Relative to the Origination of Mortgage Loans" and "THE PROGRAM—Federal Tax Requirements." If the funds on deposit in the 2002 Series Loan Accounts are not expended to purchase Mortgage Loans, an amount equal to the unexpended funds, and excess amounts in the Debt Service Reserve Account may, and in certain circumstances to satisfy federal tax requirements must, be applied by the Corporation to the redemption of the 2002 Series Bonds. See "THE 2002 SERIES BONDS—Special Redemption."



A portion of the proceeds of the 2002 Series Bonds will be deposited to the credit of the Debt Service Reserve Account to the extent necessary to satisfy the Debt Reserve Requirement established in the Indenture for all Bonds issued thereunder. The Indenture provides that amounts in the Debt Service Reserve Account are not available for any purpose other than for payment of debt service on the Bonds. Amounts in the Debt Service Reserve Account in excess of the Debt Reserve Requirement of ten percent (10%) of the aggregate principal amount of all series of Bonds then outstanding may be transferred from the Debt Service Reserve Account and applied to the purchase or redemption of Bonds. It is expected that the proceeds of the 2002 Series Bonds to be deposited in the Debt Service Reserve Account will be invested in Fannie Mae Securities, which are qualifying Investment Securities. See "SOURCES OF PAYMENT AND SECURITY FOR THE BONDS—Debt Service Reserve Account".

The Indenture also establishes a Mortgage Loan Reserve Fund (as defined below) required to be maintained in an amount at least equal to the Mortgage Reserve Requirement established in the Indenture for all Bonds issued thereunder. Amounts in the Mortgage Loan Reserve Fund are required to be applied generally to offset losses related to Mortgage Loans and are otherwise available for payment of debt service on the Bonds. Upon the issuance of the 2002 Series Bonds the Mortgage Loan Reserve Fund will contain an amount equal to the Mortgage Reserve Requirement. See "SOURCES OF PAYMENT AND SECURITY FOR THE BONDS—Mortgage Loan Reserve Fund."

The Corporation will continue to maintain Mortgage Pool Insurance and Special Hazard Insurance Policies naming the Trustee and the Corporation as insureds and covering losses on certain outstanding Mortgage Loans. The Corporation will not be required to maintain such insurance on Mortgage Loans fully insured or guaranteed by Fannie Mae, by the Federal Housing Administration ("FHA"), by the United States Department of Agriculture, Rural Housing Service (formerly the Farmers Home Administration) (the "USDA-RHS") or by an agency or instrumentality of the United States. The Mortgage Pool Insurance Policies are anticipated to cover losses in excess of the coverage thereon provided by primary mortgage insurance or in excess of the guarantee offered by the Department of Veteran's Affairs ("VA"). The Special Hazard Insurance Policies provide protection with respect to losses not covered by standard hazard insurance policies. See also "SOURCES OF PAYMENT AND SECURITY FOR THE BONDS—Mortgage Pool Insurance Policies" and "APPENDIX II—SUMMARY OF CERTAIN FEDERAL HOUSING INSURANCE PROGRAMS AND OTHER MORTGAGE INSURANCE PROGRAMS."

*This introduction is not a summary of relevant information and is subject in all respects to the more complete information set forth in this Official Statement. The references to and summaries and descriptions of the Act, the Indenture, the Bonds, the Program, the other statutes, instruments and documents which are included in this Official Statement do not purport to be comprehensive or definitive, and such summaries, references and descriptions are qualified in their entirety by references to the appropriate statute, instrument or document.*

## CONTINUING DISCLOSURE

The Corporation has covenanted for the benefit of the Holders and Beneficial Owners of the 2002 Series Bonds to provide certain financial information and operating data relating to the Corporation not later than nine months following the end of the Corporation's fiscal year, commencing with a report for the Corporation's fiscal year ending June 30, 2001 (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 V – FORM OF CONTINUING DISCLOSURE UNDERTAKING." These covenants have been made in order to assist the Underwriter in complying with S.E.C. Rule 15c2-12(b)(5). The Corporation has made similar undertakings with respect to its outstanding Bonds, and in certain cases has been delayed in filing its annual bond disclosure reports. The Corporation has determined that such late filings were not material, and that it has not failed to comply in any other respect with any previous undertaking pursuant to Rule 15c2-12.

## THE CORPORATION

### Purpose and Powers

The Corporation, a public body and a body corporate and politic organized and existing under the Act, was established in 1998 as successor to the Authority and HFDC, which itself 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 management functions. Under the Act, the jurisdiction, functions, powers, duties and authority previously conferred upon the Authority are transferred to and conferred upon the Corporation and shall be performed and enforced by the Corporation. In addition, the Act provides that all documents executed or entered into by or on behalf of the Authority or HFDC pursuant to provisions made applicable to the Corporation by the Act shall remain in full force and effect.

The Corporation has been granted powers, among others, 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 of the State of Hawaii 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 programs, of which amount to date the Corporation has issued \$1,639,810,000 of Bonds for the Single Family Mortgage Purchase Program and \$20,000,000 of bonds for the Home Mortgage Purchase Program described below. See also "APPENDIX III—Financial Statements of the Program"—Note 5. The Legislature has also authorized an aggregate principal amount of \$200,000,000 in revenue bonds for privately owned multifamily rental housing projects, of which amount to date the Corporation has issued \$71,308,000 of bonds. The Legislature has also authorized an aggregate principal amount of \$375,000,000 in revenue bonds for the Corporation's Rental Housing System Program and Affordable Rental Housing Program, of which amount to date the Corporation has issued \$155,275,000 of bonds.

### 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 each from each of the counties of Honolulu, Hawaii, Maui and Kauai. The Director of Business, Economic Development and Tourism and the Director of Human Resources or their designated representatives, and the Governor's Special Assistant for Housing are ex-officio voting members. At least one public member of the Board must be a person who is directly assisted by the Corporation under the federal low-rent public housing or federal section 8 tenant-based housing assistance payments program while serving on the Board. The Board of Directors selects a Chairperson and Vice-Chairperson from its members. All Corporation action must be taken by the affirmative vote of at least five members.

The members and officers of the Corporation and the dates of expiration of their respective terms are as follows:

**Wesley R. Segawa**, Chairperson (Big Island of Hawaii, effective July 1, 1998. Owner, Wesley R. Segawa & Associates, Inc., an architectural firm. Term expires June 30, 2002).

**Nadine K. Nakamura**, Vice Chairperson (Kauai, effective July 1, 2000. Owner, NKN Project Planning, a land-use planning and affordable housing consultant firm. Term expires June 30, 2004).

**Kurt H. Mitchell**, Secretary (At Large, Oahu, effective July 1, 2001. Architect, Chief Executive Officer, Kober/Hanssen/Mitchell Architects, an architectural firm. Term expires June 30, 2005).

**Don Fujimoto**, Director (Maui, effective July 1, 2000. Vice-President, Dowling Company, Inc., a real estate development company. Term expires June 30, 2004).

**Aipopo Aipopo, Jr.**, Director (At Large, Oahu, effective July 1, 2001. President, Resident Advisory Board, Term Expires June 30, 2002).

**Patrick S. Yamada**, Director (Chairperson, Rental Housing Trust Fund Advisory Commission, Oahu, effective July 1, 2001, Senior Vice-President, Manager of Commercial Real Estate Loan Division, American Savings Banks. Term expires June 30, 2005).

**Susan M. Chandler**, Ex-Officio (Director, Department of Human Services, State of Hawaii).

**Ronald S. Lim**, Ex-Officio (Special Assistant for Housing, Office of the Governor, State of Hawaii).

**Sharon Narimatsu or Gregory Barbour**, Designated Representatives of Seiji F. Naya, Ex-Officio (Deputy Director and Special Assistant to the Director, respectively, Department of Business, Economic Development and Tourism, State of Hawaii).

#### **Staff**

Principal members of the Corporation's staff, many of whom were formerly members of the Authority's or HFDC's staff, with responsibilities for various aspects of the Program are as follows:

**Sharyn L. Miyashiro**, Executive Director, Housing and Community Development Corporation of Hawaii. Ms. Miyashiro has served as Executive Director for the Corporation since February 2001, and prior to that date in the same position in an acting capacity since January 2000. Previously, Ms. Miyashiro served as the Executive Assistant of the Corporation, and prior to that was the Deputy Executive Director of the Authority, before it merged with HFDC to form the Corporation. Ms. Miyashiro has over 30 years of experience in administering public housing programs.

**Robert J. Hall**, Executive Assistant, Housing and Community Development Corporation of Hawaii. Mr. Hall has served as Executive Assistant for the Corporation since February 2001, and prior to that date in the same position in an acting capacity since January 2000. Previously, Mr. Hall served as the Director of Property Management for the Corporation and the Authority since 1995. He was previously employed with the Department of Hawaiian Homelands serving in various property management, construction and financing assistant positions. Mr. Hall attended the University of Hawaii from 1970-1975.

**Darren K. 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.

**Marilyn E.Y. Chock**, Mortgage and Rental Financing Section Chief. Ms. Chock has served as Mortgage and Rental Financing Section chief since July 2000. Previously, Ms. Chock served as a Finance Specialist for the Corporation since January 1986. Prior to joining the Corporation, Ms. Chock worked in the credit department of the University of Hawaii bookstore. She received a B.B.A. degree in Finance from the University of Hawaii.

**Linda K. Shintani**, Finance Specialist. Ms. Shintani has served as a Finance Specialist since joining the Corporation in November 1993. Prior to joining the Corporation, Ms. Shintani was a Quality Assurance Underwriter with American Savings Bank, F.S.B. Ms. Shintani received a B.B.A. degree in Marketing and a B.S. degree in Merchandising from the University of Hawaii.

The Corporation has been authorized to employ up to 310 permanent positions with an additional authorization to retain 146 personnel on a contractual basis. The Corporation currently maintains approximately 456 positions (permanent and on contract) to manage, operate and maintain its various housing programs and housing projects. The number of employees assigned to each of the housing program areas are: Central Administration/Technical/Support Services—71 positions; Property Management and Maintenance—285 positions; Resident Services—13 positions; Homeless Programs—9 positions; Housing Development—53 positions; and Finance—25 positions.

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

### **The Program**

The Single Family Mortgage Purchase Program (the "Program") has been the Corporation's primary program to assist Eligible Borrowers to finance the purchase of Single Family Residences. As of June 30, 2001, proceeds of Bonds previously issued under the Program have been used to purchase 9,755 Mortgage Loans with a total original principal amount of \$1,007,247,569. See "THE PROGRAM" and "PORTFOLIO INFORMATION WITH RESPECT TO THE PROGRAM" for more detailed information.

### **The Other Programs of the Corporation**

In addition to the Program, the Corporation operates other housing programs, as described below. ***Bonds issued to finance the programs described below have no claim on the assets or the Revenues pledged under the Indenture (unless and until such Revenues are released free and clear of the lien of the Indenture in accordance with the Indenture). Neither the revenues generated from the programs described below nor the moneys or assets held in the funds related to such program are pledged to secure payment of the Bonds.***

**Home Mortgage Purchase Program.** In December, 1981, the Corporation established a 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 in the State. 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 the 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 Program. The Corporation does not anticipate issuing any additional bonds under this program.

**Multifamily Rental Housing Program.** The Corporation has issued five series of bonds in the aggregate principal amount of \$71,308,000, of which \$31,025,000 principal amount are presently outstanding, to make loans to developers of multifamily housing. Each series of bonds is payable solely from revenues derived from the project financed.

**Rental Housing System Program and Affordable Rental Housing Program.** In order to assist in the delivery of affordable rental housing throughout the State on a cost-effective basis, the Corporation has established the Rental Housing System Program and the Affordable Rental Housing Program. The programs are designed to facilitate the development of multifamily rental housing projects which are constructed or acquired and operated by the Corporation 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 payable from and secured by a lien on, and pledge of the revenues generated from, the rental housing projects. The Corporation has issued Rental Housing System revenue bonds in the following principal amounts: \$14,950,000 in December 1987 for the La'ilani Rental Housing Development, a 200-unit project near Kailua-Kona, Hawaii; \$16,500,000 in September 1989 for the Honokowai Kauhale Rental Housing Development, a 184-unit project in West Maui; and \$33,500,000 for the Kamakee Vista Rental Housing Development, a 226-unit high-rise residential and commercial mixed use project in the Kakaako District of Honolulu, Oahu, and \$35,700,000 for the Pohulani Rental Housing Development, a 262-unit high-rise residential and commercial mixed use project in the Kakaako District of Honolulu, Oahu, both in July 1990. In July 1993 the Corporation issued \$14,175,000 principal amount of Rental Housing System Revenue Bonds to refund the Rental Housing System Revenue Bonds previously issued for the La'ilani Rental Housing Development. The Corporation has also issued its Affordable Rental Housing Revenue Bonds in the principal amounts of \$30,700,000 in March 1993 for the Kauhale Kakaako Rental Housing Development, a 268-unit high rise residential and commercial-industrial mixed use project in the Kakaako District of Honolulu, and \$7,020,000 in November 1995 for the Kekuiani Courts Development, a 80-unit affordable residential apartment project in Kapolei, Oahu. In November 1995 the Corporation issued \$17,680,000 of revenue bonds to finance University of Hawaii Faculty Housing, a 143-unit faculty housing project in the Manoa District of Honolulu, Oahu. All of the projects financed under such programs are completed and in operation.

**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 affordable 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 non-profit development or preservation of rental and for-sale units for lower income families and special need groups. As of June 30, 2001, the Corporation has helped to provide 16,533 dwelling units under this program.

This program has been implemented from moneys in the Dwelling Unit Revolving Fund ("DURF") created by the State Legislature in 1970 and funded from the proceeds of general obligation bonds issued from time to time by the State of Hawaii in the aggregate principal amount of \$125,000,000. The Corporation uses DURF to pursue an aggressive 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 June 30, 2001, the fund equity of DURF was stated at \$149,830,000 (unaudited).

In 1988, the Legislature authorized the creation of a Homes Revolving Fund to be administered by the Corporation and funded from the proceeds of general obligation bonds of the State or revenue bonds or other evidences of indebtedness of the State or the Corporation. The Corporation may apply moneys in the Homes Revolving Fund for developing and implementing affordable housing development programs which may include, without limitation, development of infrastructure and off-site and on-site improvements, short-term or interim construction loans and development and construction of housing. As of June 30, 2001, the fund equity of the Homes Revolving Fund was stated at \$53,633,831 (unaudited). Neither DURF nor the Homes Revolving Fund nor any of the moneys or assets held therein is available for payment of the Bonds or pledged under the Indenture.

**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 State 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, 2001, the Corporation had assisted in the conversion of 14,688 residential lots.

**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 will amount to 20% of mortgage loan interest, are intended to assist first time moderate income home buyers to qualify for mortgage loans. As of June 30, 2001, the Corporation had traded in \$68,440,000 of single family mortgage revenue bond authority for \$17,110,000 of Mortgage Credit Certificate authority, and had assisted 524 families with Mortgage Credit Certificates.

**Low Income Housing Tax Credit Program.** This program provides incentives, through tax credits, to developers and owners of rental 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. As of June 30, 2001, the Corporation had allocated credits for the development of 41 projects containing a total of 3,390 dwelling units. Of these units, 3,076 have been constructed and are operational and 314 units are planned or under construction.

**Rental Assistance Program.** Under the Rental Assistance Program, the Corporation uses the investment income from program funds to subsidize the rental payments of qualified persons and families. Program subsidies are committed to specific projects for tenants with incomes that do not exceed 80% of the area median income. This program can be used to provide assistance to tenants in projects under the Multifamily Rental Housing Program, the Rental Housing System, the Affordable Rental Housing Program and the Low Income Housing Tax Credit Program.

## THE 2002 SERIES BONDS

### General Description

The 2002 Series Bonds will be dated the date of delivery thereof, will bear interest from such dated date at the rates and will mature in the amounts and on the dates set forth on the inside cover of this Official Statement. Interest on the 2002 Series Bonds is payable on January 1 and July 1 of each year, commencing January 1, 2003. Interest on the 2002 Series Bonds will be calculated on the basis of a 360-day year of twelve thirty-day months.

The 2002 Series Bonds will be issued in book-entry form only, registered in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the 2002 Series Bonds. See "BOOK-ENTRY PROVISIONS." Individual purchases of 2002 Series Bonds may be made in the principal amount of \$5,000 or any integral multiple thereof. Purchasers will not receive certificates representing their interest in the 2002 Series Bonds.

### Redemption Provisions

**Sinking Fund Redemption.** The 2002 Series A Bonds maturing on July 1, 2022 (the "2022 Term Bonds"), January 1, 2033, and bearing interest at a rate of 4.40% (the "PAC Bonds"), January 1, 2033, and bearing interest at a rate of 5.375% (the "Placed Bonds"), and July 1, 2033 (the "2033 Term Bonds" and, collectively with the 2022 Term Bonds, the PAC Bonds and the Placed Bonds, the "2002 Series A Term Bonds") are subject to redemption in part by lot on each January 1 and July 1 commencing January 1, 2014, January 1, 2010, January 1, 2023, and January 1, 2023, respectively, at the principal amount thereof plus accrued interest to the date of redemption, from funds in the Principal Account which are required to be applied in amounts sufficient to redeem on January 1 and July 1 of each year the principal amount of such Bonds specified for each of the years shown below.

#### 2022 Term Bonds

<u>Date</u>	<u>Amount</u>	<u>Date</u>	<u>Amount</u>
January 1, 2014	\$295,000	July 1, 2018	\$370,000
July 1, 2014	305,000	January 1, 2019	380,000
January 1, 2015	310,000	July 1, 2019	390,000
July 1, 2015	320,000	January 1, 2020	400,000
January 1, 2016	325,000	July 1, 2020	410,000
July 1, 2016	335,000	January 1, 2021	420,000
January 1, 2017	345,000	July 1, 2021	430,000
July 1, 2017	350,000	January 1, 2022	440,000
January 1, 2018	360,000	July 1, 2022	450,000*

\*Final Maturity

PAC Bonds

<u>Date</u>	<u>Amount</u>	<u>Date</u>	<u>Amount</u>
January 1, 2010	\$115,000	January 1, 2022	\$205,000
July 1, 2010	115,000	July 1, 2022	215,000
January 1, 2011	120,000	January 1, 2023	220,000
July 1, 2011	125,000	July 1, 2023	225,000
January 1, 2012	130,000	January 1, 2024	230,000
July 1, 2012	130,000	July 1, 2024	235,000
January 1, 2013	130,000	January 1, 2025	240,000
July 1, 2013	135,000	July 1, 2025	245,000
January 1, 2014	140,000	January 1, 2026	140,000
July 1, 2014	140,000	July 1, 2026	145,000
January 1, 2015	150,000	January 1, 2027	150,000
July 1, 2015	150,000	July 1, 2027	155,000
January 1, 2016	155,000	January 1, 2028	160,000
July 1, 2016	160,000	July 1, 2028	285,000
January 1, 2017	160,000	January 1, 2029	295,000
July 1, 2017	170,000	July 1, 2029	305,000
January 1, 2018	170,000	January 1, 2030	310,000
July 1, 2018	175,000	July 1, 2030	315,000
January 1, 2019	180,000	January 1, 2031	325,000
July 1, 2019	180,000	July 1, 2031	330,000
January 1, 2020	185,000	January 1, 2032	345,000
July 1, 2020	190,000	July 1, 2032	350,000
January 1, 2021	195,000	January 1, 2033	360,000*
July 1, 2021	200,000		

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\*Final Maturity

Placed Bonds

<u>Date</u>	<u>Amount</u>	<u>Date</u>	<u>Amount</u>
January 1, 2023	\$140,000	July 1, 2028	\$190,000
July 1, 2023	145,000	January 1, 2029	195,000
January 1, 2024	150,000	July 1, 2029	200,000
July 1, 2024	155,000	January 1, 2030	205,000
January 1, 2025	160,000	July 1, 2030	210,000
July 1, 2025	160,000	January 1, 2031	215,000
January 1, 2026	95,000	July 1, 2031	220,000
July 1, 2026	95,000	January 1, 2032	225,000
January 1, 2027	100,000	July 1, 2032	230,000
July 1, 2027	100,000	January 1, 2033	750,000*
January 1, 2028	105,000		

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\*Final Maturity

### 2033 Term Bonds

<u>Date</u>	<u>Amount</u>	<u>Date</u>	<u>Amount</u>
January 1, 2023	\$320,000	July 1, 2028	\$ 420,000
July 1, 2023	330,000	January 1, 2029	430,000
January 1, 2024	335,000	July 1, 2029	440,000
July 1, 2024	345,000	January 1, 2030	450,000
January 1, 2025	350,000	July 1, 2030	465,000
July 1, 2025	365,000	January 1, 2031	475,000
January 1, 2026	205,000	July 1, 2031	490,000
July 1, 2026	220,000	January 1, 2032	500,000
January 1, 2027	220,000	July 1, 2032	515,000
July 1, 2027	230,000	January 1, 2033	10,000
January 1, 2028	230,000	July 1, 2033	1,155,000*

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\*Final Maturity

The 2002 Series B Bonds are subject to redemption in part by lot on each January 1 and July 1 commencing January 1, 2026, at the principal amount thereof plus accrued interest to the date of redemption, from funds in the Principal Account which are required to be applied in amounts sufficient to redeem on January 1 and July 1 of each year the principal amount of such Bonds specified for each of the years shown below:

### 2002 Series B Bonds

<u>Date</u>	<u>Amount</u>
January 1, 2026	\$350,000
July 1, 2026	350,000
January 1, 2027	360,000
July 1, 2027	370,000
January 1, 2028	380,000*

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\*Final Maturity

In satisfaction, in whole or in part, of any Sinking Fund Installment, the Trustee may purchase Term Bonds subject to such Sinking Fund Installment at least 45 days prior to the due date of such Sinking Fund Installment. Upon any purchase or redemption of such Term Bonds other than by application of Sinking Fund Installments, an amount equal to the applicable redemption prices thereof shall be credited toward a part or all of any one or more of such Sinking Fund Installments, as directed by the Corporation.

**Optional Redemption.** The 2002 Series Bonds maturing after January 1, 2012, are subject to redemption prior to maturity on and after January 1, 2012, at the option of the Corporation, upon notice as provided in the Indenture, in whole or in part at any time, in such order as the Corporation shall determine at a redemption price equal to the principal amount of such Bonds or portions thereof to be redeemed, together with accrued interest to the redemption date.

Any redemption of the 2002 Series Bonds with the proceeds of any voluntary sale of Fannie Mae Securities or other Mortgage Loans shall be made pursuant to the optional redemption provision described above.

**Special Redemption.** *Special Redemption from Amounts in the 2002 Series Loan Accounts and the Debt Service Reserve Account.* The 2002 Series Bonds are subject to redemption prior to maturity, at any time, at the option of the Corporation in whole or in part at the principal amount thereof together with accrued interest to the redemption date out of amounts available therefor in the Principal Account and not required for Principal Installments, which amounts represent (i) amounts in the 2002 Series Loan Accounts not used to purchase Fannie Mae Securities, and (ii) amounts in the Debt Service Reserve Account not required to be maintained therein;



provided, however, that the PAC Bonds shall be subject to such redemption from amounts in the Debt Service Reserve Account only (1) to the extent such redemption in any semiannual period, together with all other special redemptions in such period, does not exceed the Applicable Amount (as defined below and adjusted as described below) for such period or (2) after all other 2002 Series Bonds are no longer Outstanding. The Corporation has previously authorized the early redemption of Bonds from unexpended amounts in the loan accounts applicable to prior series of Bonds.

*Special Redemption from Mortgage Principal Payments.* The 2002 Series Bonds are subject to redemption prior to maturity, at any time, at the option of the Corporation, in whole or in part at the principal amount thereof together with accrued interest to the redemption date, out of amounts available therefor in the Principal Account and not required for Principal Installments on Bonds, which amounts represent Mortgage Principal Payments allocable to Mortgage Loans financed with proceeds of the 2002 Series Bonds (including the Prior Mortgage Loans); provided, however, that except as described below with respect to mortgage principal prepayments allocable to Mortgage Loans financed with proceeds of the 2002 Series Bonds (including the Prior Mortgage Loans), the PAC Bonds shall be subject to such redemption only after all other 2002 Series Bonds are no longer Outstanding.

Mortgage principal prepayments of Mortgage Loans financed with the proceeds of the 2002 Series Bonds (including the Prior Mortgage Loans) that are not required for the purpose of paying regularly scheduled Principal Installments on Bonds, will be applied to the redemption of PAC Bonds so long as there are PAC Bonds remaining Outstanding; provided, however, that to the extent that the amount of such prepayments in any semiannual period exceeds the amount that would result in the Applicable Amount for such period (defined below and adjusted as described below) of PAC Bonds being redeemed, such excess will instead be applied to the redemption of 2002 Series Bonds other than the PAC Bonds selected by the Corporation so long as any 2002 Series Bonds other than the PAC Bonds remain Outstanding.

