

In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel to the Corporation, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest on the Related Bonds (defined below) 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 2011 Series A 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; and (iii) interest on the 2011 Series B Bonds and the 2009 Series A-1 Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code and is not included in the adjusted current earnings of corporations for purposes of calculating the alternative minimum tax. Bond Counsel is also of the opinion that interest on the Related Bonds is exempt from all 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. 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 Related Bonds, and Bond Counsel has assumed compliance by the Corporation with certain ongoing tax covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the Related Bonds from gross income under Section 103 of the Code. See "TAX MATTERS."

\$50,000,000

**HAWAII HOUSING FINANCE AND DEVELOPMENT CORPORATION
(STATE OF HAWAII)**

Single Family Mortgage Purchase Revenue Bonds

\$7,005,000 2011 Series A (Refunding Market Bonds) (Non-AMT)
\$12,995,000 2011 Series B (New Money Market Bonds) (Non-AMT)
\$30,000,000 2009 Series A-1 (Program Bonds) (Non-AMT)

Dated Date of 2011 Series A Bonds and 2011 Series B Bonds: Date of Delivery

Due: As shown on inside cover

Dated Date of 2009 Series A-1 Bonds: December 21, 2009

Interest Accrual Date for 2009 Series A-1 Bonds: December 1, 2011

The above-referenced 2011 Series A Bonds (the "2011 Series A Bonds") and 2011 Series B Bonds (the "2011 Series B Bonds" and, together with the 2011 Series A Bonds, the "Market Bonds") and the 2009 Series A-1 Bonds (the "Program Bonds") will mature on the dates set forth on the inside cover and will bear interest, to their maturity or prior redemption, at the interest rates set forth on the inside cover. The Market Bonds will bear interest from their dated date and the Program Bonds will bear interest from their Interest Accrual Date. Interest is payable on the Market Bonds and the Program Bonds (collectively, the "Related Bonds") on each January 1 and July 1, commencing July 1, 2012. Interest is also payable on the Program Bonds on February 1, 2012. The Related Bonds are subject to redemption, including redemption at par, prior to maturity as set forth herein.

The Related Bonds are available only in fully-registered form and will be registered to Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), to which payments of principal and interest will be made. The authorized denominations for the Market Bonds are the principal amount of \$5,000 and any integral multiple thereof. The authorized denominations for the Program Bonds are the principal amount of \$10,000 and any integral multiple thereof. Purchasers of the Related Bonds will not receive physical delivery of bond certificates representing their beneficial ownership interests. U.S. Bank National Association is the Trustee under the Indenture referred to below.

The Program Bonds are the first subseries of the Corporation's previously issued Single Family Mortgage Purchase Revenue Bonds, 2009 Series A ("2009 Series A Bonds") for which Conversion (as defined herein) is taking place. The 2011 Series A Bonds and 2011 Series B Bonds will be the thirtieth and thirty-first series of bonds, respectively, to be issued under the Indenture (as described herein).

The Related Bonds will be limited obligations of the Corporation and will be payable from and secured solely by the Revenues and other moneys pledged under the Indenture. The Corporation has no taxing power. The Related Bonds are not a debt, liability or obligation of the State of Hawaii or any political subdivision thereof. Neither the faith and credit nor the taxing power of the State of Hawaii or any political subdivision thereof will be pledged to the payment of the principal of or the interest on the Related Bonds.

The Market Bonds are being issued and the proceeds of the Program Bonds are being released for the purposes of (a) providing funds for a program (the "Program") under which the Corporation expects to purchase fully-modified mortgage-backed pass-through securities, issued on behalf of and guaranteed as to timely payment of principal and interest by the Government National Mortgage Association ("Ginnie Mae") or the Federal National Mortgage Association ("Fannie Mae"), each backed by pools of Mortgage Loans which have been made by participating lending institutions to eligible borrowers in order to finance the purchase of single-family residences for low and moderate income persons, (b) refunding certain outstanding bonds of the Corporation issued to provide financing for the Program, and (c) paying certain costs of issuance in connection with the Related Bonds.

This cover page contains information for quick reference only. It is not a summary of this issue. Potential investors must read the entire Official Statement to obtain information essential to making an informed investment decision.

The Market Bonds are offered when, as and if issued and accepted by the Underwriter of the Market Bonds, subject to approval as to validity by Hawkins Delafield & Wood LLP, Bond Counsel to the Corporation, and subject to certain other conditions. A portion of the 2009 Series A Bonds will be redesignated as 2009 Series A-1 Bonds concurrent with the issuance and delivery of the Market Bonds, subject to certain other conditions. Certain legal matters will be passed upon for the Underwriter by its counsel, McCorriston Miller Mukai MacKinnon LLP. It is anticipated that the Market Bonds, in book entry form, will be available for delivery on or about December 1, 2011.

RBC Capital Markets

MATURITY SCHEDULES

\$7,005,000 2011 Series A (Refunding Market Bonds)

<u>Maturity</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Price</u>	<u>Maturity</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Price</u>
January 1, 2013	\$ 70,000	0.600%	100%	July 1, 2016	\$ 555,000	2.100%	100%
July 1, 2013	640,000	0.700	100	January 1, 2017	570,000	2.250	100
January 1, 2014	645,000	1.100	100	July 1, 2017	565,000	2.350	100
July 1, 2014	545,000	1.200	100	January 1, 2018	580,000	2.650	100
January 1, 2015	555,000	1.500	100	July 1, 2018	580,000	2.700	100
July 1, 2015	550,000	1.600	100	January 1, 2019	600,000	2.900	100
January 1, 2016	550,000	2.000	100				

\$12,995,000 2011 Series B (New Money Market Bonds)

<u>Maturity</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Price</u>	<u>Maturity</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Price</u>
July 1, 2019	\$ 610,000	2.950%	100%	July 1, 2021	\$ 630,000	3.300%	100%
January 1, 2020	595,000	3.150	100	January 1, 2022	635,000	3.450	100
July 1, 2020	615,000	3.150	100	July 1, 2022	655,000	3.450	100
January 1, 2021	625,000	3.300	100				

\$4,200,000 3.875% Term Bonds Due July 1, 2025, Price 100.000%
 \$4,430,000 4.500% PAC Term Bonds Due January 1, 2026, Price 107.867%

\$30,000,000 2009 Series A-1 (Program Bonds) RELEASE*

\$30,000,000 2.400% Term Bonds Due July 1, 2041

* Not reoffered.

No dealer, broker, salesperson or other person has been authorized by the Hawaii Housing Finance and Development Corporation (the “Corporation”) or the Underwriter with respect to the Market Bonds listed on the cover of this Official Statement to give any information or to make any representations, other than as contained in this Official Statement; and, if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. There shall not be any offer, solicitation, or sale of the Market Bonds to be offered through this Official Statement 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 herein has been obtained from sources which are believed to be reliable and the Corporation has a reasonable basis for believing that the information set forth herein is accurate. The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibility 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 made hereunder shall under any circumstances create any implication that there has been no change in the information or opinions set forth herein after the date of this Official Statement.

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

FORWARD-LOOKING STATEMENTS

This Official Statement contains statements which should be considered “forward-looking statements,” meaning they refer to possible future events or conditions. Such statements are generally identifiable by the words such as “plan,” “expect,” “estimate,” “budget,” “project” or similar words. The achievement of certain results or other expectations contained in such forward-looking statements involves known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The Corporation does not expect or intend to issue any updates or revisions to those forward-looking statements if or when its expectations, or events, conditions or circumstances on which such statements are based, occur or fail to occur.

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OFFICIAL STATEMENT
of
HAWAII HOUSING FINANCE AND DEVELOPMENT CORPORATION
(STATE OF HAWAII)
relating to its
\$50,000,000
Single Family Mortgage Purchase Revenue Bonds
\$7,005,000 2011 Series A (Refunding Market Bonds) (Non-AMT)
\$12,995,000 2011 Series B (New Money Market Bonds) (Non-AMT)
\$30,000,000 2009 Series A-1 (Program Bonds) (Non-AMT)

INTRODUCTION

This Official Statement provides certain information concerning the Hawaii Housing Finance and Development Corporation (the "Corporation") in connection with its Single Family Mortgage Purchase Revenue Bonds, and more particularly its Single Family Mortgage Purchase Revenue Bonds, 2009 Series A-1, following their Release (as defined below) (the "Program Bonds") in \$30,000,000 aggregate principal amount, and the sale of \$7,005,000 aggregate principal amount of its Single Family Mortgage Purchase Refunding Revenue Bonds, 2011 Series A (the "2011 Series A Bonds") and \$12,995,000 aggregate principal amount of its Single Family Mortgage Purchase Revenue Bonds, 2011 Series B Bonds (the "2011 Series B Bonds" and, together with the 2011 Series A Bonds, the "Market Bonds"). The Program Bonds and the Market Bonds are referred to collectively as the "Related Bonds."

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

The Market Bonds are being issued and the Program Bonds were issued (and certain proceeds thereof are being released from escrow) pursuant to and in full compliance with the Constitution of the State, the Act, Part III of Chapter 39, Hawaii Revised Statutes, and a resolution of the Board of Directors of the Corporation, duly adopted on November 10, 2011, 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 Thirty-fourth Supplemental Trust Indenture, dated as of November 1, 2011 (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 2011 Series A Bonds and 2011 Series B Bonds are the thirtieth and thirty-first series of bonds, respectively, authorized to be issued under the Indenture. The Corporation has previously issued \$1,851,740,000 aggregate principal amount of its Single Family Mortgage Purchase Revenue Bonds. As of October 3, 2011, the

Corporation had outstanding \$83,195,000 principal amount of such bonds secured under the Indenture, a portion of which is expected to be redeemed or retired with the proceeds of the 2011 Series A Bonds and certain other available funds. The Indenture provides for the issuance of additional bonds to further the Program or to refund outstanding bonds. All bonds outstanding under the Indenture, including previously issued bonds, the Related 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 Program Bonds are a subseries of the Corporation’s previously issued \$100,000,000 aggregate principal amount Single Family Mortgage Purchase Revenue Bonds, 2009 Series A (the “2009 Series A Bonds”). The Corporation issued its 2009 Series A Bonds as part of the New Issue Bond Program of the United States Department of the Treasury (the “NIBP”). The Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation (each, a “GSE” and, collectively, the “GSEs”) purchased the 2009 Series A Bonds under the NIBP. The 2009 Series A Bonds which have not been released and converted currently bear a short-term interest rate approximately equal to the investment earnings on the proceeds of such Bonds. The proceeds of the 2009 Series A Bonds are on deposit in an escrow fund held by the Trustee under the Indenture. Upon satisfaction of certain conditions, moneys can be released from such escrow fund (each such event is a “Release”). Following their Release, such moneys will be available to fund Mortgage Loans (defined below), to redeem Bonds, to make deposits to the Debt Service Reserve Account (if needed), and to pay costs of the release of proceeds of the 2009 Series A Bonds. (See “THE RELATED BONDS — Application of Proceeds” for information regarding the use of proceeds of the Related Bonds.) In connection with each Release, the Corporation will designate the applicable 2009 Series A Bonds as a subseries of 2009 Series A Bonds. Beginning on the date of Release, interest on such subseries of 2009 Series A Bonds will be changed to an interim rate for two calendar months, then to a long-term rate until maturity or prior redemption (such event, a “Conversion”).

One of the conditions to each Release is that the Corporation sell mortgage revenue bonds in a principal amount equal to at least two-thirds of the amount of 2009 Series A Bond proceeds being released from escrow. The Market Bonds are being issued in part to satisfy this condition with respect to the Program Bonds.

If there is no Release applicable to the Program Bonds, the issuance of the Market Bonds will be cancelled.

The Related Bonds will be treated as a composite issue under the Internal Revenue Code of 1986, as amended (the “Code”), and, therefore, the requirements of applicable Federal tax law must be satisfied with respect to each Series of the Related Bonds in order that interest on the Related Bonds not be included in gross income for Federal income tax purposes.

The Related Bonds are subject to redemption, including redemption at par, under certain circumstances, at the times, at the prices, and upon the conditions, all as described herein. See “THE RELATED BONDS — Redemption Provisions.”

The proceeds of the Related Bonds will be used to (i) provide funds for the Corporation’s Single Family Mortgage Program (the “Program”), the purpose of which is to finance the purchase of mortgage loans, or participations in mortgage loans, on single family residences being purchased by certain eligible borrowers in the State and (ii) refund certain outstanding bonds of the Corporation issued under the Indenture to provide financing for the Program.

A portion of the Market Bonds are being issued, and the proceeds of Program Bonds are being released, to make available funds to finance the purchase of securities, guaranteed as to timely payment of principal and interest by the Government National Mortgage Association (“GNMA Securities”) or Federal National Mortgage Association (“Fannie Mae Securities”) and backed by pools of mortgage loans (i) insured by the Federal Housing Administration (the “FHA”) of the United States Department of Housing and Urban Development (“HUD”) pursuant to the National Housing Act of 1934, as amended (the “Housing Act”), (ii) guaranteed by the Veterans Administration (“VA”) pursuant to the Servicemen’s Readjustment Act of 1944, as amended, (iii) guaranteed by the USDA Rural Development (formerly Rural Economic and Community Development) (“USDA Rural Development”), under its Guaranteed Rural Housing Loan Program, or (iv) insured by private mortgage insurance issued by an entity acceptable to Federal National Mortgage Association (“Fannie Mae”) or having certain loan-to-value ratios acceptable to the Corporation and Fannie Mae (the “Mortgages” or “Mortgage Loans”), which have been or are

expected to be made by certain mortgage lending institutions (the “Lenders”) to qualified persons or families of low and moderate income (the “Mortgagors”) to finance the purchase of single-family residences in the State (the “Homes”). The GNMA Securities and Fannie Mae Securities are referred to collectively herein as the “Mortgage-Backed Securities.”

The Bonds are special obligations of the Corporation payable solely from the Revenues and other moneys pledged under the Indenture; provided, however, that amounts in the escrow account established for the 2009 Series A Bonds will be available only for such related 2009 Series A Bonds prior to the release of such funds with respect to the related 2009 Series A Bond unless and until there is a default under the Indenture, in which case such amounts will be applied as set forth therein. “Revenues” include all amounts paid or required to be paid with respect to principal and interest from time to time on the Mortgage Loans. “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, except as otherwise noted above.

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 Corporation has no taxing power. 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 a debt of the United States of America or any agency thereof or Ginnie Mae or Fannie Mae and are not guaranteed by the full faith and credit of the United States of America.

The Indenture establishes a Debt Service Reserve Account and a Mortgage Loan Reserve Fund, as more fully described below. Upon the issuance of the Related Bonds the Debt Service Reserve Account and the Mortgage Loan Reserve Fund will contain an amount at least equal to the Debt Reserve Requirement and the Mortgage Reserve Requirement, respectively. See “SOURCES OF PAYMENT AND SECURITY FOR THE BONDS — Debt Service Reserve Account” and “—Mortgage Loan Reserve Fund.”

In addition to the market, business and economic factors and risks associated with any investment decision, there are other risks and uncertainties such as changes in political and social conditions and changes in legislation, regulations, proceedings and litigation that may directly or indirectly impact the Corporation and the Bonds. Many of these matters are beyond the control of the Corporation, but if enacted or implemented in the future, may affect the Corporation, its operations, its finances, and its programs. While some potential political, legislative and regulatory actions may benefit the Corporation and its programs (including the Program), no assurance can be given that the Corporation’s programs, the Bonds, or the holders of such Bonds will not be adversely affected by such measures.

There follows in this Official Statement a description of the Corporation, the Program, the sources of payment and security for the Bonds, a description of the Related Bonds, GNMA, and Fannie Mae, together with a summary of the Indenture. All references herein to the Indenture and the Program Documents (as defined herein) are qualified in their entirety by reference to the documents themselves and all references to the Related Bonds are further qualified by reference to the information with respect to the Related Bonds contained in the Indenture. Copies of such documents are available for inspection at the principal offices of the Corporation.

