NEW ISSUE

This Official Statement has been prepared by the North Carolina Housing Finance Agency to provide information on the Series 32 Bonds. Selected information is presented on this cover page for the convenience of the user. To make an informed decision regarding the Series 32 Bonds, a prospective investor should read this Official Statement in its entirety. Unless indicated, capitalized terms used on this cover page have the meanings given in the Official Statement.

NORTH CAROLINA HOUSING FINANCE AGENCY

$136,160,000
North Carolina Housing Finance Agency
Home Ownership Revenue Refunding Bonds, Series 32
(Taxable Interest)
(1998 Trust Agreement)

Dated: Date of Delivery **Interest Rate: 4.00%** **Price: 100%** **Due: January 1, 2030**

Tax Treatment	In the opinion of Bond Counsel and subject to the qualifications described herein, interest on the Series 32 Bonds is **not excluded** from the gross income of the owners thereof for federal income tax purposes. Such interest is exempt from all income taxes of the State of North Carolina. See "TAX TREATMENT" herein.
Redemption	The Series 32 Bonds are subject to optional redemption, special redemption and sinking fund redemption as described herein.
Security	The Series 32 Bonds are payable from and secured by a pledge of all Program Obligations, Revenues and Prepayments and certain other assets, on a parity with outstanding Bonds heretofore or hereafter issued under the Trust Agreement. See "SECURITY FOR AND SOURCES OF PAYMENT OF THE SERIES 32 BONDS." *The Series 32 Bonds do not constitute a debt, liability or obligation of the State of North Carolina or of any political subdivision thereof nor is the faith and credit or taxing power of the State of North Carolina or of any political subdivision thereof pledged to payment of the Series 32 Bonds.*
Interest Payment Dates	January 1 and July 1, commencing January 1, 2012
Denominations	$5,000 or any whole multiple thereof.
Closing/Settlement	November 17, 2011
Bond Counsel	Womble Carlyle Sandridge & Rice, LLP, Raleigh, North Carolina
Underwriters' Counsel	Bode, Call & Stroupe, L.L.P., Raleigh, North Carolina
Trustee and Paying Agent	The Bank of New York Mellon Trust Company, N.A., Jacksonville, Florida

The Series 32 Bonds are offered, when, as and if issued and received by the Underwriters, subject to prior sale and the opinion of Bond Counsel as to the validity and certain other matters.

RBC Capital Markets **BofA Merrill Lynch**

Citigroup **Morgan Keegan & Company, Inc.** **Wells Fargo Securities**

The date of this Official Statement is October 27, 2011.

The Underwriters have provided the following sentence for inclusion in this Official Statement: The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their respective responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

No dealer, broker, salesman or other person has been authorized by the North Carolina Housing Finance Agency or the Underwriters to give any information or to make any representations other than those contained herein and, if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of any offer to buy nor shall there be any sale of the Series 32 Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

The information set forth herein has been provided by the North Carolina Housing Finance Agency and other sources believed to be reliable. Quotations from and summaries and explanations of provisions of laws and documents herein do not purport to be complete and reference is made to such laws and documents for full and complete statements of their provisions. Any statements made in this Official Statement involving estimates or matters of opinion, whether or not expressly stated, are intended merely as estimates or opinions and not as representations of fact.

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 affairs of the North Carolina Housing Finance Agency since the dates as of which information is given herein.

THE SECURITIES OFFERED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. THE SECURITIES OFFERED HEREBY HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION, NOR HAVE ANY OF THE FOREGOING AUTHORITIES PASSED UPON OR ENDORSED THE MERITS OF THIS OFFERING OR THE ADEQUACY OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY MAY BE A CRIMINAL OFFENSE.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 32 BONDS OFFERED HEREBY AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

The order and placement of materials in this Official Statement, including the Appendices, are not deemed to be a determination of relevance, materiality or importance, and this Official Statement, including the attached Appendices, must be considered in its entirety.

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OFFICIAL STATEMENT

OF

NORTH CAROLINA HOUSING FINANCE AGENCY

$136,160,000
North Carolina Housing Finance Agency
Home Ownership Revenue Refunding Bonds, Series 32
(Taxable Interest)
(1998 Trust Agreement)

INTRODUCTION AND PURPOSE

This Official Statement (including the cover page and appendices hereto) has been prepared and is being distributed by the North Carolina Housing Finance Agency (the "Agency") in order to furnish information in connection with the sale of the Agency's Home Ownership Revenue Bonds, Series 32 (Taxable Interest) (1998 Trust Agreement) (the "Series 32 Bonds"), being offered hereby in the aggregate principal amount of $136,160,000, pursuant to the North Carolina Housing Finance Agency Act, being Chapter 122A of the General Statutes of North Carolina, as amended (the "Act"), a Trust Agreement, dated as of May 1, 1998 (the "Trust Agreement"), between the Agency and The Bank of New York Mellon Trust Company National Association (hereinafter the “Trustee”) and a Thirty-Second Supplemental Trust Agreement, dated as of November 1, 2011, between the Agency and the Trustee (the "Thirty-Second Supplemental Trust Agreement"), authorizing the issuance of the Series 32 Bonds.

The Series 32 Bonds are being issued to provide funds, together with other available funds, to (a) refund certain of the Agency's Single Family Revenue Bonds heretofore issued under the Agency's Bond Resolution adopted February 28, 1985 (the "1985 Resolution") described in the Plan of Refunding herein (the "1985 Resolution Bonds to be Refunded"), (b) refund certain of the Agency's Home Ownership Revenue Bonds heretofore issued under the Trust Agreement as described in the Plan of Refunding herein (the "1998 Trust Agreement Bonds to be Refunded" and together with the 1985 Resolution Bonds to be Refunded the "Bonds to be Refunded"), (c) make deposits to the credit of the Debt Service Reserve Fund, (d) make deposits to the credit of the Insurance Reserve Fund, and (e) pay the costs of issuance of the Series 32 Bonds. See “Plan of Refunding” below.