The Applicable Amounts were established on the basis of certain assumptions, including the expected origination schedule for Mortgage Loans financed with the proceeds of 2002 Series Bonds, and the receipt of mortgage principal prepayments in each semiannual period equal to 75% (200% in the case of the Prior Mortgage Loans) of the BMA Prepayment Model, as defined below, for 30-year fixed rate mortgage loans, and will be as follows (subject to adjustment as described below):

<u>Period Ending</u>	<u>Applicable Amount</u>	<u>Period Ending</u>	<u>Applicable Amount</u>
January 1, 2003	\$180,000	July 1, 2007	\$720,000
July 1, 2003	235,000	January 1, 2008	695,000
January 1, 2004	355,000	July 1, 2008	665,000
July 1, 2004	485,000	January 1, 2009	645,000
January 1, 2005	620,000	July 1, 2009	620,000
July 1, 2005	735,000	January 1, 2010	610,000
January 1, 2006	795,000	July 1, 2010	585,000
July 1, 2006	775,000	January 1, 2011	15,000
January 1, 2007	750,000		

To the extent that the aggregate amount of mortgage principal prepayments of Mortgage Loans financed with the proceeds of the 2002 Series Bonds (including the Prior Mortgage Loans), determined as of 75 days prior to each semiannual interest payment date, results in less than the Applicable Amount (as adjusted) of PAC Bonds being redeemed for the current semiannual period, the Applicable Amount (as adjusted) for the next succeeding semiannual period will be increased by the amount of such deficiency.

Any special redemption of the 2002 Series Bonds from amounts representing unexpended proceeds of the 2002 Series Bonds shall reduce the Applicable Amount for the then current and each future semiannual period by an amount equal to the product of (a) the original Applicable Amount for such semiannual period, times (b) a fraction equal to the amount so used to redeem PAC Bonds divided by the original principal amount of the PAC Bonds.

*Estimated Weighted Average Life of PAC Bonds.* The weighted average life of the PAC Bonds will be influenced by, among other factors, (i) the rate at which the Mortgage Loans applicable to the 2002 Series Bonds are

purchased, and (ii) the rate at which the principal payments thereon, including regularly scheduled principal payments and prepayments, are received. The term "weighted average life" refers to the average amount of time that will elapse from the date of issuance of a security until each dollar of principal of such security is repaid to the investor.

Levels of prepayments on mortgage loans are commonly measured by a prepayment standard or model. The standard used in the following discussion is the Bond Market Association ("BMA") prepayment standard or model (the "BMA Prepayment Model"). The BMA Prepayment Model represents an assumed monthly rate of prepayment of the then outstanding principal balance of a pool of mortgage loans. The BMA Prepayment Model does not purport to be either an historical description of the prepayment experience of any pool of mortgage loans or a prediction of the anticipated rate of prepayment of any pool of mortgage loans, including the Mortgage Loans allocable to the 2002 Series Bonds. "100% BMA" assumes prepayment rates of 0.2% per year of the then-unpaid principal balance of a pool of mortgage loans in the first month of the life of the mortgage loan pool and an additional 0.2% per year in each month thereafter (for example, 0.4% per year in the second month) until the 30<sup>th</sup> month. Beginning in the 30<sup>th</sup> month and in each month thereafter during the life of the pool of mortgage loans, "100% BMA" assumes a constant prepayment rate of 6% per year. Multiples will be calculated from this prepayment rate series, e.g. "200% BMA" assumes prepayment rates will be 0.4% per year in month one, 0.8% per year in month two, reaching 12% per year in month 30 and remaining constant at 12% per year thereafter. "0% BMA" assumes no prepayments of principal of a pool of mortgage loans occurs for the life of the pool of mortgage loans.

**Notwithstanding such assumptions, the Corporation has the right to redeem the PAC Bonds pursuant to optional redemption and special redemption from amounts in the 2002 Series Loan Accounts, the Debt Service Reserve Account and the General Account; provided, that such special redemption from amounts in the Debt Service Reserve Account and General Account exceeding the Applicable Amounts is permitted only after all other 2002 Series Bonds are no longer outstanding. To the extent 2002 Series Bonds are redeemed pursuant to optional redemption or special redemption from such amounts, the estimated weighted average life may vary from that estimated to occur based on the rate of prepayment.**

There is no assurance that prepayments on the Mortgage Loans will conform to any particular BMA prepayment rate. The rate of principal payment on pools of mortgage loans is influenced, among other factors, by a variety of economic, geographic, social and other factors, including the level of mortgage interest rates, the rate at which homeowners sell their homes or default on their mortgage loans and changes in mortgagors' housing needs, job transfers, unemployment and mortgagors' net equity in the mortgage properties. The Corporation makes no representations or warranties that actual experience will conform to the assumptions made herein or that any particular prepayment rate or estimated average life will be achieved. Because of the foregoing influences upon prepayments and since the rate of retirement of the PAC Bonds will depend on the rate of origination of Mortgage Loans allocable to the 2002 Series Bonds, the actual maturity of the PAC Bonds is likely to occur earlier, and could occur significantly earlier than the stated maturity.

*Special Redemption from Amounts in the General Account.* The 2002 Series Bonds are also subject to redemption prior to maturity, at any time, at the option of the Corporation in whole or in part at the principal amount thereof together with accrued interest to the redemption date out of amounts available therefor in the General Account, which amounts represent Revenues; provided, however, that the PAC Bonds shall be subject to such redemption only (i) to the extent such redemption in any semiannual period, together with all other special redemptions in such period, does not exceed the Applicable Amount for such period (as adjusted) or (ii) after all other 2002 Series Bonds are no longer Outstanding.

#### **Tax-Related Redemption Requirements**

In order to comply with its tax covenant, so as to assure that the interest on the 2002 Series Bonds will not be included in gross income for federal income tax purposes, the Corporation is currently required to exercise such option to redeem 2002 Series Bonds: (i) from unexpended proceeds of the 2002 Series A Bonds required to be used to make Mortgage Loans that have not been so used within 42 months from the date of issuance of the 2002 Series Bonds and (ii) from recoveries of principal from Mortgage Loans allocable to the 2002 Series Bonds, which amounts are received after ten years from the date of issuance and delivery of the 2002 Series Bonds or ten years from the date of issuance and delivery of the Refunded Bonds or original Bonds in a series of refundings (the "10-

Year Rule”). A percentage of the recoveries of principal on Mortgage Loans allocable to the 2002 Series Bonds will be subject to this redemption requirement immediately, which percentage will increase to 100% in the year 2011. See “THE PROGRAM—Federal Tax Requirements”. But see “TAX MATTERS—Proposed Federal Tax Legislation”.

See “SOURCES OF PAYMENT AND SECURITY FOR THE BONDS” for a discussion of the application of Mortgage Principal Payments and excess Revenues under the Indenture and events which may result in redemption.

### **Selection of Bonds for Redemption**

The Indenture provides that, except as discussed under “—Special Redemption” above, the Corporation may determine in its discretion the selection of 2002 Series Bonds for any redemption from among the various maturities of 2002 Series Bonds. Selection of 2002 Series Bonds for redemption within a maturity will be determined by lot.

### **Notices and Effect of Redemption**

Notice of any redemption will be mailed to the registered owner of any Bond all or a portion of which is to be redeemed at its last address, if any, appearing on the registry books of the Corporation kept by the Trustee at least 30 days but not more than 60 days prior to the redemption date. Notice of redemption having been given pursuant to the Indenture, as described above, the Bonds or portions thereof designated for redemption shall become due and payable on the date fixed for redemption and, if the Corporation provides the Trustee with moneys sufficient for the payment of the redemption price, and interest to accrue to the redemption date, such Bonds or portions thereof shall cease to bear interest from the redemption date.

If DTC or its nominee is the registered owner of any 2002 Series Bonds to be redeemed, notice of redemption will be given to DTC or its nominee as the registered owner of such 2002 Series Bond. Any failure on the part of DTC or failure on the part of a nominee of a Beneficial Owner (having received notice from a DTC Participant or otherwise) to notify the Beneficial Owner of any 2002 Series Bond to be redeemed shall not affect the validity of the redemption of such Bond. See “BOOK-ENTRY PROVISIONS.”

## **BOOK-ENTRY PROVISIONS**

The Depository Trust Company (“DTC”), New York, New York will act as securities depository for the 2002 Series Bonds. The 2002 Series Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee). One fully-registered Bond certificate will be issued for the 2002 Series Bonds of the same Series, maturity and interest rate, each in the aggregate principal amount of such Bonds, and will be deposited with DTC.

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

Ownership interests in the 2002 Series Bonds may be purchased only in the minimum authorized denomination or any multiple thereof. Purchases of 2002 Series Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for such Bonds on DTC's records. The ownership interest of each actual purchaser of each 2002 Series Bond (for purposes of the book-entry procedures for such Bonds, the "Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in 2002 Series Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in 2002 Series Bonds, except in the event that use of the book-entry system for such Bonds is discontinued. To facilitate subsequent transfers, all 2002 Series Bonds deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of 2002 Series Bonds with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of 2002 Series 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 Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Redemption notices shall be sent to Cede & Co. If less than all of the 2002 Series Bonds, within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to 2002 Series Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to the issuer of bonds 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 such Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the 2002 Series Bonds will be made to DTC by U.S. Bank National Association, as paying agent and bond registrar for the Bonds (the "Paying Agent" and the "Bond Registrar"). DTC's practice is to credit Direct Participants' accounts on each payable date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on the payable date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of each Participant and not of DTC, the Trustee, the Paying Agent, the Bond Registrar 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 DTC is the responsibility of the Paying Agent, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

For every transfer and exchange of 2002 Series Bonds, the Beneficial Owner may be charged a sum sufficient to cover any tax, fee or other governmental charge that may be imposed in relation thereto, and any reasonable fees and expenses of the Bond Registrar and costs incurred in preparing bond certificates. Neither the Corporation nor the Bond Registrar shall be required to transfer or exchange 2002 Series Bonds from the Record Date applicable to such Bonds through and including the next succeeding Bond Payment Date for such Bonds or from the Record Date next preceding any selection of such Bonds to be redeemed or thereafter until after the first mailing of any notice of redemption, or to transfer or exchange any such Bonds called for redemption. For purposes hereof, Record Date shall mean in the case of each Bond Payment Date, the Bond Registrar's close of business on the fifteenth day of the month immediately preceding such Bond Payment Date, or, if such date is not a Business Day, the next preceding Business Day; and, in the case of each redemption, such Record Date shall be specified by the Bond Registrar in the notice of redemption, provided that such Record Date shall be not less than fifteen calendar days before the mailing of such notice of redemption.

DTC may discontinue providing its services as securities depository with respect to the 2002 Series Bonds at any time by giving reasonable notice to the Corporation or the Trustee. DTC's services with respect to the 2002

Series Bonds may be discontinued or terminated at any time by (i) DTC or (ii) by the Corporation upon determination by the Corporation that the use of DTC is not in the best interests of the Corporation and the Beneficial Owners of such Bonds. In the event that DTC's services are so discontinued or terminated (either by DTC or by the Corporation), the Corporation shall attempt to locate another qualified securities depository, unless the Corporation determines that it is in the best interests of the Corporation not to continue the book-entry-only system of transfer. If the Corporation either fails to locate another qualified securities depository to replace DTC or makes such determination, the Corporation shall execute and deliver to the Beneficial Owners, or their nominees, replacement 2002 Series Bonds in substantially the form provided for in the Indenture.

The information in this section concerning DTC and DTC's book-entry system has been obtained from DTC and other sources that the Corporation believes to be reliable, but the Corporation takes no responsibility for the accuracy thereof.

## **SOURCES OF PAYMENT AND SECURITY FOR THE BONDS**

### **Special Obligations of the Corporation; Pledged Property**

The Bonds, including the 2002 Series Bonds, are special obligations of the Corporation, payable solely from the Revenues, funds and accounts held by the Trustee under the Indenture. The Bonds are secured by a pledge of all of the Mortgage Loans, the Revenues and all moneys and securities held in any of the funds or accounts established under the Indenture. 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 the holders of the Bonds and all Bonds rank pari passu under the Indenture.

***The 2002 Series Bonds 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. 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.***

### **Revenues**

The Indenture defines "Revenues" to mean: (i) all amounts paid or required to be paid with respect to principal and interest from time to time on the Mortgage Loans (excluding amounts applied to reimburse advances made by any Pool Insurer), including prepayments, amounts paid on account of acceleration of any Mortgage Loan, the proceeds received from the sale or other disposition of any Mortgage Loan, the proceeds of any insurance policy related to a Mortgage Loan or the proceeds of any collateral securing any Mortgage Loan, including payments under any Fannie Mae Security, and (ii) all interest received on moneys or securities held pursuant to the Indenture and paid or to be paid into the Revenue Fund. The Indenture requires that no Mortgage Loan may be sold or disposed of unless the Corporation determines that such action is in the best interests of the Corporation and of the Bondholders and does not adversely affect the Corporation's ability to pay debt service on the Bonds.

The Indenture provides that upon receipt of all Revenues, the Corporation promptly must deposit such revenues with the Trustee in the Revenue Fund. The Trustee is required by the Indenture to pay semiannually from the Revenue Fund amounts in the following order: (a) to fund the Principal Account in an amount equal to all Mortgage Principal Payments, (b) to fund the Interest Account, if and to the extent required, for payment of interest due on the Bonds, (c) to fund the Principal Account, if and to the extent required, for payment of principal due on the Bonds if principal is due on the interest payment date for which the credit is made, otherwise one-half of principal becoming due on the interest payment date next succeeding such date, (d) to fund the Debt Service Reserve Account to the extent, if any, required to restore such Account to its Requirement, (e) to fund the Mortgage Loan Reserve Fund to the extent, if any, required to restore such Fund to its Requirement, (f) to fund the Expense Account to the extent, if any, required so that the amount therein shall equal one-half of the budgeted Corporation Expenses, (g) to deposit in the Loan Fund for credit to the Series Loan Accounts therein pro rata until all amounts in the Debt Service Reserve Account, the Mortgage Loan Reserve Fund (excluding amounts in the Verex Account and the

accounts attributable to Section 203/234 FHA Mortgage Loans and Section 245 Mortgage Loans, as described below under "Mortgage Loan Reserve Fund"), and the Loan Fund, and the aggregate outstanding principal balance of all Mortgage Loans, less the then applicable amount of the Mortgage Payments Credit, are at least equal to 102% of the aggregate principal amount of outstanding Bonds, and (h) to deposit remaining amounts in the General Account. Mortgage Principal Payments, and Revenues deposited in the Series Loan Accounts and General Account, are available in certain circumstances to be applied to a par redemption of the 2002 Series Bonds (see "THE 2002 SERIES BONDS—Special Redemption").

#### **Debt Service Reserve Account**

The Indenture creates the Debt Service Reserve Account in the Debt Service Fund as a reserve for the payment of the principal of and interest and redemption price, if any, on the Bonds. The Indenture provides for an amount to be deposited to the credit of the Debt Service Reserve Account which will increase the amount then on deposit to equal the Debt Reserve Requirement, defined by the Indenture as the aggregate of the amounts established by the supplemental indentures providing for the issuance of each Series of Bonds, provided that such aggregate amount shall be at least equal to 10% of the aggregate principal amount of Bonds then outstanding. Moneys in the Debt Service Reserve Account are not available for any purpose other than payment of debt service on the Bonds. The Debt Reserve Requirement for the 2002 Series Bonds is established by the Indenture at 10% of the principal amount of 2002 Series Bonds outstanding. All amounts on deposit in the Debt Service Reserve Account in excess of the Debt Reserve Requirement are transferable at the request of the Corporation to the Principal Account for application to the redemption or purchase of Bonds. The Corporation currently has approximately \$61,879,000 on deposit in the Debt Service Reserve Account. The amounts deposited in the Debt Service Reserve Account with respect to the 2002 Series Bonds may be invested in Fannie Mae Securities backed by qualifying Mortgage Loans. Such Fannie Mae Securities are qualifying Investment Securities as that term is defined in the Indenture, and, for purposes of the Indenture, will be valued at cost in accordance with the terms of the Indenture for purposes of determining the amount in the Debt Service Reserve Fund.

#### **Mortgage Loan Reserve Fund**

The Indenture establishes the Mortgage Loan Reserve Fund primarily as a reserve for the payment of losses of principal on Mortgage Loans, but the Mortgage Loan Reserve Fund also may be used to meet deficiencies in the Debt Service Reserve Account. The Indenture requires with respect to any Series of Bonds that the Mortgage Loan Reserve Fund be funded from other than Bond proceeds. The Indenture defines the Mortgage Reserve Requirement as aggregate of the amounts established by the supplemental indentures providing for the issuance of each Series of Bonds, which aggregate amount shall be at least equal to the greater of: (i) the sum of 1% of the aggregate unpaid principal balances of all Mortgage Loans and 1% of the amount on deposit in the Loan Fund, or (ii) the unguaranteed and uninsured portions of the aggregate unpaid principal balances of all Mortgage Loans as to which: (a) foreclosure proceedings have been commenced by the filing of a foreclosure complaint with the appropriate court, or (b) payments thereon are more than 180 days delinquent, whichever shall have first occurred. The Indenture also creates additional accounts within the Mortgage Loan Reserve Fund applicable separately to Mortgage Loans insured by FHA under its Section 203 program or Section 234 program and Mortgage Loans insured by FHA under its Section 245 program, such accounts to be funded from amounts other than Bond proceeds as an additional increment of the Mortgage Reserve Requirement. The account applicable to Section 203/234 FHA Mortgage Loans was funded from Revenues in an amount equal to 1.385% of the unpaid aggregate principal balance of such Mortgage Loans purchased by the Corporation and the account applicable to Section 245 FHA Mortgage Loans was funded from Revenues in an amount equal to 1.765% of the unpaid aggregate principal balance of such Mortgage Loans purchased by the Corporation. On a periodic basis, certain available amounts in the Revenue Fund, the Expense Fund and the General Account shall be transferred to the Mortgage Loan Reserve Fund so that the balance therein continues to at least equal the Mortgage Reserve Requirement. For the Fiscal Year ending June 30, 2001, the Corporation was not required to transfer any amounts from the Expense Fund to the Mortgage Loan Reserve Fund to maintain the Mortgage Reserve Requirement. The Supplemental Indenture establishes the minimum Mortgage Reserve Requirement in connection with the 2002 Series Bonds required by the Indenture.

Pursuant to the Twenty-First Supplemental Indenture, the Corporation has established in the Mortgage Loan Reserve Fund a special account (the "Verex Account"), to be funded in an amount constituting an additional increment of the Mortgage Reserve Requirement and credited thereto the sum of \$687,968 from the General Account. The Corporation also agreed to make additional credits to the Verex Account, up to \$312,032, if required

to maintain the current rating by Standard & Poor's Ratings Service on the Bonds. The Corporation also covenanted that any transfers from the Verex Account in the Mortgage Loan Reserve Fund to the Revenue Fund permitted by the Indenture, in the event any Mortgage Loan is uncollectible or disposed of, will be made only with respect to Mortgage Loans covered by the Mortgage Pool Insurance Policy originally issued by Verex Assurance, Inc. ("Verex") (i.e., those Mortgage Loans originally funded with the proceeds of the 1983 Series A Bonds, the 1983 Series B Bonds and the 1983 Series C Bonds).

Amounts in the Mortgage Loan Reserve Fund may be used only for payments related to losses on Mortgage Loans due to unpaid principal on a Mortgage Loan or loss upon sale, assignment, transfer or other disposal of a Mortgage Loan and, with respect to the Verex Account, only with respect to Mortgage Loans financed with the proceeds of the 1983 Series A Bonds, the 1983 Series B Bonds and the 1983 Series C Bonds, and, subject to the foregoing, for payment of debt service on the Bonds. The portion of the Mortgage Reserve Requirement related to the Verex Account may be reduced as funds are withdrawn from such account or, at the option of the Corporation, may be reduced with the written consent of Standard & Poor's Ratings Service. Any amounts in the Mortgage Loan Reserve Fund in excess of the Mortgage Reserve Requirement shall, upon request of the Corporation, be paid into the Revenue Fund.

#### **Additional Bonds**

The Indenture permits the issuance of additional parity Bonds to provide funds for the purpose of purchasing Mortgage Loans and Fannie Mae Securities and to refund outstanding Bonds issued under the Indenture. See "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE—Additional Bonds" and "Refunding Bonds".

## SOURCES AND USES OF FUNDS

The sources of funds and uses in connection with the 2002 Series Bonds are expected to be approximately as follows:

### Sources

Proceeds of 2002 Series Bonds	\$36,775,000.00
Amounts Transferred From Funds and Accounts relating to the Refunded Bonds <sup>1/</sup>	25,895,379.22
Lender Commitment Fees	754,500.00
<b>TOTAL SOURCES</b>	<b>\$63,424,879.22</b>

### Uses

Amount Applied to the Refunded Bonds	\$26,120,000.00
Transfer of Prior Mortgage Loans	2,904,012.59
Deposit to 2002 Series A Loan Account	26,805,399.00
Deposit to 2002 Series B Loan Account	1,810,000.00
Deposit to Debt Service Reserve Account	5,000,000.00
Deposit to Mortgage Loan Reserve Fund	211,366.63
Underwriter's Fee	393,256.75
Redemption Premium	86,900.00
Costs of Issuance	93,944.25
<b>TOTAL USES</b>	<b>\$63,424,879.22</b>

<sup>1/</sup> Amounts Transferred include excess amounts in the Debt Service Reserve Account, excess amounts in the Mortgage Loan Reserve Fund, Prior Mortgage Loans and repayments.

## STRUCTURE ASSUMPTIONS, YIELD AND CASH FLOW REQUIREMENTS AND BONDHOLDER'S RISKS

### **Structure Assumptions for the 2002 Series Bonds**

The Corporation believes that it is reasonable to make the assumptions described below in structuring the 2002 Series Bonds and estimates that the payments of principal of and interest on all Mortgage Loans, including Fannie Mae Securities expected to be purchased with amounts on deposit in the 2002 Series Loan Accounts in the Loan Fund, plus the moneys on deposit in other funds and accounts held under the Indenture, including earnings thereon (except for amounts required to be remitted to the United States), will generate sufficient Revenues to pay on a timely basis the principal of, interest on and expenses relating to the Bonds, including the 2002 Series Bonds, on the basis of the following assumptions:

(1) All of the moneys deposited in the 2002 Series Loan Accounts and all moneys to be deposited in the Debt Service Reserve Account with respect to the 2002 Series Bonds will be used to purchase Fannie Mae Securities by March 20, 2003. Fannie Mae Securities will provide for level monthly payments of principal and interest. Fannie Mae Securities will bear interest at 5.21% per annum.



(2) As of the date of transfer (currently expected to be April 22, 2002) Prior Mortgage Loans and principal attributed to Prior Mortgage Loans will be transferred in the amount of \$2,904,012.59. Prior Mortgage Loans are assumed to have a weighted average coupon of 8.26%, and a weighted average remaining term of 242 months.

(3) All Mortgage Loans underlying Fannie Mae Securities will have level monthly payments of principal and interest for a period of 30 years. Mortgage Loans will bear interest at the rate of 5.76% per annum. An amount equal to .25% per annum of the aggregate outstanding principal amount of the Mortgage Loans financed with the 2002 Series Bonds will be paid to Fannie Mae from Mortgage Loan repayments representing Fannie Mae's guaranty fee. An amount equal to .30% per annum of the aggregate outstanding principal amount of the Mortgage Loans financed with the 2002 Series Bonds will be retained by Mortgage Lenders as servicing fees.

(4) To the extent that the amounts on deposit in the 2002 Series Loan Accounts are not used to purchase Mortgage Loans (including Fannie Mae Securities) in the amounts anticipated, the Corporation will use such amounts to redeem the 2002 Series Bonds as described in this Official Statement. See "THE 2002 SERIES BONDS—Special Redemption."

(5) The moneys deposited in the 2002 Series Loan Accounts and the Debt Service Reserve Account will be invested pursuant to the terms of various collateralized repurchase agreements that will provide for the payment of fixed rates of return per annum. In addition, the moneys deposited in the Revenue Fund will also be invested pursuant to the terms of various collateralized repurchase agreements that will provide for the payment of fixed rates of return.

(6) All annual expenses with respect to the Bonds, including all Program expenses, will be paid in full on a timely basis from investment income on funds and accounts held under the Indenture and a portion of interest paid on the Mortgage Loans, including Fannie Mae Securities.

(7) The maturities of the 2002 Series Bonds have been established on the basis of anticipated scheduled payments on the portion of Fannie Mae Securities that will be treated as purchased with funds on deposit in the 2002 Series Loan Accounts and on the currently scheduled payments on the Prior Mortgage Loans. The maturities of the 2002 Series Bonds do not assume any redemptions due to Mortgage Loan prepayments. It is anticipated, however, that the Mortgage Loans will be partially or completely prepaid or terminated prior to their respective final maturities as a result of events such as refinance, sale, default, condemnation or casualty loss.

(8) In addition to the moneys deposited in the 2002 Series Loan Accounts and the Debt Service Reserve Account with respect to the 2002 Series Bonds, additional funds in the approximate amount of \$16.7 million will be made available from moneys deposited into the Debt Service Reserve Account with respect to the 1997 Series Bonds and 1998 Series Bonds to purchase Fannie Mae Securities. Such moneys may be blended with the proceeds of the 2002 Series Bonds as loan participations to bear interest at 5.76% per annum.

In making these assumptions, the Corporation has not considered the issuance of additional Bonds or the application or the investment of the proceeds thereof; however, a condition to issuing additional Bonds is the filing of a Cash Flow Statement as described below.