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 2005 in connection with the division of HCDCH into two separate agencies—the Corporation and the HPHA. The Corporation is tasked with developing and financing low- and moderate-income housing projects and administering homeownership programs, while HPHA is charged with managing federal and State public housing programs, including Section 8 and senior housing. HCDCH was established to consolidate the jurisdiction, functions, powers, duties and authority previously exercised by the HFDC, the Authority, and the Rental Housing Trust Fund of the State. Unless the context otherwise indicates, the term “Corporation” shall also be used to refer to

HCDCH, HFDC and the Authority in describing or referring to powers originally granted to such agencies but transferred to the Corporation or to previous activities of such agencies which relate to such transferred functions.

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 \$1,851,740,000 of Bonds for the Program and \$20,000,000 of bonds for the Home Mortgage Purchase Program described below. See also “APPENDIX A — Financial Statements of Single Family Mortgage Purchase Revenue Bond Fund, Note 4.” The Legislature has also authorized an aggregate principal amount of \$500,000,000 in revenue bonds for privately-owned multifamily rental housing projects, of which amount to date the Corporation has issued \$292,432,699 of bonds. The Legislature has also authorized an aggregate principal amount of \$375,000,000 in revenue bonds for the Corporation’s Hawaii Rental Housing System Revenue Bond Program, of which amount to date the Corporation has issued \$227,280,000 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 Finance or their designated representatives, and a representative of the Governor’s office, are ex-officio voting members. The Board of Directors selects from its public members a Chairperson and Vice-Chairperson. All Corporation action must be taken by the affirmative vote of at least five members.

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

David Lawrence	<i>Chairman</i> , Maui — Home Mortgage Consultant for Wells Fargo Home Mortgage of Hawaii, LLC (term expires June 30, 2012).
Ralph Mesick	<i>Vice Chairman</i> , Honolulu — Executive Vice President in charge of commercial lending for the Bank of Hawaii (term expires June 30, 2012).
Betty Lou Larson	<i>Secretary</i> , Honolulu — Housing Programs Director, Catholic Charities Hawaii (term expires June 30, 2013).
Allan Los Banos, Jr.	<i>At Large</i> , Honolulu — Safety Coordinator/Program Specialist for the Hawaii Masons & Plasterers Training Program and Construction Instructor at Honolulu Community College (term expires June 30, 2014).
Francis L. Jung, Esq.	Hawaii — Senior Partner, Jung & Vassar (term expires June 30, 2013).
Paul Kyno	Kauai — Realtor (term expires June 30, 2014).
Richard Lim	<i>Ex-Officio</i> — Director, Department of Business, Economic Development and Tourism.
Michael Ng	<i>Ex-Officio</i> — Office of the Governor.
Kalbert Young	<i>Ex-Officio</i> — Director, Department of Budget and Finance.

Staff

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

Karen Seddon, Executive Director. Ms. Seddon has served as the Executive Director of the Corporation since July 2008 and she previously held the position of Development Branch Chief from December 2006. A graduate of Oregon State University's School of Engineering, Ms. Seddon began her career with Peter Kiewit Son's, Inc. She later joined Goodfellow Bros., Inc. and then was the Development Manager at Kapalua Land Company, Ltd. Before becoming the Director of Land Development at D.R. Horton — Schuler Division. On October 31, 2009, she was conferred the degree of Master of Business Administration from the University of Phoenix.

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.

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

Brian Davidson, Finance Specialist. Mr. Davidson currently administers the Corporation's HOME Program and assists with the administration of the Single Family Programs. Prior to joining the Corporation, Mr. Davidson worked for the City of York, Pennsylvania as the Deputy Director of Housing, and for Dauphin County, Pennsylvania as a Community Development Representative. Mr. Davidson has a Masters of Public Administration and Bachelors of Science in Public Administration from Shippensburg University of Pennsylvania.

Galen Lee, Fiscal Manager. Mr. Lee has served as Fiscal Manager since May 2010. Prior to joining the Corporation, Mr. Lee was the Vice President of Finance and Division Controller of D.R. Horton, Schuler Homes, LLC. Mr. Lee has over 19 years in the Construction and Development Industry. Prior to that, Mr. Lee was a CPA at Ernst & Young for over seven and a half years. He received his B.B.A. degree in Accounting from the University of Hawaii.

The Corporation has been authorized to employ up to 31 permanent positions with an additional authorization to retain 42 personnel on a contractual basis. The Corporation currently maintains approximately 73 positions (permanent and contractual) to manage, operate and maintain its various housing projects. The number of positions assigned to each of the housing program areas are: Central Administration/Technical/Support Services: 40 (23 permanent; 17 contractual); Housing Development: 17 (4 permanent; 13 contractual); and Housing Finance: 16 (4 permanent; 12 contractual).

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, 2011, proceeds of Bonds previously issued under the Program have been used to purchase 10,025 Mortgage Loans with a total original principal amount of approximately \$1,070,000,000. See "THE PROGRAM" for more detailed information.

Other Programs of the Corporation

In addition to the Program, the Corporation operates other housing programs, including: (i) the Multifamily Revenue Bond Program, which authorizes the Corporation to issue revenue bonds to finance the development of privately-owned multifamily rental housing projects; (ii) the Hawaii Rental Housing System Revenue Bond Program, which authorizes the Corporation to issue revenue bonds to finance the development of multifamily rental housing projects which are owned and operated by the Corporation; (iii) the Housing Development and Ownership Program, which authorizes the Corporation to acquire land through condemnation, develop and construct housing projects on its behalf or in partnership with private developers, provide interim construction loans and other financing to qualified borrowers, and request exemption from certain local zoning, planning and building ordinances in the development of State housing projects; (iv) the Broadened Homesite Ownership Program, which enables the Corporation to assist lessees of residential land to acquire fee simple title to their land at a reasonable cost; (v) the Mortgage Credit Certificate Program, pursuant to which the Corporation issues mortgage credit certificates to eligible mortgage loan borrowers entitling such borrowers to take a direct credit against their federal income tax liability; (vi) the Low Income Housing Tax Credit Program, pursuant to which 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; and (vii) the Rental Assistance Program, pursuant to which the Corporation uses the investment income from program funds to subsidize the rental payments of qualified persons and families.

Bonds issued to finance the programs described above 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 these programs nor the moneys or assets held in the funds related to such programs are pledged to secure payment of the Bonds.

THE RELATED BONDS

General

The Related Bonds are issuable only as fully registered bonds in denominations of \$5,000 or any integral multiple thereof with respect to the Market Bonds and redesignated in denominations of \$10,000 and any integral multiple thereof with respect to the Program Bonds. Interest on the Related Bonds is to be computed based on a year of 360 days consisting of twelve 30-day months. The Record Date for the Related Bonds shall be the fifteenth day of the month preceding each Interest Payment Date. The Related Bonds will initially be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York (“DTC”), who shall act as securities depository for such Related Bonds. So long as DTC or Cede & Co. is the registered owner of the Related Bonds, payment of principal, redemption price, purchase price and interest with respect to the Related Bonds are to be made directly to DTC by the Trustee, or its successors, as Trustee. Disbursements of such payments to DTC Participants (as defined herein) is the responsibility of DTC and disbursement of such payments to the Beneficial Owners is the responsibility of DTC Participants as more fully described herein. See “BOOK-ENTRY PROVISIONS” herein. U.S. Bank National Association shall serve as Trustee.

For every exchange or transfer of a Bond, the Trustee may impose a charge sufficient to reimburse it for any tax, fee or other governmental charge required to be paid with respect to such exchange or transfer. In addition, the cost, if any, of preparing each new Bond upon such exchange or transfer and any other expense, including fees of counsel to the Corporation and the Trustee incurred in connection therewith, must be paid by the Holder of the Bond requesting such exchange or transfer. The Corporation is not obligated to issue, exchange or transfer any Bond during certain times specified in the Indenture.

The Market Bonds

The Market Bonds will be dated as of delivery, will bear interest from such date at the rates and will mature in the amounts and on the dates set forth on the inside cover page of this Official Statement. Interest on the Market Bonds is payable semiannually on January 1 and July 1 of each year, commencing July 1, 2012, until maturity or earlier redemption.

The Program Bonds

The NIBP is part of the HFA Initiative (the “Initiative”) announced by the Treasury in October 2009 to provide support to housing finance agencies. The Initiative includes two parts: the NIBP and the Temporary Credit and Liquidity Program (the “TCLP”). The Initiative was designed to assist state and local housing finance agencies to expand their affordable lending efforts and enhance their financial standing in a challenging financial environment.

Under the NIBP, housing finance agencies placed mortgage revenue bonds with Fannie Mae and Freddie Mac, who then securitized the bonds, and the Treasury purchased Fannie Mae and Freddie Mac securities backed by such newly issued mortgage revenue bonds. The Treasury has established a range of parameters intended to manage its risk and recover the cost of implementing the Initiative. Those covenants include, but are not limited to, the housing finance agencies being restricted from issuing new variable rate debt obligations under the same indenture as long as Treasury-purchased bonds are outstanding. See “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE.”

On September 1, 2010, the Treasury announced certain modifications to the NIBP to help facilitate the housing finance agencies’ use of the program. Treasury officials released modifications to the NIBP that (i) permitted Release Dates to occur until December 31, 2011 without requiring a redemption of 2009 Series A Bonds, (ii) provided a new mechanism to reset the long-term interest rate on the applicable portion of escrowed bonds such as the 2009 Series A Bonds when proceeds are released on a Release Date, (iii) provided a procedure for an interest rate lock in December 2010 for escrowed bonds such as the 2009 Series A Bonds the proceeds of which are subject to Release Dates in 2011, (iv) increased the permitted number of Release Dates to six, and (v) required issuers to agree to new reporting requirements to the GSEs and to pay a Treasury consent fee. Certain of these modifications are more specifically described in the following paragraphs. The Corporation accepted and implemented the permitted modifications.

The Corporation may exercise its right of Conversion on no more than six occasions (no more than one of which may occur in any 30-day period) and must cause each related Release Date to occur on or prior to the Escrow Release Termination Date (as defined below). Any pre-Conversion Bonds with respect to which a Release Date has not occurred on or prior to the Escrow Release Termination Date are subject to mandatory redemption on the first day of the first month which commences at least 20 days following the Escrow Release Termination Date (or an earlier date selected by the Corporation), at a redemption price equal to 100% of the principal amount thereof plus accrued interest to the redemption date. “Escrow Release Termination Date” means, subject to the GSE’s right to consent to Release Dates, December 31, 2011, or any later date approved by Treasury and the GSEs in their sole discretion. All Market Bonds must be issued by the Escrow Release Termination Date. In addition, within ten Business Days of receipt by the Trustee of notice that the bond rating has been withdrawn or fallen below ‘Baa3’, all proceeds that are held in the escrow account established for the 2009 Series A Bonds shall be used to mandatorily redeem a corresponding amount of pre-Conversion Bonds, at a redemption price equal to 100% of the principal amount thereof, plus accrued interest, to the redemption date. The Corporation covenants to provide such notice to the Trustee promptly upon receipt by the Corporation of notice of any such withdrawal or downgrade. With respect to the special redemptions set forth above, moneys still on deposit in the escrow account established for the 2009 Series A Bonds shall be used for any such redemption; if the moneys in such escrow account are not sufficient, then any available moneys under the Indenture shall also be used for any such redemption.

The Program Bonds are dated as of the date set forth on the cover hereof and will bear interest from the 2009 Series A-1 Release Date (December 1, 2011) to and excluding the Program Bonds Conversion Date (February 1, 2012) (the “2009 Series A-1 Conversion Date”) at the applicable Short-term Rate equal to the sum of the applicable Spread plus the lesser of (A) the Four Week T-Bill Rate as of the second Business Day prior to the Release Date or (B) the Program Bonds Permanent Rate (the “2009 Series A-1 Permanent Rate”) less the Spread. On and after the 2009 Series A-1 Conversion Date, the Program Bonds will bear interest at the 2009 Series A-1 Permanent Rate, payable on each January 1 and July 1, commencing July 1, 2012, until maturity or earlier redemption. The applicable Spread for purposes of the Program Bonds will be 60 basis points (or such other spread determined in accordance with the Indenture based on the bond rating). The 2009 Series A-1 Permanent Rate means, with respect to the Program Bonds subject to release on the 2009 Series A-1 Release Date, an interest rate per annum certified to the Trustee by the Special Permanent Rate Advisor on or prior to such 2009 Series A-1

Release Date equal to the sum of (i) the 10-Year Treasury Rate plus (ii) the applicable Spread. The 10-Year Treasury Rate means, with respect to the Program Bonds, the lower of (i) the Annual Base Rate, or (ii) the lowest 10-Year Constant Maturity Treasury rate, as reported by Treasury as of the close of business on any Business Day during the period beginning on the Business Day immediately prior to receipt by the notice parties of the notification of interest rate conversion and ending on the first Business Day not less than eight days prior to the 2009 Series A-1 Release Date. “Annual Base Rate” means 2.95% for the Program Bonds. As of October 3, 2011 (which was the Business Day immediately prior to receipt by the notice parties of the notification of interest rate conversion for the 2009 Series A-1 Bonds), the 10-Year Constant Maturity Treasury rate was 1.80%.

For purposes of the Program Bonds, the 2009 Series A-1 Permanent Rate shall be calculated on the applicable “Permanent Rate Calculation Date” which shall be the date on which the Special Permanent Rate Advisor notifies the Corporation and the Trustee of the 2009 Series A-1 Permanent Rate, which date shall be the first Business Day at least seven days prior to the 2009 Series A-1 Release Date, provided that a bond purchase agreement must be executed with respect to the Market Bonds on or prior to such date for such 2009 Series A-1 Permanent Rate to be effective.

Application of Proceeds

The following is a summary of the estimated sources and uses of funds available to finance the Program:

Sources:

Principal Amount of 2011 Series A Bonds	\$ 7,005,000.00
Principal Amount of 2011 Series B Bonds	12,995,000.00
2009 Series A-1 Released Proceeds	30,000,000.00
Premium on PAC Bonds	348,508.10
Transferred Cash from Refunded Bonds*	<u>1,613,322.11</u>
Total Sources of Funds	<u>\$ 51,961,830.21</u>

Uses:

Deposit to 2011 Series Subaccount of the Loan Fund	\$ 44,353,836.46
Deposit to Escrow Account with respect to Refunded Bonds	7,005,000.00
Deposit to Mortgage Loan Reserve Fund	45,000.00
Costs of Issuance (including Underwriter’s Fee)	<u>557,993.75</u>
Total Uses of Funds	<u>\$ 51,961,830.21</u>

* In addition, an aggregate principal amount of approximately \$6,592,000 of Mortgage Backed Securities will be allocated to the Related Bonds in connection with the refunding of the Refunded Bonds.

Redemption Provisions

The Related Bonds are subject to redemption prior to maturity upon notice by the Trustee from special redemption, optional redemption and Sinking Fund Installments, as described below.

Mandatory Redemption. The Related Bonds are subject to mandatory redemption on certain Interest Payment Dates prior to the maturity thereof at their principal amount plus accrued interest, without premium, pursuant to mandatory Sinking Fund Installments as set forth below.

The 2011 Series B Bonds maturing July 1, 2025 are subject to mandatory redemption in part by lot on January 1, 2023 and each January 1 and July 1 thereafter to and including July 1, 2025 at a redemption price equal to the principal amount thereof, plus accrued interest thereon, without premium, on the dates and in the amounts as follows:

<u>Date</u>	<u>Sinking Fund Installment</u>	<u>Date</u>	<u>Sinking Fund Installment</u>
January 1, 2023	\$ 645,000	July 1, 2024	\$ 710,000
July 1, 2023	660,000	January 1, 2025	735,000
January 1, 2024	695,000	July 1, 2025 [†]	755,000

[†] Maturity.

The 2011 Series B Bonds maturing January 1, 2026 (the “PAC Bonds”) are subject to mandatory redemption in part by lot on July 1, 2014 and each January 1 and July 1 thereafter to and including January 1, 2026 at a redemption price equal to the principal amount thereof, plus accrued interest thereon, without premium, on the dates and in the amounts as follows:

<u>Date</u>	<u>Sinking Fund Installment</u>	<u>Date</u>	<u>Sinking Fund Installment</u>
July 1, 2014	\$ 100,000	July 1, 2020	\$ 160,000
January 1, 2015	100,000	January 1, 2021	165,000
July 1, 2015	100,000	July 1, 2021	175,000
January 1, 2016	110,000	January 1, 2022	195,000
July 1, 2016	110,000	July 1, 2022	190,000
January 1, 2017	110,000	January 1, 2023	220,000
July 1, 2017	120,000	July 1, 2023	220,000
January 1, 2018	120,000	January 1, 2024	210,000
July 1, 2018	130,000	July 1, 2024	215,000
January 1, 2019	130,000	January 1, 2025	215,000
July 1, 2019	130,000	July 1, 2025	215,000
January 1, 2020	160,000	January 1, 2026 [†]	830,000

[†] Maturity.