Except for bonds issued under the Trust Agreement that by the terms thereof are subordinate to the other bonds issued under the Trust Agreement, all bonds issued under the Trust Agreement will be equally and ratably secured by the pledges and covenants contained therein. All such bonds that are equally and ratably secured, including the prior series of bonds issued in the respective aggregate principal amounts and on the respective dates as described in "THE PROGRAM - Experience to Date Under Program" herein, and the Series 32 Bonds are herein referred to as the "Bonds." Information descriptive of the Series 32 Bonds which is included on the cover page hereof is part of this Official Statement.

All capitalized terms used in this Official Statement which are defined in the Trust Agreement shall have the same meanings as are set forth therein (see Appendix C - "SUMMARY OF CERTAIN PROVISIONS OF THE TRUST AGREEMENT AND THE THIRTY-SECOND SUPPLEMENTAL TRUST AGREEMENT—Definitions"). The summaries of and references to the Act, the Trust Agreement and the other statutes and documents referred to herein and the description of the Series 32 Bonds which are included in or attached to this Official Statement do not purport to be comprehensive or definitive, and such summaries, references and descriptions are qualified in their entirety by reference to each such document or statute, copies of which are available from the Agency upon request.

The Agency is a body politic and corporate constituting a public agency and instrumentality of the State of North Carolina (the "State") which was created for the purpose of providing financing for residential housing for low and moderate income households. Pursuant to the Act, the Agency has established a housing program under the Trust Agreement (hereinafter referred to as the "Program") under which the Agency is authorized to enter into agreements for the purchase of mortgage loans and other obligations made for the purpose of assisting in providing housing to low and moderate income households in the State. Under the Act the interest rate or rates, sale price or prices and manner of sale of bonds issued by the Agency must be approved by the Local Government Commission (the "Commission") of the State.

The Trust Agreement authorizes the issuance of Bonds thereunder for the purpose of paying the costs of the Program and for refunding certain bonds of the Agency. Generally, Bonds issued to pay the costs of the Program are issued to finance the making or purchase by the Agency of "Program Loans" or "Program Securities." Under the Trust Agreement, and as used herein, a "Program Loan" is an obligation made or purchased by the Agency in order to finance or otherwise provide housing principally on behalf of households of low and moderate income, and a "Program Security" is an obligation representing an interest in a pool of Program Loans, which obligations are guaranteed or insured by a mortgage agency authorized by the Trust Agreement. As defined in the Trust Agreement and used herein, a "Program Obligation" is a Program Loan or a Program Security. See "Definitions" and "The Program Fund" in Appendix C hereto. The Trust Agreement further provides that the Supplemental Trust Agreement authorizing the issuance of a Series of Bonds shall direct whether the proceeds of such Series will be used to purchase Program Loans or Program Securities and, if Program Loans are to be purchased, the requirements therefor, including any insurance or guarantee requirements for the Program Loans that may be purchased.

Under the Plan of Refunding developed in connection with the issuance of the Series 32 Bonds, upon the issuance of the Series 32 Bonds and the deposit of the proceeds thereof with the Trustee, the Trustee shall deposit to the credit of a special Escrow Fund proceeds of the Series 32 Bonds in an amount sufficient, together with other available funds, to redeem the 1985 Resolution Bonds to be Refunded. In addition, proceeds of the Series 32 Bonds shall be deposited to the credit of the Optional Redemption Account of the Redemption Fund created pursuant to the Trust Agreement in an amount sufficient, together with other available funds, to redeem the 1998 Trust Agreement Bonds to be Refunded. See "PLAN OF REFUNDING" and "SOURCES AND USES OF FUNDS."

Following the issuance of the Series 32 Bonds and the deposits to the Escrow Fund and Optional Redemption Account described above, and not later than December 1, 2011, the mortgage loans financed with the proceeds of the 1985 Resolution Bonds to be Refunded and certain other mortgage loans now held in the 1985 Resolution will be transferred to the Trust Agreement and will become "Program Loans" within the meaning of the Trust Agreement, (together with the Program Loans financed with the proceeds of the 1998 Trust Agreement Bonds to be Refunded, the "Series 32 Program Loans").

The Series 32 Bonds and the interest thereon are payable solely from the Revenues and other moneys and assets pledged therefor under the Trust Agreement. The Series 32 Bonds are additionally secured by a Debt Service Reserve Fund, as more fully described below in "SECURITY FOR AND SOURCES OF PAYMENT OF THE SERIES 32 BONDS — Debt Service Reserve Fund" and losses on Program Loans are additionally secured by an Insurance Reserve Fund, as more fully described below in "SECURITY FOR AND SOURCES OF PAYMENT OF THE SERIES 32 BONDS — Insurance Reserve Fund."

The Series 32 Bonds do not constitute a debt, liability or obligation of the State or any political subdivision thereof, nor is the faith and credit or the taxing power of the State or any political subdivision thereof pledged to payment of the Series 32 Bonds. The Agency has no taxing power.