### **Yield and Cash Flow Requirements**

The Corporation has covenanted not to purchase a Mortgage Loan or a Fannie Mae Security from original Bond proceeds or prepayments of Mortgage Loans, including prepayments received under Fannie Mae Securities, made with Bond proceeds unless the Yield on such Mortgage Loan exceeds the Yield on the Bonds of the Series of Bonds issued to finance such Mortgage Loan or Fannie Mae Security by at least 0.25% plus the servicing fee payable on such Mortgage Loan. The foregoing Yield test will not apply to the extent that the moneys in the Principal Account, the Debt Service Reserve Account, the Mortgage Loan Reserve Fund (excluding amounts in the Verex Account and the accounts attributable to Section 203/234 FHA Mortgage Loans and Section 245 Mortgage Loans, as described in "SOURCES OF PAYMENT AND SECURITY FOR THE BONDS—Mortgage Loan

Reserve Fund”), and the outstanding principal balance of all Mortgage Loans exceed 102% of the principal amount of all Bonds outstanding. For the purpose of applying such Yield test, amounts shall first be deemed to be applied to the purchase of Mortgage Loans, including Fannie Mae Securities, made from original Bond proceeds until amounts shall have been disbursed aggregating the initial deposit of Bond proceeds in the Series Loan Account. Thereafter, amounts shall be deemed to be applied to Mortgage Loans, including Fannie Mae Securities, purchased from prepayments.

For purposes of this covenant the term “Yield” means: (a) with respect to the yield on Mortgage Loans, an annual percentage rate determined on the basis of a standard table of mortgage yields, for equal monthly payments of self-amortizing mortgages held to maturity, and (b) with respect to the yield on any Series of Bonds, an annual percentage rate which, when discounting all Principal Installments and interest payments required to be made with respect to such Series of Bonds, results in an amount equal to the proceeds from the sale of such Series of Bonds received by the Corporation on the date of delivery thereof (computed in accordance with the actuarial or “Canadian” method).

The Indenture also contains covenants which require the Corporation to deliver to the Trustee a “Cash Flow Statement” which compares on a Bond Year by Bond Year basis: (a) all anticipated Revenues plus all amounts expected to be on deposit in funds and accounts held under the Indenture, with (b) the Aggregate Debt Service owing on the Bonds and all amounts required to be on deposit in such funds and accounts. The Cash Flow Statement is required to be filed with the Trustee: (i) whenever any Series of Bonds is issued, (ii) prior to making transfers from the General Account to be used by the Corporation free and clear of the lien of the Indenture, and (iii) prior to certain redemptions or purchases of any Bonds.

The Corporation may not take any of the actions described above unless the Corporation delivers a Cash Flow Statement to the Trustee giving effect to the action proposed to be taken and demonstrating in the current and in each succeeding Bond Year that: (i) anticipated Revenues, which may include reasonably anticipated prepayments of Mortgage Loans, plus (ii) all amounts then expected to be on deposit in funds and accounts held under the Indenture are at least equal to the total of the Aggregate Debt Service for such Bond Year and all amounts required by the Indenture to be on deposit in funds and accounts held thereunder. Notwithstanding the foregoing, in the case of any Cash Flow Statement filed in connection with: (a) transfers from the General Account which aggregate more than \$1,000,000 in any one Bond Year, or (b) any purchase or redemption of Bonds for which a Cash Flow Statement is required, the Cash Flow Statement shall demonstrate compliance with the requirements of the preceding sentence if Revenues are anticipated on the basis of 0% and 500% of the rate set forth in the most recent mortgage maturity experience table for mortgages having the same terms insured under Section 203 of the National Housing Act and published by the Federal Housing Administration in “Survivorship and Decrement Tables for HUD/FHA Home Mortgage Insurance Program” for the region, or, if available, the State.

The Cash Flow Statement shall set forth the assumptions upon which the estimates therein are based and the Corporation shall administer the Program and perform under the Indenture in all material respects in accordance with the assumptions set forth in the Cash Flow Statement most recently filed with the Trustee. Facts reflected in a Cash Flow Statement shall be as of a date not more than 45 days prior to the date of delivery thereof.

#### **Prepayment Assumptions**

The Corporation has established in the supplemental indentures authorizing the issuance under the Indenture of previous Series of Bonds a schedule for the payment of the principal of and Sinking Fund Installments on such Bonds, based, as to all such Bonds other than those issued to fund the Debt Service Reserve Account, upon the Corporation’s estimate of regularly scheduled repayments on the Mortgage Loans and certain assumptions as to prepayments (both voluntary and involuntary) on such Mortgage Loans.

Prepayments may result from, among other reasons, Eligible Borrowers who refinance their Mortgage Loans either to obtain a lower interest rate or to reduce their total monthly payments and from Mortgagors who sell their homes. The Corporation cannot predict the level of prepayments (including such voluntary prepayments and any foreclosures) that the Corporation will experience for the Mortgage Loans financed with amounts in the 2002 Series Loan Accounts.

In establishing the maturities for the 2002 Series Bonds the Corporation has assumed that it will receive no prepayments. The Corporation believes this assumption is conservative. The Indenture does not require the Corporation to use any particular standard in establishing prepayments. The Corporation has experienced prepayments on its Mortgage Loans in excess of the assumptions used in structuring its outstanding Bond issues and has redeemed such Bonds from such prepayments.

The 2002 Series Bonds are subject to (and the Corporation, in some cases, is required to effect a) redemption at par from prepayments on Mortgage Loans financed from amounts in the 2002 Series Loan Accounts. See "THE 2002 SERIES BONDS—Special Redemption."

The Indenture requires that the principal portion of prepayments not required for the payment of principal maturities and Sinking Fund Installments on the Bonds be used solely to purchase Mortgage Loans, including Fannie Mae Securities, or to redeem or purchase Bonds. If Mortgage Loans, including Fannie Mae Securities, to be purchased from the proceeds of any Series of Bonds are not purchased at the times and at the interest rates assumed or investment income is less than amounts estimated, the Corporation's ability to pay the principal of and interest on the Bonds, when due, will depend upon the availability of moneys held under the Indenture to make up such deficiency. See "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE—Debt Service Reserve Account."

If the owner of any Single Family Residence located in a project developed by the Corporation attempts to sell such Single Family Residence (assuming such Single Family Residence originally sold at an affordable or reduced original sales price and assuming such Single Family Residence is secured by a Mortgage Loan) or violates the owner occupancy requirement at any time within the first ten years of the term of such Mortgage Loan, the Corporation will have the right to purchase such Single Family Residence at a price determined pursuant to a formula established at the time of making such Mortgage Loan. There is no prepayment penalty upon prepayment of a Mortgage Loan. The Corporation cannot predict the effect refinancing of the Mortgage Loans or the exercise of this right would have on the payment or prepayment of Mortgage Loans and corresponding redemption of Bonds.

The Internal Revenue Code of 1986, as amended (the "Code") permits the Corporation, under certain circumstances, to use the proceeds of repayments on Mortgage Loans received within ten years of the date of issuance and delivery of Bonds, or of the date of issuance and delivery of the original Bonds in a series of refundings, to purchase new Mortgage Loans. The Corporation cannot predict the effect the Corporation's "recycling" of the proceeds of prepayments to purchase new Mortgage Loans would have on the redemption of 2002 Series Bonds.

Current Federal tax law requires a payment to the United States of America from certain mortgagors whose Mortgage Loans are originated after December 31, 1990. See "THE PROGRAM—Federal Tax Requirements and Recapture." The Corporation is unable to predict what effect, if any, such requirement will have on the origination or prepayment of Mortgage Loans to which such provision applies.

### **Special Considerations Relative to the Origination of Mortgage Loans**

There are numerous reasons why Mortgage Loans may not be originated in an aggregate amount equal to the amount of funds available under the Program for such purpose. One of the principal factors in originating real estate loans is the availability of funds to make such loans at interest rates and on other terms that prospective borrowers can afford. The Corporation believes that there is at the present time a shortage of funds in the State to make such loans at interest rates competitive with that specified for the Mortgage Loans. This condition could change during the period of origination of the Mortgage Loans. For example, prevailing interest rates for conventional mortgage loans in the State could decrease, or other funds to make real estate loans at rates and on other terms equivalent to or more favorable than the rate and terms of the Mortgage Loans could be made available by the Corporation from other sources. In the event that, prior to all the Mortgage Loans being originated by the Mortgage Lenders, funds to make mortgage loans, including the proceeds of other bonds of the Corporation, were to become available in the State at rates competitive with those specified for the Mortgage Loans, the Mortgage Lenders might not be able to utilize all of the funds available for the origination of Mortgage Loans. Such unexpended funds will be used to redeem the Bonds as described in this Official Statement. See "THE 2002 SERIES BONDS—Special Redemption."

## **THE PROGRAM**

### **General**

The Corporation had, as of June 30, 2001, utilized Bond proceeds to purchase 9,755 Mortgage Loans originated by Mortgage Lenders and insured by FHA, VA or qualified private mortgage insurers or backed by Fannie Mae Securities. See "PORTFOLIO INFORMATION WITH RESPECT TO THE PROGRAM—Status of Mortgage Loan Portfolio" and "APPENDIX II — SUMMARY OF CERTAIN FEDERAL HOUSING INSURANCE PROGRAMS AND OTHER MORTGAGE INSURANCE PROGRAMS" for a description of these insurance programs. These Mortgage Loans are being serviced by Mortgage Lenders in accordance with various Program requirements imposed under the Corporation's Procedural Guide for the Program. Under the 2002 Lending Program, the Corporation proposes to allocate the amounts deposited in the 2002 Series Loan Accounts for the purchase of Fannie Mae Securities backed by Mortgage Loans originated by participating Mortgage Lenders.

### **Reservation of Funds Under the 2002 Lending Program**

The Corporation solicited Commitment Applications from eligible Mortgage Lenders in anticipation of the 2002 Lending Program. Each Mortgage Lender named below submitted a Commitment Application to the Corporation under which the Mortgage Lender agreed to originate and service Mortgage Loans under the Origination Agreement with the Corporation and to sell such Mortgage Loans in minimum pools of \$250,000 under a Pool Purchase Contract. A Mortgage Lender may assign its servicing obligations to another Mortgage Lender under the terms of the Origination Agreement.

Each Mortgage Lender will be required to tender to the Corporation a nonrefundable commitment fee equal to 1.50% of the commitment amount accepted by the Corporation for a 12-month commitment term. A Lender may request an extension of a commitment term. The Corporation is not obligated to grant an extension and reserves the right under the terms of the Origination Agreement to charge an extension fee. At the closing of Mortgage Loans, the commitment fee may be partially or wholly recouped by the Mortgage Lender through the charging of fees to the Eligible Borrowers and sellers of the Single Family Residences, which fees may not exceed 2.50% of the amount of each Mortgage Loan.

The Corporation has accepted Commitment Applications from Mortgage Lenders in an aggregate amount of \$50,300,000.

The following chart identifies the allocations made by the Corporation with respect to the 2002 Lending Program:

### Schedule of Mortgage Lenders

<u>Mortgage Lender</u>	<u>Mortgage Loan Requests Accepted</u>
American Savings Bank	2,286,000
Bank of Hawaii	4,571,000
Central Pacific Bank	1,000,000
CityBank	6,400,000
Finance Factors, Ltd.	3,657,000
First Hawaiian Bank	9,443,000
Hawaii National Bank	1,000,000
HomeStreet Bank	4,571,000
Washington Mutual Bank, FA	8,229,000
Wells Fargo Home Mortgage of Hawaii, LLC	9,143,000
Total	\$50,300,000

### **Basic Requirements Relating to the 2002 Lending Program**

1. **Mortgage Loans.** Each 2002 Series Mortgage Loan will be a fixed interest rate loan with a term not to exceed thirty (30) years. Each 2002 Series Mortgage Loan is expected to bear interest at a rate of 5.76% per annum. Each 2002 Series Mortgage Loan will provide for substantially level monthly payments of principal and interest on the first day of each month over the amortization period. The Corporation may modify the terms and conditions of Mortgage Loans from time to time to conform to changes in federal tax requirements.

Each 2002 Series Mortgage Loan must be secured by a first priority mortgage lien on the applicable Single Family Residence. Each 2002 Series Mortgage Loan shall be: (a) eligible for purchase under Fannie Mae Mortgage-Backed Securities Program, (b) eligible under the insurance programs described in Appendix II, and in any event must be used to finance the cost of acquisition of a Single Family Residence located in the State. Each Mortgage Loan must be originated by a Mortgage Lender and made to an Eligible Borrower, and must meet the origination standards set forth in the Origination Agreement and the Pool Purchase Contract. The maximum loan amount for Mortgage Loans in Hawaii purchased by Fannie Mae is \$451,050 (subject to the federal tax requirements described below) and such Mortgage Loans are subject to Fannie Mae underwriting guidelines. See "APPENDIX I - FANNIE MAE MORTGAGE-BACKED SECURITIES PROGRAM.

2. **Warranties and Representations.** The 2002 Lending Program requires that each Mortgage Lender make certain warranties and representations, before the Corporation funds a Fannie Mae Security, as to matters described below under "Federal Tax Requirements" and as to the following: (1) to the best of its knowledge the Mortgage Loan has been made to an Eligible Borrower and is secured by a first mortgage lien on the applicable Single Family Residence; (2) the Mortgage Loan complies with all laws including all applicable usury, consumer credit and truth in lending laws; (3) the Mortgage Lender has complied with all applicable insurance requirements; (4) closing costs, fees and charges collected from the Eligible Borrower or seller of the subject property did not exceed origination fees and discount fees set forth in the Commitment Application or actual out-of-pocket expenses incurred in closing the Mortgage Loan, and the amounts represented by such expenses were the usual and reasonable amounts charged in the State for the items paid as out-of-pocket expenses by the Mortgage Lender; (5) the Single Family Residence is free and clear of all mechanics' and all materialmen's liens; and (6) the Mortgage Lender has no knowledge of any misstatements, facts or circumstances made by the seller or Eligible Borrower in the loan origination process. If any of these warranties and representations proves to be untrue, or if the Mortgage Lender

fails to deliver all required documentation, the Mortgage Lender upon demand is required to repurchase the Mortgage Loan at a price equal to the unpaid balance thereof plus accrued interest. See "SUMMARY OF CERTAIN PROVISIONS OF THE ORIGATION AGREEMENT".

With respect to each Mortgage Loan, the Eligible Borrower and the seller of the Single Family Residence are required to submit affidavits, under penalty of law, certifying as to certain facts and intentions which evidence the Mortgagor's compliance with the requirements of Section 143 of the Code (as described in detail below), including: (1) the Eligible Borrower has not had a present ownership interest in a principal residence during the immediately preceding three years, (2) the Eligible Borrower expects to use the Single Family Residence as a principal residence beginning 30 days after closing the Mortgage Loan, (3) the purchase price of the Single Family Residence does not exceed the purchase price limitations contained in the Origination Agreement, (4) the Mortgage Loan, subject to certain exceptions, is not being used to repay a loan secured by a mortgage on the Single Family Residence, and (5) the Eligible Borrower's family income does not exceed the maximum permitted by the Code. The Origination Agreement also prescribes various procedures and techniques to be followed by each Mortgage Lender in reviewing and verifying the affidavits and information submitted by each Eligible Borrower and seller of a Single Family Residence in connection with obtaining the related Mortgage Loan. In the event that the Eligible Borrower shall have falsified any information contained in the Eligible Borrower's application for a Mortgage Loan submitted to the Mortgage Lender, such event shall be deemed a default under the Mortgage Loan and the Mortgage Loan shall be immediately due and payable.

Similar requirements apply to the purchase from Mortgage Lenders of Mortgage Loans eligible under the insurance programs described in Appendix II.

#### **Federal Tax Requirements**

**General.** The requirements of applicable federal tax law must be satisfied with respect to the 2002 Series Bonds (which are treated as a composite issue under the Code) in order that interest on the 2002 Series Bonds not be included in gross income for federal income tax purposes retroactive to the date of issuance thereof.

**Loan Eligibility Requirements Imposed by the Code.** The Code contains the following loan eligibility requirements that are applicable to Mortgage Loans financed with proceeds attributable to the 2002 Series Bonds in order that interest on the 2002 Series Bonds not be included in gross income for federal income tax purposes retroactive to the date of issuance thereof.

**Residence Requirement.** The Code requires that each of the premises financed with proceeds of qualified mortgage bonds be a one-to-four-family residence, one unit of which can reasonably be expected to become the principal residence of the mortgagor within a reasonable time after the financing is provided. Certain documents adopted by the Corporation that establish procedures to be followed in connection with the financing of Mortgage Loans with amounts attributable to the 2002 Series Bonds in order to assure that interest paid on the 2002 Series Bonds not be included in gross income for federal income tax purposes under the Code (the "Program Documents") require each Eligible Borrower to submit an affidavit stating such person's intention to occupy the premises as his principal residence within 60 days after closing of the Mortgage Loan.

**First-Time Homebuyer Requirement.** The Code requires that, subject to certain exceptions, the lendable proceeds of qualified mortgage bonds be used to provide financing to mortgagors who have not had a present ownership interest in their principal residence (other than the residence being financed) during the three-year period prior to execution of the mortgage loan. Eligible Borrowers subject to this requirement must so certify when applying to a Mortgage Lender for a Mortgage Loan, and the Corporation's Program Documents require that the Mortgage Lender make a reasonable investigation to verify such certification. The Program Documents require Eligible Borrowers subject to this requirement to provide federal income tax returns for the previous three years or other appropriate certifications to allow the Mortgage Lender to verify that no deductions or other entries have been made that would indicate any such ownership interest.

**New Mortgage Requirement.** The Code requires that, with certain limited exceptions, the lendable proceeds of qualified mortgage bonds finance new mortgage loans only and that no proceeds may be used to acquire or replace an existing mortgage loan, which would include the refinancing of a pre-existing mortgage

loan. The Program Documents set forth procedures which require each Eligible Borrower and the seller of the residence to certify, subject to such exceptions, that no refinancing of a prior mortgage loan is being effected.

**Purchase Price Limitation.** The Code requires that the purchase price of the residence financed with the lendable proceeds of qualified mortgage bonds not exceed 90% of the average area purchase price applicable to such residence or 110% of the applicable average area purchase price in the case of residences located in targeted areas. The Program Documents set forth procedures which require each Eligible Borrower and seller of a residence to make certifications regarding the purchase price of such residence.

**Income Limitation.** The Code requires that all mortgage loans made from the lendable proceeds of qualified mortgage bonds be made only to borrowers whose family income does not exceed 115% (for mortgage loans made to families with fewer than three members, 100%) of the applicable median family income. An exception is provided for mortgage loans financed with the lendable proceeds of qualified mortgage bonds made with respect to targeted area residences that permits two-thirds in aggregate amount of such mortgage loans to be made with respect to borrowers whose family income does not exceed 140% (for mortgage loans made to families with fewer than three members, 120%) of the applicable median family income and one-third in aggregate amount of such loans to be made without regard to any income limitation.

Applicable federal tax law permits higher income limits for persons financing homes located in certain "high housing cost areas." A high housing cost area is a statistical area for which the ratios of the area's average purchase price for existing and new single family houses to the area's median income exceed 120% of the same ratios determined on a national basis. These ratios are determined separately with respect to new and existing single family residences. An area is a high housing cost area only if the ratios for both new and existing houses meet the 120% test. In high housing cost areas, the mortgagor income limits are increased above 115% (or 100%, as applicable) by one percent for each percentage point (1%) by which the new or existing housing price ratio, whichever is smaller, exceeds 120%. However, the new limit cannot exceed 140% (or 120%, as applicable) of the income limits otherwise applicable. All areas in the State have been determined to currently be "high housing cost areas".

The Program Documents set forth procedures which require each Eligible Borrower to certify the amount of family income. Family income includes income of all individuals executing both the note and mortgage and occupying the dwelling as their principal residence.

**Requirements as to Assumptions.** The Code provides that a mortgage loan may be assumed only if each of the then applicable residence requirement, first-time homebuyer requirement, purchase price limitation, and income limitation is met with respect to such assumption. Each Mortgage Loan by its terms shall allow assumptions only if the assuming Eligible Borrower satisfies federal tax requirements and Program requirements.

**General.** An issue of bonds is treated as meeting the loan eligibility requirements of the Code if (i) the issuer in good faith attempted to meet all the loan eligibility requirements before the mortgage loans were executed, (ii) any failure to comply with the loan eligibility requirements is corrected within a reasonable period after such failure is first discovered, and (iii) 95% or more of the proceeds of the issue used to make mortgage loans was used to finance residences that met all such requirements at the time the mortgage loans were executed. In determining whether 95% or more of the proceeds has been so used, the Code permits the Corporation to rely on an affidavit of the mortgagor and of the seller and an examination of copies of the mortgagor's federal income tax returns for the last three years preceding the date the Mortgage Loan is executed even though the relevant information in such affidavits and income tax returns should ultimately prove to be untrue, unless the Corporation or the Mortgage Lender knows or has reason to believe that such information is false.

**Other Requirements Imposed by the Code. General.** Failure to comply with the applicable provisions of the Code may result in interest on the applicable issue of bonds being included in gross income for federal income tax purposes retroactive to the date of issuance thereof. The Code provides that gross income for federal income tax purposes does not include interest on a mortgage revenue bond if it is a qualified mortgage bond. A qualified mortgage bond is a part of an issue of a state or political subdivision all the proceeds of which (net of amounts applied to any costs of issuance thereof and to fund a reasonably required reserve) are used to finance

owner-occupied residences and that meets certain (i) general requirements, (ii) arbitrage restrictions on the use and investment of proceeds of the issue, and (iii) loan eligibility requirements set forth in the Code and as more fully described above under "Loan Eligibility Requirements Imposed by the Code."

The first general requirement of the Code applicable to the Corporation's Program is that the aggregate amount of private activity bonds that may be issued by the Corporation in any calendar year (or previous years' carried forward amount) must not exceed the portion of the private activity bond volume limit for the State for such calendar year that is allocated to the Corporation. The 2002 Series Bonds are either excluded from or within the applicable limit for the Corporation. The second general requirement of the Code applicable to the Corporation's Program is that at least 20% of the lendable proceeds of an issue of bonds must be made available (and applied with reasonable diligence) for owner-financing of residences in targeted areas (as defined by the Code) for at least one year after the date on which such funds are first available for such owner-financing (the "targeted area requirement"). The Corporation has covenanted to comply with such requirements to the extent required by the Code.

The Code requires the issuer of qualified mortgage bonds to file with the Internal Revenue Service reports on the issuance of its qualified mortgage bonds following such issuance, as well as an annual qualified mortgage loan information report. The Corporation has covenanted to file, as required, such reports with respect to the 2002 Series Bonds.

The Code requires that the effective interest rate on mortgage loans financed with the lendable proceeds of qualified mortgage bonds may not exceed the yield on the issue by more than 1.125% and that certain investment earnings on non-mortgage investments, calculated based upon the extent such investment earnings exceed the amount that would have been earned on such investments if the investments were invested at a yield equal to the yield on the 2002 Series Bonds, be rebated to the United States. The Corporation has covenanted to comply with these requirements and has established procedures to determine the amount of excess earnings, if any, that must be rebated to the United States.

**Recapture Provision.** For certain mortgage loans made after December 31, 1990 from the proceeds of tax-exempt bonds issued after August 15, 1986, and for assumptions of such mortgage loans, the Code requires a payment to the United States from certain Eligible Borrowers upon sale or other disposition of their homes (the "Recapture Provision"). The Recapture Provision requires that an amount determined to be the subsidy provided by a qualified mortgage bond financing to a mortgagor be paid to the United States on disposition of the house (but not in excess of 50% of the gain realized by the mortgagor). The recapture amount (i) increases over the period of ownership, with full recapture occurring if the house is sold between four and five full years after the closing of the mortgage loan and (ii) decline ratably to zero with respect to sales occurring between five and nine full years after the closing of the mortgage loan. An exception excludes from recapture part or all of the subsidy in the case of certain assisted individuals whose incomes are less than prescribed amounts at the time of the disposition. The Code requires an issuer to inform mortgagors of certain information with respect to the Recapture Provision. The Corporation has established procedures which the Corporation believes will enable it to meet such recapture information requirement.

The Code states that an issuer will be treated as meeting the targeted area requirement, the arbitrage restrictions on mortgage loans, and the recapture information requirements if it in good faith attempted to meet all such requirements and any failure to meet such requirements was due to inadvertent error after taking all reasonable steps to comply with such requirements.

**Required Redemptions.** The Code requires redemption of certain qualified mortgage bonds issued after 1988 from unexpended proceeds required to be used to make mortgage loans that have not been used within 42 months from the date of issuance (or the date of issuance of the original bonds in the case of refundings of unexpended proceeds), except for a \$250,000 de minimis amount. As a result, the Corporation may be required by the Code to redeem 2002 Series Bonds from proceeds attributable to the 2002 Series Bonds not used to redeem outstanding bonds. Additionally, for bonds issued after 1988, the Code permits repayments (including prepayments) of principal of mortgage loans financed with the proceeds of an issue of bonds to be used to make additional mortgage loans for only 10 years from the date of issuance of the bonds (or the date of issuance of the original bonds in the case of refundings), after which date such amounts must be used to redeem bonds, except for a \$250,000 de



minimis amount. As a result, the Corporation may be required by the Code to redeem the 2002 Series Bonds from repayments (including prepayments) of principal of Mortgage Loans financed with proceeds attributable to the 2002 Series Bonds.