The Program Bonds are subject to mandatory redemption in part on January 1, 2026 and each January 1 and July 1 thereafter to and including July 1, 2041 at a redemption price equal to the principal amount thereof, plus accrued interest thereon, without premium, on the dates and in the amounts as follows:

<u>Date</u>	<u>Sinking Fund Installment</u>	<u>Date</u>	<u>Sinking Fund Installment</u>
January 1, 2026	\$ 160,000	January 1, 2034	\$ 910,000
July 1, 2026	1,010,000	July 1, 2034	920,000
January 1, 2027	1,030,000	January 1, 2035	930,000
July 1, 2027	1,040,000	July 1, 2035	940,000
January 1, 2028	1,050,000	January 1, 2036	960,000
July 1, 2028	980,000	July 1, 2036	970,000
January 1, 2029	880,000	January 1, 2037	990,000
July 1, 2029	860,000	July 1, 2037	1,000,000
January 1, 2030	840,000	January 1, 2038	1,020,000
July 1, 2030	820,000	July 1, 2038	1,030,000
January 1, 2031	830,000	January 1, 2039	1,050,000
July 1, 2031	840,000	July 1, 2039	1,060,000
January 1, 2032	850,000	January 1, 2040	1,080,000
July 1, 2032	870,000	July 1, 2040	1,090,000
January 1, 2033	880,000	January 1, 2041	1,110,000
July 1, 2033	890,000	July 1, 2041 [†]	1,110,000

[†] Maturity.

In the event that less than all of the Related Bonds of a particular maturity are redeemed from funds other than those attributable to the related Sinking Fund Installments, the principal amount of such maturity of the Related Bonds so redeemed shall be credited pro rata as nearly as practicable against the remaining Sinking Fund Installments applicable to such maturity of such series of Bonds (in integral multiples of \$5,000 principal amount with respect to the Market Bonds and \$10,000 principal amount with respect to the Program Bonds). The portion of any Sinking Fund Installment remaining after the deductions credited to such payments shall be the unsatisfied balance of such Sinking Fund Installment with respect to such maturity of Related Bonds for the purpose of calculating the payment due on a future date.

Special Redemption. The 2011 Series B Bonds and 2009 Series A-1 Bonds are subject to redemption, at the option of the Corporation, in whole or in part, at any time, from the proceeds of the Related Bonds available for the financing of Mortgage Loans or Mortgage-Backed Securities which are not applied thereto (the “Unexpended Proceeds”), at a Redemption Price equal to the principal amount thereof, without premium, except that PAC Bonds will be redeemed at a redemption price of par, plus any accrued interest, plus the unamortized premium thereon as determined by the Corporation using a straight line amortization of the original issue premium of 7.867% on the PAC Bonds between the date of issue and July 1, 2021 (as of which date the premium would reduce to zero). The Code currently requires that all Unexpended Proceeds must be applied to redeem the Related Bonds no later than July 1, 2015.

The Related Bonds are subject to redemption, at the option of the Corporation, in whole or in part, at any time, at a Redemption Price equal to the principal amount thereof, plus accrued interest to the redemption date, without premium, from Available Revenues. “Available Revenues” means Revenues from any Series of Bonds, including amounts resulting from prepayments, but excluding the proceeds of the sale of Mortgage Loans or Mortgage-Backed Securities unless such Mortgage Loans or mortgage loans underlying such Mortgage-Backed Securities are in default in accordance with their terms, are sold to preclude the interest on the respective Bonds from being includable in gross income for federal income tax purposes, violate requirements of the Program, or are sold to protect the interest of Bondholders, as determined by the Corporation. Available Revenues may only be applied to redeem the PAC Bonds as described below under “—*Special Redemption of PAC Bonds.*”

Except as limited by tax law requirements, the Corporation will apply the following amounts to the redemption of Program Bonds: (1) all proceeds of the Program Bonds, to the extent not used to acquire Mortgage Loans or Mortgage-Backed Securities, refund Outstanding Bond issues as provided in the Program Bonds Supplemental Indenture, pay Program Bond expenses or fund related reserve accounts and (2) so long as any Market Bonds remain Outstanding, a pro rata portion (calculated based on the principal amount of the then Outstanding Program Bonds and the principal amount of the then Outstanding Market Bonds) of all principal prepayments and recoveries of principal received with respect to the Mortgage Loans or Mortgage-Backed Securities acquired or financed with the proceeds of the Related Bonds (the “Related Bonds Principal Receipts”), to the extent not used to pay scheduled principal, interest or sinking fund redemptions of Bonds. The Related Bonds Principal Receipts not applied to the redemption of the Program Bonds or to the payment of scheduled principal, interest or sinking fund redemptions (the “Remaining Principal Receipts”) shall be applied as described below under “—*Special Redemption of PAC Bonds.*”

Special Redemption of PAC Bonds. The Remaining Principal Receipts will be applied first to the redemption of the PAC Bonds in an amount up to the cumulative amounts for the related period set forth in the following table (the “Cumulative Amounts”) prior to the redemption of other Bonds. The Cumulative Amounts are derived from certain assumptions related to the Mortgage Loans financed by the Related Bonds, including the assumptions that all the Mortgage Loans financed by the Related Bonds are purchased or allocated to the Related Bonds, as applicable, that prepayments on the Mortgage Loans financed by the Related Bonds are received at a rate equal to 75% of the Securities Industry and Financial Markets Association (“SIFMA”) Standard Prepayment Model, and that 100% of Remaining Principal Receipts will be used to redeem PAC Bonds. Available Revenues other than Remaining Principal Receipts may be applied to the redemption of the PAC Bonds, but only to the extent that such redemptions do not exceed the Cumulative Amounts, provided that such amounts may be applied to the redemption of the PAC Bonds in excess of the Cumulative Amounts if such redemption is necessary to preserve the tax-exempt status of interest on the Related Bonds or when no other Market Bonds remain Outstanding. If the Related Bonds

are redeemed from Unexpended Proceeds, the Cumulative Amounts will be reduced proportionately to the ratio of the par amount of PAC Bonds redeemed from Unexpended Proceeds divided by the par amount of PAC Bonds originally issued.

<u>Period Ending</u>	<u>Cumulative Amount*</u>	<u>PAC Bonds Outstanding</u>	<u>Period Ending</u>	<u>Cumulative Amount*</u>	<u>PAC Bonds Outstanding</u>
12/1/2011	\$ --	\$4,430,000	1/1/2017	\$2,575,000	\$1,855,000
7/1/2012	70,000	4,360,000	7/1/2017	2,880,000	1,550,000
1/1/2013	225,000	4,205,000	1/1/2018	3,165,000	1,265,000
7/1/2013	300,000	4,130,000	7/1/2018	3,420,000	1,010,000
1/1/2014	450,000	3,980,000	1/1/2019	3,650,000	780,000
7/1/2014	755,000	3,675,000	7/1/2019	3,850,000	580,000
1/1/2015	1,110,000	3,320,000	1/1/2020	4,035,000	395,000
7/1/2015	1,505,000	2,925,000	7/1/2020	4,195,000	235,000
1/1/2016	1,890,000	2,540,000	1/1/2021	4,330,000	100,000
7/1/2016	2,245,000	2,185,000	7/1/2021	4,430,000	--

* Includes Sinking Fund Installments.

Remaining Principal Receipts in excess of the amounts used to redeem PAC Bonds to the Cumulative Amounts set forth above will be applied to the redemption of Bonds other than the PAC Bonds; provided that such Remaining Principal Receipts may be used to redeem the PAC Bonds if such redemption is necessary to preserve the tax-exempt status of interest on the Related Bonds or when no other Market Bonds remain Outstanding.

In the event that PAC Bonds are redeemed on a date other than a regular interest payment date, the Cumulative Amount as of such redemption date will be determined by straight line interpolation between the Cumulative Amounts for the interest payment dates immediately preceding and succeeding such redemption date.

The following table sets forth the projected weighted average life (in years) for the PAC Bonds, based upon various rates of prepayments on the Mortgage Loans financed by the Related Bonds (expressed as percentages of the SIFMA Standard Prepayment Model) and certain assumptions. Such assumptions include that (1) all such Mortgage Loans are purchased at the times currently anticipated, (2) Available Related Prepayments from such Mortgage Loans in amounts not greater than the Cumulative Amounts are applied as described above, (3) Available Related Prepayments greater than the Cumulative Amounts are first applied proportionately to the redemption of Market Bonds other than the PAC Bonds until no such Market Bonds are Outstanding, and then to the PAC Bonds in excess of the Cumulative Amounts, and (4) the PAC Bonds are not redeemed pursuant to an optional redemption as described below under “— *Optional Redemption.*”

<u>Percent of SIFMA Model</u>	<u>PAC Bonds Weighted Average Life</u>
0%	9.7
25%	8.3
50%	6.5
75%	5.0
100%	5.0
200%	5.0
300%	5.0
400%	5.0
500%	5.0

The weighted average life of a bond refers to the average of the length of time that will elapse from the date of issuance of such bond to the date each installment of principal is paid, weighted by the amount of such installment. The weighted average life of the PAC Bonds will be influenced by, among other factors, the rate at which repayments and prepayments of Mortgage Loans financed by the Related Bonds are received.

Actual events, including, among others, the rate of prepayment received on such Mortgage Loans, will differ from the assumptions used to model the above table. Therefore, the actual weighted average life of the PAC Bonds will differ from those set forth above.

Applicable federal tax law currently requires redemption of the Related Bonds on or before certain dates and in certain amounts in order to maintain the exclusion from gross income for federal income tax purposes of interest thereon. It is currently expected that the following approximate percentages of principal repayments and prepayments of Mortgage Loans financed from the proceeds of the Related Bonds received on or after the following dates will be required by the Code to be applied no later than the close of the first semi-annual period beginning after the date of receipt to the retirement of the Related Bonds. Such percentages and dates derive from the Corporation's use of proceeds. No assurance can be given that the actual use of proceeds will be such as to produce such percentages or that the Code will not be amended so as to no longer require such redemptions. The Corporation may also redeem the Related Bonds in amounts greater than such percentages from Available Revenues.

<u>Date</u>	<u>Percent</u>	<u>Date</u>	<u>Percent</u>
December 1, 2011	6%	November 30, 2021	100%

Optional Redemption. The Market Bonds maturing after July 1, 2021 are subject to redemption on any date on or after July 1, 2021, at the option of the Corporation, in whole or in part, at a Redemption Price equal to 100% of the principal amount thereof, plus accrued interest to the date of redemption.

The Program Bonds are subject to redemption on the first business day of any month, at the option of the Corporation, in whole or in part, at a Redemption Price equal to 100% of the principal amount thereof, plus accrued interest to the date of redemption.

General Provisions. The Corporation may select Bonds for redemption from among any Series of Bonds and maturities as it deems appropriate, subject to the provisions of the applicable housing finance bond declaration. In the absence of direction from the Corporation, the Trustee shall select Bonds for redemption from among maturities of each Series of Bonds, and credit redemptions against Sinking Fund Requirements, on a proportionate basis. If less than all the Bonds of a single maturity are called for redemption, the particular Bonds to be redeemed are to be selected by the Trustee by lot. The Indenture requires that notice of redemption be mailed not less than 30 days but not more than 60 days prior to the redemption date. However, as long as the Related Bonds are registered with Cede & Co., notice of redemption will be sent to DTC during the period then required by DTC, subject to the requirements described in the immediately preceding sentence. Notice of the redemption will be sent by the Trustee to the registered owners of any Bonds which are to be redeemed at their last addresses appearing upon the registry books. If less than all of the Term Bonds outstanding of any one maturity shall be called for redemption, the principal amount of such Term Bonds to be redeemed shall be credited to the remaining Sinking Fund Requirements in the manner that the Corporation deems appropriate. All Bonds called for redemption will cease to accrue interest on the specified redemption date and will no longer be considered outstanding under the Indenture, provided funds sufficient for the redemption of such Bonds are deposited with the Trustee.

BOOK-ENTRY PROVISIONS

The Depository Trust Company ("DTC"), New York, NY will act as securities depository for the Related Bonds. The ownership of one fully registered Related Bond for each maturity as set forth on the cover page of this Official Statement, each in the aggregate principal amount of such maturity, will be registered in the name of Cede & Co., (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct

Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation, and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of: AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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

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

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

Redemption notices shall be sent to DTC. If less than all of the Related Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Related Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Corporation as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Related Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

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

will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

The information in this section concerning DTC and DTC's book-entry system has been obtained from 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 Related Bonds, are special obligations of the Corporation, payable solely from the Revenues, funds and accounts held by the Trustee under the Indenture, except as otherwise provided (and described above) with respect to the escrow account for the 2009 Series A Bonds which are pre-Conversion Bonds. See "INTRODUCTION." 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 Related 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 Insurance 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 Related Bonds.

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 Related Bonds is established by the Indenture at 10% of the principal amount of Related 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.

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, 2011, 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 Related Bonds required by the Indenture.

The Corporation has established in the Mortgage Loan Reserve Fund a special account (the “Insurance Account”), to be funded and maintained in an amount equal to the unpaid principal balance of the Mortgage Loans financed with proceeds of the 1980 Series A and B Bonds and the 1983 Series A, B and C Bonds, exclusive of such Mortgage Loans insured by FHA (the “Covered Mortgage Loans”).

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 Insurance Account, only with respect to Covered Mortgage Loans and, subject to the foregoing, for payment of debt service on the Bonds. 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.”

STRUCTURE ASSUMPTIONS AND BONDHOLDERS’ RISKS

Assumptions with Respect to the Related Bonds

The Corporation expects payments on Mortgage-Backed Securities and Mortgage Loans, and income expected to be derived from the investment of moneys in funds and accounts established pursuant to the Indenture to be sufficient to pay the interest on, principal of and Sinking Fund Installments for the Related Bonds, and the related costs of operating the Program. Certain assumptions have been made as to the range of variation in the generation of Revenues from such sources in order to determine the effect of such variation on the sufficiency of Revenues to pay debt service on the Related Bonds. The Corporation has reviewed these assumptions and concluded that they are reasonable, but cannot guarantee that actual results will not vary materially from those projected. Certain of the assumptions made in connection with the Market Bonds are set forth below:

- (1) An aggregate principal amount of approximately \$43,442,000 of Mortgage-Backed Securities representing mortgage loans bearing interest at a weighted average rate to the mortgagor of 3.77% will be purchased by the Trustee on behalf of the Corporation, for an aggregate price of approximately \$44,354,000, on or before October 1, 2012.
- (2) An aggregate principal amount of approximately \$6,592,000 of Mortgage-Backed Securities bearing interest at a weighted average rate to the mortgagor of 5.98% will be allocated to the Related Bonds in connection with the refunding of the Refunded Bonds.
- (3) All Mortgage-Backed Securities with respect to the Related Bonds will have a scheduled final maturity date not later than December 15, 2042 and will provide for approximately equal monthly installments of principal and interest.
- (4) Fees and expenses of the Trustee will be payable semiannually in arrears based on the principal amount of Related Bonds Outstanding.
- (5) GSE Consent Fees will be payable annually in arrears based on the principal amount of the 2009 Series A-1 Bonds Outstanding.
- (6) The Servicer will be paid a monthly guaranty and servicing fee of 0.50% per annum of the principal amount of the mortgage loans underlying the Mortgage-Backed Securities allocated to the Related Bonds. To the extent the guaranty and servicing fee is greater than 0.50%, the mortgage note rate will increase by the difference.
- (7) The Corporation will not receive any prepayments from Mortgage-Backed Securities allocated to the Related Bonds.