PLAN OF REFUNDING

$136,160,000 of the proceeds of the Series 32 Bonds, together with other available funds, will be transferred to the Trustee under the 1985 Resolution and the Optional Redemption Account of the Trust Agreement and used to redeem the following series of Single Family Revenue Bonds and the Home Ownership Revenue Bonds issued pursuant to the 1985 Resolution and the Trust Agreement:

TABLE OF BONDS TO BE REFUNDED

1985 Resolution
Bond Series Refunded

Series: EE, FF, GG, HH, KK, LL, MM, NN,
OO, PP, QQ, RR, SS, TT, WW

Trust Agreement
Bond Series Refunded

Series: 1, 5, 6, 7, 9, 11

The proceeds of the Series 32 Bonds so transferred, together with certain other available Agency funds, will be applied on December 1, 2011 to optionally redeem the Bonds to be Refunded.

The Thirty-Second Supplemental Trust Agreement creates a special account of the Program Fund designated as the "Series 32 Program Account." In connection with the refunding transaction, (i) the Program Loans financed with the proceeds of the 1985 Resolution Bonds to be Refunded, (ii) additional Program Loans financed with the proceeds of the 1985 Resolution and (iii) Program Loans financed with the proceeds of the 1998 Trust Agreement Bonds to be Refunded, in the aggregate amount of approximately $147,284,479 will be transferred from the 1985 Resolution and the various Program Accounts under the Trust Agreement to the Series 32 Program Account. Such mortgage loans are herein referred to as the "Series 32 Program Loans." Substantially all of the Series 32 Program Loans transferred from the 1985 Resolution will be FHA Insured Program Loans, VA Guaranteed Program Loans, or USDA Guaranteed Program Loans.

As described below under "DESCRIPTION OF THE SERIES 32 BONDS – Redemption of Series 32 Bonds," the Series 32 Bonds are subject to special redemption from Prepayments on the Series 32 Program Loans. As further described under that heading, the special redemption of the Series 32 Bonds will result in a reduction in the scheduled sinking fund redemptions of the Series 32 Bonds. The amount of Series 32 Bonds that will be specially redeemed from time to time will be affected by the amount and timing of Prepayments on the Series 32 Program Loans. The table set forth below lists the actual average prepayment rate (principal only) experience as a percentage of the PSA Prepayment Model of the Series 32 Program Loans for the trailing 3, 6, and 12 month periods, as well as since Series 32 Program Loan inception, for the time period ending on September 1, 2011, based on principal prepayment data available to the Agency:

Series 32 Program Loans
Historical Prepayment Experience*

Trailing 3 Month PSA	Trailing 6 Month PSA	Trailing 12 Month PSA	PSA Since Inception	Weighted Average Coupon	Weighted Average Maturity
120%	120%	130%	185%	6.53%	218 Months

*Based upon data provided by the Agency.

As the information presented in the above table indicates, Prepayments on the Series 32 Program Loans are expected to occur and such Prepayments will result in special redemption of the Series 32 Bonds, producing changes to the amounts of the sinking fund redemptions of the Series 32 Bonds. Consequently, it is impossible to predict the timing of the scheduled repayment of principal of the Series 32 Bonds and, accordingly, the approximate weighted average life of the Series 32 Bonds, definitively.

Information concerning individual series delinquency rates and mortgage loan rates is contained in Experience to Date Under Trust Agreement and Experience to Date Under 1985 Resolution.

Mortgage insurance on the Series 32 Program Loans is as follows:

Insurance or Guarantee Program	Loan Balance as of August 31, 2011	Percentage of Loan Balance
FHA Mortgage Insurance	$126,929,189	86.18%
VA Guarantee	4,236,730	2.88%
USDA Guarantee	8,673,202	5.89%
Primary Mortgage Insurance		
Genworth	3,058,757	2.08%
RMIC	195,121	0.13%
AIG-UGIC	346,898	0.23%
Radian Guaranty Inc.	427,075	0.29%
MGIC	112,232	0.08%
Uninsured and Non-guaranteed loans* (Loan to Value less than 80%)	3,305,275	2.24%
Total	$147,284,479	100.00%

* In the tables in this Preliminary Official Statement, “Uninsured and Non-Guaranteed Loans” includes Program Loans that were not initially insured or guaranteed because the loan to value ratio for the property was less than 80% and Program Loans that were originally covered by private primary mortgage insurance, but such mortgage insurance has terminated. See “THE PROGRAM—Insurance and Guaranty Programs—Primary Mortgage Insurance.”

In addition, $2,724,608 will be deposited in the Debt Service Reserve Fund and $3,501,312 will be deposited to the Insurance Reserve Fund. These amounts, together with amounts currently on deposit in the Debt Service Reserve Fund and Insurance Reserve Fund together with additional deposits from available Agency funds will be sufficient to meet the required deposits for the Debt Service Reserve Fund and Insurance Reserve Fund.

SOURCES AND USES OF FUNDS

The proceeds to be received from the sale of the Series 32 Bonds, together with other available moneys, shall be applied approximately as follows:

Sources of Funds:	
Principal Amount of Series 32 Bonds	$136,160,000
Transfer from Available Agency Funds	8,565,920
Agency Contribution	1,343,826
Total Sources	$146,069,746
Uses of Funds:	
Transfer to 1985 Resolution to refund the 1985 Resolution Bonds to be Refunded	$49,475,000
Transfer to refund the 1998 Trust Agreement Bonds to be Refunded	89,025,000
Debt Service Reserve Fund	2,724,608
Insurance Reserve Fund	3,501,312
Costs of Issuance*	1,343,826
Total Uses	$146,069,746

* Costs of Issuance include underwriters' fee, legal fees and expenses, printing costs, fees and expenses of the Trustee and other miscellaneous expenses.