**Compliance.** The Corporation included provisions in the Program Documents that establish procedures, including receipt of certain affidavits and warranties from Mortgage Lenders and Eligible Borrowers, in order to assure compliance with the loan eligibility requirements and other requirements that must be satisfied subsequent to the date of issuance of the 2002 Series Bonds. The Corporation has covenanted in the Indenture to do and perform all acts and things permitted by law and necessary or desirable to assure that interest paid on the 2002 Series Bonds shall not be included in gross income for federal income tax purposes and, for such purpose, to adopt and maintain appropriate procedures.

## **PORTFOLIO INFORMATION WITH RESPECT TO THE PROGRAM**

### **Certain Information with Respect to the Mortgage Loans**

The Corporation has originated 9,755 Mortgage Loans as of June 30, 2001, consisting of 3,511 (35.99%) Mortgage Loans backed by Fannie Mae Securities, 5,719 (58.63%) level amortization loans (not including Mortgage Loans backed by Fannie Mae Securities), 295 (3.02%) Growing Equity Mortgage™ loans and 230 (2.36%) graduated payment mortgages insured by FHA under Section 245 of the National Housing Act, as amended. Of the level amortization loans, 1,548 (27.07%) were HOME and ACTION Mortgage Loans which have initial graduated payment terms and are backed by pledged savings accounts which provide the Corporation with a level stream of income as if such Mortgage Loans were amortizing on a level basis.

The Eligible Borrowers have a median age of 31 years and consist primarily of 2 and 3 member households. The Mortgage Loans originated under the Program have an average original principal amount of \$103,254 and are secured by Single Family Residences having an average sales price of \$113,582. Approximately 53.56% of such Single Family Residences are condominium and townhouse units; approximately 53.12% of the Mortgage Loans are secured by mortgages on newly constructed single family housing, and approximately 18.37% of such Single Family Residences are on leasehold land. Mortgage Loans originated during the period from July 1, 2000 through June 30, 2001, have an average original principal amount of \$151,030, and are secured by Single Family Residences having an average sales price of \$164,318. The Eligible Borrowers under such Mortgage Loans had an average family income of \$51,658.

Through June 30, 2001, 76.74% of the Mortgage Loans purchased under the Program were on Single Family Residences located in the City and County of Honolulu, where approximately 80% of the State's population is located. The following table illustrates the location of all Mortgage Loans originated under the Program in the State of Hawaii through June 30, 2001:

<u>County</u>	<u>Loans Originated</u>	<u>Percentage</u>
Honolulu	7,486	76.74%
Hawaii	927	9.50%
Maui	906	9.29%
Kauai	436	4.47%
Total	9,755	100.00%

The Mortgage Loans were originated with the following loan to value ratios:

<u>Loan to Value Ratio</u>	<u>Number of Loans</u>	<u>Percentage</u>
Over 95%	2,928	30.02%
91%-95%	2,947	30.21%
86%-90%	2,041	20.92%
80%-85%	1,272	13.04%
Under 80%	<u>567</u>	<u>5.81%</u>
Total	9,755	100.00%

#### **Status of Mortgage Loan Portfolio**

The Corporation's portfolio of 3,805 outstanding Mortgage Loans as of June 30, 2001, aggregating \$505,246,229 in outstanding principal amount, consisted of 3,181 (83.60%) Mortgage Loans backed by Fannie Mae Securities, 609 (16.01%) level amortization loans (not including Mortgage Loans backed by Fannie Mae Securities) and 15 (0.39%) graduated payment mortgages insured by FHA under Section 245 of the National Housing Act, as amended. Of the level amortization loans, 66 (10.84%) are HOME and ACTION Mortgage Loans which have initial graduated payment terms and are backed by pledged savings accounts which provide the Corporation with a level stream of income as if such Mortgage Loans were amortizing on a level basis.

The following table sets forth for each series of Bonds information regarding the primary mortgage insurance coverage, pool mortgage insurance coverage (if any), special hazard insurance coverage (if any) and Fannie Mae guarantees, in each case with respect to the Mortgage Loans outstanding as of June 30, 2001.

SERIES	NUMBER OF LOANS ORIGINALLY INSURED BY EACH PRIMARY MORTGAGE INSURANCE COMPANY (FOR MORTGAGE LOANS NOT GUARANTEED BY FANNIE MAE)†						POOL MORTGAGE INSURER	SPECIAL HAZARD INSURER	NUMBER OF FANNIE MAE GUARAN- TEED MORT- GAGE LOANS
	FHA	MGIC	WMAC	UGRIC	Other	No primary			
1980 Series A	26	3	41	1	14	1	MGIC	CCC	**
1980 Series B	9	**	26	**	9	**	MGIC	CCC	**
1983 Series A	**	**	28	1	2	**	Verex	CIIC	**
1983 Series B	**	2	6	1	3	**	Verex	CIIC	**
1983 Series C	**	8	14	1	6	**	Verex	CIIC	**
1984 Series A	**	4	1	2	**	**	**	CIC/ NAIC	**
1985 Series A	1	14	2	**	1	**	MGIC	CCC	**
1986 Series A	20	22	1	30	**	20	MGIC/ UGRIC	CIC/ CIGNA	**
1986 Series B	25	82	2	**	**	6	MGIC	CIC/ NAIC	**
1988 Series A	70	**	**	**	**	**	**	**	**
1989 Series A	83	**	**	**	**	**	**	**	**
1990 Series A	36	**	**	**	**	**	**	**	**
1991 Series A	**	**	**	**	**	**	**	**	102
1991 Series B	**	**	**	**	**	**	**	**	20
1994 Series A&B	**	**	**	**	**	**	**	**	1,190
1997 Series A&B	**	**	**	**	**	**	**	**	747
1998 Series A,B&C	**	**	**	**	**	**	**	**	796
2000 Series A&B	**	**	**	**	**	**	**	**	326
Totals	270	135	121	36	35	27			3,181
(percentages)*	7.09%	3.55%	3.18%	0.95%	0.92%	0.71%			83.60%

CCC - Continental Casualty Company  
 CIIC - Commerce and Industry Insurance Company  
 CIC - Coregis Insurance Company  
 CIGNA - Cigna Property and Casualty Insurance Company  
 FHA - Federal Housing Administration  
 MGIC - Mortgage Guaranty Insurance Corporation

NAIC - Insurance Company of North America  
 WMAC - Wisconsin Mortgage Assurance Corporation  
 UGRIC - United Guaranty Insurance Co.  
 Verex - Verex Assurance Incorporated  
 Other - Includes Mortgage Loans insured by the Veterans  
 Administration, Verex Assurance Incorporated,  
 Investors Mortgage Insurance Company, PMI  
 Mortgage Insurance Company, Ticor Mortgage  
 Insurance Company and Policyholders Benefit  
 Corporation

\* Percentages of total of all Mortgage Loans (including Mortgage Loans backed by Fannie Mae Securities) as of June 30, 2001.

\*\* Not applicable.

† A small number of mortgagors have discontinued primary insurance coverage as permitted by the Indenture.

The 3,181 Mortgage Loans backed by Fannie Mae Securities represent an outstanding principal balance of approximately \$467,569,516, which is approximately 92.54% of the outstanding principal balance of all Mortgage Loans. The 270 Mortgage Loans insured by FHA represent an outstanding principal balance of approximately \$19,912,692, which is approximately 3.94% of the outstanding principal balance of all Mortgage Loans. The 327 Mortgage Loans backed by other primary mortgage insurance represent an outstanding principal balance of approximately \$16,839,400, which is approximately 3.33% of the outstanding principal balance of all Mortgage Loans. The remaining 27 Mortgage Loans not backed by primary mortgage insurance represent an outstanding principal balance of approximately \$924,621, which is approximately 0.19% of the outstanding principal balance for the Mortgage Loans.

### **Certain Information Related to Delinquency and Foreclosure in the State**

A mortgagee may foreclose a real estate mortgage in the State pursuant to one of two basic methods: (i) by judicial proceedings commenced in the Circuit Court, and (ii) under a power of sale where such power is provided for in the mortgage. All Mortgage Loans purchased under the Program must contain such a power of sale. Under either method, the mortgagee has the right upon the default of the mortgagor to accelerate the debt and require the property to be sold in order to pay the indebtedness. In a foreclosure by judicial action, the Circuit Court will order the sale of the property and will "confirm" the sale. Upon confirmation of the sale, the mortgagor's right to repay his or her delinquent debt and "redeem" the mortgaged property is primarily barred. In the event the proceeds of the sale are insufficient to pay the indebtedness and the other costs and advances made by the mortgagee, the Circuit Court will enter a deficiency judgment against the mortgagor. If the property is foreclosed pursuant to a power of sale, strict compliance with the notice provisions of the statute are required. The statute requires that notice of the intention to foreclose the mortgage and to sell the mortgaged property be made by publication once in each of three successive weeks, the last publication not less than 14 days prior to the date of sale in a newspaper having a general circulation in the county in which the mortgaged property is located, and by the posting of such notice on the mortgaged property not less than 21 days before the date of sale. The mortgagor's right to redeem the property is permanently barred by conveyance of the property to the purchaser at public auction. The Condominium Property Act provides that condominium units shall be accorded the same treatment as single family detached structures in foreclosure with a few exceptions.

As of June 30, 2001, the Program delinquency rate with respect to Mortgage Loans outstanding (not including Mortgage Loans backed by Fannie Mae Securities) was 8.65%, representing 54 delinquent loans out of 624 total of such Mortgage Loans outstanding:

<u>No. of Days Delinquent</u>	<u>No. of Loans</u>	<u>Percentage of Outstanding Mortgage Loans</u>
30 - 59	29	4.65%
60 - 89	14	2.24%
90 and over	11	1.76%
(Note: 9 out of 11 loans are in foreclosure)		
Total	54	8.65%

The Program foreclosure rate was 1.44%, representing nine Mortgage Loans in foreclosure. Of the nine Mortgage Loans in foreclosure, one is privately insured, seven are insured by FHA and one is insured by VA. As of June 30, 2001, based on The National Delinquency Survey prepared by the Economic and Research Department of the Mortgage Bankers' Association of America, the total delinquency rate with respect to 1 to 4 unit Mortgage Loans for the State of Hawaii was 2.81% and, as of such date, the foreclosure rate for the State for Mortgage Loans in foreclosure at the end of the quarter was 1.14%. These rates are based on over 123,800 mortgage loans. Hawaii's experience compares with a national total delinquency rate of 4.47% and foreclosure rate of 0.91%, based on 31,243,815 loans.

### **SUMMARY OF CERTAIN PROVISIONS OF THE ORIGATION AGREEMENT**

The following is a summary of certain provisions of the Origination Agreement. This summary does not purport to be comprehensive or definitive and is subject to all of the terms and provisions of the Origination Agreement, to which reference is hereby made, and copies of which are available from the Corporation. Capitalized terms used without definition in this summary are used as defined in the Origination Agreement, and may differ from the definition or use of similar terms defined elsewhere in this Official Statement.

#### **Lender Allocations**

The Corporation has agreed in the Origination Agreement to reserve money during the Delivery Period, in the aggregate principal amount of \$50,300,000, for the purchase of Fannie Mae Securities backed by mortgages on

new and existing homes, to be originated by the Mortgage Lenders. In consideration therefor, prior to the issuance of the 2002 Series Bonds, each Lender shall pay to the Corporation a non-refundable commitment fee (the "Lender Fee") equal to 1.50% of the amount of such allocation. The Delivery Period will be until March 20, 2003. A Lender may request an extension of a Delivery Period. The Corporation is not obligated to grant an extension and reserves the right to charge an extension fee.

### **Origination**

Pursuant to the Origination Agreement, each Lender has agreed to exercise due diligence and use its best efforts during the Delivery Period to process applications and issue commitment letters for, and to originate Mortgage Loans, in the aggregate principal amount of its Lender Allocation. Up to 10% of the Mortgage Loans originated by a Lender may have terms of less than 30 years.

Each Mortgage Loan originated is required to conform with the requirements of the Act and the Federal Tax Requirements. The Lenders are required to exercise due diligence to establish such procedures as are reasonably necessary to assure such compliance. After each Mortgage Loan is closed, the Lender must deliver to the Corporation all such mortgage documents as are specified in the Origination Agreement with respect to the Mortgage Loan. The documents submitted to the Corporation are to be reviewed by the Corporation for conformity with the requirements of the Act, the Code and the Origination Agreement. The Corporation may return to be cured documents the Corporation deems to be defective with respect to any Mortgage Loan. Upon approval by the Corporation of the documents submitted, the Lender may submit the pool containing such Mortgage Loan to Fannie Mae for purchase.

### **Issuance of Fannie Mae Securities**

Each Mortgage Lender acting on its own behalf shall exercise due diligence and use its best efforts during the applicable Delivery Period to originate Mortgage Loans in the aggregate principal amount of its Lender Allocation and in accordance with the terms of the Origination Agreement and Fannie Mae Guides. Each Originating Lender shall use its best efforts to assign such Mortgage Loans and the servicing in connection therewith to a Major Lender in accordance with the Origination Agreement in order to enable the Major Lender to acquire Fannie Mae Securities with respect to such Mortgage Loans during the Delivery Period pursuant to the Pool Purchase Contract.

Each Servicer shall aggregate the Mortgage Loans originated by it and assigned to it by Originating Lenders during the Delivery Period. The Servicer may "warehouse" any portion of such Mortgage Loans until such time that the Servicer deems it advisable, in the exercise of due diligence, to cause the issuance of a Fannie Mae Security. In the event that the Servicer has Mortgage Loans in a sufficient aggregate principal amount to constitute a Mortgage Pool and to cause the issuance of a Fannie Mae Security with respect to such Mortgage Pool, the Servicer shall aggregate all such Mortgage Loans to form such Mortgage Pool and shall submit an appropriate application to Fannie Mae for the issuance of such Fannie Mae Security. Any Mortgage Pool delivered to Fannie Mae must be in a minimum original outstanding principal amount of two hundred fifty thousand dollars (\$250,000). The total principal amount of any issue of Fannie Mae Securities shall equal the aggregate unpaid principal balances of Mortgage Loans in the Mortgage Pool.

The Servicer shall ensure that the total original outstanding principal amount of any Fannie Mae Security issued by Fannie Mae based on and backed by a Mortgage Pool will not be issued in an amount which in the Servicer's good faith judgment would either: (i) preclude the subsequent origination of Mortgage Loans, or (ii) if Mortgage Loans have been originated and a Mortgage Pool is comprised of such Mortgage Loans, preclude the issuance of a Fannie Mae Security backed by such Mortgage Pool.

The Servicer will ensure that the Program shall have at least equal priority with the activities of the Servicer with respect to any other unfunded Fannie Mae Securities available to the Servicer or to the issuance of any other Fannie Mae Securities not specifically pledged to an identifiable lending activity.

The Servicer agrees to notify the Trustee at least six business days before each proposed delivery to the Trustee of a Fannie Mae Security of the aggregate principal amount of Fannie Mae Security to be acquired. The Trustee shall disburse moneys for the acquisition of a Fannie Mae Security only upon receipt of the Corporation's

Certificate with respect to each Mortgage Loan in the Mortgage Pool backing Fannie Mae Security, to be issued following the Corporation's review of the documents with respect to such Mortgage Loans.

### **Servicing**

Each Servicer is required to service the Mortgage Loans originated by such Servicer, as a Major Lender, and those Mortgage Loans assigned to such Servicer by Originating Lenders and will have full power and authority to do any and all things in connection with such servicing which it may deem necessary or desirable. Each Servicer is required to exercise at least the same degree of care which it exercises with respect to the servicing of mortgage loans for its own account and to conform to at least the minimum requirements established by Fannie Mae and the PMI Insurer.

As compensation for such servicing, each Servicer will be entitled to receive and retain as a servicing fee an amount equal to a monthly fee of one-twelfth of 0.30% of the unpaid principal balance on each Mortgage Loan backing a Fannie Mae Security serviced by such Servicer, with such principal balance being calculated as of the day preceding the last day on which a scheduled payment of principal was paid.

Each Servicer is required to remit to Fannie Mae all payments of principal of and interest on the Mortgage Loans serviced by such Servicer, less its servicing fee.

No Servicer shall consent to any assumption of a Mortgage Loan unless such assumption is in compliance with the Act and the Federal Tax Requirements and has been approved by Fannie Mae, the PMI Insurer and the Corporation.

## **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 this Official Statement entitled "THE 2002 SERIES 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 herein:

**Act:** Part III of Chapter 201G, Hawaii Revised Statutes, as may be from time to time amended and supplemented.

**Aggregate Debt Service:** In any Bond Year, as of any date of calculation, the sum of the amounts of Debt Service for such Bond Year with respect to all Series of Bonds issued under the Indenture.

**Annual Budget:** The annual budget, relating to the Program, as amended or supplemented, adopted or in effect for a particular Fiscal Year, such Fiscal Year, as of the date of the Indenture, being the twelve month period ending June 30 of each year.

**Authorized Officer of the Corporation:** The Executive Director or any officer or employee of the Corporation authorized to perform specific acts or duties by resolution duly adopted by the Corporation.

**Bond Year:** Each 12 month period ending June 30.

**Counsel's Opinion:** An opinion signed by an attorney or firm of attorneys of nationally recognized standing in the field of law relating to municipal bonds (who may also be counsel to the Corporation) selected by the Corporation and satisfactory to the Trustee.

**Debt Reserve Requirement:** As of any date of calculation, with respect to all Series of Bonds, the aggregate of amounts established by the Supplemental Indentures providing for the issuance of each Series of Bonds which aggregate amount shall be at least equal to 10% of the aggregate principal amount of all Series of Bonds then outstanding. Where expressly limited to a particular Series of Bonds, such term shall mean the aforementioned amount established by the applicable Supplemental Indenture.

**Debt Service:** With respect to any particular Bond Year and any Series of Bonds, an amount equal to the sum of (i) interest payable on such Bonds during such Bond Year exclusive of capitalized interest, plus (ii) the Principal Installment or Installments of such Bonds payable during such Bond Year. Such interest and Principal Installments for such Series shall be calculated on the assumption that no Bonds will be retired except by payment on the date thereof.

**Investment Securities:** Any of the following, if and to the extent the same are at the time legal for investment of Corporation funds:

(i) direct obligations of or obligations guaranteed by the full faith and credit of the United States of America;

(ii) bonds, debentures, notes or other evidences of indebtedness issued or guaranteed by any of the following agencies: Bank for Cooperatives; Federal Intermediate Credit Banks; Federal Home Loan Bank System; Export-Import Bank of United States; Federal Land Banks; Fannie Mae (excluding interest only stripped mortgage-backed securities); the United States Postal Service; the Government National Mortgage Association; or the Federal Financing Bank or any agency or instrumentality of the United States of America or any other corporation wholly-owned by the United States of America, in each case, so long as such obligations provide for the timely payment of principal and interest;

(iii) New Housing Authority Bonds, Temporary Notes or Preliminary Loan Notes 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 any agency thereof; 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 or any agency thereof;

(iv) direct and general obligations of any state of the United States or any political subdivision of any such state, to the payment of the principal of and interest on which the full faith and credit of such state is pledged, provided that at the time of their purchase under the Indenture, such obligations are rated in either of the two highest rating categories by each nationally recognized bond rating agency then maintaining a rating on its Bonds; and

(v) repurchase agreements the underlying securities of which are obligations described in items (i) and (ii) above.

**Mortgage Loan:** A note or bond secured by a mortgage which is eligible at the time of purchase for purchase by the Corporation under the requirements of the Indenture and is purchased with proceeds of Bonds or other moneys pledged under the Indenture and is held under the Indenture, including a single pool mortgage backed security guaranteed as to timely payment of principal and interest by Fannie Mae and a fully modified mortgage backed security guaranteed as to timely payment of principal and interest by the Government National Mortgage Association, in each case, representing the right to receive interest (net of servicing and guaranty fees) and principal on mortgage loans eligible for purchase by the Corporation pursuant to the Act and the Program.

**Mortgage Principal Payment:** With respect to any Mortgage Loan, the amounts paid or required to be paid from time to time as principal with respect to such Mortgage Loan or mortgage backed security, including amounts paid with respect to principal on account of acceleration of the due date of such Mortgage Loan or prepayment of all or part of such Mortgage Loan and shall include amounts received with respect to principal as shall be determined by the Corporation from the sale or other disposition of any Mortgage Loan or of any mortgage backed security or any collateral securing any Mortgage Loan or amounts transferred from the Mortgage Loan Reserve Fund pursuant to the Indenture or from any insurer or guarantor of any Mortgage Loan or any issuer of a mortgage backed security.

**Mortgage Reserve Requirement:** As of any date of calculation, with respect to all Series of Bonds, the aggregate of amounts established by the Supplemental Indentures providing for the issuance of each Series of Bonds, which aggregate amount shall be at least equal to (1) the greater of (i) the sum of 1% of the aggregate unpaid principal balances of all Mortgage Loans and 1% of the amount on deposit in the Loan Fund, or (ii) the unguaranteed and uninsured portions of the aggregate unpaid principal balances of all Mortgage Loans as to which (a) foreclosure proceedings have been commenced by the filing of a foreclosure complaint with the appropriate court or (b) payments thereon are more than 180 days delinquent, whichever shall have first occurred; plus (2) with respect to the 1983 Series A Bonds, the 1983 Series B Bonds, the 1983 Series C Bonds, the 1984 Series A Bonds, the 1985 Series A Bonds, the 1986 Series A Bonds, the 1986 Series B Bonds, the 1988 Series A Bonds, the 1989 Series A Bonds and the 1990 Series A Bonds, 1.385% of the aggregate unpaid principal balances of all Mortgage Loans that are insured by FHA under its Section 203 Program and its Section 234 Program and that are financed from the Series Loan Account applicable to such Bonds; and 1.765% of the aggregate unpaid principal balances of all Mortgage Loans that are insured by FHA under its Section 245 Program and that are financed from the Series Loan Account applicable to such Bonds; plus (3) with respect to the Mortgage Loans financed from the proceeds of the 1983 Series A Bonds, 1983 Series B Bonds and 1983 Series C Bonds, the initial funding of the Verex Account in an amount of \$687,968 and, if required to maintain the rating on the Bonds by Standard & Poor's Ratings Service, an additional funding of the Verex Account in an additional amount not exceeding \$312,032. The portion of the Mortgage Reserve Requirement represented by the Verex Account may be reduced as funds are withdrawn therefrom for purposes of the Verex Account or at the option of the Corporation with the written consent of Standard & Poor's Ratings Service.

**Pledged Property:** All of the Mortgage Loans, Revenues, funds established under the Indenture and Investment Securities held in any fund under the Indenture, together with all proceeds of the foregoing and all of the Corporation's right, title and interest in and to the foregoing, and all other moneys, securities or funds pledged for the payment of the principal or Redemption Price of and interest on the Bonds in accordance with the terms and provisions of the Indenture. The Corporation's right, title and interest in the Mortgage Loans shall not include the right to receive any payment on a Mortgage Loan for which the obligor thereon is required to be given a credit in order to comply with the Federal Tax Requirements.

**Principal Installment:** As of any payment date, the principal amount of serial Bonds maturing on such date and the amount of all Sinking Fund Installments due on such date.

**Rule:** The rules adopted by the Corporation pursuant to the Act as the same may be amended and supplemented from time to time.

**Sinking Fund Installment:** With respect to any Series of Bonds, the amount or amounts required to be deposited in the Debt Service Fund and credited to the Principal Account therein by one or more Supplemental Indentures in order to periodically redeem any Bonds issued as "term bonds".

**Supplemental Indenture:** Any indenture supplemental to or amendatory of the Indenture, entered into by the Corporation in accordance with the Indenture.

#### **Additional Bonds (Indenture, Section 2.3 B.)**

Issuance of additional Bonds is conditioned upon, among other things, delivery of (i) the Corporation's certificate that the Corporation is not in default in the payment of the principal of, Redemption Price, if any, and interest on the Bonds then outstanding, or in the performance of any of the covenants and agreements contained in the Indenture or in the event of default, a Counsel's Opinion that such default does not deprive any Bondholder in any material respect of the security afforded by the Indenture, and (ii) a Cash Flow Statement (see "SOURCES OF PAYMENT AND SECURITY FOR THE BONDS—Yield and Cash Flow Requirements" herein).

#### **Refunding Bonds (Indenture, Section 2.3 C.)**

One or more Series of Bonds ("Refunding Bonds") may be issued to refund any or all of the Bonds then outstanding provided that, (i) if less than all of such Bonds are refunded, the Corporation determines that there will be a savings to the Corporation over the life of the outstanding Bonds or that the amounts required to be paid into the Interest Account and Principal Account in the Debt Service Fund to pay the principal of and interest on Bonds in



any year after the issuance of Refunding Bonds shall not be greater than the amount which would have been payable into the Interest Account and Principal Account if the Bonds to be refunded were not so refunded, (ii) the Corporation certifies that the Corporation is not in default in the payment of principal of, Redemption Price, if any, and interest on the Bonds then outstanding, or in the performance of any of the covenants and agreements contained in the Indenture or if there exists an event of default, there is furnished a Counsel's Opinion that such default does not deprive any Bondholder in any material respect of the security afforded by the Indenture, and (iii) a Cash Flow Statement is delivered (see "SOURCES OF PAYMENT AND SECURITY FOR THE BONDS—Yield and Cash Flow Requirements" herein).