The final maturity dates and sinking fund installments of the Related Bonds are based upon the assumption that none of the Mortgage Loans will be prepaid. In the event of such prepayment, an appropriate portion of the Related Bonds will be specially redeemed as provided for in the Indenture and as described above under the caption

“THE RELATED BONDS — Redemption Provisions — *Special Redemption.*” No reliable prediction may be made with regard to the level of prepayments in full or other early terminations of Mortgage Loans and the resulting special mandatory redemption of the Related Bonds. This is particularly true in the case of the Mortgage Loans, which are expected to be originated at a rate below current market rates for comparable mortgage loans and which must comply with the requirement that persons assuming a Mortgage Loan must meet the requirements of the Code and the Act. The Corporation expects prepayment of a number of Mortgage Loans, and it is probable that the Related Bonds will have a substantially shorter life than their stated maturity.

The foregoing assumptions were used solely for the purpose structuring maturities and sinking fund payments for the Related Bonds and are not a statement of the expectations of the Corporation or any other party. No assurance whatsoever can be given that actual events will correspond to the assumptions.

Special Considerations Relative to the Origination of Mortgage Loans

There are many reasons why Mortgage Loans may not be originated, and therefore why Mortgage Loans and Mortgage-Backed Securities may not be purchased by the Trustee in the aggregate amount of the funds available for such purpose. The Program mortgage rates may become uncompetitive. In addition, Mortgage Loans may not be originated because of the highly limiting nature of the Program eligibility requirements. The pool of Eligible Borrowers may be limited by the number of individuals who meet the credential requirements of the Program as described above under “THE PROGRAM — Eligibility.” Moreover, many individuals may meet the eligibility requirements to be an Eligible Borrower, but may not be interested in purchasing a home or may not have sufficient income to qualify for a Mortgage Loan.

Delays after Defaults

In the event that a mortgagor defaults in the payment of a Mortgage Loan and the Corporation institutes foreclosure proceedings, there will be certain required time delays which, should they occur with respect to a sufficient number of Mortgage Loans, could disrupt the flow of revenues available for the payment of principal of, sinking fund installments for and interest on the Bonds. These time delays derive from the procedures applicable to the collection of mortgage insurance or guarantees as well as those required under Hawaii law for the enforcement of rights of beneficiaries under deeds of trusts.

Recapture of Federal Subsidy

Federal law requires recapture by the federal government of the federal subsidy provided by the Mortgage Loans, if a qualified residence financed with such mortgages is sold or otherwise disposed of within nine years of such financing, and the seller exceeds certain income limits. Mortgage Loans originated under the Program will be subject to such recapture provisions. The maximum recapture amount is approximately 6.25 percent of the original principal amount of such Mortgage Loan. The portion of this amount that a mortgagor will be required to pay to the federal government depends upon the length of time the residence is held prior to disposition. The recapture amount is limited to 50 percent of the gain derived on disposition of the residence and is reduced if the mortgagor does not exceed certain income limitations.

The ability of Lenders to originate Mortgage Loans may be adversely affected by the imposition of such recapture provisions.

Other Risks

No assurance can be given that a change in the existing Ginnie Mae or Fannie Mae program will not occur such that Ginnie Mae Securities or Fannie Mae Securities may not be available for purchase by the Trustee, in which event Related Bonds may be redeemed as described in “THE RELATED BONDS — Redemption Provisions — *Special Redemption.*”

Future increases in FHA insurance premiums may require home buyers to pay more of their closing costs in cash, rather than financing them in the mortgage and may have the effect of reducing the demand for Mortgage Loans insured by FHA.

The remedies available to the Holders of the Bonds upon an event of default under the Indenture or other documents described herein are in many respects dependent upon judicial actions which are often subject to discretion and delay. Under existing constitutional and statutory law and judicial decisions, the remedies set forth in the Indenture may not be readily available or may be limited. The various legal opinions to be delivered concurrently with the delivery of the Market Bonds and the Conversion and Release of the Program Bonds will be qualified as to the enforceability of the various legal instruments by limitations imposed by bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally and by the application of equitable principles.

THE PROGRAM

The Market Bonds are being issued, and certain proceeds of the Program Bonds are being released from escrow, to provide funds for the Program. Under the Program, the Trustee, on behalf of the Corporation, is to purchase mortgage-backed GNMA I and GNMA II-Custom Pool securities, guaranteed as to timely payment of principal and interest by GNMA, and mortgage-backed Fannie Mae Securities, guaranteed as to payment of principal and interest by Fannie Mae, each of which is backed by pools of Mortgage Loans which have been made by participating financial institutions to qualified persons to finance the purchase of single family residential housing located within the State, all in accordance with agreements executed by the Corporation, the Trustee, the Servicer (the “Servicer”) and certain Lenders. See “GINNIE MAE MORTGAGE-BACKED SECURITIES” and “FANNIE MAE MORTGAGE-BACKED SECURITIES.”

Overview

The Mortgage Loans must comply with the terms of the Act, the Indenture, the Program Documents and applicable federal law, including the Internal Revenue Code of 1986, as amended (the “Code”). In general terms, each Mortgage Loan must be made to a Mortgagor (i) who intends to occupy the Home financed by such Mortgage Loan as such Mortgagor’s principal place of residence within 60 days after the date of such Mortgage Loan, (ii) who has not had a present ownership interest in a principal residence for the three years preceding the date of the Mortgage Loan, provided that this requirement is not applicable to a Home located in certain designated areas from time to time such as a Targeted Area or the Mortgagor is a veteran who has not previously received financing under the Program or a similar program, (iii) who has not had a prior mortgage loan (other than a construction period loan, bridge loan or similar temporary initial financing with a term of 24 months or less) on such Home at any time prior to the execution of the Mortgage Loan, (iv) whose Annual Family Income does not exceed the limits determined in accordance with applicable federal law, and (v) whose purchase price on such Home does not exceed the limits determined in accordance with applicable federal law. See “Federal Tax Requirements” below.

All Mortgage Loans shall (i) be secured by a Mortgage creating a first lien (subject only to certain permitted encumbrances) on a Home, (ii) be either (a) insured by FHA pursuant to Section 203(b) (including Section 223(e)) or Section 234(c) of the National Housing Act, (b) guaranteed by the VA pursuant to the Servicemen’s Readjustment Act of 1944, (c) insured by private mortgage insurance issued by an entity approved by Fannie Mae or having certain loan-to-value ratios acceptable to the Corporation and Fannie Mae, or (d) guaranteed by USDA Rural Development under its Guaranteed Rural Housing Loan Program, (iii) be grouped together in mortgage pools to back the Mortgage-Backed Securities to be purchased by the Trustee, and (iv) be for a term of 25 or 30 years. The Mortgage Loans may be assumable, but only if the Corporation consents to the assumption.

In addition to using proceeds of Bonds to fund the purchase of Mortgage-Backed Securities under the Program, the Corporation may, from time to time, direct the Servicer to place a portion of the Mortgage Loans originated by participating Lenders or Mortgage Loans pooled into Mortgage-Backed Securities, directly with third parties. Mortgage Loans and Mortgage-Backed Securities placed with third parties will not be purchased with proceeds of Bonds or any other money of the Corporation and will not be security for the Bonds. The timing and amount of Mortgage Loans and Mortgage-Backed Securities placed with third parties may affect the timing of the purchase of Mortgage-Backed Securities with the proceeds of the Related Bonds. The Corporation expects demand

for the Program to exceed funds available from Bond proceeds. The Corporation has developed the program of placing a portion of Mortgage Loans and Mortgage-Backed Securities with third parties to satisfy such excess demand for the Program.

The Corporation also expects to offer a down payment and/or closing cost assistance program. Under this program, the Corporation offers borrowers a choice between (a) an interest rate with no down payment and closing cost assistance and (b) a higher interest rate with cash assistance. From time to time the Corporation may modify the income and home price limits per Internal Revenue Service and HUD guidelines and the amount of down payment assistance available to home buyers depending on program objectives. The Corporation expects to fund a portion of the down payment and closing cost assistance from the Corporation contribution and a portion from the premium on the PAC Bonds, as defined below.

Federal Tax Requirements

General. The requirements of applicable federal tax law must be satisfied with respect to the Related Bonds (which are treated as a composite issue under the Code) in order that interest on the Related Bonds not be included in gross income for federal income tax purposes retroactive to the date of issuance or Release 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 Related Bonds in order that interest on the Related Bonds not be included in gross income for federal income tax purposes retroactive to the date of issuance or Release 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 to be adopted by the Corporation will establish procedures to be followed in connection with the financing of Mortgage Loans with amounts attributable to the Related Bonds in order to assure that interest paid on the Related Bonds not be included in gross income for federal income tax purposes under the Code (collectively, 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 will require that the Mortgage Lender make a reasonable investigation to verify such certification. The Program Documents will 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 will set forth procedures requiring 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 will set forth procedures requiring each Eligible Borrowers 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. The Corporation determines from time to time whether areas in the State are “high housing cost areas.”

The Program Documents will set forth procedures requiring 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 Related 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 Related 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 Related 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 mortgage loans made after December 31, 1990 from the proceeds of tax-exempt bonds, 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 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. Additionally, 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 Related Bonds from repayments (including prepayments) of principal of Mortgage Loans financed with proceeds attributable to the Related Bonds.

Compliance. The Corporation will include 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 Related 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 Related Bonds shall not be included in gross income for federal income tax purposes and, for such purpose, to adopt and maintain appropriate procedures.

GINNIE MAE MORTGAGE-BACKED SECURITIES

This summary does not purport to be comprehensive and is qualified in its entirety by reference to the Ginnie Mae Mortgage-Backed Securities Guide and to the documents referred to herein for full and complete statements of their provisions.

The Government National Mortgage Association (“Ginnie Mae”) is a wholly-owned corporate instrumentality of the United States within the Department of Housing and Urban Development (“HUD”) with its principal office in Washington, D.C.

Each Ginnie Mae Security will be issued under either the Ginnie Mae I Program or the Ginnie Mae II Program. Although there are a number of differences between Ginnie Mae I and Ginnie Mae II Securities, those differences will not adversely affect the availability of Revenues with which to pay principal of and interest on the Bonds. Each Ginnie Mae Security is to be backed by a pool of Mortgage Loans in minimum aggregate amounts as specified in the Ginnie Mae Mortgage-Backed Securities Guide. The Servicer will be required to pay to the Trustee (in the case of a Ginnie Mae I Security) or to JPMorgan Chase Bank, National Association or its successor as Central Paying and Transfer Agent (in the case of a Ginnie Mae II Security), and the Central Paying and Transfer Agent will be required to pay to the Trustee, as the owner of the Ginnie Mae Security, the regular monthly installments of principal and interest on the Mortgage Loans backing the Ginnie Mae Security (less the Servicer’s servicing fee, which includes the Ginnie Mae guaranty fee), whether or not the Servicer receives such installments, plus any Mortgage Loan Principal Prepayments received by the Servicer in the previous month. Ginnie Mae guarantees the timely payment of the principal of and interest on the Ginnie Mae Securities.

The issuance of each Ginnie Mae Security by the Servicer is subject to the following conditions, among others: (i) the origination by Lenders of Mortgage Loans in a minimum aggregate principal amount at least equal to the minimum size permitted by Ginnie Mae for each Ginnie Mae Security (such origination being subject, among other conditions, to the availability of FHA mortgage insurance and VA guarantees), (ii) the submission by the Servicer to Ginnie Mae of certain documents required by Ginnie Mae in form and substance satisfactory to Ginnie Mae, (iii) the Servicer’s continued compliance, on the date of issuance of the Ginnie Mae Security, with all of Ginnie Mae’s eligibility requirements, specifically including, but not limited to, certain net worth requirements, (iv) the Servicer’s continued approval by Ginnie Mae to issue Ginnie Mae Securities, and (v) the Servicer’s continued ability to issue, execute and deliver the Ginnie Mae Security, as such ability may be affected by such Servicer’s bankruptcy, insolvency or reorganization. In addition, the issuance of a Ginnie Mae Security is subject to the condition that Ginnie Mae must have entered into a guaranty agreement with the Servicer. The conditions to Ginnie Mae entering into such an agreement may change from time to time, and there can be no assurance that the Servicer will be able to satisfy all such requirements in effect at the time a Ginnie Mae Security is to be issued. Moreover, there can be no assurance that all of the above conditions will be satisfied at the time a Ginnie Mae Security is to be issued by the Servicer for purchase by the Trustee.

Ginnie Mae Security

Ginnie Mae is authorized by Section 306(g) of Title III of the National Housing Act to guarantee the timely payment of the principal of and interest on securities which are based on and backed by a pool composed of, among other things, mortgages insured by FHA under the National Housing Act or guaranteed by the VA under the Serviceman’s Readjustment Act of 1944. Said Section 306(g) further provides that “[T]he full faith and credit of the United States is pledged to the payment of all amounts which may be required to be paid under any guaranty under this subsection.” An opinion dated December 9, 1969, of an Assistant Attorney General of the United States, indicates that such guarantees under said Section 306(g) of mortgage-backed securities of the type to be delivered to the Trustee by the Servicer are authorized to be made by Ginnie Mae and “would constitute general obligations of the United States backed by its full faith and credit.”

In order to meet its obligations under such guaranty, Ginnie Mae, in its corporate capacity under Section 306(d) of Title III of the National Housing Act, may issue its general obligations to the United States Treasury (the “Treasury”) in an amount outstanding at any one time sufficient to enable Ginnie Mae, with no limitations as to amount, to perform its obligations under its guaranty of the timely payment of the principal of and interest on the Ginnie Mae Securities. The Treasury is authorized to purchase any obligations so issued by Ginnie Mae and has

indicated in a letter dated February 13, 1970, from the Secretary of the Treasury to the Secretary of Housing and Urban Development (“HUD”) that the Treasury will make loans to Ginnie Mae, if needed, to implement the aforementioned guaranty.

Ginnie Mae will warrant to the Trustee, as the owner of the Ginnie Mae Securities, that, in the event it is called upon at any time to honor its guaranty of the payment of principal and interest on any Ginnie Mae Security, it will, if necessary, in accordance with the aforesaid Section 306(d), apply to the Treasury Department of the United States for a loan or loans in amounts sufficient to make such payment.

Servicing of the Mortgage Loans

Under contractual arrangements to be entered into by and between the Servicer and Ginnie Mae, and pursuant to the Servicing Agreement, the Servicer is to be responsible for servicing and otherwise administering the Mortgage Loans in accordance with generally accepted practices of the mortgage lending industry and the Ginnie Mae Servicer’s Guide.

The monthly compensation of the Servicer, for its servicing and administrative functions, and the guaranty fee charged by Ginnie Mae, are based on the unpaid principal amount of the Ginnie Mae Securities outstanding. In compliance with Ginnie Mae regulations and policies, the total of these servicing and guaranty fees equals 0.50% per annum, calculated on the principal balance of each Ginnie Mae Security outstanding on the last day of the month preceding such calculation. Each Ginnie Mae Security carries an interest rate that is fixed at 0.50% per annum below the interest rate on the Mortgage Loans because the servicing and guaranty fee is deducted from payments on the Mortgage Loans before such payments are forwarded to the Trustee.

It is expected that interest and principal payments on the Mortgage Loans received by the Servicer will be the source of money for payments on the Ginnie Mae Securities. If such payments are less than the amount then due, the Servicer is obligated to advance its own funds to ensure timely payment of all scheduled payments of principal and interest due on the Ginnie Mae Securities. Ginnie Mae guarantees such timely payment in the event of the failure of the Servicer to pass through an amount equal to such scheduled payments (whether or not made by the Mortgagors).

The Servicer is required to advise Ginnie Mae in advance of any impending default on scheduled payments so that Ginnie Mae, as guarantor, will be able to continue such payments as scheduled on the fifteenth day of each month (in the case of a Ginnie Mae I Security) and on the twentieth day of each month (in the case of a Ginnie Mae II Security). However, if such payments are not received as scheduled, the Trustee has recourse directly to Ginnie Mae.