SECURITY FOR AND SOURCES OF PAYMENT OF THE SERIES 32 BONDS

Pledge Created Under the Trust Agreement

The Series 32 Bonds are special obligations of the Agency payable from the following moneys and assets of the Agency, which are pledged in the manner and to the extent provided under the Trust Agreement for the payment of the Bonds:

1. All Program Obligations, Revenues, Program Obligation Accrued Interest, Financing Fees and Prepayments (as such terms are defined in the Trust Agreement), and all moneys, securities and Funds and Accounts held or set aside pursuant to the Trust Agreement; and

2. All money and securities held by or on behalf of the Trustee in all of the funds, accounts or subaccounts established pursuant to the Trust Agreement, except those funds, accounts and subaccounts that are expressly pledged in a Supplemental Trust Agreement as security only for a specified Series of Bonds and a Special Debt Service Reserve Account (as defined in the Trust Agreement).

For further information, see the subcaptions "Pledge" and "Application of Revenues and Other Moneys" in Appendix C.

Debt Service Reserve Fund

The Trust Agreement creates a Debt Service Reserve Fund for the additional security of the Bonds issued thereunder. The Trust Agreement provides that each Supplemental Trust Agreement providing for the issuance of Bonds shall specify whether the Bonds authorized thereby will be entitled to the benefit of the Debt Service Reserve Fund and shall specify the portion of the Debt Service Reserve Requirement with respect to such Bonds. The Debt Service Reserve Requirement under the Trust Agreement is the sum of amounts established by each Supplemental Trust Agreement as the portion of the requirement with respect to the Bonds issued under that Supplemental Trust Agreement. The Trust Agreement does not provide a minimum requirement for the portion of the Debt Service Reserve Requirement in connection with a particular issue of Bonds. All Bonds secured by the Debt Service Reserve Fund will be secured equally and ratably by the Debt

Service Reserve Fund, regardless of the amount of the Debt Service Reserve Requirement with respect to a particular Series of Bonds set forth in the Supplemental Trust Agreement authorizing the issuance thereof. As of June 30, 2011, there was on deposit in the Debt Service Reserve Fund $20,785,000.

Additional coverage for the Debt Service Reserve Fund is provided by debt service reserve fund surety bonds issued in connection with the issuance of the Series 10 Bonds (the "Series 10 Debt Service Reserve Fund Surety Bond") and the Series 14 Bonds (the "Series 14 Debt Service Reserve Fund Surety Bond") by Ambac Assurance Corporation ("Ambac Assurance"), and debt service reserve fund surety policies issued in connection with the issuance of the Series 12 Bonds (the "Series 12 Debt Service Reserve Fund Surety Bond") and the Series 15 Bonds (the "Series 15 Debt Service Reserve Fund Surety Bond") by Financial Security Assurance Inc., now known as Assured Guaranty Municipal Corp. ("Assured Guaranty"). As of June 30, 2011, the coverage provided by such surety bonds is equal to 2% of the outstanding principal amount of each respective Series of Bonds and equals $2,143,000.

To date, each Supplemental Trust Agreement has provided that the portion of the Debt Service Reserve Requirement related to the series of bonds authorized thereby be equal to two percent (2%) of the outstanding principal amount of such authorized bonds. The Thirty-Second Supplemental Trust Agreement provides that the portion of the Debt Service Reserve Requirement in connection with the Series 32 Bonds is the amount as calculated from time to time equal to two percent (2%) of the outstanding principal amount of the Series 32 Bonds. The portion of the Debt Service Reserve Requirement related to the Series 32 Bonds will be met by a deposit of $2,724,608.

The Debt Service Reserve Fund consists of three accounts: the Proceeds Reserve Account, which is funded with the proceeds of Bonds, the Contribution Reserve Account, which is funded with the moneys attributable to appropriations by the State of North Carolina to the Agency, and the Equity Reserve Account, which is funded from funds of the Agency other than funds appropriated to the Agency by the State.

Under the Trust Agreement, moneys held in the Debt Service Reserve Fund may be used to pay when due principal of and interest on the Bonds if, at any time, the moneys otherwise available for such payment or retirement are insufficient for such purpose. Any deficiency in the Debt Service Reserve Fund may be made up from Revenues in excess of Revenues necessary to pay debt service on the Bonds and any other moneys available to the Agency for such purpose. Moneys in the Debt Service Reserve Fund in excess of the Debt Service Reserve Requirement due to a decrease in the Debt Service Reserve Requirement shall either be retained in such Fund or, except for amounts in the Contribution Reserve Account, transferred to the Optional Redemption Account or a Special Redemption Account, as shall be determined in an Officer's Certificate.

The Trust Agreement also provides that all or any portion of the Debt Service Reserve Requirement may be met by cash, Investment Obligations or Reserve Alternative Instrument (See Appendix C - "Definitions").

The Trust Agreement also provides that any Supplemental Trust Agreement may provide for the creation thereunder of a Special Debt Service Reserve Account, which shall secure only the Bonds authorized by such Supplemental Trust Agreement.

Neither the Act nor any other statute provides for any appropriations or payments by the North Carolina General Assembly to restore moneys withdrawn from the Debt Service Reserve Fund to pay principal of or interest on the Bonds.

Debt Service Reserve Fund Surety Bonds

The portions of the Debt Service Reserve Requirement in connection with the Series 10 Bonds, Series 12 Bonds, Series 14 Bonds and Series 15 Bonds are met respectively by the Series 10 and Series 14 Debt Service Reserve Fund Surety Bonds issued by Ambac Assurance and the Series 12 and Series 15 Debt Service Reserve Fund Surety Bonds issued by Assured Guaranty, as follows.