#### **Loan Fund (Indenture, Sections 5.1 and 5.2, Twenty-Second Supplemental Indenture)**

Prior to the purchase of any Mortgage Loan by the Corporation, the Trustee, upon the written request of the Corporation signed by an Authorized Officer of the Corporation, shall withdraw from the Loan Fund an amount sufficient to pay the purchase price of Mortgage Loans purchased by the Corporation, including any accrued interest. The Trustee shall at any time upon the written request of the Corporation transfer amounts on credit to a Series Loan Account in the Loan Fund to the Principal Account in the Debt Service Fund for the purpose of paying the principal of Bonds of the Series for which such Series Loan Account was created which are being redeemed or purchased.

**Series Loan Account:** The Supplemental Indenture providing for the issuance of each Series of Bonds shall require the Trustee to establish a Series Loan Account in the Loan Fund for such Series of Bonds. Certain of the proceeds from the sale of such Bonds will be deposited in the Loan Fund to the credit of the applicable Series Loan Account.

In addition, the Trustee shall withdraw from the Revenue Fund and deposit in the Loan Fund, after payments to the Debt Service Reserve Account, the Mortgage Loan Reserve Fund and the Expense Fund, (i) for credit to the Series Loan Accounts on a pro rata basis, all Revenues on deposit therein until the sum of moneys and Investment Securities on deposit in the Debt Service Reserve Account, the Mortgage Loan Reserve Fund (excluding amounts in the Verex Account and the accounts attributable to Section 203/234 FHA Mortgage Loans and Section 245 Mortgage Loans, as described in "Sources of Payment and Security for the Bonds—Mortgage Loan Reserve Fund"), and the Loan Fund, and the aggregate of the outstanding principal balances of Mortgage Loans owned by the Corporation, shall at least equal 102% of all Outstanding Bonds and (ii) such additional amounts for credit to such Series Loan Accounts, as the Corporation shall direct. Also, the Trustee, at the direction of the Corporation, shall transfer Mortgage Principal Payments in the Principal Account in the Debt Service Fund not otherwise needed to pay Principal Installments on the Bonds to the Series Loan Account applicable to such Mortgage Principal Payments. Furthermore, amounts in the General Account not required for the purposes of eliminating a deficiency in the Debt Service Reserve Account, the Mortgage Loan Reserve Fund and the Expense Fund may be deposited in Series Loan Accounts.

In addition, the Supplemental Indenture authorizing the issuance of the 2002 Series Bonds provides that the Corporation may at any time determine that the amounts on credit to the 2002 Series Loan Accounts which constitute proceeds of the 2002 Series Bonds and which are not committed to the purchase of Mortgage Loans on the date of such determination are unexpended proceeds of the 2002 Series Bonds, and direct the Trustee to apply such transferred moneys to the redemption or purchase of 2002 Series Bonds to the greatest extent possible.

#### **Establishment of Funds and Accounts (Indenture, Section 5.1 through 5.6)**

The Indenture establishes the following funds and accounts, each held by the Trustee (the Loan Fund and Series Loan Account were described above):

- Loan Fund
  - Series Loan Account
- Revenue Fund
  - General Account
- Debt Service Fund
  - Interest Account
  - Principal Account
  - Debt Service Reserve Account
- Mortgage Loan Reserve Fund
  - FHA 203/234 Account
  - FHA 245 Account
  - Verex Account
- Expense Fund

**Revenue Fund (Indenture, Section 5.2, Twenty-Second Supplemental Indenture)**

All Revenues shall be deposited in the Revenue Fund. On or before each interest payment date on any Bonds then outstanding, amounts in the Revenue Fund shall be withdrawn and allocated to the following funds and accounts on a preliminary basis in the order set forth below; provided, however, that any such amounts so withdrawn and allocated for payment of interest and Principal Installments on the Bonds due on such interest payment date shall not be less than the amounts so due.

1. To the Debt Service Fund (i) for credit to the Principal Account therein an amount equal to all Mortgage Principal Payments on deposit in the Revenue Fund, (ii) for credit to the Interest Account, if and to the extent required, an amount so that the balance in said Account shall on the date of such credit be at least equal to any due and unpaid interest and the interest to become due on the outstanding Bonds on the interest payment date for which such credit is made, (iii) for credit to the Principal Account, if and to the extent required, so that (a) if no Principal Installment is due on the interest payment date for which such credit is made, the balance in said Account on the date of such credit shall be at least equal to the sum of any due and unpaid Principal Installment and one-half of any Principal Installment becoming due on the outstanding Bonds on the interest payment date next succeeding the interest payment date for which such credit is made; and (b) if a Principal Installment is due on the interest payment date for which such credit is made, the balance in said Account on such date shall be at least equal to the sum of any due and unpaid Principal Installment and any Principal Installment to become due on the outstanding Bonds on the interest payment date for which such credit is made, and (iv) for credit to the Debt Service Reserve Account, if and to the extent required, an amount such that the balance therein shall equal the Debt Reserve Requirement (calculated as of the interest payment date for which such credit is made taking into consideration any Principal Installments or redemptions to be made on such interest payment date);

2. To the Mortgage Loan Reserve Fund, if and to the extent required, an amount so that the balance in said Fund on the interest payment date for which such credit is made shall equal the Mortgage Reserve Requirement (calculated based on data not more than 60 days prior to such interest payment date);

3. To the Expense Fund, if and to the extent required, an amount so that the balance in said Fund on the interest payment date for which such credit is made shall equal one-half of Corporation expenses provided in the Annual Budget (including premiums on all mortgage pool insurance policies);

4. To the Loan Fund, for credit to Series Loan Accounts (i) pro rata on the basis of the respective principal amounts of Outstanding Bonds of the applicable Series of Bonds, until the sum of the moneys and Investment Securities on deposit in the Debt Service Reserve Account, the Mortgage Loan Reserve Fund (excluding amounts in the Verex Account and the accounts attributable to Section 203/234 FHA Mortgage Loans and Section 245 Mortgage Loans, as described in "SOURCES OF PAYMENT AND SECURITY FOR THE BONDS—Debt Service Reserve Account"), and the Loan Fund and the aggregate of the outstanding principal balances of Mortgage Loans owned by the Corporation, less the then applicable Mortgage Payments Credit, if any, shall at least equal 102% of the principal amount of the Bonds then outstanding, and (ii) such additional amounts as the Corporation shall direct; and

5. To the General Account, to the extent of any remaining balance on deposit in the Revenue Fund.

No later than 21 days after each interest payment date, the deposits referred to above shall be finalized and further appropriations of moneys received on or prior to such interest payment date from the Revenue Fund and transfers of funds deposited on a preliminary basis on or prior to such interest payment date among the various Funds and Accounts established by the Indenture may be made for the purpose of finalizing such deposits. Such deposits upon finalization shall be deemed to be finalized as of such interest payment date.

#### **Principal Account; Interest Account (Indenture, Section 5.3)**

The Trustee shall pay out of the Interest Account the amount required for the interest on any of the Bonds as the same become due and payable, out of the Principal Account the amount required for the payment of Principal Installments as they become due and payable, and out of the Principal Account and the Interest Account, respectively, the amounts required for the payment of the Redemption Price of and interest on the Bonds then to be redeemed. Such amounts shall be paid by the Trustee to the Paying Agents to permit the above payments to be made as the same become due, but not earlier than one day prior to the due date.

With respect to any Sinking Fund Installment the Trustee shall apply amounts in the Principal Account (together with amounts in the Interest Account with respect to any interest becoming due on the Bonds for which such Sinking Fund Installment was established) for the redemption of Bonds of the Series and maturity for which such Sinking Fund Installment was established to satisfy Sinking Fund Installment requirements. The Trustee shall give notice of redemption in accordance with the Indenture as soon as practicable after the 40th day preceding the due date of any such Sinking Fund Installment.

The Trustee, upon receipt of a written request signed by an Authorized Officer of the Corporation, shall purchase Bonds in the open market at any time during the period between an interest payment date for the Bonds and the forty-fifth day preceding the next interest payment date and at a price no greater than the applicable Redemption Price for such Bonds. Such request shall also designate the Series of Bonds to be purchased, the maturity within such Series to be purchased and the source of payment of the purchase price, and shall direct any necessary transfer of moneys, shall designate the principal amount of Bonds within such maturity to be purchased, and if any of the Bonds are term Bonds, shall designate the years in which Sinking Fund Installments are to be reduced and the amount by which such Sinking Fund Installments are to be reduced; provided, prior to any such purchase, the Corporation may be required to file a Cash Flow Statement in accordance with the Indenture. See "Cash Flow Statement (Indenture, Section 6.11, Twenty-Fourth Supplemental Indenture)" below.

The Trustee, at the direction of the Corporation, shall transfer Mortgage Principal Payments in the Principal Account not otherwise needed to pay Principal Installments on the Bonds to the Series Loan Account in the Loan Fund applicable to such Mortgage Principal Payments.

To the extent that at any time moneys are not available in the Principal Account or Interest Account in the Debt Service Fund for the payment of principal of and Redemption Price and interest on the Bonds when due, the deficiency therein shall be made up from the following funds or accounts and in the following order of priority:

- |          |  |
|----------|--|
| first,   | from the Revenue Fund;                 |
| second,  | from the General Account;              |
| third,   | from the Mortgage Loan Reserve Fund;   |
| fourth,  | from the Expense Fund;                 |
| fifth,   | from the Debt Service Reserve Account; |
| sixth,   | from the Interest Account;             |
| seventh, | from the Principal Account; and        |
| eighth,  | from the Series Loan Accounts.         |

#### **Debt Service Reserve Account (Indenture, Section 5.4)**

If on any interest payment date for the Bonds, after giving effect to all transfers from the Revenue Fund, the General Account, the Mortgage Loan Reserve Fund and the Expense Fund, the amounts in the Principal Account and the Interest Account shall be less than the amounts required to be in such Accounts, the Trustee shall apply amounts from the Debt Service Reserve Account to the extent necessary to eliminate the deficiency, first in the Interest Account and second in the Principal Account.

Prior to the allocation from the Revenue Fund on or prior to each interest payment date, the Trustee shall calculate the amount of the Debt Reserve Requirement as of such date and shall determine the amount, if any, then in the Debt Service Reserve Account which is in excess of such Debt Reserve Requirement. The amount of such excess shall, upon the request of the Corporation, immediately prior to such allocation, be transferred to the Principal Account.

#### **Expense Fund (Indenture, Section 5.5)**

The Trustee shall apply amounts in the Expense Fund from time to time as may be required by the Corporation for reasonable and necessary Corporation expenses upon a written requisition by an Authorized Officer of the Corporation, provided that no payment shall be made by the Trustee to the extent that the amount of such payment is in excess of the unencumbered balance of the Expense Fund.

To the extent that amounts on deposit in the Expense Fund exceed one-half of Corporation expenses provided in the Annual Budget, such excess may be transferred to the Revenue Fund for credit to the General Account.

#### **Mortgage Loan Reserve Fund (Indenture, Section 5.6)**

Prior to each interest payment date, the Corporation shall calculate the amount of the Mortgage Reserve Requirement and the Trustee shall determine the amount of any excess in the Mortgage Loan Reserve Fund. The Trustee shall notify the Corporation of any excess and, at the request of the Corporation, the excess shall be transferred to the Revenue Fund.

At the time the Corporation shall determine that a Mortgage Loan is uncollectible or shall sell, assign, transfer or otherwise dispose of a Mortgage Loan, the Corporation shall deliver to the Trustee a certificate of an Authorized Officer of the Corporation certifying as to such determination or disposal, as the case may be, and the amount of loss or proceeds of disposal. The Trustee shall withdraw from the Mortgage Loan Reserve Fund an amount equal to the loss incurred or the difference, if any, between the unpaid principal balance of such Mortgage Loan and the principal portion of proceeds of such disposal and deposit such amount in the Revenue Fund.

#### **General Account (Indenture, Section 5.7, Twenty-Second Supplemental Indenture)**

On or before each interest payment date, amounts in the General Account shall be applied by the Corporation to make up any deficiencies in the Interest Account, the Principal Account, the Debt Service Reserve Account, the Mortgage Loan Reserve Fund and the Expense Fund, in that order. Any remaining amount in the General Account upon a written request of the Corporation may be deposited in Series Loan Accounts in the Loan Fund, used to redeem Bonds, to pay Corporation expenses or establish reserves therefor or for any other purpose or payment authorized or required by law free and clear of the lien of the Indenture; provided that no payments shall be made free and clear of the lien of the Indenture unless a Cash Flow Statement (for required contents of a Cash Flow Statement see "Sources of Payment and Security for the Bonds—Yield and Cash Flow Requirements" herein) is filed with the Trustee.

#### **Investment of Certain Funds and Accounts (Indenture, Section 5.8, Fourth Supplemental Indenture, Twenty-Seventh Supplemental Indenture)**

Moneys held in the Revenue Fund, the Loan Fund, the Debt Service Reserve Account, the Expense Fund and the Mortgage Loan Reserve Fund and accounts therein shall be invested and reinvested by the Trustee (i) in Investment Securities which shall mature prior to the dates when the moneys held will be needed for payments to be made from each such fund or account, or (ii) to the extent permitted by law, in certificates of deposit or similar banking arrangements issued by or time deposits with the Trustee or any bank, trust company, national banking association, savings and loan association, savings bank or other banking institution or association organized under the laws of the United States or any state thereof. Such certificates of deposit, similar banking arrangements or time deposits shall be collaterally secured by Investment Securities having a market value of not less than the amount of the certificates of deposit, similar banking arrangements or time deposits so secured; provided, however, that it shall not be necessary for such certificates of deposit, similar banking arrangements or time deposits to be so secured to the extent that they are insured by the Federal Deposit Insurance Corporation, and (iii) to the extent permitted by

law, money market funds the assets of which are required to be invested in Investment Securities described in clause (i) or (ii) of the definition of such term set forth under "Certain Definitions" herein; provided the amount which may be invested in such money market funds at any time shall not exceed \$1,000,000. Notwithstanding anything in the Indenture to the contrary, Investment Securities, certificates of deposit, similar banking arrangements and time deposits in all funds and accounts shall mature and moneys invested in money market funds shall be readily available not later than such times as shall be necessary to provide moneys when needed for payments to be made from such funds.

The Corporation may at any time give to the Trustee written directions respecting the investment of any moneys required to be invested under the Indenture, subject, however, to the provisions of the Indenture, and the Trustee shall then invest such moneys as so directed by the Corporation. Upon the written request of the Trustee, accompanied by a memorandum setting forth the details of any proposed investment of moneys under the Indenture, the Corporation will either approve such proposed investment or will give written directions to the Trustee respecting the investment of such moneys.

All interest, except that representing a return of accrued interest paid in connection with a purchase by the Trustee of any investment, earned on any moneys or investments in all funds and accounts shall be paid into the Revenue Fund.

#### **Enforcement of Mortgage Loans (Indenture, Section 6.6, Fifth Supplemental Indenture)**

The Corporation shall diligently enforce and take all reasonable steps, actions and proceedings necessary for the enforcement of all terms, covenants and conditions of all Mortgage Loans, including the prompt payment of all Mortgage Loan payments and all other amounts due the Corporation thereunder. The Corporation shall not release the obligations of any obligor under any Mortgage Loan and shall at all times, to the extent permitted by law, defend, enforce, preserve and protect the rights and privileges of the Corporation and of the Bondholders under or with respect to each Mortgage Loan; provided that the Corporation shall have the power and authority to settle a default on any Mortgage Loan on such terms as the Corporation shall determine to be in the best interests of the Corporation and the Bondholders. The Corporation may forbear from taking actions with respect to enforcement of a Mortgage Loan if the Corporation determines such forbearance to be in the best interests of the Corporation and the Bondholders.

Whenever it shall be necessary in order to protect and enforce the rights of the Corporation under a Mortgage Loan and to protect and enforce the rights and interests of Bondholders under the Indenture, the Corporation shall take steps to enforce any policy or certificate of insurance or guaranty relating to such Mortgage Loan and to foreclose the Mortgage Loan or enforce the security interest and to collect, hold and maintain or to sell or otherwise dispose of the property securing the Mortgage Loan which is in default under the provisions of such Mortgage Loan and, if the Corporation deems such to be advisable, shall bid for and purchase such property at any sale thereof and acquire and take possession of such property.

#### **Assignment or Disposition of Mortgage Loans (Indenture, Section 6.7, Twenty-Third Supplemental Indenture)**

The Corporation shall not sell, assign, transfer or otherwise dispose of any Mortgage Loan or any of the rights of the Corporation with respect to any Mortgage Loan unless the Corporation determines that such action is in the best interests of the Corporation and the Bondholders and will not adversely affect the ability of the Corporation to pay when due the principal or Redemption Price of and interest on the Bonds, in which case such Mortgage Loan may be so disposed of by the Corporation free and clear of the pledge of the Indenture.

#### **Amendment of Mortgage Loans (Indenture, Section 6.8)**

The Corporation shall not consent to, or agree to permit, any amendment or modification of any Mortgage Loan which will in any manner materially impair or materially adversely affect the rights or security of the Bondholders under the Indenture in such Mortgage Loan except for amendments and modifications made in connection with settling any default on any Mortgage Loan which settlement the Corporation determines to be in the best interests of the Corporation and the Bondholders.

### **Cash Flow Statement (Indenture, Section 6.11, Twenty-Fourth Supplemental Indenture)**

The Corporation shall have on file with the Trustee a current Cash Flow Statement, dated as of any particular date: (i) whenever any Series of Bonds is issued, (ii) prior to making any transfer from the General Account to be used by the Corporation free and clear of the lien of the Indenture, and (iii) prior to certain redemptions or purchases of any Bonds. Notwithstanding the foregoing, in the case of any Cash Flow Statement filed in connection with: (a) transfers from the General Account which aggregate more than \$1,000,000 in any one Bond Year, or (b) any purchase or redemption of Bonds for which a Cash Flow Statement is required, the Cash Flow Statement shall demonstrate compliance with the requirements of the preceding sentence if Revenues are anticipated on the basis of 0% and 500% of the rate set forth in the most recent mortgage maturity experience table for mortgages having the same terms insured under Section 203 or the National Housing Act and published by the Federal Housing Administration in "Survivorship and Decrement Tables for HUD/FHA Home Mortgage Insurance Program" for the region, or, if available, the State.

(For a definition of Cash Flow Statement see "SOURCES OF PAYMENT AND SECURITY FOR THE BONDS—Yield and Cash Flow Requirements" herein.)

### **Tax Covenant (Indenture, Section 6.14)**

The Corporation shall not use or permit to be used any of the proceeds of the Bonds or funds of the Corporation directly or indirectly to acquire any securities or obligations which would cause any Bond to be an "arbitrage bond" as defined in the Internal Revenue Code, as the same may be amended from time to time, or which would cause the interest on the Bonds to be taxable under any other law. See also "TAX MATTERS" below.

### **Accounts and Reports to Bondholders (Indenture, Sections 6.12 and 6.17)**

The Corporation will permit the Trustee and any Bondholder to inspect the Corporation's books of records and accounts. The Corporation will also furnish a copy of a quarterly report on Mortgage Loan delinquencies, the redemption history for each Series of Bonds and information about outstanding balances and insurance coverage to any Bondholder upon request.

### **Qualifications, Resignation or Removal of Trustee and Agents (Indenture, Section 7.1, Twenty-Fifth Supplemental Indenture)**

The Trustee shall at all times be a trust company or bank having the powers of a trust company within or without the State, and any such Trustee shall have at all times a combined capital stock, capital surplus and undivided profits of not less than \$7,500,000 and shall at all times meet all the requirements of law for the performance of the duties of the Trustee specified in the Indenture.

The Trustee may resign at any time by giving not less than sixty days' notice to the Corporation and by publishing a notice of resignation at least once not later than ten days after the giving of such notice in the same newspaper in which notices of redemption of Bonds are to be published pursuant to the Indenture.

In case at any time (1) the Trustee shall cease to be eligible in accordance with the provisions of the Indenture and shall fail to resign after written request therefor has been given to such Trustee by the Corporation or by any holder of a Bond who has been a bona fide holder of a Bond for at least six months, or (2) the Trustee shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or a receiver of such Trustee or of its property shall be appointed, or any public officer shall take charge or control of such Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation, then in any such case the Corporation may remove such Trustee by an instrument in writing or any such holder of a Bond may, on behalf of himself and all others similarly situated, petition any court of competent jurisdiction for the removal of such Trustee. Such court may thereupon, after such notice, if any, as it may deem proper and prescribe and as may be required by law, remove such Trustee.

The Trustee may be removed at any time by the written direction or upon affirmative vote of the holders of a majority in principal amount of the Bonds then Outstanding or their attorneys-in-fact duly authorized.

The Trustee may execute any of the trusts or powers or perform any duties under the Indenture directly or by or through agents or attorneys.

#### **Defaults and Remedies (Indenture, Sections 8.1, 8.2 and 8.7)**

Events of Default specified in the Indenture include: (1) failure to pay principal or Redemption Price of any Bond when due; (2) failure to pay any interest installment or any Sinking Fund Installment thereon when due; (3) failure for 30 days to make payments into the Revenue Fund; (4) failure for 60 days after written notice thereof in the performance or observance of any other covenants, agreements or conditions; (5) the institution of proceedings with the consent of the State to effect a composition between the State and its creditors if the claim of such creditor is payable from any Pledged Property or other moneys pledged to the Bonds or to adjust the claims of such creditors pursuant to any Federal or state statute now or hereafter enacted; (6) the entering of an order or decree with or without the consent of the State appointing a receiver or receivers of the Program or any of the moneys thereof and such order shall not be vacated, discharged or stayed on appeal within sixty (60) days after the entering of said order; (7) assumption by any court of competent jurisdiction of custody or control of the Program or any of the moneys thereof and such custody or control continues for 90 days from the date of assumption; and (8) the Corporation shall for any reason be rendered incapable of fulfilling its obligations.

Upon the occurrence of any such Event of Default which shall not be remedied, the Trustee may, and upon the request of the holders of twenty-five percent in principal amount of Bonds outstanding shall, by giving 30 days written notice to the Corporation, declare the principal of and interest on all Bonds outstanding to be due and payable immediately and upon such declaration the same shall become and be immediately due and payable. However, if any time after such declaration but (i) before any judgment or decree for the payment of moneys due shall have been obtained and entered and (ii) before the Bonds shall mature, all overdue interest payments together with reasonable expenses, charges and liabilities of the Trustee and the holders of the Bonds and their agents and attorneys and all other sums payable by the Corporation under the Indenture shall either be paid by or for the Corporation or provisions satisfactory to the Trustee shall be made for such payment and all defaults under the Bonds and the Indenture shall be made good, the holders of a majority in principal amount of Bonds outstanding, by written notice to the Corporation and the Trustee, may rescind such declaration and annul such default in its entirety.

In addition, the Trustee and the Bondholders shall be entitled to all the rights and remedies otherwise provided or permitted by law or under the Indenture.

#### **Supplemental Indentures (Indenture, Sections 9.1 and 9.2)**

The Corporation may enter into a Supplemental Indenture, without the consent of any Bondholder, for the following purposes: (i) to provide for the issuance of Bonds under the Indenture; (ii) to make any changes, modifications, amendments or deletions to the Indenture that are required to qualify the Indenture under the Trust Indenture Act of 1939; or (iii) if the provisions of such Supplemental Indenture shall not adversely affect the rights of the holders of the Bonds then outstanding, to make any changes or corrections for the purpose of curing an ambiguity, inconsistent provision, omission, mistake or manifest error in the Indenture, to add additional covenants and agreements of the Corporation to further secure payment of the Bonds, to surrender any right, power or privilege reserved to or conferred upon the Corporation by the Indenture, to confirm as further assurance any lien, pledge or charge, to grant additional rights, remedies and powers to the Bondholders or to grant to the Trustee for the benefit of the Bondholders additional rights, duties, remedies, power or authority.

The Corporation may enter into a Supplemental Indenture, with the consent of the holders of at least two-thirds in principal amount of the Bonds then outstanding, for the purpose of adding any provisions to or changing or eliminating any provisions of the Indenture, or modifying or amending the rights and obligations of the Corporation under the Indenture or modifying or amending the rights of the holders of the Bonds and coupons outstanding. The consent of the holder of each such Bond affected is required for amendments or supplements of the following kind: (1) amending the maturity date for the payment of the principal of any Bond, the dates for the payment of interest thereon, the terms of redemption thereof, reduction of the principal amount of any Bond or the rate of interest thereon, or the Redemption Price payable upon the redemption or prepayment thereof; (2) reducing the percentage of Bonds, the holders of which must consent to any Supplemental Indenture amending or supplementing the provisions of the Indenture; (3) granting to any Bond or Bonds any preference over any other Bond or Bonds secured by the Indenture; (4) authorizing the creation of any pledge of the Pledged Property prior, superior or equal

to the pledge of and lien thereon created by the Indenture for payment of the Bonds except as provided for the issuance of additional Bonds; or (5) depriving any Bondholder in any material respect of the security afforded by the Indenture.