Guaranty Agreement

The Ginnie Mae guaranty agreement to be entered into by Ginnie Mae and the Servicer upon issuance of a Ginnie Mae Security, pursuant to which Ginnie Mae will guarantee the payment of principal and interest on such Ginnie Mae Security (the “Ginnie Mae Guaranty Agreement”), will provide that, in the event of a default by the Servicer, including (i) a failure to make any payment due under the Ginnie Mae Security, (ii) a request to Ginnie Mae to make a payment of principal of, or interest on a Ginnie Mae Security and the utilization thereof by the Servicer, (iii) insolvency of the Servicer, or (iv) default by the Servicer under any other terms of the Ginnie Mae Guaranty Agreement, Ginnie Mae will have the right, by letter to the Servicer, to effect and complete the extinguishment of the Servicer’s interest in the Mortgage Loans, and the Mortgage Loans will thereupon become the absolute property of Ginnie Mae, subject only to the unsatisfied rights of the owner of the Ginnie Mae Security. In such event, the Ginnie Mae Guaranty Agreement will provide that on and after the time Ginnie Mae directs such a letter of extinguishment to the Servicer, Ginnie Mae will be the successor in all respects to the Servicer in its capacity under the Ginnie Mae Guaranty Agreement and the transaction and arrangements set forth or arranged for therein, and will be subject to all responsibilities, duties, and liabilities (except the Servicer’s indemnification of Ginnie Mae), theretofore placed on the Servicer by the terms and provisions of the Ginnie Mae Guaranty Agreement, provided that at any time, Ginnie Mae may enter into an agreement with any other eligible issuer of Ginnie Mae Securities under which the latter undertakes and agrees to assume any part or all such responsibilities, duties or liabilities theretofore placed on the Servicer, and provided that no such agreement will detract from or

diminish the responsibilities, duties or liabilities of Ginnie Mae in its capacity as guarantor of the Ginnie Mae Security, or otherwise adversely affect the rights of the owner thereof.

Payment of Principal of and Interest on the Ginnie Mae Securities

Regular monthly installment payments on each Ginnie Mae Security are required to begin on the fifteenth day (in the case of a Ginnie Mae I Security) and on the twentieth day (in the case of a Ginnie Mae II Security) of the first month following the date of issuance of such Ginnie Mae Security and will be equal to the aggregate amount of the scheduled monthly principal and interest payments on each Mortgage Loan in the mortgage pool backing the Ginnie Mae Security, less servicing and guaranty fees. In addition, each payment is required to include any Mortgage Loan Principal Prepayments on Mortgage Loans underlying the Ginnie Mae Security.

FANNIE MAE MORTGAGE-BACKED SECURITIES

Mortgage Securities Program

Fannie Mae is a federally chartered and stockholder-owned corporation organized and existing under the 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. Fannie Mae is subject to the supervision and regulation of the Federal Housing Finance Agency (“FHFA”), an independent agency of the federal government, to the extent provided in the Housing and Economic Recovery Act of 2008 (“HERA”). The Secretary of Housing and Urban Development also 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, subject, however, to certain actions discussed in Fannie Mae’s Prospectus and the Fannie Mae Single Family Selling and Servicing Guides referenced below.

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 the 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. Fannie Mae is subject to the supervision and regulation of FHFA to the extent provided in HERA. See also “Treasury and Federal Housing Finance Agency Action” below.

The terms of the MBS Program are governed by the Fannie Mae Selling and Servicing Guides published by Fannie Mae, as modified by the Pool Contract (defined below), and, in the case of mortgage loans such as the Mortgage Loans, 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 Fannie Mae Prospectus is updated from time to time. A Fannie Mae Prospectus Supplement may not be available as to the Fannie Mae Securities.

Copies of the Fannie Mae Prospectus and Fannie Mae’s most recent annual and quarterly reports and proxy statement are available without charge from Investor Relations, Fannie Mae, 3900 Wisconsin Avenue, N.W., Washington, D.C. 20016 (telephone: (202) 752-7115).

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

Treasury and Federal Housing Finance Agency Action

HERA established FHFA, an independent agency of the federal government, as the supervisory and general regulatory authority for Fannie Mae and Freddie Mac. Fannie Mae and Freddie Mac are subject to the supervision and regulation of FHFA to the extent provided in HERA, and the Director of FHFA has general regulatory authority over Fannie Mae and Freddie Mac to ensure that the purposes of HERA, the authorizing statutes and any other applicable laws are carried out.

In September 2008 Fannie Mae and Freddie Mac were both placed into conservatorship by the FHFA, and certain other actions were taken by the Treasury and FHFA. The Division cannot predict the long term consequences of the conservatorship of these entities and the corresponding impact on the participants and the Program.

Pool Purchase Contract

Fannie Mae and the Servicer have entered or will enter into a Pool Purchase Contract (the "Pool Contract"), pursuant to which the Servicer 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 Contract is to provide for certain additions, deletions and changes to the Fannie Mae Selling and Servicing Guides relating to the purchase of Mortgage Loans. In the event of a conflict between the Pool Contract and the Fannie Mae Selling and Servicing Guides, the Pool Contract will control. The description set forth below assumes that the Pool Contracts will be executed substantially in the form presented by Fannie Mae to the Servicer as of the date hereof.

Under the Pool Contract, Fannie Mae will purchase both Mortgage Loans eligible under the guidelines set forth in the Fannie Mae Selling and Servicing Guides and Mortgage Loans insured under the Community Residence Buyer's Program which conform to the conditions set forth in the Pool Contract. The Pool Contract obligates the Servicer to service the Mortgage Loans in accordance with the requirements of the Fannie Mae Selling and Servicing Guides and the Pool 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 the Servicer and identified in records maintained by Fannie Mae. Each Fannie Mae Security carries an interest rate that is fixed for each Fannie Mae Security below the interest rate on the Mortgage Loans in an amount equal to the per annum percentage of the total of the servicing and guaranty fees.

Fannie Mae will guarantee to the registered holder of the Fannie Mae Securities that it 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 guarantees 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 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. Fannie Mae is subject to the supervision and regulation of FHFA to the extent provided in HERA. See also "Treasury and Federal Housing Finance Agency Action" herein.

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 any Mortgage Loan repurchased by Fannie Mae because of Fannie Mae's election to repurchase the Mortgage Loan 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 the 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 the Fannie Mae Security as reported to the Trustee in connection with the previous distribution (or, respecting the first distribution, the principal balance of the 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.

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 RELATED 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 201H, 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 Principal 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, provided that the investment in any such repurchase agreement will not cause a reduction in the rating assigned to the Bonds by any rating agency then maintaining a rating on the Bonds.

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 FI-IA 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 Covered Mortgage Loans, the unpaid principal balance thereof.

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.

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.

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 Insurance 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 Related Bonds provides that the Corporation may at any time determine that the amounts on credit to the 2005 Series A Loan Account which constitute proceeds of the Related Bonds and which are not committed to the purchase of Mortgage Loans on the date of such determination are unexpended proceeds of the Related Bonds, and direct the Trustee to apply such transferred moneys to the redemption or purchase of Related Bonds to the greatest extent possible.

Establishment of Funds and Accounts (Indenture, Section 5.1 through 5.6, Thirty-Second Supplemental Indenture)

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
 - 2009 Series A 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
 - Insurance 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 Insurance 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, 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:

- | | |
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| 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 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.

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.

In order to satisfy applicable Rating Agency requirements, the Corporation has begun an effort to secure an amendment to the acceleration provision summarized above which would, if effective, require a majority of holders to request acceleration. By virtue of their purchase of the Offered Bonds, Bondholders will be deemed to have approved such proposed change.

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

In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel to the Corporation (expected to be delivered in substantially the forms set forth in Appendix B hereto), under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest on the Related Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Code; (ii) interest on the

2011 Series A 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; and (iii) interest on the 2011 Series B Bonds and the 2009 Series A-1 Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code and is not included in the adjusted current earnings of corporations for purposes of calculating the alternative minimum tax. Bond Counsel is also of the opinion that interest on the Related Bonds is exempt from all 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. 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 Related Bonds, and Bond Counsel has assumed compliance by the Corporation with certain ongoing tax covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the Related Bonds from gross income under Section 103 of the Code.

The Code establishes certain requirements for the issuance of qualified mortgage bonds used to make or finance loans on owner-occupied property or used to refund bonds for such purpose that must be met subsequent to the Release and reissuance of the Program Bonds and the issuance of the Market Bonds in order that interest thereon be and remain excluded from gross income under the Code. These requirements include, but are not limited to, requirements relating to the use and expenditure of gross proceeds of the Related Bonds, yield and other restrictions on investment 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 Related 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 adopted documents with respect to its program that establish procedures under which, if followed, such requirements can be met. The Corporation has covenanted in the Supplemental Indenture to at all times perform all acts and things permitted by law and necessary and desirable in order to assure that interest paid on the Related Bonds shall not be included in gross income for Federal income tax purposes under the Code. Bond Counsel has relied upon such covenant and has assumed compliance by the Corporation with and enforcement by the Corporation of the provisions of the Certificate and such documents. In rendering its opinion, Bond Counsel also has relied on certain representations, certification of fact, and statements of the reasonable expectations made by the Corporation and others in connection with the Related Bonds. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Bond Counsel's attention after the Release and reissuance of the Program Bonds and the issuance of the Market Bonds may adversely affect the value of, or the tax status of interest on, the Related Bonds.

Bond Counsel renders its opinions under existing statutes and court decisions as of the issue date of the Market Bonds, and assumes no obligation to update, revise or supplement its opinion to reflect any action thereafter taken or not taken, or any facts or circumstances that may thereafter come to its attention, or changes in law or in interpretations thereof that may thereafter occur, or for any other reason.

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 Related Bonds, or under state and local tax law.

The accrual or receipt of interest on the Related Bonds may affect a Beneficial Owner's federal, state or local tax liability. The nature and extent of such tax consequences depend upon the particular tax status of the Beneficial Owner or the Beneficial Owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such tax consequences.

Information reporting requirements apply to interest paid on tax-exempt obligations, including the Related Bonds. In general, such requirements are satisfied if the interest recipient completes, and provides the payor with, a Form W-9, "Request for Taxpayer Identification Number and Certification," or if the recipient is one of a limited class of exempt recipients. A recipient not otherwise exempt from information reporting who fails to satisfy the information reporting requirements will be subject to "backup withholding," which means that the payor is required to deduct and withhold a tax from the interest payment, calculated in the manner set forth in the Code. For the

foregoing purpose, a “payor” generally refers to the person or entity from whom a recipient receives its payments of interest or who collects such payments on behalf of the recipient.

If an owner purchasing a Related Bond through a brokerage account has executed a Form W-9 in connection with the establishment of such account, as generally can be expected, no backup withholding should occur. In any event, backup withholding does not affect the excludability of the interest on the Related Bonds from gross income for Federal income tax purposes. Any amounts withheld pursuant to backup withholding would be allowed as a refund or a credit against the owner’s Federal income tax once the required information is furnished to the Internal Revenue Service.

The opinions of Bond Counsel are based on current legal authority, cover certain matters not directly addressed by such authorities, and represents Bond Counsel’s judgment as to the proper treatment of the Related Bonds for federal income tax purposes. They are not binding on the Internal Revenue Service (“IRS”) or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the Corporation or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The Corporation has covenanted, however, to comply with the requirements of the Code.

Unless separately engaged, Bond Counsel is not obligated to defend the Corporation or the Beneficial Owners regarding the tax-exempt status of the Related Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the Corporation and its appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the Corporation legitimately disagrees may not be practicable. Any action of the IRS, including but not limited to selection of the Related Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Related Bonds, and may cause the Corporation or the Beneficial Owners to incur significant expense.

Bond Premium

In general, if an owner acquires a Market Bond for a purchase price (excluding accrued interest) or otherwise at a tax basis that reflects a premium over the sum of all amounts payable on the Market Bond after the acquisition date (excluding certain “qualified stated interest” that is unconditionally payable at least annually at prescribed rates), that premium constitutes “bond premium” on that Market Bond (a “Premium Bond”). In general, under Section 171 of the Code, an owner of a Premium Bond must amortize the bond premium over the remaining term of the Premium Bond, based on the owner’s yield over the remaining term of the Premium Bond determined based on constant yield principles (in certain cases involving a Premium Bond callable prior to its stated maturity date, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on such bond). An owner of a Premium Bond must amortize the bond premium by offsetting the qualified stated interest allocable to each interest accrual period under the owner’s regular method of accounting against the bond premium allocable to that period. In the case of a tax-exempt Premium Bond, if the bond premium allocable to an accrual period exceeds the qualified stated interest allocable to that accrual period, the excess is a nondeductible loss. Under certain circumstances, the owner of a Premium Bond may realize a taxable gain upon disposition of the Premium Bond even though it is sold or redeemed for an amount less than or equal to the owner’s original acquisition cost. Owners of any Premium Bonds should consult their own tax advisors regarding the treatment of bond premium for Federal income tax purposes, including various special rules relating thereto, and state and local tax consequences, in connection with the acquisition, ownership, amortization of bond premium on, sale, exchange, or other disposition of Premium Bonds.

Proposed Legislation and Other Matters

Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the Federal or state level, may adversely affect the tax-exempt status of interest on the Related Bonds under Federal or state law or otherwise prevent beneficial owners of the Related Bonds from realizing the full current benefit of the tax status of such interest. In addition, such legislation or actions (whether currently proposed, proposed in the future, or enacted) and such decisions could affect the market price or marketability of the Related Bonds. For example, on

September 12, 2011, President Obama sent to Congress draft legislation entitled the “American Jobs Act of 2011” (the “Proposed Act”). On September 13, 2011, Senate Majority Leader Reid introduced the Proposed Act in the Senate (S.1549). The Proposed Act included a provision that, if enacted as proposed, would have limited the amount of exclusions (including tax-exempt interest, such as interest on the Related Bonds) and deductions certain high income taxpayers could use to reduce their income tax liability for taxable years after 2012. On October 11, 2011, a procedural vote in the Senate to end debate and thus allow a vote on the Proposed Act, as amended, did not pass. This or other legislative proposals may be considered or introduced that could affect the market price or marketability of tax-exempt bonds, such as the Related Bonds.

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

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 Related 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 proceeding or litigation of any nature now pending to restrain or enjoin the issuance, sale, execution, Release or delivery of the Bonds, the origination and purchase of the Mortgage Loans or the purchase of Mortgage-Backed Securities with proceeds made available by the issuance or Release of the Related Bonds, or in any way contesting or affecting the validity of the Related Bonds, the proceedings of the Corporation taken with respect to the issuance, Release or sale thereof, the pledge or application of any moneys or securities provided for the payment of the Related Bonds, the existence or powers of the Corporation or the title of any officers of the Corporation to their respective positions.

RATINGS

The Related Bonds are expected to be assigned the ratings of “AAA”, “Aaa”, and “AA+” by Fitch Ratings (“Fitch”), Moody’s Investors Service (“Moody’s”), and Standard & Poor’s Ratings Services (“Standard & Poor’s”), respectively.

On August 2, 2011, Moody’s confirmed the “Aaa” bond rating of the government of the United States with a negative outlook. Moody’s also announced on that date that as a result of its bond rating of the United States government, the rating outlook of certain housing bonds supported or guaranteed by the United States government (which includes bonds secured by mortgage-backed securities guaranteed by Ginnie Mae, Fannie Mae and Freddie Mac, such as the Related Bonds) had also been revised to negative.

On August 8, 2011, Standard & Poor’s lowered the ratings on certain public finance housing authority issues following the downgrade of the sovereign credit rating of the United States of America to “AA+” on August 5, 2011. Included in those downgrades were the ratings on the Bonds issued under the Indenture, which were downgraded to “AA+”.

On August 16, 2011, Fitch affirmed the United States long-term foreign and local currency issuer default ratings and Fitch-rated U.S. Treasury security ratings at “AAA”. Fitch simultaneously affirmed the U.S. country ceiling at “AAA” and the short-term foreign currency rating at “F1+”. The outlook on the long-term ratings is stable.

The ratings reflect only the views of the respective rating agencies and the Corporation makes no representations as to the appropriateness of such ratings. An explanation of the significance of such ratings may be obtained only from the relevant rating agency. Certain information and materials not included in this Official

Statement have been furnished to the rating agencies. Generally a rating agency bases its rating on such information and materials, and on investigations, studies and assumptions made by it. No assurance can be given that the ratings assigned to the Related Bonds will continue for any given period of time or that such ratings will not be revised or withdrawn entirely by any rating agency, if in its judgment, circumstances so warrant. The Corporation has undertaken no responsibility either to bring to the attention of owners of the Related Bonds any proposed revision or withdrawal of any rating assigned to the Related Bonds or to oppose any such proposed revision or withdrawal. A downward revision or withdrawal of the rating may have an adverse effect on the market price of the Related Bonds.

Any explanation of the significance of the ratings may be obtained only from the rating agencies.