Series	Related Requirement	Notional Value ($)	Provider
10	Debt Service Reserve Requirement	379,400	Ambac Assurance
12	Debt Service Reserve Requirement	749,800	Assured Guaranty
14	Debt Service Reserve Requirement	947,100	Ambac Assurance
15	Debt Service Reserve Requirement	705,500	Assured Guaranty
Total Debt Service Reserve Requirement Surety Bonds:		$2,781,800	

Pursuant to the terms of the Series 10, Series 12, Series 14 and Series 15 Debt Service Reserve Fund Surety Bonds, drawings thereunder may be made only after all cash available in the Debt Service Reserve Fund has been depleted. If all cash in the Debt Service Reserve Fund has been depleted and there are other Reserve Alternative Instruments, drawings on the Reserve Alternative Instruments are to be made *pro rata* among the Reserve Alternative Instruments. Drawings on the Series 10 Debt Service Reserve Fund Surety Bond, the Series 12 Debt Service Reserve Fund Surety Bond, the Series 14 Debt Service Reserve Fund Surety Bond and the Series 15 Debt Service Reserve Fund Surety Bond are to be reimbursed, with interest, from Revenues.

The surety bonds of Ambac Assurance and Assured Guaranty in the Debt Service Reserve Fund continue to meet the requirements for a Reserve Alternative Instruments as provided by the Trust Agreement (the Trust Agreement imposes rating requirements with respect to such providers only at the time of delivery of the respective Reserve Alternative Instrument). However, the claims paying ability of certain municipal bond insurers has been adversely impacted by the economic downturn. Additional information regarding Ambac Assurance may be found at www.ambac.com and additional information regarding Assured Guaranty may be found at www.assuredguaranty.com.

Revenue Reserve Fund

To the extent that Revenues are not needed for debt service, to fund or make up a deficiency in the Debt Service Reserve Fund or for the other purposes provided for by the Trust Agreement, they are required to be deposited to the credit of the Revenue Reserve Fund. As of June 30, 2011, there was on deposit in the Revenue Reserve Fund $49,190,000 in cash and mortgage loans.

Moneys held in the Revenue Reserve Fund are pledged to secure the payment of the Bonds and may be used to pay when due the principal of and interest on the Bonds if at any time the moneys otherwise available for such payment or retirement, other than moneys held in the Debt Service Reserve Fund, are insufficient for such purpose. Any moneys so used can only be restored from Revenues in excess of Revenues necessary to pay debt service on the Bonds and not necessary to make up any deficiency in the Debt Service Reserve Fund.

Under certain circumstances, moneys in the Revenue Reserve Fund may be (i) used to fund any required payments under an interest rate swap agreement, including termination payments, in the event that the Revenues are not sufficient for such purpose, (ii) used to make any payments required to be made to comply with applicable covenants made by the Agency regarding the exclusion of interest on the Bonds from federal income taxation, (iii) transferred, at the option of the Agency, to a Special Redemption Account, (iv) used to pay Operating Expenses of the Program, (v) transferred to the Optional Redemption Account or any Special Redemption Account created by a Supplemental Trust Agreement, (vi) used to pay costs of issuance of a new series of bonds or to purchase additional Program Obligations, (vii) used for any other purpose authorized by the Trust Agreement or (viii) transferred to the Agency's General Fund. See the subcaptions "Application of Revenues and Other Moneys" and "Revenue Reserve Fund" in Appendix C.

Insurance Reserve Fund

The Trust Agreement creates an Insurance Reserve Fund for the additional security of the Bonds issued thereunder. The Trust Agreement provides that each Supplemental Trust Agreement providing for the issuance of Bonds shall specify the Insurance Reserve Requirement with respect to such Bonds and the manner in which such requirement is to be funded. Generally, the Insurance Reserve Requirement is calculated based upon the composition of the portfolio of the Program Loans, in light of the rates of interest on the Program Loans, the age of the Program Loans and the insurance or guaranty program insuring or guaranteeing the payment of those Program Loans.

As of June 30, 2011, there was on deposit in the Insurance Reserve Fund $15,578,000 and surety bonds in the amount of $3,085,000.

Moneys deposited in the Insurance Reserve Fund shall be used for the purpose of paying the portion of any loss with respect to a Program Loan in default that is not paid from any public or private insuring or guaranteeing agency. To the extent the loss is attributable to a deficiency in payment of scheduled principal and interest on a Program Loan, the amount of such loss shall be transferred to the Revenue Fund. To the extent the loss is attributable to a deficiency in the loss payment over the principal amount of a Program Loan, the amount of such loss shall be transferred to the Special Redemption Account for the Series of Bonds that financed the purchase of the Program Loan (or that refunded the Bonds that financed such purchase). The Agency is not required to replenish the amounts used for the purpose of paying such loss.

If the amount on deposit in the Insurance Reserve Fund shall be in excess of the Insurance Reserve Requirement, the Trustee shall leave such excess in the Insurance Reserve Fund or, if the Agency directs, in writing, transfer such excess as follows: (i) if the source of such excess is proceeds of the Bonds, the excess shall be transferred to the Special Redemption Account for the Series of Bonds that provided the deposit to the Insurance Reserve Fund and applied as set forth in the Trust Agreement; (ii) if the source of such excess is Revenues transferred from the Revenue Fund or Revenue Reserve Fund, the excess shall be transferred to the Revenue Fund; (iii) if the source of such excess is Agency funds, the excess shall be transferred to the General Fund.

The Trust Agreement also provides that all or any portion of the Insurance Reserve Requirement may be met by cash, Investment Obligations or a Reserve Alternative Instrument, such as a surety bond policy. The portion of the Insurance Reserve Requirement with respect to the Series 32 Bonds shall be deposited to the credit of the Insurance Reserve Fund on or prior to the purchase of the Program Loans creating such portion of the requirement. The Insurance Reserve Requirement with respect to the Series 32 Bonds will decrease as the principal amount of the corresponding Program Loans financed with the proceeds thereof decreases. Initially, the Insurance Reserve Requirement with respect to the Series 32 Bonds shall be met by a deposit of cash. See Appendix C—"Definitions."