#### **Defeasance (Indenture, Section 11.1)**

The obligations of the Corporation under and pursuant to the Indenture and the liens, pledges, charges, trusts, covenants and agreements of the Corporation created therein shall be fully discharged and satisfied as to any Bond and such Bond shall no longer be deemed outstanding: (i) when such Bond shall have been cancelled or surrendered for cancellation and is subject thereto or shall have been purchased by the Trustee from moneys held pursuant to the Indenture; or (ii) as to any Bond not so cancelled, surrendered or purchased, when payment of the principal and the applicable Redemption Price of such Bond, plus interest accrued thereon to the due date thereof (whether due date be by reason of maturity or redemption) either: (a) shall have been made or caused to be made in accordance with the terms thereof or (b) shall have been provided by irrevocably depositing with the Trustee and irrevocably appropriating exclusively for such payment: (1) moneys sufficient to make such payment; or (2) direct obligations of or obligations guaranteed by the United States maturing as to principal and interest in such amount and at such times to insure sufficient moneys for such payment; or (3) a combination of both such moneys and obligations, whichever the Corporation deems to be in its best interest, and all necessary fees, compensation and expenses of the Trustee and the Paying Agents pertaining to the Bond being defeased shall have been paid or payment therefor provided.

Notwithstanding the foregoing, in the case of Bonds which by their terms may be redeemed or otherwise prepaid prior to the stated maturities thereof, no deposit under clause (b) of subparagraph (ii) above shall constitute such payment, discharge and satisfaction as aforesaid:

(A) as to any such Bonds as are not at the time of the making of such deposit immediately redeemable or prepayable in accordance with the provisions of the Indenture and of such Bonds, until either (1) such Bonds shall have been irrevocably called or designated for redemption or prepayment on the first date thereafter that such Bonds may be redeemed or prepaid in accordance with the provisions of the Indenture and of such Bonds or (2) ninety (90) days prior to the respective stated maturities thereof;

(B) as to any such Bonds as are at the time of making of such deposit immediately redeemable or prepayable in accordance with the provisions of the Indenture or such Bonds until (1) ninety (90) days prior to the date fixed for their redemption or prepayment or (2) ninety (90) days prior to the respective stated maturities thereof; and

(C) as to all such Bonds which are to be redeemed or prepaid to their respective stated maturities, until proper notice of such redemption or prepayment shall have been previously published in accordance with the Indenture or irrevocable provision shall have been made for the giving of such notice.

All moneys or Investment Securities set aside and held in trust for the payment of Bonds and coupons, as aforesaid, shall be applied to and used solely for the payment of such Bonds and coupons to be redeemed or prepaid.

### **TAX MATTERS**

#### **Opinion of Bond Counsel**

In the opinion of Hawkins, Delafield & Wood, Bond Counsel, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest on the 2002 Series Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Code, (ii) interest on the 2002 Series A Bonds is treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code, and (iii) interest on the 2002 Series B Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. 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 2002 Series 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 2002 Series Bonds from gross income under Section 103 of the Code.

In addition, in the opinion of Bond Counsel, under existing laws of the State of Hawaii, the 2002 Series Bonds and the income therefrom are exempt from taxation by the State of Hawaii 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 the 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 2002 Series 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 2002 Series 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 issuance and delivery of the 2002 Series Bonds in order that interest on the 2002 Series 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 2002 Series 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 2002 Series 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 2002 Series 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 2002 Series Bonds. It does not purport to address all aspects of Federal taxation that may be relevant to a particular owner of a 2002 Series 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 2002 Series Bonds.

Prospective owners of the 2002 Series 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 2002 Series 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.

### **Proposed Federal Tax Legislation**

Legislation has been introduced in the United States House of Representatives, which among other things would repeal the 10-Year Rule for principal payments and repayments received after the date of enactment of the proposed legislation (the "House Bill"). A member of the Finance Committee of the United States Senate has also introduced a bill identical to the House Bill (the "Senate Bill"). The House Bill, the Senate Bill, and another House bill recently introduced in the United States House of Representatives would also amend the purchase price limits established under the Code. There can be no assurance that such legislation will be enacted or that it will be enacted

in its present form, or that other legislation regarding the 10-Year Rule or purchase price limits or other matters affecting the Code will not be introduced or enacted.

Legislation affecting municipal bonds is regularly under consideration by the United States Congress. There can be no assurance that legislation enacted or proposed after the date of issuance of the 2002 Series Bonds will not have an adverse effect on the tax-exempt status or market price of the 2002 Series Bonds.

### **LEGALITY OF BONDS FOR INVESTMENT**

Under the Act, the Bonds are legal investments for the State and all of its public officers, political subdivisions, and public bodies, all banks, trust companies, savings banks, savings and loan associations, investment companies, insurance companies and associations, and all personal representatives, guardians, trustees, and other fiduciaries in the State. The 2002 Series Bonds and other obligations of the Corporation shall be authorized security for all public deposits and shall be fully negotiable in the State.

### **ABSENCE OF LITIGATION**

There is no litigation of any nature now pending or threatened, seeking to restrain or enjoin the issuance, sale, execution or delivery of the 2002 Series Bonds or the purchase of Mortgage Loans or Fannie Mae Securities comprising Mortgage Loans from amounts in the 2002 Series Loan Accounts, or in any way contesting or affecting the validity of the 2002 Series Bonds or any proceedings of the Corporation taken with respect to the issuance or sale thereof, or the pledge or application of any moneys or security provided for the payment of the 2002 Series Bonds, or the existence or powers of the Corporation.

### **RATINGS**

Fitch Ratings ("Fitch"), Moody's Investors Service ("Moody's") and Standard & Poor's Ratings Services ("Standard & Poor's") have assigned to the 2002 Series Bonds the ratings of "AAA," "Aaa" and "AAA," respectively.

The Corporation has furnished Fitch, Moody's and Standard & Poor's (the "Rating Agencies") certain information and materials concerning the 2002 Series Bonds and the Corporation. Generally, the Rating Agencies base their ratings on such information and materials and also on such investigations, studies and assumptions that they may undertake independently. There is no assurance that any such rating will continue for any given period of time or that it may not be lowered or withdrawn entirely by any Rating Agency, if, in its judgment, circumstances so warrant. Any such downward change in or withdrawal of any rating may have an adverse effect on the secondary market price of the 2002 Series Bonds.

Any explanation of the significance of the ratings may be obtained only from the Rating Agencies.

### **CERTAIN LEGAL MATTERS**

All legal matters incident to the authorization, issuance and delivery of the 2002 Series Bonds are subject to the approval of Hawkins, Delafield & Wood, New York, New York, Bond Counsel. Certain legal matters will be passed upon for the Underwriter by their Counsel, Orrick, Herrington & Sutcliffe LLP, San Francisco, California.

The Supplemental Indenture providing for the issuance of the 2002 Series Bonds will be approved as to legality by the Attorney General of the State.

## **UNDERWRITING**

The 2002 Series A Bonds (other than the Placed Bonds, defined below) and the 2002 Series B Bonds (collectively, the "Underwritten Bonds") are being purchased by the Underwriter shown on the cover of this Official Statement (the "Underwriter"). The Underwriter has agreed to purchase the Underwritten Bonds at a price of \$32,730,000. The Contract of Purchase for the 2002 Series Bonds (the "Contract of Purchase") provides that the Underwriter will purchase all the Underwritten Bonds, if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in the Contract of Purchase, the approval of certain legal matters by counsel and certain other conditions. The Contract of Purchase provides that the Underwriter will be paid an underwriting and placement fee of \$393,256.75. The initial public offering prices may be changed from time to time by the Underwriter. The Underwriter may offer and sell the Underwritten Bonds to certain dealers (including dealers depositing Underwritten Bonds into unit investment trusts, certain of which may be sponsored or managed by the Underwriter) and others at prices lower than the public offering prices stated on the inside cover page hereof.

The 2002 Series A Bonds due January 1, 2033 bearing interest at a rate of 5.375% per annum (the "Placed Bonds") are being purchased by Fannie Mae. Fannie Mae has agreed to purchase the Placed Bonds at a price of \$4,045,000. The Contract of Purchase provides that Fannie Mae will purchase all the Placed Bonds, if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in the Contract of Purchase, the approval of certain legal matters by counsel and certain other conditions.

## **FINANCIAL STATEMENTS**

The financial statements of the Single Family Mortgage Purchase Revenue Bond Fund as of and for the Fiscal Year ended June 30, 2001, are set forth in Appendix III to this Official Statement. These financial statements have been audited by Grant Thornton LLP, independent certified public accountants, whose report is set forth in Appendix III.

The audited financial statements of the Single Family Mortgage Purchase Revenue Fund for future years will be available upon request from the Corporation.

The audited combined financial statements for the Corporation for the Fiscal Year ended June 30, 2001, are available upon request from the Corporation and relate to the general financial condition of the Corporation as of such date. Property or amounts described in such financial statements (other than the Program) are not pledged to and should not be considered as security for the 2002 Series Bonds.

## **MISCELLANEOUS**

Any statements made in this Official Statement 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 in this Official Statement to Acts of the Legislature, the Indenture, the Origination Agreement, and other documents referred to in this Official Statement are brief summaries of certain provisions of such documents. 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 Official Statement has been duly authorized by the Corporation.

**HOUSING AND COMMUNITY DEVELOPMENT  
CORPORATION OF HAWAII**

By s/Sharyn L. Miyashiro  
Executive Director

## **APPENDIX I**

### **FANNIE MAE MORTGAGE-BACKED SECURITIES**

The following description of Fannie Mae Mortgage-Backed Securities Program is a brief summary and does not purport to describe all of the provisions of this Program.

#### **Mortgage-Backed Securities Program**

Fannie Mae is a federally chartered and stockholder-owned corporation organized and existing under Federal National Mortgage Association Charter Act (12 U.S.C. Section 1716 et seq.). Fannie Mae was originally established in 1938 as a United States government agency to provide supplemental liquidity to the mortgage market, and was transformed into a stockholder-owned and privately managed corporation by legislation enacted in 1968. The Secretary of Housing and Urban Development exercises general regulatory power over Fannie Mae. Fannie Mae provides funds to the mortgage market primarily by purchasing mortgage loans from lenders, thereby replenishing their funds for additional lending. Fannie Mae acquires funds to purchase mortgage loans from many capital market investors that may not ordinarily invest in mortgage loans, thereby expanding the total amount of funds available for housing. In addition, Fannie Mae issues mortgage-backed securities primarily in exchange for pools of mortgage loans from lenders.

Although the Secretary of the Treasury of the United States has certain discretionary authority to purchase obligations of Fannie Mae, neither the United States nor any agency or instrumentality thereof is obligated to finance Fannie Mae's obligations or assist Fannie Mae in any manner.

Fannie Mae has implemented a mortgage-backed securities program pursuant to which Fannie Mae issues securities backed by pools of mortgage loans (the "MBS Program"). The obligations of Fannie Mae, including its obligations under Fannie Mae Securities, are obligations solely of Fannie Mae and are not backed by, or entitled to, the full faith and credit of the United States.

The terms of the MBS Program are governed by Fannie Mae Selling and Servicing Guides published by Fannie Mae, as modified by the Pool Purchase Contract (defined below), and, in the case of mortgage loans such as the Home Mortgages, a Trust Indenture dated as of November 1, 1981, as amended (the "Trust Indenture"), and a supplement thereto to be issued by Fannie Mae in connection with each pool. The MBS Program is further described in a prospectus issued by Fannie Mae (the "Fannie Mae Prospectus"). The most recent Fannie Mae Prospectus is dated January 1, 1999 and is updated from time to time. A Fannie Mae Prospectus Supplement may not be available as to Fannie Mae Securities.

Copies of Fannie Mae Prospectus and Fannie Mae's most recent annual and quarterly reports and proxy statement are available without charge from Ellen Goldberg, Vice President for Investor Relations, Fannie Mae, 3900 Wisconsin Avenue, N.W., Washington, D.C. 20026 (telephone: (202) 752-6724).

The summary of the MBS Program referred to in this Official Statement does not purport to be comprehensive and is qualified in its entirety by reference to Fannie Mae Selling and Servicing Guides, Fannie Mae Prospectus and the other documents referred to in this Official Statement.

#### **The Pool Purchase Contract**

It is expected that Fannie Mae and each Mortgage Lender which is a Servicer will enter into a pool purchase contract (each a "Pool Purchase Contract"), pursuant to which Pool Purchase Contract the Mortgage Lender will be permitted to deliver, and Fannie Mae will agree to purchase, Mortgage Loans in exchange for Fannie Mae Securities. The purpose of the Pool Purchase Contract is to provide for certain additions, deletions and changes to Fannie Mae Guides relating to the purchase of Mortgage Loans. In the event of a conflict between a Pool Purchase Contract and Fannie Mae Guides, the Pool Purchase Contract will control. The description set forth below assumes that the Pool Purchase Contract will be executed substantially as contemplated by the Origination Agreement dated as of March 1, 2002 between the Corporation and certain Mortgage Lenders.

Under each Pool Purchase Contract, Fannie Mae will purchase both Mortgage Loans eligible under the guidelines set forth in Fannie Mae Guides and Mortgage Loans insured under Fannie Mae's Community Home Buyer's Program which conform to the conditions set forth in the Pool Purchase Contract.

Pursuant to the requirements of Fannie Mae Guides, currently the original principal balances of the conventional Mortgage Loans to be sold to Fannie Mae may not exceed \$300,700 in the continental U.S. and \$451,050 in Hawaii to be eligible for purchase by Fannie Mae. The Mortgage Loans must be conventional, FHA insured or USDA-RHS guaranteed mortgage loans with loan-to-value ratios not in excess of 95%. Conventional mortgage loans with loan-to-value ratios exceeding 80% must have the principal amount of the indebtedness in excess of 75% of the appraised value of the Residence insured by a policy of primary mortgage insurance. The provider of the mortgage insurance must be acceptable to Fannie Mae.

Under each Pool Purchase Contract, the 95% loan-to-value limitation for Mortgage Loans will be based upon the lower of: (1) the acquisition cost plus rehabilitation cost, if any, of a Single Family Residence; or (2) the appraised value of a Single Family Residence after completion of any rehabilitation. The maximum combined loan-to-value ratio is also 95% where subordinate financing is provided, so long as the Mortgage Loan does not exceed a 75% loan-to-value ratio. Each Pool Purchase Contract also provides that, in underwriting Mortgage Loans for the Community Home Buyer's Program, certain exceptions will be made from Fannie Mae Guides for down payment requirements and for determining whether a household's income satisfies the requirements for purchase by Fannie Mae.

Each Pool Purchase Contract obligates the applicable Servicer to service the Mortgage Loans in accordance with the requirements of Fannie Mae Guides and the Pool Purchase Contract.

#### **Fannie Mae Securities**

Each Fannie Mae Security will represent the entire interest in a specified pool of Mortgage Loans purchased by Fannie Mae from each Mortgage Lender which is a Servicer and identified in records maintained by Fannie Mae. Each Pool Purchase Contract requires that each Fannie Mae Security be in a minimum amount of \$250,000, and that each Fannie Mae Security will bear interest at 5.21% per annum (the "pass-through rate"). The difference between the interest rate on the Mortgage Loans and the pass-through rate on Fannie Mae Security will be collected by the Mortgage Lenders and used to pay the Mortgage Lenders' servicing fee of 0.30% per annum and Fannie Mae's guaranty fee of 0.25% per annum.

Fannie Mae will guaranty to the Trustee, as the registered holder of Fannie Mae Securities, that Fannie Mae will distribute amounts representing scheduled principal and interest at the applicable "pass-through rate" on the Mortgage Loans in the pools represented by such Fannie Mae Securities, whether or not received, and the full principal balance of any foreclosed or other finally liquidated Mortgage Loan, whether or not such principal balance is actually received. The obligations of Fannie Mae under such guaranties are obligations solely of Fannie Mae and are not backed by, nor entitled to, the faith and credit of the United States. If Fannie Mae were unable to satisfy such obligations, distributions to the Trustee, as the registered holder of Fannie Mae Securities, would consist solely of payments and other recoveries on the underlying Mortgage Loans and, accordingly, monthly distributions to the Trustee, as the holder of Fannie Mae Securities, would be affected by delinquent payments and defaults on such Mortgage Loans.

#### **Payments on Mortgage Loans; Distributions on Fannie Mae Securities**

Payments on a Fannie Mae Security will be made to the Trustee on the 25th day of each month (beginning with the month following the month such Fannie Mae Security is issued), or, if such 25th day is not a business day, on the first business day next succeeding such 25th day. With respect to each Fannie Mae Security, Fannie Mae will distribute to the Trustee an amount equal to the total of: (i) the principal due on the Mortgage Loans in the related pool underlying such Fannie Mae Security during the period beginning on the second day of the month prior to the month of such distribution and ending on the first day of such month of distribution, (ii) the stated principal balance of any Mortgage Loan that was prepaid in full during the second month next preceding the month of such distribution (including as prepaid for this purpose at Fannie Mae's election any Mortgage Loan repurchased by Fannie Mae after it is delinquent, in whole or in part, with respect to four consecutive installments of principal and interest; or because of Fannie Mae's election to repurchase such Mortgage Loan under certain other circumstances

as permitted by Fannie Mae Trust Indenture), (iii) the amount of any partial prepayment of a Mortgage Loan received in the second month next preceding the month of distribution, and (iv) one month's interest at the pass-through rate on the principal balance of Fannie Mae Security as reported to the Trustee (assuming the Trustee is the registered holder) in connection with the previous distribution (or, respecting the first distribution, the principal balance of Fannie Mae Security on its issue date).

For purposes of distributions, a Mortgage Loan will be considered to have been prepaid in full if, in Fannie Mae's reasonable judgment, the full amount finally recoverable on account of such Mortgage Loan has been received, whether or not such full amount is equal to the stated principal balance of the Mortgage Loan. Fannie Mae may, in its discretion, include with any distribution principal prepayments, both full and partial, received during the month prior to the month of distribution but is under no obligation to do so.

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## **APPENDIX II**

### **SUMMARY OF CERTAIN FEDERAL HOUSING INSURANCE PROGRAMS AND OTHER MORTGAGE INSURANCE PROGRAMS**

The following description of certain federal housing insurance programs and other mortgage insurance programs utilized under the Program is only a brief outline and does not purport to summarize or describe all of the provisions of these programs. For a more complete description of the terms of these programs, reference is made to the provisions of the insurance and guaranty contracts embodied in the regulations of FHA or the VA, respectively, and of the regulations, master insurance contracts and other such information of the various private mortgage insurers.

#### **Federal Housing Administration Mortgage Insurance Programs**

Section 203 and 221 of the National Housing Act, as amended (the "Housing Act"), authorize the Federal Housing Administration ("FHA") of the Department of Housing and Urban Development ("HUD") to insure mortgage loans of up to 35 and 40 years duration, respectively, for the purchase of one-to-four family dwelling units.

Mortgage loans under either of the foregoing programs must bear interest at a market rate, and such mortgage loans must be in conformance with the maximum loan amount limitations and minimum down payment requirements specified in the Housing Act and regulations promulgated thereunder. In addition, the mortgagor under either of these programs must establish to the satisfaction of the FHA that his or her income is adequate to meet the periodic payments required in the mortgage loan.

Under the terms of either of the foregoing FHA insurance programs, a failure to make a mortgage payment (or to perform any other obligation under the mortgage), if continued for 30 days, constitutes a default which would entitle the mortgagee to claim insurance benefits. The Housing Act gives authority to the Secretary of HUD to settle claims for insurance benefits under mortgages insured under Sections 203 and 221 either in cash or debentures, which, in certain circumstances, may have an interest rate less than that of the insured mortgage. Current regulations under Section 221 provide for settlement of insurance benefits in cash unless the mortgagee requests payment in debentures. The current regulations for Section 203, however, preserve the settlement option in favor of the Secretary. Currently the Secretary is paying claims under Section 203 in cash and has not paid claims in debentures since 1965.

Insurance benefits are paid either on foreclosure and conveyance of title or on assignment of the mortgage loan to the Secretary of HUD. The amount of benefits paid by FHA on conveyed properties is equal to the unpaid principal amount of the mortgage loans plus certain tax, insurance and other payments made, and a portion of any foreclosure expenses incurred by the mortgagee, as well as interest from date of default at a rate equivalent to the debenture interest rate (which may be less than the interest rate of the insured mortgage), less certain amounts received or retained in respect of the mortgaged property. The benefits payment made on assigned mortgages is equal to the unpaid principal amount of the loan plus any accrued and unpaid mortgage interest, as well as certain advances and costs approved by the Secretary, less certain amounts retained by the mortgagee. All assignments require approval by the Secretary conditioned upon findings, among other things, that default was due to circumstances beyond the mortgagor's control. When any property to be conveyed to the FHA has been damaged by fire, earthquake, flood or tornado, it is generally required, as a condition of payment of an insurance claim, that such property be repaired by the mortgagee prior to such conveyance.

Section 247 of the Housing Act authorizes FHA to insure mortgage loans secured by a mortgage on a homestead lease issued by the Department of Hawaiian Home Lands to a native Hawaiian who will occupy the homestead as his principal residence. Mortgage loans insured under this program generally meet the requirements of the Section 203 program.

Section 234(c) of the Housing Act authorizes FHA to insure mortgage loans with terms of up to 35 years made to finance the purchase of individual condominium units. Mortgage loans insured under this program must generally meet the requirements of the Section 203 program.

HUD Regulations implementing the Section 203 and Section 234 programs permit an eligible mortgagor to "buy-down" or reduce the rate of interest paid by such mortgagor by no more than three percentage points in the early years of the mortgage loan term.

Another FHA insurance program is the Graduated Payment Mortgage ("GPM"), pursuant to Section 245 of the National Housing Act, as amended by the Housing and Community Development Act of 1974, as amended. The GPM Program is designed to enable primarily younger, upwardly mobile persons and families to purchase housing they otherwise might not be able to afford at their current income, under level-payment schedules, by providing reduced monthly payments in the early years of the mortgage, which payments increase gradually over time. All GPM mortgage loans are fully insured by FHA under the Section 203(b) program, described above, and must meet the underwriting requirements of Section 203(b). In addition, mortgagors must certify that they are aware that the GPM plan chosen provides for increasing monthly payments for a period of five or ten years.

Five different payment plans are authorized under the GPM Program regulations, permitting homebuyers to select the plan best suited to their needs. Plans I, II, and III permit five years of annual payments increasing over the previous year's payments at the rate of 2%, 5% and 7.5%, respectively. Plans IV and V permit ten years of annual payments increasing 2% and 3%, respectively. Under all of the Plans, the monthly payments will be level during each year in the remaining term starting in the sixth year (for the five-year plans, Plans I, II and III) or the eleventh year (for the ten-year plans, Plans IV and V).

The outstanding principal amount due on a GPM mortgage loan increases during the initial years as unpaid interest is added to the loan balance. In effect, a portion of the interest payments on a GPM mortgage loan is deferred during the early years in which the mortgage loan is outstanding and is added, at the time of deferment, to the principal balance of the mortgage loan to be amortized when principal amortization commences.

#### **Veterans' Administration Guaranty Program**

The Veterans' Administration (the "VA") is authorized by the Servicemen's Readjustment Act, as amended, to make mortgage loan guaranties for the purchase by veterans of one-to-four family dwelling units at interest rates not exceeding the maximum interest rate set by the VA from time to time. This program has no mortgage loan amount limitations, requires no down payment from the purchaser and permits the guaranty of mortgage loans of up to 30 years duration. The maximum guaranty that may be issued by the VA under this program is based on the size of the mortgage loan as follows: (a) for a mortgage loan of not more than \$45,000, 50% of the original principal amount of the mortgage loan; (b) for a mortgage loan of greater than \$45,000 but not more than \$56,250, 22,500; (c) for a mortgage loan of more than \$56,250 but less than \$144,000, the lesser of 40% of the original principal amount of the mortgage loan or \$36,000; and (d) for any mortgage loan of over \$144,000, the lesser of 25% of the original principal amount of the mortgage loan or \$50,750. The liability on the guaranty is reduced or increased pro rata with any reduction or increase in the amount of the indebtedness, but in no event will the amount payable on the guaranty exceed the amount of the original guaranty. Notwithstanding the dollar and percentage limitations of the guaranty, a mortgagee will ordinarily suffer a monetary loss only where the difference between the unsatisfied indebtedness and proceeds of a foreclosure sale of the mortgaged premises is greater than the original guaranty as adjusted. The VA may, at its option, and without regard to the guaranty, make full payment to the mortgagee of the unsatisfied indebtedness upon assignment of the mortgage to the VA.

#### **Primary Mortgage Insurance**

The Indenture requires that all conventional Mortgage Loans to be purchased with the proceeds of the Bonds must be the subject of primary mortgage insurance so that the uninsured portion shall not exceed 72% of the value of the Property. Each primary mortgage insurer insuring such loans must be qualified to insure mortgages purchased by Fannie Mae or the Federal Home Loan Mortgage Corporation ("FHLMC"). Both Fannie Mae and FHLMC require approval of many mortgage insurance companies before mortgages insured by those companies are eligible for purchase by them.

Each Mortgage Loan purchased with the proceeds of the 1984 Series A Bonds is insured for 100% of the Mortgage Loan amount under a 1984 primary mortgage insurance policy issued by a primary mortgage insurer. Under each 1984 primary mortgage insurance policy, the primary mortgage insurer is obligated to pay claims for the unpaid principal balance of a Mortgage Loan in default, accrued interest to the date of acquisition of the property

and certain expenses. In addition, each primary mortgage insurer provided endorsements to the 1984 primary mortgage insurance policy for advance claim payments, non-monetary default and waiver of legal fees.