CERTAIN LEGAL MATTERS

Certain legal matters in connection with the issuance of the Market Bonds and the Release of the Program Bonds are subject to the approval of Hawkins Delafield & Wood LLP, Bond Counsel. Certain legal matters will be passed upon for the Underwriter by its counsel, McCorriston Miller Mukai MacKinnon LLP, Honolulu, Hawaii.

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

UNDERWRITING

The Market Bonds will be purchased from the Corporation by RBC Capital Markets, LLC (the "Underwriter") under a purchase contract (the "Contract of Purchase") entered into by the Corporation and the Underwriter, pursuant to which the Underwriter agrees, subject to certain conditions, to purchase the Market Bonds at a purchase price of \$20,348,508.10, and to receive underwriting compensation of \$371,993.75. The Contract of Purchase provides that the Underwriter will purchase all the Market 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.

In addition, the Underwriter will receive a special structuring fee equal to \$30,000.00 in consideration of the additional structuring considerations necessary to ensure that the 2011 Series A Bonds and 2011 Series B Bonds are market bonds which meet the requirements necessary to ensure the Release of the proceeds of the 2009 Series A-1 Bonds in conformity with the New Issue Bond Program. The Underwriter is not offering or remarketing the 2009 Series A-1 Bonds and is not acting as a financial advisor with respect to the 2009 Series A-1 Bonds.

The initial public offering prices of the Market Bonds stated on the inside cover of this Official Statement may be changed from time to time by the Underwriter. The Underwriter may offer and sell the Market Bonds to certain dealers (including dealers depositing such Bonds into investment trusts, certain of which may be sponsored or managed by the Underwriter) and others at prices lower than said public offering prices.

FINANCIAL STATEMENTS

The financial statements of the Single Family Mortgage Purchase Revenue Bond Fund as of and for the Fiscal Year ended June 30, 2010, are set forth in Appendix A to this Official Statement. These financial statements have been audited by Accuity LLP, independent certified public accountants, whose report is set forth in Appendix A. The audited financial statements of the Single Family Mortgage Purchase Revenue Bond 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, 2010 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 Related Bonds.

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APPENDIX A

**FINANCIAL STATEMENTS OF
SINGLE FAMILY MORTGAGE PURCHASE REVENUE BOND FUND**

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CERTIFIED PUBLIC ACCOUNTANTS

Hawaii Housing Finance and Development Corporation Single Family Mortgage Purchase Revenue Bond Fund

Financial Statements

June 30, 2010 and 2009

**Submitted by
The Auditor
State of Hawai'i**

Quality

Integrity

Insight

**Hawaii Housing Finance and Development Corporation
Single Family Mortgage Purchase Revenue Bond Fund
Index
June 30, 2010 and 2009**

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Report of Independent Auditors

The Auditor
State of Hawai'i
The Board of Directors
Hawaii Housing Finance and Development Corporation

We have audited the accompanying statement of net assets of the Hawaii Housing Finance and Development Corporation, Single Family Mortgage Purchase Revenue Bond Fund (the "Fund"), as of June 30, 2010, and the related statements of revenues, expenses and change in net assets, and cash flows for the year 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 audit.

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

As discussed in Note 1, the financial statements present only the Fund, and do not purport to, and do not, present fairly the financial position of the Hawaii Housing Finance and Development Corporation as of June 30, 2010 and 2009, and the changes in its financial position and its cash flows for the years then ended 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 Hawaii Housing Finance and Development Corporation, Single Family Mortgage Purchase Revenue Bond Fund, as of June 30, 2010 and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

The financial statements of the Fund as of June 30, 2009 and for the year then ended were audited by other auditors whose report dated March 29, 2010 expressed an unqualified opinion on those statements.

Acuity LLP

Honolulu, Hawai'i
November 10, 2011

Hawaii Housing Finance and Development Corporation
Single Family Mortgage Purchase Revenue Bond Fund
Statements of Net Assets
June 30, 2010 and 2009

	2010	2009
Assets		
Current assets		
Mortgage loans receivable	\$ 565,217	\$ 695,767
Accrued interest receivable	2,180,968	4,377,333
Prepaid expenses and other assets	6,377	6,725
Deferred bond issuance costs	52,281	60,311
Total current assets	<u>2,804,843</u>	<u>5,140,136</u>
Assets held by Trustee		
Cash and cash equivalents	2,911,464	187,040
Investments	276,757,593	228,431,976
	<u>279,669,057</u>	<u>228,619,016</u>
Mortgage loans receivable	3,332,104	4,016,353
Deferred bond issuance costs	893,157	893,028
Capital assets, net of accumulated depreciation of \$5,094 in 2010 and \$4,291 in 2009	541	1,344
Total assets	<u>\$ 286,699,702</u>	<u>\$ 238,669,877</u>
Liabilities and Net Assets		
Current liabilities		
Accounts payable	\$ 37,072	\$ 41,790
Accrued interest payable	3,637,912	4,980,437
Other accrued expenses	266,900	197,978
Due to other funds	220,768	216,671
Deferred fees	249,262	327,371
Revenue bonds payable, net	4,485,000	7,820,000
Total current liabilities	<u>8,896,914</u>	<u>13,584,247</u>
Noncurrent liabilities		
Deferred fees	324,410	573,641
Arbitrage rebate payable	3,840,757	3,344,877
Revenue bonds payable, net	232,640,980	184,851,214
Total liabilities	<u>245,703,061</u>	<u>202,353,979</u>
Commitments and contingencies		
Net assets		
Invested in capital assets	541	1,344
Restricted by legislation and contractual agreements	279,669,057	228,619,016
Unrestricted	(238,672,957)	(192,304,462)
Total net assets	<u>40,996,641</u>	<u>36,315,898</u>
Total liabilities and net assets	<u>\$ 286,699,702</u>	<u>\$ 238,669,877</u>

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

Hawaii Housing Finance and Development Corporation
Single Family Mortgage Purchase Revenue Bond Fund
Statements of Revenues, Expenses and Change in Net Assets
Years Ended June 30, 2010 and 2009

	2010	2009
Operating revenues		
Interest on mortgage loans and mortgage-backed securities	\$ 5,660,618	\$ 7,318,430
Net increase in fair value of mortgage-backed securities	4,023,863	6,600,504
Other	131	201
Total operating revenues	<u>9,684,612</u>	<u>13,919,135</u>
Operating expenses		
Interest expense	8,449,112	10,105,449
Personnel services	453,378	398,771
Administration	231,424	198,342
Professional services	72,547	51,463
Trustee fees	41,010	53,379
Loan servicing fees	16,153	20,786
Repairs and maintenance	8,110	7,800
Insurance	7,498	8,553
Utilities	5,119	4,572
Depreciation	804	804
Total operating expenses	<u>9,285,155</u>	<u>10,849,919</u>
Operating income	399,457	3,069,216
Nonoperating revenues (expenses)		
Interest income	5,058,767	7,400,103
Arbitrage rebate	(495,880)	(1,400,342)
Amortization of deferred bond issuance costs	(281,601)	(59,329)
Total nonoperating revenues	<u>4,281,286</u>	<u>5,940,432</u>
Income before transfers	4,680,743	9,009,648
Transfers to Housing Finance Revolving Fund	<u>-</u>	<u>(20,000,000)</u>
Change in net assets	4,680,743	(10,990,352)
Net assets		
Beginning of year	<u>36,315,898</u>	<u>47,306,250</u>
End of year	<u>\$ 40,996,641</u>	<u>\$ 36,315,898</u>

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

Hawaii Housing Finance and Development Corporation
Single Family Mortgage Purchase Revenue Bond Fund
Statements of Cash Flows
Years Ended June 30, 2010 and 2009

	2010	2009
Cash flows from operating activities		
Cash received for payments on mortgage-backed securities	\$ 16,299,771	\$ 16,324,500
Interest received on mortgage loans receivable	7,856,983	6,979,832
Cash received for principal repayments of mortgage loans receivable	814,798	1,327,788
Interest payments	(9,594,211)	(10,103,151)
Payments for acquisition of mortgage-backed securities	-	(22)
Payments to suppliers	(317,309)	(351,864)
Payments to employees	(453,378)	(358,988)
Receipts from (payments to) other funds	4,097	(15,470)
Other receipts (payments)	131	(5,175)
Net cash provided by operating activities	<u>14,610,882</u>	<u>13,797,450</u>
Cash flows from noncapital financing activities		
Principal paid on revenue bond maturities and redemptions	(56,070,000)	(5,940,000)
Proceeds from new bond issuance	99,726,300	-
Arbitrage rebate paid	-	(812,670)
Transfers out	-	(20,000,000)
Net cash provided by (used in) noncapital financing activities	<u>43,656,300</u>	<u>(26,752,670)</u>
Cash flows from investing activities		
Proceeds from maturities of investments	88,129,432	34,729,175
Purchases of investments	(148,730,957)	(31,604,252)
Interest received	5,058,767	6,826,567
Net cash provided by (used in) investing activities	<u>(55,542,758)</u>	<u>9,951,490</u>
Net increase (decrease) in cash and cash equivalents	2,724,424	(3,003,730)
Cash and cash equivalents		
Beginning of year	<u>187,040</u>	<u>3,190,770</u>
End of year	<u>\$ 2,911,464</u>	<u>\$ 187,040</u>

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

Hawaii Housing Finance and Development Corporation
Single Family Mortgage Purchase Revenue Bond Fund
Statements of Cash Flows
Years Ended June 30, 2010 and 2009

	2010	2009
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 399,457	\$ 3,069,216
Adjustments to reconcile operating income to net cash provided by operating activities		
Net increase in fair value of mortgage-backed securities	(4,023,863)	(6,600,504)
Depreciation	804	804
Changes in		
Mortgage loans receivable	814,798	1,327,788
Accrued interest receivable	2,196,365	573,536
Prepaid expenses and other assets	348	480
Investments	16,299,771	15,750,942
Accounts payable	(4,718)	(63,484)
Accrued interest payable	(1,342,525)	(128,780)
Other accrued expenses	68,922	91,246
Due to other funds	4,097	(15,470)
Deferred refunding costs	524,766	130,274
Deferred fees	(327,340)	(338,598)
Net cash provided by operating activities	<u>\$ 14,610,882</u>	<u>\$ 13,797,450</u>

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

Hawaii Housing Finance and Development Corporation

Single Family Mortgage Purchase Revenue Bond Fund

Notes to Financial Statements

June 30, 2010 and 2009

1. Organization and Summary of Significant Accounting Policies

Organization

Act 50, Session Laws of Hawaii ("SLH") 1979, as amended by Act 337, SLH 1987, provided for the creation of revenue bond 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 (the "Fund") was created and for administrative purposes placed within the Housing and Community Development Corporation of Hawaii ("HCDCH"). Effective July 1, 2006, in accordance with Act 196, SLH 2005, as amended by Act 180, SLH 2006, HCDCH was split into (1) the Hawaii Public Housing Authority ("HPHA") and (2) the Hawaii Housing Finance and Development Corporation (the "Corporation"). At that time, the functions of the Fund were transferred to the Corporation.

Financial Statement Presentation

The Fund is a component of the Corporation. The Fund's financial statements are intended to present the financial position, changes in net assets and cash flows of only that portion of the funds of the Corporation that is attributable to the transactions of the Fund.

The accompanying financial statements of the Fund have been prepared in conformity with accounting principles generally accepted in the United States of America prescribed by the Governmental Accounting Standards Board ("GASB").

Measurement Focus and Basis of Accounting

The accompanying financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are reported when earned and expenses are reported when a liability is incurred, regardless of the timing of the related cash flows.

Proprietary funds have the option under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, to elect to apply all Financial Accounting Standards Board ("FASB") pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. Management has elected to not apply FASB statements after the applicable date.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services or goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. The principal operating revenue of the Fund is interest income earned on affordable interest rate mortgage loans for the purchase of owner-occupied, detached single-family and condominium dwellings and interest income earned on mortgage-backed securities. Transfers are reported after operating income.

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

Hawaii Housing Finance and Development Corporation

Single Family Mortgage Purchase Revenue Bond Fund

Notes to Financial Statements

June 30, 2010 and 2009

Use of Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, 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 amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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. Cash and cash equivalents include amounts held by the Trustee.

Investments

Non-participating investment contracts, generally repurchase agreements, are reported at cost, which approximates fair value. All other investments are reported at fair value.

Amortization

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

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.

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.

Reclassification

Certain balances in the 2009 financial statements have been reclassified to conform to the 2010 presentation. These reclassifications had no effect on the change in net assets as previously reported.

2. Assets Held by Trustee

Under the trust indenture between the Corporation and U.S. Bank Trust N.A., trustee for the bondholders, and under the 32 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.

Hawaii Housing Finance and Development Corporation
Single Family Mortgage Purchase Revenue Bond Fund
Notes to Financial Statements
June 30, 2010 and 2009

At June 30, 2010 and 2009, the debt service reserves and mortgage loan reserves required by the Indenture were as follows:

	2010	2009
Debt service reserve requirement equal to 10% of the aggregate principal amount of all series of bonds outstanding, excluding advance refundings	\$ 13,811,000	\$ 19,421,000
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	944,000	1,119,000
	<u>\$ 14,755,000</u>	<u>\$ 20,540,000</u>

At June 30, 2010 and 2009, investment securities, at cost, of approximately \$30,613,000 and \$45,500,000, respectively, were held in the debt service reserve funds and approximately \$1,873,000 and \$7,900,000, respectively, were held in the mortgage loan reserve funds.

The Indenture also requires that the mortgage loan reserves be funded from other than bond proceeds and, accordingly, the reserves have been funded by commitment fees at June 30, 2010 and 2009.

Cash and Investments

Cash and cash equivalents and investments held by the Trustee at June 30, 2010 and 2009 are summarized by maturity (in years) as follows:

	Less than 1	Greater than 1 and up to 5	Greater than 5 and up to 10	Greater than 10 and up to 20	Greater than 20	Fair Value
2010						
Money market funds	\$ 2,911,464	\$ -	\$ -	\$ -	\$ -	\$ 2,911,464
Mortgage-backed securities	-	240,201	-	23,180,598	87,572,461	110,993,260
Repurchase agreements	-	-	-	-	61,240,445	61,240,445
U.S. treasury bills	104,523,888	-	-	-	-	104,523,888
Total investments	<u>\$ 107,435,352</u>	<u>\$ 240,201</u>	<u>\$ -</u>	<u>\$ 23,180,598</u>	<u>\$ 148,812,906</u>	<u>\$ 279,669,057</u>
2009						
Money market funds	\$ 187,040	\$ -	\$ -	\$ -	\$ -	\$ 187,040
Mortgage-backed securities	1,591,815	42,786,070	23,397,942	55,493,341	-	123,269,168
Repurchase agreements	-	-	-	-	105,162,808	105,162,808
Total investments	<u>\$ 1,778,855</u>	<u>\$ 42,786,070</u>	<u>\$ 23,397,942</u>	<u>\$ 55,493,341</u>	<u>\$ 105,162,808</u>	<u>\$ 228,619,016</u>

- **Interest Rate Risk** – The Fund does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.
- **Credit Risk** – The Indenture authorizes the Trustee to invest in certificates of deposit, money market funds, U.S. government or agency obligations, and repurchase agreements. The Fund has no investment policy that would further limit its investment decisions. As of June 30, 2010, all investments were rated Aaa or AAAM by Moody's, Fitch and Standard & Poor's.

Hawaii Housing Finance and Development Corporation
Single Family Mortgage Purchase Revenue Bond Fund
Notes to Financial Statements
June 30, 2010 and 2009

- **Concentration of Credit Risk** – The Fund has no limit on the amount the Fund may invest in any one issuer. As of June 30, 2010, 38% of the Fund's investments were in Federal National Mortgage Association ("FNMA") mortgage-backed securities and 38% in U.S. Treasury securities.
- **Custodial Risk** – At June 30, 2010, all investments held by the Trustee were uninsured and unregistered, and were held by the counterparty's trust department or agent in the Corporation's name.

3. 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 2009 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.