Insurance Reserve Surety Bonds

The Insurance Reserve Requirement for the Series 9 Bonds, the Series 10 Bonds, the Series 11 Bonds and the Series 14 Bonds was provided by separate surety bond insurance policies (the "Ambac Assurance Insurance Reserve Surety Bonds") issued by Ambac Assurance, as follows.

Series	Related Requirement	Notional Value ($)	Provider
9*	Insurance Reserve Requirement	745,000	Ambac Assurance
10	Insurance Reserve Requirement	745,000	Ambac Assurance
11*	Insurance Reserve Requirement	730,000	Ambac Assurance
14	Insurance Reserve Requirement	865,000	Ambac Assurance
Total Insurance Reserve Requirement Surety Bonds:		$3,085,000	

*To be refunded with a portion of the proceeds of the Series 32 Bonds.

The Ambac Assurance Insurance Reserve Surety Bonds have substantially the same provisions. Under the Ambac Assurance Insurance Reserve Surety Bonds, the Trustee is authorized to draw funds thereunder if funds are to be transferred to the Revenue Fund or a Special Redemption Account as described above and cash amounts are not available for the transfer. Drawings on an Ambac Assurance Insurance Reserve Surety Bond will reduce the amount available to be drawn thereunder, subject to reinstatement pursuant to the terms of the Ambac Assurance Insurance Reserve Surety Bonds. The Ambac Assurance Insurance Reserve Surety Bonds do not insure against nonpayment caused by the insolvency or negligence of the Trustee.

The surety bonds deposited to the Insurance Reserve Fund by Ambac Assurance continue to meet the requirements of Reserve Alternative Instruments as provided by the Trust Agreement (the Trust Agreement imposes rating requirements with respect to such providers only at the time of delivery of the respective Reserve Alternative Instrument).

1974 Appropriation Reserve Fund

In the Twelfth Supplemental Trust Agreement, the Agency created an additional fund under the Trust Agreement designated the "1974 Appropriation Reserve Fund" and deposited $4,000,000 to the 1974 Appropriation Reserve Fund. The 1974 Appropriation Reserve Fund represents certain funds appropriated to the Agency by the North Carolina General Assembly in 1974. Pursuant to the terms of the Twelfth Supplemental Trust Agreement, the Agency may withdraw amounts in the 1974 Appropriation Reserve Fund for application for a number of purposes of the Agency, including the provision for reserves for Bonds of the Agency other than Bonds issued under the Trust Agreement. However, while funds are on deposit in the 1974 Appropriation Reserve Fund, such amounts are available to make up deficiencies in the Bond Service Fund. See "1974 Appropriation Reserve Fund" in Appendix C.

Agency Contributed Loans

Pursuant to the Twentieth Supplemental Trust Agreement, dated as of December 7, 2004, the Agency created a special fund called the “Series 20 Agency Contribution Fund.” In connection with the issuance of the Series 20 Bonds, the Agency deposited funds in the amount of $1,590,000 to the Series 20 Agency Contribution Fund to be applied to purchase mortgage loans to households of low and moderate income in North Carolina at the direction of the Chief Financial Officer of the Agency. As of June 30, 2011, $1,078,000 of mortgage loans and $852,000 of cash were on deposit in the Series 20 Agency Contribution Fund.

Pursuant to the Twenty-First Supplemental Agreement, dated as of April 20, 2005, the Agency created a special fund called the "Series 21 Agency Contribution Fund." In connection with the issuance of the Series 21 Bonds, the Agency deposited funds in the amount of $1,428,000 to the Series 21 Agency Contribution Fund to be applied to purchase mortgage loans to households of low and moderate income in North Carolina at the direction of the Chief Financial Officer of the Agency. In April 2009, the Agency withdrew approximately $9,129,000 aggregate principal of mortgage loans from the Revenue Reserve Mortgage Loan fund under the 1985 Resolution and deposited those mortgage loans to the Series 21 Agency Contribution Fund. In addition, on February 1, 2010, the Agency transferred $5,902,000 in mortgage loans from Series EF and Series WX in the 1985 Resolution and deposited those mortgage loans to the Series 21 Agency Contribution Fund. As of June 30, 2011, $18,568,000 in cash and mortgage loans were on deposit in the Series 21 Agency Contribution Fund, including related sub-funds.

The mortgage loans and funds held in the Series 20 Agency Contribution Fund and the Series 21 Agency Contribution Fund (hereinafter referred to as “Agency Contribution Funds”) may be withdrawn from the Agency Contribution Funds and from the Trust Agreement, at the direction of the Chief Financial Officer of the Agency at any time for any lawful use by the Agency. Upon such withdrawal, such funds shall not provide security for the Bonds and the Owners of the Bonds shall have no rights in respect thereto. The mortgage loans deposited to the Agency Contribution Funds, while currently held under the Trust Agreement, are <u>not</u> pledged as security for the payment of Bonds issued under the Trust Agreement and scheduled payments of principal of and interest on and prepayments of principal on such loans do <u>not</u> constitute Revenues or Prepayments within the meaning of the Trust agreement. Pursuant to the Twenty-First Supplemental Trust Agreement, scheduled payments and prepayments on amounts deposited to the Agency Contribution Funds are deposited to the credit of the Series 21 Agency Contribution Fund. Nevertheless, while on deposit in the Agency Contribution Funds, such loans and payments received thereon could be available, at the discretion of the Agency, to fund debt service payments on Bonds or pay Program expenses in the event that the Program under the Trust Agreement were to encounter financial difficulty.