Some of the considerations taken into account by Fannie Mae in determining whether to approve a primary mortgage insurer are as follows: (a) Fannie Mae may require that such insurer maintain a Standard & Poor's Corporation rating of AA or better; (b) such insurer is expected to have policyholders' surplus of not less than \$5 million; (c) such insurer must be a monoline insurance company; (d) such insurer must have substantial experience in insuring single family mortgages; and (e) such insurer must maintain an approved status with each state insurance commission for each state in which such insurer operates, provided that such insurer must have an approved status with either California, New York, Wisconsin or Illinois.

FHLMC eligibility requirements for approving primary mortgage insurers currently provide that among other things: (a) not more than 10% of an insurer's mortgage insurance risk may be represented by mortgage insurance covering property other than real property improved by a building or buildings designed for occupancy by one to four families; (b) an insurer shall not insure mortgages secured by properties in a single housing tract or a contiguous tract where the insurance risk applicable thereto is in excess of 10% of its policyholders' surplus; (c) no insurer shall have more than 20% of its total insurance in force in any one Standard Metropolitan Statistical Area nor may any combination of insurance in force in any one state exceed 60% of its total insurance in force; (d) an insurer shall limit its insurance as follows: (i) for adjustable rate mortgages and other mortgages with payment adjustments ("ARMs"), coverage is limited to the greater of 30% of the original Mortgage Loan amount or the amount in excess of 75% of the original property value, (ii) for mortgages other than ARMs, individual coverage is limited to 30% of the original Mortgage Loan amount, (iii) for individual mortgages that provide the entire credit support for mortgage backed issues, coverage may be provided up to 100% of the original Mortgage Loan amount, and (iv) for mortgage pools, the coverage may be provided up to 100% of the original Mortgage Loan amount on individual mortgages up to the stop loss maximum; and (e) the insurer must limit its business activities to the underwriting of residential mortgage guaranty insurance, which insurance shall be written to insure only a fully amortized note, bond or other evidence of indebtedness. All policy forms must contain a right of election by an insurer to pay a portion of the full obligation of the debtor to the insured in lieu of payment of the entire amount and acquisition of title to the security thereof. Prior to insuring a loan for any Mortgage Lender, the insurer must thoroughly investigate and evaluate such mortgage lender in the areas of: (a) quality of appraisal ability; (b) quality of underwriting ability; (c) net worth and quality of assets; and (d) quality and past performance of servicing staff and adequacy of servicing procedures. The insurer must retain a report with respect to each lender demonstrating that the investigation and evaluation has been made.

FHLMC also requires each primary mortgage insurer to meet the following financial requirements: (a) policyholders' surplus must be maintained at not less than \$5 million, of which at least \$3 million shall be represented by capital stock and capital surplus, of which no less than \$1,250,000 shall be represented by fully paid and nonassessable stock; (b) on annual policies and insurer shall maintain an unearned premium reserve computed on a monthly pro rata basis, except that, whenever a greater unearned premium reserve is required by the laws and regulations of the state where the insurer holds a certificate of authority, then such greater requirement shall be met (on policies issued for more than one year, an insurer shall maintain an unearned premium reserve of not less than that required by the insurer's domiciliary state, and a reserve of more than such amount, if the FHLMC Board so requires); (c) an insurer shall establish and maintain a contingency reserve in an amount equal to 50% of earned premiums; such reserve shall be available for loss payments only if the losses incurred in any one year exceed 35% of the corresponding earned premiums; (d) an insurer shall maintain a loss reserve, including provision for claims incurred but not reported, and including estimated losses on insured mortgages which have resulted in the conveyance of property which remains unsold, insured mortgages in the process of foreclosure, and insured mortgages in default for four or more months; (e) an insurer shall maintain no less than 85% of total admitted assets in the form of marketable securities or other highly liquid investments which qualify as insurance company investments under the laws and regulations of the state of its domicile; (f) an insurer shall not at any time have total insurance risk outstanding in excess of twenty-five times its policyholders' surplus; and (g) losses in excess of the following limitation may be grounds for disqualification or suspension: a combined ratio, which is the sum of the loss and underwriting ratios calculated as required by FHLMC, computed on an annual basis, in excess of 85% for any two consecutive years. Approved primary mortgage insurers must file quarterly and annual reports with FHLMC.

Primary mortgage insurance policies currently being issued by such primary mortgage insurers contain provisions substantially as follows: (a) the primary mortgage insurer must pay a claim, including unpaid principal, accrued interest and certain expenses, within sixty days of presentation of the claim by the Corporation; (b) in order for the Corporation to present a claim the Corporation must have acquired, and tendered to the insurer, title to the property, free and clear of all liens and encumbrances including any right of redemption by the mortgagor; (c) when a claim is presented, the insurer will have the option of paying the claim in full and taking title to the property and arranging for its sale or of paying the insured percentage of the claim (generally 20% or 25%, depending on the coverage purchased by the Mortgage Lender) and allowing the Corporation to retain title to the property; and (d) claims may also be settled by the insurer at the option of the insured for actual losses where such losses are less than the insured percentage of the claim.

The Mortgage Pool Insurance Policies (discussed below) and Private Mortgage Insurance Policies issued by MGIC will not insure against the loss sustained by reason of a default arising from or involving certain matters including: (a) fraud or negligence in origination or servicing of Mortgage Loans, including misrepresentations by the Mortgage Lender, Mortgagor or other persons involved in the origination of a Mortgage Loan; (b) failure to construct the property the subject of a Mortgage Loan in accordance with specified plans; (c) physical damage to a property; and (d) a Mortgage Lender not being approved as a servicer by MGIC.

### **Mortgage Pool Insurance Policies**

The Indenture requires that the Trustee maintain a Mortgage Pool Insurance Policy with a qualified insurer throughout the term of the Indenture to cover those portions of each VA and conventional Mortgage Loan which is not covered by VA guaranty or a private mortgage insurance policy.

The aggregate limit of coverage under each Mortgage Pool Insurance Policy must be an amount equal to 10% of the initial aggregate principal amount of each VA (if covered) and conventional Mortgage Loan purchased by the Corporation with the proceeds of the applicable Bonds and covered by such policy (less any claims made and paid for). Each Mortgage Pool Insurance Policy names the Trustee and the Corporation as insureds.

The Mortgage Pool Insurance Policies are not blanket policies against all losses, since claims thereunder may only be made respecting particular defaulted Mortgage Loans and only upon the satisfaction of certain conditions precedent described below. It is a requirement of each Mortgage Pool Insurance Policy that the VA guarantees (other than with respect to the United Guaranty Pool Insurance Policy which does not cover VA Mortgage Loans) and private mortgage insurance policies be maintained on loans with a loan-to-value ratio in excess of 80%. The VA guarantees and private mortgage insurance policies required by the Indenture satisfy such requirements. In addition, the Mortgage Loans are covered by seven separate policies, each containing its own overall limitation of coverage with respect to the particular Mortgage Loans covered by such policy.

A "qualified insurer" is any insurance company: (a) qualified to do business in the State and to provide the policy; (b) whose claims paying ability as determined by any nationally recognized rating agency is sufficient to support a rating on mortgage revenue bonds generally in one of the top two rating categories; and (c) who is acceptable to the Trustee. If any such qualified insurer shall cease to be acceptable to the Trustee, the Trustee is required to obtain a comparable replacement policy from another qualified insurer.

The mortgage pool insurance policy requirement with respect to Mortgage Loans purchased with proceeds of prior Bonds other than the 1984 Series A Bonds has been satisfied by the Corporation's prior receipt of: (a) two policies from Wisconsin Mortgage Assurance Corporation ("WMAC") covering VA and conventional Mortgage Loans financed with the proceeds of the 1980 Series A Bonds and 1980 Series B Bonds; (b) a policy covering VA and conventional Mortgage Loans financed with the proceeds of the 1983 Series A Bonds originally from Verex Assurance, Inc. ("Verex"); (c) amendments to the Verex policy to cover VA and conventional Mortgage Loans financed with the proceeds of the 1983 Series B Bonds and the 1983 Series C Bonds; (d) two policies covering VA and conventional Mortgage Loans financed with the proceeds of the 1985 Series A Bonds and 1986 Series B Bonds, respectively, from Mortgage Guaranty Insurance Company ("MGIC"); and (e) two policies covering conventional Mortgage Loans financed with the proceeds of the 1986 Series A Bonds from MGIC and from United Guaranty Residential Insurance Company ("United Guaranty"), respectively (the Corporation has covenanted not to purchase VA Mortgage Loans with proceeds of the 1986 Series A Bonds). The mortgage pool insurance policy requirement with respect to Mortgage Loans purchased with proceeds of the 1984 Series A Bonds has been satisfied by the

coverage provided by the 1984 Private Mortgage Insurance Policy described under "Primary Mortgage Insurance" above. (WMAC, MGIC, Verex and United Guaranty are sometimes herein referred to as "Pool Insurers" and the policies as the "Mortgage Pool Insurance Policies".) If VA or conventional Mortgage Loans are acquired with proceeds of the 2002 Series Bonds, the Corporation will arrange for a policy meeting the requirements of the Indenture prior to any such acquisition.

Each Mortgage Pool Insurance Policy issued to the Trustee and the Corporation as their interests may appear, by WMAC, MGIC, United Guaranty and Verex provides that no claim may validly be presented thereunder unless: (a) for Mortgage Loans with an initial ratio of the principal balance of the mortgage loan to the lesser of the sales price or original appraised value of the property in excess of 80%, private mortgage insurance policy acceptable to the applicable Pool Insurer has been kept in force until such loan to value ratio is reduced to 80%; (b) premiums on hazard insurance on the property securing the defaulted Mortgage Loan have been paid and, as necessary and approved in advance by the respective Pool Insurer, real estate taxes, property protection and preservation expenses, property sales expenses and foreclosure costs (including court costs and reasonable attorney's fees) have been paid by the individual Mortgage Lender or the Corporation; (c) if there has been physical loss or damage to the mortgaged property, it has been restored to its physical condition at the time the Mortgage Loan was made, subject to reasonable wear and tear; and (d) the Corporation has acquired good and merchantable title to the property, free and clear of all liens and encumbrances, except permitted encumbrances, including any right or redemption by the mortgagor, and sold the property with the approval of the applicable Pool Insurer. Assuming the satisfaction of these conditions, the insurer has the option, after expiration of any applicable redemption period, to either: (i) purchase the property securing the defaulted Mortgage Loan at a price equal to the principal balance thereof and accrued and unpaid interest at the mortgage rate on the date of payment (but excluding applicable late charges and penalty interest) plus certain expenses on condition that the insurer must be provided with good and merchantable title to the mortgaged property (unless the property has been conveyed pursuant to the terms of the applicable private mortgage insurance policy or VA guaranty), or (ii) pay the amount of the claim, in each case in an amount by which the sum of the principal balance of the defaulted Mortgage Loan and accrued and unpaid interest at the mortgage rate to the date of the payment of the claim (but excluding applicable late charges and penalty interest) plus certain expenses exceeds the proceeds received from a sale of the property which the Pool Insurer has approved. Under either option, the amount of payment under the applicable Mortgage Pool Insurance Policy will be reduced by the amount of loss paid or which should have been paid under the applicable private mortgage insurance policy or VA guaranty and by the amount of advance payments made and not previously reimbursed.

The Mortgage Pool Insurance Policy provided by MGIC will not insure against a loss sustained by reason of a default arising from or involving certain matters including: (a) fraud or negligence in origination or servicing of the Mortgage Loans, including misrepresentation by the Mortgage Lender, Mortgagor, or other persons involved in the origination of a Mortgage Loan; (b) failure to construct a property subject to a Mortgage Loan in accordance with specified plans; (c) physical damage to a property; and (d) a Mortgage Lender not being approved as a servicer by the insurer. The Mortgage Pool Insurance Policy provided by MGIC does not cover losses due to a failure to pay or denial of a claim under a private mortgage insurance policy or VA guaranty irrespective of the reason therefor.

A claim under a Mortgage Pool Insurance Policy must be filed: (a) within 60 days after the claim for loss has been settled or paid under the private mortgage insurance policy or VA guaranty or (b) within 60 days after the Trustee has conveyed title to the property pursuant to an approved sale, whichever is later.

Since the property subject to a defaulted Mortgage Loan must, if it has been damaged, be restored to its condition at the time of the issuance of the policy (reasonable wear and tear excepted) prior to making a claim against the applicable Pool Insurer, the Mortgage Pool Insurance Policies do not provide coverage against casualty losses.

Premiums on each Mortgage Pool Insurance Policy will be paid by the Corporation. Failure to pay a premium after receipt of notice from the Pool Insurer and expiration of the applicable grace period will terminate the applicable policy. If the aggregate recoveries under each Mortgage Pool Insurance Policy reach the pool limit of ten percent of the aggregate initial principal amount of Mortgage Loans insured under such policy, coverage under such policy will be exhausted and further losses due to foreclosure will be borne by the Corporation.

The amount of coverage under each Mortgage Pool Insurance Policy will be reduced over the life of the Bonds by the dollar amount of claims paid less amounts realized by the respective Pool Insurer upon disposition of mortgaged properties. The amount of claims paid includes certain expenses incurred by the Mortgage Lenders as well as accrued interest on delinquent Mortgage Loans, including interest accrued through completion of foreclosure proceedings and until expiration of the statutory redemption period. Accordingly, if aggregate recoveries under any Mortgage Pool Insurance Policy reach the policy limits, coverage under such Mortgage Pool Insurance Policy will be exhausted and any further losses will be borne by Bondholders to the extent remaining moneys held under the Indenture are inadequate to pay principal of and interest on the Bonds.

The Policies additionally provide for an advance payments procedure pursuant to which a Pool Insurer, within ten days of receipt of written notice from the insured, is required to make payments to the insured with respect to a Mortgage Loan on which a mortgagor is delinquent in two or more monthly payments of principal and interest. Such payments are subject to compliance with and satisfaction of the conditions precedent, provisions, and conditions of the applicable Policy, including specifically but not limited to: (a) the precondition under the MGIC Policy to entitlement to such payments that the insured shall commence and diligently pursue foreclosure or other appropriate proceedings to acquire title to and possession of the mortgaged property when required by the policy; and (b) the condition under the Verex Policy that the insured will continue to be entitled to such payments only if such foreclosure proceedings are commenced within 90 days after the Pool Insurer is to advance to the insured an amount equal to all delinquent payments of principal and interest (except, in each case, payments due solely as a result of acceleration of the Mortgage Loan) and is required to continue to make such payments each month of the principal and interest due the insured on such Mortgage Loan until the insured has filed or should have filed a claim for such Mortgage Loan under the Pool Policy. The Pool Insurer will be reimbursed for such advance payments made on a Mortgage Loan either from payments received by the insured on account of any such Mortgage Loan from the mortgagor or an insurer of the mortgaged property or from the proceeds of the foreclosure sale or conveyance of the mortgaged property. Advances for which the Pool Insurer are ultimately reimbursed are not charged against the limit of coverage under the Pool Policy. Any unreimbursed advance payment will be offset against any claim payment to the insured. The coverage under the advance payments procedure is subject to the same overall limitation on payment of claims contained in each Mortgage Pool Insurance Policy and unreimbursed advance payments will reduce the overall coverage of such Policy.

### **Special Hazard Insurance Policies**

In conjunction with the Mortgage Pool Insurance Policies and the private mortgage insurance policies, Continental Casualty Company and Insurance Company of North America have provided special hazard insurance policies with respect to Mortgage Loans purchased with the proceeds of the 1980 Series A Bonds and 1980 Series B Bonds. Commerce and Industry Insurance Company has provided special hazard insurance policies with respect to Mortgage Loans related to the 1983 Series A Bonds, 1983 Series B Bonds, and 1983 Series C Bonds (with respect to the 1983 Series A Bonds and 1983 Series B Bonds, the original special hazard insurer, Insurance Company of North America, transferred those policies to Commerce and Industry Insurance Company on September 2, 1987). Mt. Airy Insurance Company and CIGNA Property and Casualty Insurance Company have provided a special hazard insurance policy with respect to the Mortgage Loans related to the 1984 Series A Bonds, the 1986 Series A Bonds and the 1986 Series B Bonds, and Continental Casualty Company has provided a special hazard insurance policy with respect to Mortgage Loans related to the 1985 Series A Bonds. Each of such companies (collectively, the "Special Hazard Insurers") has issued a separate policy with respect to different series of Bonds (together the "Special Hazard Protection"). No such Special Hazard Insurance Policy was issued with respect to the Bonds issued after 1986.

**The Special Hazard Protection.** The Special Hazard Protection will provide protection with respect to loss by reason of: (a) damage to properties caused by certain hazards (including earthquakes, and to a limited extent, tidal waves and related water damage) not insured against under a standard hazard insurance policy required to be obtained by each Mortgagor or a flood insurance policy if the property is in a federally designated flood area; and (b) the application of the coinsurance clause typically contained in standard hazard insurance policies. The Special Hazard Protection will not cover losses occasioned by normal wear and tear, errors in design or faulty workmanship or materials, fraudulently created loans, war, nuclear reaction or radiation, civil insurrection, certain governmental actions, flood (if the property is located in a federally designated flood area), and certain other risks. Aggregate claims for such special hazards under the Special Hazard Protection will be limited to the greater of 1%

of the initial principal amount of the Mortgage Loans financed with the proceeds of the applicable series of Bonds and covered by the Special Hazard Protection or twice the initial principal amount of the largest Mortgage Loan in the pool.

Subject to the foregoing limitations, the Special Hazard Protection will provide generally that, where there has been damage to property securing a defaulted Mortgage Loan and such damage is not covered (whether collectible or not) by the standard hazard insurance policy required to be maintained by the Mortgagor with respect to such Mortgage Loan, the Special Hazard Insurer will pay the lesser of: (a) the cost of repair of such property; or (b) upon transfer of the property to such Special Hazard Insurer, the unpaid principal balance of such Mortgage Loan at the time of acquisition of such property by the Corporation by foreclosure or deed in lieu of foreclosure, plus accrued interest to the date of claim settlement (excluding late charges and penalty interest) and certain expenses incurred in respect of such property. In either case, the amount paid under the Special Hazard Protection will be reduced by the proceeds, if any, received under the standard hazard and any flood insurance policy maintained with respect to the property. The sale of a mortgaged property must be approved by the Special Hazard Insurer and funds received by the insured in excess of the unpaid principal balance of the Mortgage Loan plus interest thereon to the date of sale plus advances (not to exceed the amount actually paid by the Special Hazard Insurer) must be refunded to such insurer and, to that extent, coverage under the Special Hazard Protection will be restored. As claims are paid, the amount of further coverage under the Special Hazard Protection will be reduced by the sum of the amounts paid under (a) and (b) above, less any net proceeds the Special Hazard Insurer received upon the disposal of any property acquired under (b) above. If aggregate claim payments under the Special Hazard Protection reach the policy limit, coverage under the Special Hazard Protection will be exhausted and any further losses will be borne by Bondholders to the extent that remaining moneys held under the Indenture are inadequate to pay for the amounts which otherwise would have been paid under the Special Hazard Protection. Subject to the annual payment of the required premium, the term of the Special Hazard Protection will continue until: (a) each Mortgage Loan covered by such policy either has been paid in full or no longer secures the Bonds; or (b) the applicable series of Bonds is no longer outstanding. When aggregate insurance recoveries equal the policy limit, no further payments will be made by such insurer.

A claim under the Special Hazard Protection must generally be filed within 60 days after the later of (1) the date the damage occurred if at the time such title was held by the insured due to a default by the borrower or (2) the date the insured has acquired good and merchantable title, and a claim payment is payable within 30 days after the claim is accepted by the insurer. The Special Hazard Protection shall provide that no claim may be paid on the property securing a defaulted Mortgage Loan unless standard hazard insurance premiums, flood insurance (if the property is located in a federally designated flood area) and, as approved by the Special Hazard Insurer, real estate property taxes, property protection and preservation expenses and foreclosure costs have been paid by the Mortgage Lender and unless the insured has required in the Mortgage Loan documents that the Mortgagor maintain standard hazard insurance and, if the property is located in a federally designated flood area, flood insurance.

In the event that a Special Hazard Insurer shall cease to be acceptable to the Trustee, the Trustee, with the approval of the Corporation, shall exercise its best reasonable efforts to obtain a comparable replacement policy with a total coverage equal to the then existing coverage of the Special Hazard Protection.

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**APPENDIX III**

**FINANCIAL STATEMENTS AND REPORT OF  
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**

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Report of Independent Certified Public Accountants

Board of Directors  
State of Hawaii  
Housing and Community Development Corporation of Hawaii

We have audited the accompanying balance sheets of the State of Hawaii, Housing and Community Development Corporation of Hawaii Single Family Mortgage Purchase Revenue Bond Fund as of June 30, 2001 and 2000, and the related statements of revenues and expenses, changes in fund equity, and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

As described more fully in note A2, the financial statements referred to above include only the financial activities of the Single Family Mortgage Purchase Revenue Bond Fund and are not intended to present fairly the financial position, results of operations and cash flows of the State of Hawaii, Housing and Community Development Corporation of Hawaii in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the State of Hawaii, Housing and Community Development Corporation of Hawaii Single Family Mortgage Purchase Revenue Bond Fund as of June 30, 2001 and 2000, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Honolulu, Hawaii  
November 2, 2001

*Grant Thornton LLP*

State of Hawaii  
Housing and Community Development Corporation of Hawaii  
Single Family Mortgage Purchase Revenue Bond Fund

BALANCE SHEETS

June 30,

ASSETS	2001	2000
Assets held by trustee under Revenue Bond Programs (notes A4, A5 and B)		
Cash	\$ 5,488,488	\$ 1,063,746
Money market funds	1,363,250	1,263,528
Mortgage-backed securities	446,988,115	400,971,143
Repurchase agreements	202,119,788	228,281,851
Mortgage loans receivable (note C)	37,676,714	43,264,324
Accrued interest receivable	3,157,345	5,401,996
Other receivables	-	59,782
Prepaid expenses and other assets	74,377	67,364
Deferred bond discount and issuance costs, net (notes A6 and D)	5,084,131	5,414,796
 TOTAL ASSETS	 <u>\$ 701,952,208</u>	 <u>\$ 685,788,530</u>
 LIABILITIES AND FUND EQUITY		
Liabilities		
Accounts payable	\$ 52,163	\$ 216,277
Accrued interest payable	18,067,794	16,092,194
Arbitrage rebate payable (note D)	4,130,199	2,923,442
Other accrued expenses	99,407	93,840
Due to other funds	32,339	79,810
Revenue bonds payable – net of deferred bond refunding costs (note D)	662,147,205	673,441,293
Deferred commitment fees	6,329,638	7,004,901
 Total liabilities	 690,858,745	 699,851,757
Fund equity		
Retained earnings (accumulated deficit)	11,093,463	(14,063,227)
 TOTAL LIABILITIES AND FUND EQUITY	 <u>\$ 701,952,208</u>	 <u>\$ 685,788,530</u>

The accompanying notes are an integral part of these statements.

State of Hawaii  
Housing and Community Development Corporation of Hawaii  
Single Family Mortgage Purchase Revenue Bond Fund

STATEMENTS OF REVENUES AND EXPENSES

Year ended June 30,

	2001	2000
Operating revenues		
Interest	\$ 44,230,591	\$ 38,090,321
Net increase (decrease) in the fair value of investments (note A5)	21,466,654	(20,353,712)
Other	425	550,570
Total operating revenues	65,697,670	18,287,179
Operating expenses		
Interest (note D)	37,721,659	32,359,810
Loan servicing fees	143,167	171,178
Personal services	295,957	427,321
Amortization of deferred bond discount and issuance costs (note A6)	243,683	210,697
Amortization of deferred bond refunding costs (note D)	170,609	177,799
Arbitrage rebate (note D)	1,206,757	1,185,371
Mortgage insurance	38,367	40,748
Trustee fees	91,211	89,332
Administration	106,908	109,186
Professional services	24,805	16,930
Utilities	6,996	-
Repairs and maintenance	18,136	6,138
Insurance	18,403	14,359
Security	137	136
Other	361,900	7,523
Total operating expenses	40,448,695	34,816,528
Operating income (loss) before extraordinary item	25,248,975	(16,529,349)
Extraordinary item – loss from early redemption of revenue bonds payable (note D)	(92,285)	(68,459)
NET INCOME (LOSS)	\$ 25,156,690	\$ (16,597,808)

The accompanying notes are an integral part of these statements.

State of Hawaii  
Housing and Community Development Corporation of Hawaii  
Single Family Mortgage Purchase Revenue Bond Fund

STATEMENTS OF CHANGES IN FUND EQUITY

Year ended June 30,

	<u>2001</u>	<u>2000</u>
Balance at beginning of year	\$ (14,063,227)	\$ 2,534,581
Net income (loss)	<u>25,156,690</u>	<u>(16,597,808)</u>
Balance at end of year	<u><u>\$ 11,093,463</u></u>	<u><u>\$ (14,063,227)</u></u>

The accompanying notes are an integral part of this statement.