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

Bond Issues	Interest Rates	2010	2009
1980 Series A	9.000% – 9.500%	\$ 65,888	\$ 200,748
1980 Series B	9.875% – 13.500%	45,733	140,414
1983 Series A	10.000%	107,844	170,515
1983 Series B	10.625%	94,825	116,107
1983 Series C	10.500%	150,158	183,933
1984 Series A	11.000%	126,925	146,730
1985 Series A	9.700%	141,225	191,566
1986 Series A	6.000% – 8.375%	651,341	729,674
1986 Series B	8.000%	924,819	1,052,347
1988 Series A	8.625%	552,788	654,590
1989 Series A	7.625% – 8.625%	585,053	650,635
1990 Series A	7.500% – 8.750%	450,722	474,861
		<u>3,897,321</u>	<u>4,712,120</u>
Less: Current portion		<u>(565,217)</u>	<u>(695,767)</u>
		<u>\$ 3,332,104</u>	<u>\$ 4,016,353</u>

Mortgage loans receivable generally mature in 30 years and are collateralized by real property. The primary mortgage and mortgage pool insurance coverage, subject to aggregate loss limitations, reimburses the Fund for all losses incurred, if any, from the disposition of real estate acquired through foreclosure.

Hawaii Housing Finance and Development Corporation
Single Family Mortgage Purchase Revenue Bond Fund
Notes to Financial Statements
June 30, 2010 and 2009

4. 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; Act 1, SLH 1995; and Act 189, SLH 1999, together authorized the issuance of up to \$2,275,000,000 of revenue bonds. Through June 30, 2010, \$1,851,740,000 of Single Family Mortgage Purchase revenue bonds have been issued. The Single Family Mortgage Purchase revenue bonds are payable from and collateralized 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, 2010 and 2009 consist of the following issuances:

	2010	2009
1997 Series A		
Term bonds maturing annually through 2031 (5.75%)	\$ 4,605,000	\$ 9,475,000
1997 Series B		
Serial bonds maturing annually through 2009 (5.00%)	-	2,645,000
Term bonds maturing annually through 2018 (5.45%)	15,220,000	29,405,000
	<u>15,220,000</u>	<u>32,050,000</u>
1998 Series A		
Serial bonds maturing annually through 2013 (5.05% to 5.25%)	4,575,000	6,630,000
Term bonds maturing in 2014 through 2018 (5.35%)	7,355,000	30,785,000
Placed bonds maturing in 2019 through 2031 (5.40%)	18,525,000	-
	<u>30,455,000</u>	<u>37,415,000</u>
1998 Series B		
Term bonds maturing in 2019 through 2029 (5.30%)	9,320,000	11,085,000
1998 Series C		
Term bonds maturing in 2019 through 2021 (5.35%)	3,415,000	4,060,000
2000 Series A		
Term bonds maturing in 2021 through 2027 (6.275%)	25,000,000	25,000,000
2002 Series A		
Serial bonds maturing annually through 2013 (4.45% to 4.80%)	1,595,000	2,485,000
Term bonds maturing annually in 2014 through 2034 (5.3% to 5.375%)	11,185,000	18,575,000
Placed bonds maturing in 2023 through 2033 (5.38%)	2,995,000	3,525,000
Planned Amortization Class bonds maturing annually through 2033 (4.40%)	855,000	-
	<u>16,630,000</u>	<u>24,585,000</u>
2002 Series B		
Term bonds maturing in 2026 through 2028 (5.25%)	1,535,000	1,810,000

Hawaii Housing Finance and Development Corporation
Single Family Mortgage Purchase Revenue Bond Fund
Notes to Financial Statements
June 30, 2010 and 2009

	2010	2009
2005 Series A		
Term bonds maturing in 2027 through 2037 (5.00%)	4,075,000	6,655,000
2005 Series B		
Serial bonds maturing annually through 2016 (3.35% to 3.90%)	5,255,000	8,890,000
Term bonds maturing in 2016 through 2021 (4.125% to 4.30%)	12,270,000	33,180,000
Planned Amortization Class bonds maturing in 2012 through 2027 (3.70%)	10,355,000	-
	<u>27,880,000</u>	<u>42,070,000</u>
2009 Series A		
Term bonds maturing in 2042 (0.095%)	<u>100,000,000</u>	-
Total Single Family Mortgage Purchase revenue bonds	<u>\$ 238,135,000</u>	<u>\$ 194,205,000</u>

Interest on the revenue bonds is payable semi-annually.

Revenue bonds with designated maturity dates may be redeemed at the option of the Corporation, commencing in 2007 for the 1997 Series, subject to a redemption premium which ranges up to 2%; 2008 for the 1998 Series, subject to a redemption premium which ranges up to 1.5%; 2010 for the 2000 Series; and 2014 for the 2002 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, principal payments and prepayments of mortgages, excess amounts in the debt service reserve account or excess revenues (as defined in the Indenture).

Revenue bond activity during the years ended June 30, 2010 and 2009 were as follows:

	2010	2009
Balance, beginning of year	\$ 194,205,000	\$ 200,145,000
Bond proceeds	100,000,000	-
Principal payments	<u>(56,070,000)</u>	<u>(5,940,000)</u>
Balance, end of year	238,135,000	194,205,000
Less: Deferred refunding amount	<u>(1,009,020)</u>	<u>(1,533,786)</u>
Total	237,125,980	192,671,214
Less: Current portion	<u>(4,485,000)</u>	<u>(7,820,000)</u>
Total	<u>\$ 232,640,980</u>	<u>\$ 184,851,214</u>

Hawaii Housing Finance and Development Corporation
Single Family Mortgage Purchase Revenue Bond Fund
Notes to Financial Statements
June 30, 2010 and 2009

Early redemptions during the year ended June 30, 2010 were as follows:

1997 Series A	\$ 4,870,000
1997 Series B	13,365,000
1998 Series A	5,770,000
1998 Series B	1,765,000
1998 Series C	645,000
2002 Series A	7,320,000
2002 Series B	275,000
2005 Series A	2,580,000
2005 Series B	13,350,000
	<u>\$ 49,940,000</u>

The difference between the acquisition price and the net carrying amount of the early redeemed bonds are to be deferred and amortized as a component of interest expense in a systematic and rational manner over the remaining life of the old debt or the life of the new debt, whichever is shorter.

The approximate annual debt service requirements through 2015 and in five-year increments thereafter to maturity for revenue bonds are as follows:

	Principal	Interest	Total
Year ending June 30,			
2011	\$ 4,485,000	\$ 7,151,000	\$ 11,636,000
2012	4,785,000	6,920,000	11,705,000
2013	5,335,000	6,660,000	11,995,000
2014	6,470,000	6,364,000	12,834,000
2015	5,780,000	6,080,000	11,860,000
2016 – 2020	27,440,000	26,007,000	53,447,000
2021 – 2025	40,475,000	17,531,000	58,006,000
2026 – 2030	36,720,000	5,998,000	42,718,000
2031 – 2035	6,025,000	1,163,000	7,188,000
2036 – 2040	620,000	493,000	1,113,000
2041 – 2042	100,000,000	95,000	100,095,000
	<u>\$ 238,135,000</u>	<u>\$ 84,462,000</u>	<u>\$ 322,597,000</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, 2010 and 2009, the Corporation determined that approximately \$3,841,000 and \$3,345,000 of rebates were due to the U.S. Treasury, respectively.

Hawaii Housing Finance and Development Corporation

Single Family Mortgage Purchase Revenue Bond Fund

Notes to Financial Statements

June 30, 2010 and 2009

5. Transfers

Act 79, SLH 2009 authorized the transfer of excess balances in non-general funds to the State of Hawai'i ("State") General Fund to help address the critical budget shortfall in Fiscal Biennium 2009–2011, effective May 28, 2009. Section 13 authorized the Director of Finance to transfer \$20,000,000 from the Fund to the State General Fund. However, since the Fund does not have a separate appropriation established with the Department of Accounting and General Services ("DAGS"), the monies were transferred to the Housing Finance Revolving Fund which then remitted them to the State.

6. Retirement Benefits

Substantially all employees of the Fund participate in the State's various employee benefit plans, including the Employees' Retirement System ("ERS") of the State of Hawai'i, the post-employment healthcare and life insurance plan, and a deferred compensation plan. For more information on the State's benefit plans, refer to the State of Hawai'i and ERS CAFRs. The State's CAFR can be found at the DAGS website: <http://hawaii.gov/dags/rpts>. The ERS CAFR can be found at the ERS website: <http://ers.ehawaii.gov/Financials.htm>.

Employees' Retirement System

The ERS is a cost-sharing, multiple-employer public employee retirement plan. The ERS provides retirement benefits as well as death and disability benefits. All contributions, benefits and eligibility requirements are established by Chapter 88, HRS, and can be amended by legislative action.

The Corporation's contributions for fiscal years 2010, 2009 and 2008 of approximately \$393,000, \$469,000 and \$388,000, respectively, were equal to the required contributions for each year.

Post-Retirement Health Care and Life Insurance Benefits

The State contributes to the Hawaii Employer-Union Health Benefits Trust Fund ("EUTF"), an agent multiple-employer defined benefit plan. The EUTF was established to provide a single delivery system of health benefits for state and county workers, retirees, and their dependents. The eligibility requirements for retiree health benefits are based on date of hire.

The Corporation contributed approximately \$172,000, \$277,000 and \$238,000, respectively for fiscal years 2010, 2009 and 2008.

Required Supplementary information and Disclosures

The State's CAFR includes the required footnote disclosures and supplementary information on the State's other postemployment benefit plan.

State Policy

The actuarial valuation of the EUTF does not provide other postemployment benefits ("OPEB") information by department or agency. Accordingly, the State's policy on the accounting and reporting for OPEB is to allocate a portion of the State's Annual Required Contribution ("ARC"), interest, and any adjustment to the ARC, to component units and proprietary funds that are reported separately in stand-alone departmental financial statements or in the State's CAFR. The basis for the allocation is the proportionate share of contributions made by each component unit and proprietary fund for retiree health benefits.

Hawaii Housing Finance and Development Corporation
Single Family Mortgage Purchase Revenue Bond Fund
Notes to Financial Statements
June 30, 2010 and 2009

Allocated OPEB Cost

The following table shows the components of the annual OPEB cost that has been allocated to the Corporation for the years ended June 30, 2010 and 2009:

	2010	2009
Beginning balance	\$ 887,282	\$ 423,494
Additions	466,199	739,792
Deletions	-	(276,004)
Ending balance	<u>\$ 1,353,481</u>	<u>\$ 887,282</u>

Deferred Compensation Plan

The State offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all State employees, permits employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

All plan assets are held in a trust fund to protect them from claims of general creditors. The State has no responsibility for loss due to the investment or failure of investment of funds and assets in the plan, but does have the duty of due care that would be required of an ordinary prudent investor.

APPENDIX B

FORM OF PROPOSED OPINIONS OF BOND COUNSEL

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FORM OF PROPOSED OPINIONS OF BOND COUNSEL

On the date of issuance of the 2011 Series A/B Bonds, Hawkins Delafield & Wood LLP, Bond Counsel to the Corporation, proposes to issue their approving opinion in substantially the following form:

December 1, 2011

Hawaii Housing Finance and Development Corporation
Honolulu, Hawaii

Hawaii Housing Finance and Development Corporation
Single Family Mortgage Purchase Refunding Revenue Bonds
2011 Series A

Hawaii Housing Finance and Development Corporation
Single Family Mortgage Purchase Revenue Bonds
2011 Series B

As Bond Counsel to the Hawaii Housing Finance and Development Corporation (the "Corporation") and, in such capacity, we have examined a record of proceedings relating to the issuance by the Corporation of its \$7,005,000 Single Family Mortgage Purchase Refunding Revenue Bonds, 2011 Series A (the "2011 Series A Bonds") and \$12,995,000 Single Family Mortgage Purchase Revenue Bonds, 2011 Series B (the "2011 Series B Bonds") and, with the 2011 Series A Bonds, collectively, the "2011 Series A/B Bonds").

The 2011 Series A/B Bonds are issued under and pursuant to the Constitution and statutes of the State of Hawaii, including particularly Part III of Chapter 201H, 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 10, 2011, 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 Thirty-fourth Supplemental Trust Indenture, dated as of November 1, 2011 ("34th Supplemental Indenture"), by and between the Corporation and the Trustee. Capitalized terms used and not otherwise defined herein shall have the meanings ascribed thereto in the Indenture and 34th Supplemental Indenture.

The Internal Revenue Code of 1986, as amended (the "Code") establishes certain requirements that must be met subsequent to the issuance of the 2011 Series A/B Bonds and the conversion of the interest rate on the Corporation's \$30,000,000 Single Family Mortgage Purchase Revenue Bonds, 2009 Series A-1 (the "2009 Series A-1 Bonds") and, together with the 2009 Series A-1 Bonds, the "Tax Related Bonds") in order that interest on the 2011 Series A/B Bonds be and remain excluded from gross income under the Code. These requirements include, but are not limited to, requirements relating to use and expenditures of gross proceeds of the Tax Related Bonds, yield and other restrictions on investment 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 2011 Series A/B 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 adopt documents with respect to its program (the "Program Documents") that establish procedures under which, if followed, such requirements can be met. The Corporation has covenanted in the Indenture to at all times perform all acts and things permitted by law and necessary and desirable in order to assure that interest paid on the 2011 Series A/B Bonds shall not be included in gross income for Federal income tax purposes under the Code. We have relied upon such covenants and have assumed compliance by the Corporation with and enforcement by the Corporation of the provisions of the Indenture, 34th Supplemental Indenture and the Program Documents. In rendering this opinion, we also have relied on certain representations, certifications of fact, and statements of the reasonable expectations made by the Corporation and others in connection with the Tax Related Bonds.

We are of the opinion that:

1. The 2011 Series A/B Bonds constitute the valid and binding limited obligations of the Corporation, payable solely from and secured by a pledge of the Revenues and other assets pledged therefor under the Indenture.

2. The Indenture has been duly authorized, executed, and delivered by, and is a valid and binding obligation of, the Corporation. The Indenture creates a valid pledge, to secure the payment of the principal of and interest on the 2011 Series A/B Bonds of the rights, title, and interest of the Corporation in and to the Pledged Property, 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 referred to herein, (i) interest on the 2011 Series A/B Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Code, (ii) interest on the 2011 Series A 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, and (iii) interest on the 2011 Series B Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code and is not included in the adjusted current earnings of corporations for purposes of calculating the alternative minimum tax.

4. Under existing laws of the State of Hawaii, and as modified as described below, the 2011 Series A/B Bonds and the income therefrom are exempt from all 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 consequences with respect to the 2011 Series A/B Bonds. We render our opinion under existing statutes and court decisions as of the date of the issue date, and assume no obligation to update our opinion after such 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 2011 Series A/B Bonds or under state and local tax law. We undertake no responsibility for the accuracy, completeness or fairness of any official statement or other offering materials relating to the 2011 Series A/B Bonds and express herein no opinion relating thereto.

We have assumed, without undertaking to verify, the genuineness of all documents, certificates and opinions presented to us (whether as originals or as copies) and of the signatures thereon, the accuracy of the factual matters represented, warranted, or certified therein, and the due and legal execution thereof by, and the validity against, any parties other than the Corporation.

In rendering this opinion, we are advising you that the rights and obligations under the 2011 Series A/B Bonds and the Indenture and 34th Supplemental Indenture and their enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium, arrangement, fraudulent conveyance, or other laws affecting creditors' rights or remedies and is subject to general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law), to the exercise of judicial discretion in appropriate cases, and to limitations on legal remedies. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum, waiver, or severability provisions contained in the documents described herein.

Very truly yours

On the Release Date of the 2009 Series A-1 Bonds, Hawkins Delafield & Wood LLP, Bond Counsel to the Corporation, proposes to issue their opinion in substantially the following form:

December 1, 2011

Hawaii Housing Finance and Development Corporation
Honolulu, Hawaii

Hawaii Housing Finance and Development Corporation
Single Family Mortgage Purchase Revenue Bonds
2009 Series A-1

As Bond Counsel to the Hawaii Housing Finance and Development Corporation (the “Corporation”) and, in such capacity, we have examined a record of proceedings relating to the Release (as defined below) of a portion of the proceeds of the Corporation’s Single Family Mortgage Purchase Revenue Bonds, 2009 Series A (the “2009 Series A Bonds”) in the aggregate principal amount of \$30,000,000, such portion constituting the Corporation’s Single Family Mortgage Purchase Revenue Bonds, 2009 Series A-1 (Program Bonds) (the “2009 Series A-1 Bonds”).