Additional Bonds

The Trust Agreement authorizes the issuance of additional Bonds by the Agency, under the circumstances set forth in the Trust Agreement. Such additional Bonds may be issued to finance additional costs of the Program, to refund outstanding bonds issued under the Trust Agreement or issued under other resolutions or indentures other than the Trust Agreement, or for other purposes set forth in the Trust Agreement. In order to issue additional Bonds under the Trust Agreement, the Agency must comply with the provisions of a Supplemental Trust Agreement executed in connection with the additional Bonds, which Supplemental Trust Agreement must be authorized by the Commission and must contain the terms and provisions of the additional Bonds. The additional Bonds must not materially and adversely affect the ability of the Agency to pay the principal of, Sinking Fund Requirements on account of, and interest on the Bonds then outstanding. Such additional Bonds, together with the Bonds issued and outstanding under the Trust Agreement, including the Series 32 Bonds, would be equally and ratably secured by the moneys and assets which are pledged for the payment of all of the Bonds issued under the Trust Agreement and would be entitled to the equal benefit and protection of the provisions, covenants and agreements of the Trust Agreement.

Interest Rate Swap Agreements

The Agency entered into interest rate swap agreements with respect to its variable rate debt, for which current bonds outstanding are listed as of June 30, 2011 in the table below. Pursuant to the Swap Agreements, the Agency receives payments, computed at a variable rate intended to approximate the variable interest rate on the Series 15-C Bonds, the Series 16-C Bonds, the Series 17-C Bonds and the Series 18-C Bonds, respectively, on a notional amount corresponding to the principal amount of the Series 15-C Bonds, the Series 16-C Bonds, the Series 17-C Bonds and the Series 18-C Bonds. The Agency makes payments to its Swap Counterparty computed at fixed rates on the same notional amount. Payments under the Swap Agreements are subordinate to payments of principal and interest on the Series 15-C Bonds, the Series 16-C Bonds, the Series 17-C Bonds and the Series 18-C Bonds. Termination prior to expected amortization of the Swap Agreements could require the Agency to make termination payments which could be substantial in amount depending on market conditions.

Bond Series	Bonds Outstanding	Swap Counterparty	Fixed Rate	Floating Rate Basis	Liquidity Provider	Expiration Date on Liquidity Facility
15-C (AMT)	$15,285,000	UBS	3.570%	63% of 1M LIBOR + .30%	Temporary Credit and Liquidity Program	12/23/2012
16-C (AMT)	15,615,000	Bank of America	3.810%	63% of 1M LIBOR + .30%	Temporary Credit and Liquidity Program	12/23/2012
17-C (AMT)	18,580,000	Bank of America	3.725%	63% of 1M LIBOR + .30%	Temporary Credit and Liquidity Program	12/23/2012
18-C (AMT)	18,000,000	Goldman Sachs	3.288%	63% of 1M LIBOR + .30%	Temporary Credit and Liquidity Program	12/23/2012
	$67,480,000					

Investment of Funds Under the Trust Agreement

The Trust Agreement provides that funds held thereunder may be invested in Permitted Investments as defined in the Trust Agreement. For a complete description of investments that constitute Permitted Investments, see Appendix C—"SUMMARY OF CERTAIN PROVISIONS OF THE TRUST AGREEMENT AND THE THIRTY-SECOND SUPPLEMENTAL TRUST AGREEMENT." In connection therewith, the Agency has entered into a number of investment agreements and repurchase agreements for the investment of Program Funds, Revenues and Prepayments and Reserve Funds under the Trust Agreement. At present, there are no Program Funds invested in investment agreements and repurchase agreements. The following table sets forth the current investment agreements and repurchase agreements for Reserve Funds and Revenues and Prepayments under the Trust Agreement and the interest rate of the agreement.

Investments below denoted by an asterisk will be terminated in connection with the refunding of the 1998 Trust Agreement Bonds to be Refunded.

	Reserve Funds		Revenues and Prepayments	
Series	Investment	Rate	Investment	Rate
1*	Bayerische Landesbank	5.60%	Bayerische Landesbank	5.30%
2	Natixis Funding Corporation	5.08%	Natixis Funding Corporation	5.08%
3	AIG Matched Funding Corporation	5.16%	AIG Matched Funding Corporation	4.82%
4	Trinity Plus Funding Company, LLC	5.36%	Westdeutsche Landesbank	5.17%
5*	Westdeutsche Landesbank	6.07%	Westdeutsche Landesbank	5.87%
6*	Bayerische Landesbank (Insurance Reserve)	6.00%	Bayerische Landesbank	5.91%
6*	Bayerische Landesbank (Debt Service Reserve)	5.98%	N/A	
7*	AIG	6.50%	AIG	6.05%
8	Natixis Funding Corporation	7.15%	Westdeutsche Landesbank	6.67%
9*	Trinity Plus Funding Company, LLC	6.25%	Trinity Plus Funding Company, LLC	6.25%
10	N/A		Bayerische Landesbank	4.61%
11*	N/A		Trinity Plus Funding Company, LLC	5.25%
12	N/A		Bayerische Landesbank	5.06%
13	Trinity Plus Funding Company, LLC	5.08%	Trinity Plus Funding Company, LLC	5.08%
15	Societe Generale	4.75%	FSA Capital Management Services, LLC	4.01%
16	Societe Generale	4.75%	FSA Capital Management Services, LLC	4.01%
17	N/A		Societe Generale	4.22%
18	N/A		FSA Capital Management Services, LLC	4.01%
22A	Societe Generale	4.94%	FSA Capital Management Services, LLC	4.01%
23	Societe Generale	4.70%	N/A	
24	Societe Generale	4.70%	N/A	
25	Societe Generale	4.87%	N/A	
28	Societe Generale	4.65%	N/A	

North Carolina law requires that the repurchase agreement or investment agreement providers all have certain minimum rating standards, that all investment agreements or repurchase agreements be fully collateralized, and that the collateral must be invested in certain types of securities. To the extent that a series is not invested in an investment agreement or repurchase agreement, the funds are invested in a commingled short-term Investment Fund maintained by North Carolina State Treasurer or mutual fund shares of the North Carolina Capital Management Trust, a mutual fund managed to provide short-term investment to many North Carolina local units of government or other U.S. government securities.