State of Hawaii  
Housing and Community Development Corporation of Hawaii  
Single Family Mortgage Purchase Revenue Bond Fund

STATEMENTS OF CASH FLOWS

Year ended June 30,

	2001	2000
Cash flows from operating activities:		
Operating income (loss)	\$ 25,248,975	\$ (16,529,349)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Amortization	414,292	388,496
Interest income on investments	(39,948,384)	(33,439,314)
Interest expense on revenue bonds	37,721,659	32,359,810
Net (increase) decrease in the fair value of investments	(21,466,654)	20,353,712
Lender commitment fees canceled and amortized	(675,263)	(1,116,856)
Change in:		
Mortgage loans receivable	5,587,610	6,693,884
Accrued interest receivable on mortgage loans	336,443	80,365
Other receivables	59,782	(56,567)
Prepaid expenses and other assets	(7,013)	(21,780)
Accounts payable	(164,114)	(3,630)
Arbitrage rebate payable	1,206,757	1,185,371
Other accrued expenses	5,567	31,626
Due to other funds	(47,471)	36,704
Net cash provided by operating activities	8,272,186	9,962,472
Cash flows from noncapital and related financing activities:		
Proceeds from sale of revenue bonds	-	108,765,000
Principal paid on revenue bond maturities and redemptions	(20,235,000)	(18,275,000)
Interest paid on revenue bonds	(35,746,059)	(32,806,915)
Bond issuance costs paid	-	(866,417)
Lender commitment fees received	-	2,157,415
Net cash (used in) provided by noncapital financing activities	(55,981,059)	58,974,083
Subtotal carried forward	\$ (47,708,873)	\$ 68,936,555

The accompanying notes are an integral part of these statements.

State of Hawaii  
Housing and Community Development Corporation of Hawaii  
Single Family Mortgage Purchase Revenue Bond Fund

STATEMENTS OF CASH FLOWS (continued)

Year ended June 30,

	<u>2001</u>	<u>2000</u>
Subtotal brought forward	\$ (47,708,873)	\$ 68,936,555
Cash flows from investing activities:		
Purchases of mortgage-backed securities	(51,332,142)	(127,704,110)
Proceeds from payments on mortgage-backed securities	26,781,824	18,969,047
Purchases of repurchase agreements	(55,195,130)	(231,897,935)
Proceeds from matured repurchase agreements	90,122,193	232,399,384
Interest received on investments	41,856,592	31,548,185
Net cash provided by (used in) investing activities	<u>52,233,337</u>	<u>(76,685,429)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	4,524,464	(7,748,874)
Cash and cash equivalents at beginning of year	<u>2,327,274</u>	<u>10,076,148</u>
Cash and cash equivalents at end of year	<u><u>\$ 6,851,738</u></u>	<u><u>\$ 2,327,274</u></u>
Reconciliation of cash to cash and cash equivalents:		
Cash	\$ 5,488,488	\$ 1,063,746
Money market funds	<u>1,363,250</u>	<u>1,263,528</u>
Cash and cash equivalents at end of year	<u><u>\$ 6,851,738</u></u>	<u><u>\$ 2,327,274</u></u>

The accompanying notes are an integral part of these statements.



State of Hawaii  
Housing and Community Development Corporation of Hawaii  
Single Family Mortgage Purchase Revenue Bond Fund

NOTES TO FINANCIAL STATEMENTS

June 30, 2001 and 2000

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting policies consistently applied in the preparation of the accompanying financial statements follows.

1. Organization

Act 50, Session Laws of Hawaii (SLH) 1979, as amended by Act 337, SLH 1987, provided for the creation of revenue bond special funds to account for the issuance of and proceeds from mortgage revenue bonds, which are used to provide affordable interest rate mortgage loans for the purchase of owner-occupied, detached single-family and condominium dwellings. Accordingly, the Single Family Mortgage Purchase Revenue Bond Fund (Fund) was created and for administrative purpose placed within the Housing Finance and Development Corporation (HFDC).

In accordance with Act 350, Session Laws of Hawaii, 1997, effective July 1, 1998, the functions and employees of HFDC (as well as those of the Hawaii Housing Authority and the Rental Housing Trust Fund) were transferred to the newly created Housing and Community Development Corporation of Hawaii (Corporation) and HFDC ceased to exist. The Corporation is a public body and a body corporate and politic and is, for administrative purposes only, considered to be a part of the State Department of Business, Economic Development and Tourism.

2. Reporting Entity

The Fund is included in the Corporation's Revenue Bond Funds. The Fund's financial statements are intended to present the financial position, results of operations and cash flows of only that portion of the funds of the Corporation and Corporation's Revenue Bond Funds that is attributable to the transactions of the Fund.

3. Basis of Accounting

The transactions of the Fund are accounted for on the accrual basis of accounting. Revenues are recognized in the period earned and expenses are recognized in the period incurred. Financial Accounting Standards Board Statements and Interpretations issued after November 30, 1989 have not been applied.

State of Hawaii  
Housing and Community Development Corporation of Hawaii  
Single Family Mortgage Purchase Revenue Bond Fund

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2001 and 2000

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4. Cash and Cash Equivalents

Cash and cash equivalents for the purpose of the statements of cash flows include all cash and investments with original purchased maturities of three months or less.

5. Investment Securities

Money market investments with maturities of one year or less when purchased are reported on the balance sheet at their amortized cost. Nonparticipating interest-earning investment contracts, generally repurchase agreements, are reported at cost. All other investments are reported at fair value.

6. Amortization

Bond discounts and issuance costs of revenue bonds are amortized ratably over the term of the bond principal outstanding.

7. Allocated Costs

The Corporation provides certain administrative services to the Fund. The cost of these services is allocated to the Fund based on estimates of the Corporation.

8. Mortgage Payment Credits

Mortgage payment credits are the amounts credited to mortgagors who voluntarily prepay their mortgage loans during the year. The credits are based on the amount by which cumulative nonmortgage investment income exceeds the cumulative cost of the related funds.

9. Use of Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America (US GAAP), management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

State of Hawaii  
Housing and Community Development Corporation of Hawaii  
Single Family Mortgage Purchase Revenue Bond Fund

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2001 and 2000

NOTE B – ASSETS HELD BY TRUSTEE

Trust Indenture

Under the trust indenture between the Corporation and U.S. Bank National Association, trustee for the bondholders, and under the 29 supplemental trust indentures entered into subsequently (collectively referred to as the "Indenture"), investment assets and cash are required to be held by the trustee in various accounts and funds, including a debt service reserve account, loan fund and mortgage loan reserve fund.

The uses of these assets are restricted by the terms of the Indenture. The amount of debt service reserve and mortgage loan reserve required by the Indenture are as follows:

	<u>2001</u>	<u>2000</u>
Debt service reserve requirement equal to 10% of the aggregate principal amount of all series of bonds outstanding (excluding advance refundings)	\$66,404,500	\$68,428,000
Mortgage loan reserve requirement equal to the sum of 1% of the aggregate unpaid principal balances of all mortgage loans, plus 1% of the amount on deposit in the loan fund	<u>5,536,137</u>	<u>5,818,489</u>
	<u>\$71,940,637</u>	<u>\$72,246,489</u>

At June 30, 2001 and 2000, approximately \$67 million of investment securities, at cost, were held in the debt service reserve funds. In August 2000, the Corporation had the trustee transfer assets into the debt service reserve funds in amounts sufficient to meet the requirements of the Indenture. Approximately \$5.9 million of investment securities, at cost, were held in the mortgage loan reserve funds as of June 30, 2001 and 2000.

Cash and Investments

The Indenture authorizes the Fund to invest in certificates of deposit, money market funds, U. S. government or agency obligations and repurchase agreements.

Investments can be categorized to give an indication of the level of risk assumed by the Fund. Category 1 includes investments that are insured or registered, or for which the securities are held by the Corporation or its agent in the Corporation's name or, for repurchase agreements,

State of Hawaii  
Housing and Community Development Corporation of Hawaii  
Single Family Mortgage Purchase Revenue Bond Fund

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2001 and 2000

NOTE B – ASSETS HELD BY TRUSTEE (continued)

Cash and Investments (continued)

collateralized by underlying securities that are so held. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Corporation's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent, but not in the Corporation's name. All cash and investments held by the trustee are included in the Category 2 level of risk at June 30, 2001 and 2000.

Cash, certificates of deposit and money market funds not covered by federal deposit insurance must be fully collateralized by government securities held in the name of the Fund by third-party custodians. The underlying securities for repurchase agreements must be similarly held and are required to be U. S. government or agency obligations with market values equal to or greater than the related agreements' carrying amounts. At June 30, 2001, the market values of the underlying securities approximated carrying amounts.

Assets held by the trustee that are not held in the debt service reserve account, mortgage loan reserve fund and loan fund are held in other accounts and funds that are subject to the pledge and lien of the Indenture. Such assets may be used to service debt and to pay Fund expenses. Monies in the general account, subject to conditions contained in the Indenture, may be used for purposes free and clear of the pledge and lien of the Indenture.

The fair value of investments at June 30, 2001 and 2000 approximated reported amounts.

NOTE C – MORTGAGE LOANS RECEIVABLE

The bond proceeds from the 1980 Series through the 1990 Series bond issues were used to purchase mortgage loan receivables from various financial institutions. For the 1991 through 2000 Series bond issues, the bond proceeds were used to purchase mortgage-backed securities. These mortgage-backed securities consist of loans originated by various financial institutions and pooled into FNMA loan pools and securitized.

State of Hawaii  
Housing and Community Development Corporation of Hawaii  
Single Family Mortgage Purchase Revenue Bond Fund

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2001 and 2000

NOTE C – MORTGAGE LOANS RECEIVABLE (continued)

Mortgage loans receivable related to the various bond issues consist of the following:

Bond issue	Interest rate	June 30,	
		2001	2000
1980 Series A	9.500%	\$ 3,267,266	\$ 3,747,707
1980 Series B	9.875	1,679,365	1,856,959
1982 Series A	13.250	—	11,639
1983 Series A	10.000	1,273,369	1,443,323
1983 Series B	10.625	546,327	567,887
1983 Series C	10.500	1,421,845	1,604,904
1984 Series A	11.000	381,621	392,802
1985 Series A	9.700	968,890	1,083,657
1986 Series A	8.375	5,086,060	6,169,107
1986 Series B	8.000	7,021,435	7,997,760
1988 Series A	8.625	6,010,861	6,879,280
1989 Series A	8.625 and 7.625	6,763,555	7,525,730
1990 Series A	8.750 and 7.500	3,256,120	3,983,569
		<u>\$37,676,714</u>	<u>\$43,264,324</u>

Mortgage loans receivable generally mature in 30 years and are secured by the residence of the borrowers. Mortgage loans receivable are recorded at cost and are subject to primary mortgage, mortgage pool and FHA insurance coverage, as required under the terms of the Indenture. The primary mortgage and mortgage pool insurance coverage, subject to aggregate loss limitations, reimburses the Fund for substantially all losses incurred, if any, from the disposition of real estate acquired through foreclosure.

NOTE D – REVENUE BONDS PAYABLE

The provisions of Act 50, SLH 1979; Act 288, SLH 1980, Act 13, Special SLH 1981; Act 224, SLH 1984; Act 171, SLH 1991; and Act 1, SLH 1995, together authorized the issuance of up to \$1,775,000,000 of revenue bonds. Through June 30, 2001, \$1,639,810,000 of Single Family Mortgage Purchase revenue bonds have been issued. The bonds are payable solely from and

State of Hawaii  
Housing and Community Development Corporation of Hawaii  
Single Family Mortgage Purchase Revenue Bond Fund

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2001 and 2000

NOTE D – REVENUE BONDS PAYABLE (continued)

secured solely by the revenues and other monies and assets of the Fund and other assets of the Corporation pledged under the Indenture.

Revenue bonds payable at June 30, 2001 and 2000 consist of the following:

	June 30,	
	2001	2000
1989 Series A:		
Serial bonds maturing annually through 2006 (7.35% to 7.55%)	\$ 60,000	\$ 120,000
Term bonds maturing in 2010 and 2030 (7.63% and 7.80%)	870,000	1,600,000
	<u>930,000</u>	<u>1,720,000</u>
1990 Series A:		
Serial bonds maturing annually through 2006 (7.20% to 7.60%)	1,370,000	1,370,000
Term bonds maturing in 2011, 2020 and 2024 (7.80% to 8.00%)	7,950,000	8,215,000
	<u>9,320,000</u>	<u>9,585,000</u>
1991 Series A:		
Serial bonds maturing annually through 2004 (6.55% to 6.75%)	1,240,000	1,245,000
Term bonds maturing in 2012, 2021 and 2025 (6.75% to 7.10%)	13,385,000	13,435,000
	<u>14,625,000</u>	<u>14,680,000</u>
1991 Series B:		
Term bonds maturing in 2017 and 2032 (6.90% and 7.00%)	21,445,000	21,445,000
	<u>21,445,000</u>	<u>21,445,000</u>
Subtotal carried forward	\$ 46,320,000	\$ 47,430,000

State of Hawaii  
Housing and Community Development Corporation of Hawaii  
Single Family Mortgage Purchase Revenue Bond Fund

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2001 and 2000

NOTE D – REVENUE BONDS PAYABLE (continued)

	June 30,	
	2001	2000
Subtotal brought forward	\$ 46,320,000	\$ 47,430,000
1994 Series A:		
Serial bonds maturing annually through 2010 (4.95% to 5.75%)	37,450,000	37,540,000
Term bonds maturing in 2017, 2020 and 2027 (5.05% to 6.00%)	87,555,000	90,145,000
	125,005,000	127,685,000
1994 Series B:		
Term bonds maturing in 2014, 2018 and 2028 (5.70% to 5.90%)	87,285,000	87,285,000
1997 Series A:		
Serial bonds maturing annually through 2003 (4.45% to 4.55%)	3,860,000	3,900,000
Term bonds maturing in 2019, 2029 and 2031 (4.90% to 5.75%)	91,950,000	96,905,000
	95,810,000	100,805,000
1997 Series B:		
Serial bonds maturing annually from 2004 to 2010 (4.45% to 5.00%)	15,995,000	15,995,000
Term bonds maturing in 2018 (5.45%)	29,405,000	29,405,000
	45,400,000	45,400,000
Subtotal carried forward	\$399,820,000	\$408,605,000

State of Hawaii  
Housing and Community Development Corporation of Hawaii  
Single Family Mortgage Purchase Revenue Bond Fund

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2001 and 2000

NOTE D – REVENUE BONDS PAYABLE (continued)

	June 30,	
	<u>2001</u>	<u>2000</u>
Subtotal brought forward	\$399,820,000	\$408,605,000
1998 Series A:		
Serial bonds maturing annually through 2014 (4.25% to 5.25%)	32,225,000	32,560,000
Term bonds maturing in 2019, 2030 and 2031 (4.85% to 5.40%)	<u>108,090,000</u>	<u>110,440,000</u>
	140,315,000	143,000,000
1998 Series B:		
Term bonds maturing in 2029 (5.30%)	11,085,000	11,085,000
1998 Series C:		
Term bonds maturing in 2021 (5.35%)	4,060,000	4,060,000
2000 Series A:		
Serial bonds maturing from 2003 to 2013 (5.30% to 6.15%)	13,610,000	13,610,000
Term bonds maturing in 2021, 2028, 2032 and 2033 (5.93% to 6.375%)	<u>93,175,000</u>	<u>93,175,000</u>
	106,785,000	106,785,000
2000 Series B:		
Term bonds maturing in 2016 (6.00%)	<u>1,980,000</u>	<u>1,980,000</u>
	664,045,000	675,515,000
Deferred refunding amount (difference between reacquisition price and net carrying value of the old debt)	<u>1,897,795</u>	<u>2,073,707</u>
	<u>\$662,147,205</u>	<u>\$673,441,293</u>



State of Hawaii  
Housing and Community Development Corporation of Hawaii  
Single Family Mortgage Purchase Revenue Bond Fund

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2001 and 2000

NOTE D – REVENUE BONDS PAYABLE (continued)

Interest on revenue bonds is payable semiannually.

Revenue bonds with designated maturity dates may be redeemed, at the option of the Corporation, commencing in 1999 for the 1989 Series, 2000 for the 1990 Series, 2001 for the 1991 Series, 2004 for the 1994 Series, and 2007 for the 1997 Series, subject to a redemption premium which ranges from 2 percent to zero; 2008 for the 1998 Series, subject to a redemption premium which ranges from 1.5 percent to zero; and 2010 for the 2000 Series. 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, mortgage principal payments and prepayments, excess amounts in the debt service reserve account, or excess revenues. Revenues, as defined by the Indenture, include all amounts paid or required to be paid on mortgage loans and all interest received on monies or securities held pursuant to the Indenture.

The early redemptions during the years ended June 30, 2001 and 2000 and the approved early redemption of bonds as of July 1, 2001 are as follows:

Bond issue	July 1, 2001	Year ended June 30	
		2001	2000
1989 Series A	\$ 185,000	\$ 765,000	\$ 1,315,000
1990 Series A	130,000	265,000	510,000
1991 Series A	—	50,000	665,000
1994 Series A	795,000	2,680,000	2,715,000
1997 Series A	1,655,000	4,745,000	4,530,000
1998 Series A	155,000	2,555,000	3,305,000
	<u>\$2,920,000</u>	<u>\$11,060,000</u>	<u>\$13,040,000</u>

The deferred bond discount and issuance costs related to the early redemption of bonds are written off at the time an early redemption is approved and premiums paid are reflected as extraordinary loss in the statements of revenues and expenses.

State of Hawaii  
Housing and Community Development Corporation of Hawaii  
Single Family Mortgage Purchase Revenue Bond Fund

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2001 and 2000

NOTE D – REVENUE BONDS PAYABLE (continued)

The annual debt service requirements to maturity are as follows:

Year ending June 30,	Principal	Interest	Total
2002	\$ 8,770,000	\$ 37,462,000	\$ 46,232,000
2003	9,715,000	36,933,000	46,648,000
2004	10,590,000	36,414,000	47,004,000
2005	11,185,000	35,849,000	47,034,000
2006	11,750,000	35,243,000	46,993,000
Thereafter	612,035,000	513,136,000	1,125,171,000
TOTAL	<u>\$664,045,000</u>	<u>\$695,037,000</u>	<u>\$1,359,082,000</u>

In order to ensure the exclusion of interest on the Fund's revenue bonds from gross income for federal income tax purposes, the Fund 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, 2001, the Corporation determined that there were approximately \$4,130,000 rebates due to the U.S. Treasury.

NOTE E – MORTGAGE PAYMENT CREDITS

As of June 30, 2001, the Corporation has filed an extension for filing its schedules of mortgage payment credits with the bond trustees. Mortgage payment credits are the amounts to be credited to particular mortgagors, if any, who voluntarily prepay their mortgage loans in the ensuing year. The credits are based on the amount by which cumulative nonmortgage investment income exceeds the cumulative cost of the related funds.

Estimated mortgage payment credits at June 30, 1992 amounted to approximately \$102,000 of which approximately \$84,143 was rebated through June 30, 2001.

NOTE F – COMMITMENTS AND CONTINGENCIES

The Fund has outstanding commitments to purchase loans from participating lenders at June 30, 2001 of approximately \$85,859,000.

State of Hawaii  
Housing and Community Development Corporation of Hawaii  
Single Family Mortgage Purchase Revenue Bond Fund

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2001 and 2000

NOTE G – SUBSEQUENT EVENTS

On July 1, 2001, the Corporation redeemed certain outstanding revenue bonds totaling \$11,480,000, of which \$2,920,000 were early redemptions (note D).

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## **APPENDIX IV**

### **FORM OF PROPOSED OPINION OF BOND COUNSEL**

[Closing Date]

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

**HOUSING AND COMMUNITY DEVELOPMENT CORPORATION OF HAWAII  
SINGLE FAMILY MORTGAGE PURCHASE REVENUE BONDS,  
2002 SERIES A, \$34,965,000 AND 2002 SERIES B, \$1,810,000**

Ladies and Gentlemen:

At your request we have examined into the validity of \$34,965,000 Single Family Mortgage Purchase Revenue Bonds, 2002 Series A (the "2002 Series A Bonds"), and \$1,810,000 Single Family Mortgage Purchase Revenue Bonds, 2002 Series B (the "2002 Series B Bonds" and, together with the 2002 Series A Bonds, the "2002 Series Bonds") of the Housing and Community Development Corporation of Hawaii (the "Corporation") of the State of Hawaii.

The 2002 Series Bonds recite that they are authorized to be issued and are issued under, pursuant to and in full compliance with the Constitution and statutes of the State of Hawaii, including particularly Part III of Chapter 201G, Hawaii Revised Statutes, as amended, and Part III of Chapter 39, Hawaii Revised Statutes, as amended, and under and pursuant to a resolution of the Board of Directors of the Corporation adopted on November 14, 2002, a Trust Indenture dated as of January 1, 1980 (the "Indenture"), by and between Hawaii Housing Authority (the "Authority"), a predecessor of the Corporation, and Bishop Trust Company, Limited, in Honolulu, Hawaii, as trustee, which trustee has been succeeded by U.S. Bank National Association, as successor Trustee (the "Trustee"), as amended and supplemented, and a Thirtieth Supplemental Trust Indenture dated as of March 1, 2002 (the "Supplemental Indenture"), by and between the Corporation and the Trustee, and constitute part of a duly authorized 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.

The 2002 Series Bonds initially issued are dated as of the date of issuance and delivery. The 2002 Series Bonds mature in the years, in the respective principal amounts, bear interest at the rates per annum, and are subject to redemption and are otherwise as described in the Supplemental Indenture.

We have examined the Constitution and statutes of the State of Hawaii, duplicate executed copies of the Indenture and Supplemental Indenture, certified copies of the proceedings of the Corporation authorizing the issuance of the 2002 Series Bonds and the execution and delivery by the Corporation of the Indenture and Supplemental Indenture, including the aforesaid resolution, and such other documents, records and proceedings as we have considered necessary or appropriate for the purpose of this opinion. We have also examined a specimen of the 2002 Series A Bonds and of the 2002 Series B Bonds.

In our opinion:

1. The 2002 Series Bonds have been duly authorized and issued in accordance with the Constitution and statutes of the State of Hawaii and the Indenture and constitute valid special obligations of the Corporation, payable solely from and secured by a pledge of the 2002 Series Bond proceeds, the Revenues (as

defined in the Indenture), and certain reserve funds and other funds and accounts established in connection therewith, all as set forth and provided in the Indenture.

2. The Indenture has been duly authorized, executed and delivered by the Authority, the Supplemental Indenture has been duly authorized, executed and delivered by the Corporation, and assuming the due authorization, execution and delivery by the Trustee, the Indenture and the Supplemental Indenture constitute valid instruments of the Corporation in accordance with the terms thereof. The 2002 Series Bonds are entitled to the security and benefits of the Indenture and Supplemental Indenture for the payment thereof in accordance with the terms thereof, equally and ratably with any bonds heretofore issued and hereafter issued under the Indenture in accordance with the terms thereof.

3. Under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest on the 2002 Series 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"), (ii) interest on the 2002 Series A Bonds is treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code, and (iii) interest on the 2002 Series B Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. In rendering our opinion, we have relied on certain representations, certifications of fact, and statements of reasonable expectations made by the Corporation in connection with the 2002 Series Bonds, and we have 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 2002 Series Bonds from gross income under Section 103 of the Code.

4. Under existing laws of the State of Hawaii, the 2002 Series 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 the franchise tax imposed on banks and other financial corporations pursuant to the laws of the State of Hawaii.

We express no opinion regarding any other Federal or state tax consequence with respect to the 2002 Series Bonds. We render our opinion under existing statutes and court decisions as of the issue date, and 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 2002 Series Bonds, or under state and local tax law.

It is to be understood that the rights of the holders of the 2002 Series Bonds under the 2002 Series Bonds and under the Indenture and Supplemental 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,

**FORM OF CONTINUING DISCLOSURE UNDERTAKING**

This Continuing Disclosure Undertaking (the "Undertaking") is dated and made as of November 15, 2002 by the Housing and Community Development Corporation of Hawaii (the "Corporation") in connection with the issuance of the Corporation's \$36,775,000 aggregate principal amount of Single Family Mortgage Purchase Revenue Bonds, 2002 Series A and 2002 Series B (the "Bonds"). As authorized by Section (7) of Resolution No. 053, adopted by the Board of Directors of the Corporation on November 14, 2001, the Corporation agrees as follows:

**ARTICLE I**  
**The Undertaking**

Section 1.1. **Purpose.** This Undertaking shall constitute a written undertaking for the benefit of the holders of the Bonds.

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, 2001, 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. 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 2.5. 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 Section 9.2 of 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 “Portfolio Information With Respect to The Program” 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 or other nationally recognized bond counsel or 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 Hawaii Housing Authority (predecessor of the Corporation) and Bishop Trust Company, Limited, as Trustee, whose successor is U.S. Bank National Association, dated as of January 1, 1980, as amended and supplemented, including by the Thirtieth Supplemental Trust Indenture dated as of March 1, 2002, between the Corporation and U.S. Bank National Association, as Trustee, authorizing and 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 <http://www.sec.gov/info/municipal/nrmsir.htm>.

(9) “Official Statement” means “final official statement”, as defined in paragraph (f)(3) of the Rule.

(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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