The 2009 Series A Bonds were issued under and pursuant to the Constitution and statutes of the State of Hawaii, including particularly Part III of Chapter 201H, 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 10, 2011, 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 Thirty-second Supplemental Trust Indenture, dated as of December 1, 2009 (as supplemented and amended to the date hereof, “32nd Supplemental Indenture”), by and between the Corporation and the Trustee. Capitalized terms used and not otherwise defined herein shall have the meanings ascribed thereto in the Indenture and 32nd Supplemental Indenture.

Upon the issuance of the 2009 Series A Bonds, the proceeds thereof, were deposited into an escrow fund. The Corporation has elected to cause the release of moneys from such fund, in accordance with the terms of the Indenture, 32nd Supplemental Indenture and a Thirty-fourth Supplemental Trust Indenture, dated as of November 1, 2011 (“34th Supplemental Indenture”), by and between the Corporation and the Trustee, in an amount corresponding to the aggregate principal amount of the 2009 Series A-1 Bonds (the “Release”).

The Internal Revenue Code of 1986, as amended (the “Code”) establishes certain requirements that must be met subsequent to the Release and the issuance of the Corporation’s \$7,005,000 Single Family Mortgage Purchase Refunding Revenue Bonds, 2011 Series A and \$12,995,000 Single Family Mortgage Purchase Revenue Bonds, 2011 Series B (collectively, the “2011 Series A/B Bonds” and together with the 2009 Series A-1 Bonds, the “Tax Related Bonds”) in order that interest on the 2009 Series A-1 Bonds be and remain excluded from gross income under the Code. These requirements include, but are not limited to, requirements relating to use and expenditures of gross proceeds of the Tax Related Bonds, yield and other restrictions on investment 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 2009 Series A-1 Bonds to become included in gross income for Federal income tax purposes retroactive to the Release, irrespective of the date on which such noncompliance occurs or is discovered. The Corporation has covenanted to adopt documents with respect to its program (the “Program Documents”) that establish procedures under which, if followed, such requirements can be met. The Corporation has covenanted in the Indenture to at all times perform all acts and things permitted by law and necessary and desirable in order to assure that interest paid on the 2009 Series A-1 Bonds shall not be included in gross income for Federal income tax purposes under the Code. We have relied upon such covenants and have assumed compliance by the Corporation with and enforcement by the Corporation of the provisions of the Indenture, 32nd Supplemental Indenture, 34th Supplemental Indenture and the Program Documents. In rendering this opinion, we also have relied on certain representations, certifications of fact, and statements of the reasonable expectations made by the Corporation and others in connection with the Tax Related Bonds.

We are of the opinion that:

1. The 2009 Series A-1 Bonds constitute the valid and binding limited obligations of the Corporation, payable solely from and secured by a pledge of the Revenues and other assets pledged therefor under the Indenture.

2. The Indenture has been duly authorized, executed, and delivered by, and is a valid and binding obligation of, the Corporation. The Indenture creates a valid pledge, to secure the payment of the principal of and interest on the 2009 Series A-1 Bonds of the rights, title, and interest of the Corporation in and to the Pledged Property, 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 referred to herein, (i) interest on the 2009 Series A-1 Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Code, and (ii) interest on the 2009 Series A-1 Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code and is not included in the adjusted current earnings of corporations for purposes of calculating the alternative minimum tax.

4. Under existing laws of the State of Hawaii, and as modified as described below, the 2009 Series A-1 Bonds and the income therefrom are exempt from all 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 consequences with respect to the 2009 Series A-1 Bonds. We render our opinion under existing statutes and court decisions as of the date of the Release, and assume no obligation to update our opinion after such 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 2009 Series A-1 Bonds or under state and local tax law. We undertake no responsibility for the accuracy, completeness or fairness of any official statement or other offering materials relating to the 2009 Series A-1 Bonds and express herein no opinion relating thereto.

We have assumed, without undertaking to verify, the genuineness of all documents, certificates and opinions presented to us (whether as originals or as copies) and of the signatures thereon, the accuracy of the factual matters represented, warranted, or certified therein, and the due and legal execution thereof by, and the validity against, any parties other than the Corporation.

In rendering this opinion, we are advising you that the rights and obligations under the 2009 Series A-1 Bonds and the Indenture, 32nd Supplemental Indenture and 34th Supplemental Indenture and their enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium, arrangement, fraudulent conveyance, or other laws affecting creditors' rights or remedies and is subject to general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law), to the exercise of judicial discretion in appropriate cases, and to limitations on legal remedies. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum, waiver, or severability provisions contained in the documents described herein.

Very truly yours,

APPENDIX C

FORM OF CONTINUING DISCLOSURE AGREEMENT

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FORM OF CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the “Agreement”) dated December __, 2011, by and between the Hawaii Housing Finance and Development Corporation (the “Corporation”) and U.S. Bank National Association, as Trustee (the “Trustee”), is executed and delivered in connection with the issuance of the Corporation’s \$20,000,000 aggregate principal amount of Single Family Mortgage Purchase Revenue Bonds, 2011 Series A and 2011 Series B (collectively, the “Bonds”). The parties agree as follows:

Section 1. **Purpose.** This Agreement is being executed and delivered by the Corporation for the benefit of the Bondholders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriters in complying with the Rule (as defined below). The Corporation is the only “obligated person” (as defined in the Rule) for the Bonds.

Section 2. **Definitions.** In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

“*Annual Report*” means any Annual Report provided by the Corporation pursuant to, and as described in, Sections 3 and 4 of this Agreement.

“*Beneficial Owner*” means any person which (a) has or shares the power, directly or indirectly, to vote or consent with respect to, to make investment decisions concerning the ownership of, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income tax purposes.

“*Dissemination Agent*” means the Corporation, or any successor Dissemination Agent designated in writing by the Corporation and which has filed with the Corporation a written acceptance of such designation.

“*Fund*” means the Single Family Mortgage Purchase Revenue Bond Fund established under the Indenture.

“*Indenture*” means the Trust Indenture between Hawaii Housing Authority (a 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 Thirty-fourth Supplemental Trust Indenture dated as of November 1, 2011, between the Corporation and U.S. Bank National Association, as Trustee, authorizing and providing for the issuance of the Bonds.

“*Listed Events*” means any of the events listed in Section 5(a) or (b) of this Agreement.

“*MSRB*” means the Municipal Securities Rulemaking Board or any other entity designated or authorized by the Securities and Exchange Commission to receive reports pursuant to the Rule. Until otherwise designated by the MSRB or the Securities and Exchange Commission, filings with the MSRB are to be made through the Electronic Municipal Market Access (EMMA) website of the MSRB, currently located at <http://emma.msrb.org>.

“*Official Statement*” shall mean the Official Statement, dated November 22, 2011, prepared and distributed in connection with the initial sale of the Bonds.

“*Participating Underwriters*” means any of the original underwriters of the Bonds required to comply with the Rule in connection with the offering of the Bonds.

“*Rule*” means Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

Section 3. ***Provision of Annual Reports.***

(a) The Corporation shall, or shall cause the Dissemination Agent to, not later than the first day of the tenth month after the end of each fiscal year (or the next succeeding business day if that day is not a business day) of the Corporation (presently June 30), commencing with the report for the fiscal year ending June 30, 2011, provide to the MSRB and the Trustee an Annual Report that is consistent with the requirements of Section 4 of this Agreement. The Annual Report must be submitted in electronic format, accompanied by such identifying information as is prescribed by the MSRB, and may cross-reference other information as provided in Section 4 of this Agreement. If the Corporation's fiscal year changes, the Corporation, upon becoming aware of such change, shall give notice of such change in the same manner as for a Listed Event under Section 5(a).

(b) In a timely manner prior to the date set forth in subsection (a) above, the Corporation shall provide the Annual Report to the Dissemination Agent (if other than the Corporation). If the Corporation is unable to provide to the MSRB and the Trustee an Annual Report by the date required in subsection (a), the Corporation shall send a notice to the MSRB and the Trustee in substantially the form attached as Exhibit A. The audited financial statements of the Fund may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date.

(c) The Dissemination Agent shall (if the Dissemination Agent is other than the Corporation) file a report with the Corporation certifying that the Annual Report has been provided pursuant to this Agreement, stating the date it was provided to the MSRB and the Trustee.

Section 4. ***Content of Annual Reports.***

(a) The Annual Report shall contain or incorporate by reference the following information:

(i) Audited financial statements of the Fund for the prior fiscal year, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the Fund's audited financial statements are not available by the time the Annual Report is required to be provided to the MSRB and the Trustee pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the Official Statement relating to the Bonds, and the audited financial statements shall be provided to the MSRB and the Trustee in the same manner as the Annual Report when they become available; and

(ii) Budgeted revenues and expenditures of the Fund for the current fiscal year.

(b) Information contained in an Annual Report for any fiscal year containing any modified operating data or financial information for such fiscal year shall explain, in narrative form, the reasons for such modification and the effect of such modification on the Annual Report being provided for such fiscal year. If a change in accounting principles is included in any such modification, such Annual Report shall present a comparison between the financial statements or information prepared on the basis of modified accounting principles and those prepared on the basis of former accounting principles.

Any or all of the items above may be included by specific reference to other documents, including official statements of debt issues of the Corporation or related public entities, which have been made available to the public on the MSRB's website. The Corporation shall clearly identify each such other document so included by reference.

Section 5. ***Reporting of Significant Events.***

(a) Pursuant to the provisions of this Section 5, the Corporation shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds:

- i. Principal and interest payment delinquencies;
- ii. Unscheduled draws on debt service reserves reflecting financial difficulties;

- iii. Unscheduled draws on credit enhancements reflecting financial difficulties;
- iv. Substitution of credit or liquidity providers, or their failure to perform;
- v. Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determination of taxability or of a Notice of Proposed Issue (IRS Form 5701 TEB);
- vi. Tender offers;
- vii. Defeasances;
- viii. Rating changes; or
- ix. Bankruptcy, insolvency, receivership or similar event of the obligated person.

For the purposes of the event identified in subparagraph (ix) above, the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.

(b) The Corporation shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material, not later than ten business days after the occurrence of the event:

- i. Unless described in paragraph 5(a)(v), material notices or determinations by the Internal Revenue Service with respect to the tax status of the Bonds or other material events affecting the tax status of the Bonds;
- ii. Modifications to rights of Bondholders;
- iii. Optional, unscheduled or contingent Bond calls;
- iv. Release, substitution, or sale of property securing repayment of the Bonds;
- v. Non-payment related defaults;
- vi. The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms; or
- vii. Appointment of a successor or additional trustee or the change of name of a trustee.

(c) The Corporation shall give, or cause to be given, in a timely manner, notice of a failure to provide the annual financial information on or before the date specified in Section 3, as provided in Section 3.

(d) Whenever the Corporation obtains knowledge of the occurrence of a Listed Event described in Section 5(b), the Corporation shall determine if such event would be material under applicable federal securities laws.

(e) If the Corporation learns of the occurrence of a Listed Event described in Section 5(a), or determines that knowledge of a Listed Event described in Section 5(b) would be material under applicable federal securities laws, the Corporation shall within ten business days of occurrence file a notice of such occurrence with the MSRB and the Trustee in electronic format, accompanied by such identifying information as is prescribed by the MSRB.

Section 6. **Termination of Reporting Obligation.** The Corporation's obligations under this Agreement shall terminate upon the maturity, legal defeasance, prior redemption or acceleration of all of the Outstanding Bonds, or if less than all of the Bonds are defeased, with respect to those Bonds. If such termination occurs prior to the final maturity of the Bonds, the Corporation shall give notice of such termination in the same manner as for a Listed Event under Section 5(e).

Section 7. **Dissemination Agent.** From time to time, the Corporation may appoint or engage a Dissemination Agent to assist the Corporation in carrying out its obligations under this Agreement, and may discharge any such agent, with or without appointing a successor Dissemination Agent. If at any time there is not any other designated Dissemination Agent, the Corporation shall be the Dissemination Agent. The initial Dissemination Agent shall be the Corporation. The sole remedy of any party against the Dissemination Agent shall be nonmonetary and specific performance. The Dissemination Agent shall not be responsible for the form or content of any Annual Report, notice of Listed Event, or other document furnished to the Dissemination Agent by the Corporation. The Dissemination Agent shall receive reasonable compensation for its services provided hereunder. The Dissemination Agent may resign at any time by providing at least 60 days' notice to the Corporation.

Section 8. **Amendment; Waiver.** Notwithstanding any other provision of this Agreement, the Corporation may amend this Agreement, and any provision of this Agreement may be waived, provided that all of the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Sections 3(a), 4, 5(a), (b), (c) or (e), or 8(a), it may only be made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, change in law (including rules or regulations), or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel selected by the Corporation, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the Holders of the Bonds in the same manner as provided in the Indenture for amendments to the Indenture with the consent of Holders of the Bonds, or (ii) does not, in the opinion of nationally recognized bond counsel selected by the Corporation, materially impair the interests of the Holders or Beneficial Owners of the Bonds.

In the event of any amendment or waiver of a provision of this Agreement, the Corporation shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the Corporation. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5(e), and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

Section 9. **Additional Information.** Nothing in this Agreement shall be deemed to prevent the Corporation from disseminating any other information, using the means of dissemination set forth in this Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Agreement. If the Corporation chooses to

include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Agreement, the Corporation shall have no obligation under this Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Nothing in this Agreement shall be deemed to prevent the Corporation from supplementing this Agreement to provide that it shall also govern continuing disclosure for one or more issues of Additional Bonds (as defined in the Indenture).

Section 10. **Failure to Perform.** (a) The agreements of the Corporation set forth in Sections 3 and 4 of this Agreement are intended to be for the benefit solely of the Bondholders and Beneficial Owners from time to time of the Bonds. The sole remedy for any breach of this Agreement by the Corporation shall be limited, as hereinafter described, to a right of Bondholders and Beneficial Owners to cause proceedings at law or in equity to be instituted and maintained to obtain mandamus or specific performance by the Corporation of its obligations hereunder. Any individual Bondholder or Beneficial Owner may institute and maintain, or cause to be instituted and maintained, such proceedings to require the Corporation to provide or cause to be provided a pertinent filing if such a filing is due and has not been made. Any such proceedings challenging the adequacy of the information provided in accordance with this Agreement may be instituted and maintained only by the Bondholders and the Beneficial Owners of not less than 25% in principal amount of the Bonds then outstanding or their agent.

(b) Any failure of the Corporation to comply with any provisions of this Agreement shall not be a default or an event of default with respect to the Bonds under the Indenture.

Section 11. **Beneficiaries.** This Agreement shall inure solely to the benefit of the Corporation, the Trustee, the Dissemination Agent, the Participating Underwriters and the Bondholders and Beneficial Owners from time to time of the Bonds and shall create no rights in any other person or entity.

Section 12. **Recordkeeping.** The Corporation shall maintain records of all Annual Information and notice of material Listed Events including the content of such disclosure, the names of the entities with whom such disclosures were filed and the date of filing such disclosure.

Section 13. **Governing Law.** This Agreement shall be governed by the laws of the State of Hawaii.

Date: December __, 2011

HAWAII HOUSING FINANCE AND
DEVELOPMENT CORPORATION

By: _____
Karen Seddon, Executive Director

U.S. BANK NATIONAL ASSOCIATION

By: _____

EXHIBIT A

**FORM OF NOTICE TO THE MUNICIPAL SECURITIES RULEMAKING BOARD OF FAILURE
TO FILE ANNUAL REPORT**

Name of Issuer: Hawaii Housing Finance and Development Corporation
Name of Bond Issue: Single Family Mortgage Purchase Revenue Bonds,
2011 Series A and 2011 Series B
Date of Issuance: December __, 2011

NOTICE IS HEREBY GIVEN that the Hawaii Housing Finance and Development Corporation (the "Corporation") has not provided an Annual Report with respect to the above-named Bonds as required by Section 3 of the Continuing Disclosure Agreement, dated December __, 2011, executed by the Corporation for the benefit of the holders and beneficial owners of the above-referenced Bonds. The Corporation anticipates that the Annual Report will be filed by _____.

Dated: _____

HAWAII HOUSING FINANCE AND
DEVELOPMENT CORPORATION

By: _____
Authorized Signatory

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