DESCRIPTION OF THE SERIES 32 BONDS

General

The Series 32 Bonds will be dated the date of delivery thereof and will bear interest at the rate of 4.00% computed on the basis of a 360-day year consisting of twelve 30-day months. Interest will be payable on the

Series 32 Bonds on January 1, 2012 and semiannually thereafter on July 1 and January 1 from their date of delivery until payment therefore. The Series 32 Bonds will mature on January 1, 2030.

The Series 32 Bonds will be issuable only in book-entry form as fully registered bonds and will be subject to the provisions of the book-entry-only system as described in Appendix D — "BOOK-ENTRY-ONLY SYSTEM." Purchases of the Series 32 Bonds will be made in the denominations of $5,000 or any whole multiple thereof.

The Trustee, The Bank of New York Mellon Trust Company, N.A., Jacksonville, Florida, will perform, with respect to the Series 32 Bonds, the fiduciary duties for the Owners, such as maintaining the Funds and Accounts established under the Trust Agreement. In addition, the Trustee shall perform the duties of bond registrar, including the keeping of the registration books, the authentication of the Series 32 Bonds upon original issuance and upon subsequent exchange or transfer, the exchange and transfer of the Series 32 Bonds, and the payment of the principal or redemption price of and interest on the Series 32 Bonds subject to the provisions relating to the book-entry-only system, as described below.

Redemption of Series 32 Bonds

The Series 32 Bonds shall not be subject to prior redemption except as provided in the Trust Agreements.

Optional Redemption of Series 32 Bonds. The Series 32 Bonds are subject to redemption prior to their maturity, at the option of the Agency, either in whole or in part on any date on or after July 1, 2021. Any such optional redemption shall be from any moneys on hand held for the credit of the Optional Redemption Account on or before the date fixed for redemption, including, without limitation, the proceeds of any refunding Bonds issued pursuant to the Trust Agreement, upon receipt of an Officer's Certificate as provided in the Trust Agreement, in such manner as the Agency in its discretion may determine, at a Redemption Price equal to the principal amount of the Series 32 Bonds to be redeemed, plus accrued interest to the redemption date.

Mandatory Sinking Fund Redemption of Series 32 Bonds. The Series 32 Bonds are subject to mandatory sinking fund redemption by lot on July 1, 2012 and each January 1 and July 1 thereafter in the principal amounts set forth below at a redemption price equal to 100% of the principal amount of such Series 32 Bonds to be redeemed plus accrued interest to the redemption date.

January 01, 2012	$1,500,000	July 01, 2021	$4,050,000
July 01, 2012	2,955,000	January 01, 2022	4,090,000
January 01, 2013	3,015,000	July 01, 2022	4,070,000
July 01, 2013	3,080,000	January 01, 2023	4,025,000
January 01, 2014	3,145,000	July 01, 2023	4,095,000
July 01, 2014	3,215,000	January 01, 2024	4,165,000
January 01, 2015	3,280,000	July 01, 2024	4,255,000
July 01, 2015	3,350,000	January 01, 2025	4,325,000
January 01, 2016	3,425,000	July 01, 2025	4,295,000
July 01, 2016	3,495,000	January 01, 2026	4,360,000
January 01, 2017	3,570,000	July 01, 2026	4,445,000
July 01, 2017	3,635,000	January 01, 2027	4,355,000
January 01, 2018	3,695,000	July 01, 2027	4,205,000
July 01, 2018	3,775,000	January 01, 2028	3,890,000
January 01, 2019	3,855,000	July 01, 2028	3,525,000
July 01, 2019	3,905,000	January 01, 2029	3,285,000
January 01, 2020	3,905,000	July 01, 2029	3,055,000
July 01, 2020	3,915,000	January 01, 2030*	2,985,000
January 01, 2021	3,970,000		

*Maturity

When Series 32 Bonds are redeemed on account of a Special Redemption or an Optional Redemption as described in this Official Statement, the principal amounts of Series 32 Bonds to be redeemed pursuant to the sinking fund requirements in the subsequent periods shall be reduced *pro rata* (in authorized denominations) by the amount of Bonds so redeemed.

Special Redemption of Series 32 Bonds. The Thirty-Second Supplemental Trust Agreement creates a special account of the Redemption Fund designated the "Series 32 Special Redemption Account" and provides that Prepayments on the Series 32 Program Loans shall be deposited to the Series 32 Special Redemption Account (such Prepayments are herein referred to as "Series 32 Prepayments"). The Series 32 Bonds shall be redeemed not less frequently than twice per year at a Redemption Price of 100% of the principal amount of Series 32 Bonds to be redeemed, plus accrued interest to the date of redemption, from (1) amounts on deposit in the Series 32 Special Redemption Account representing Series 32 Prepayments received since the immediately preceding special redemption date, and (2) moneys withdrawn from the Proceeds Reserve Account of the Debt Service Reserve Fund in connection with an excess over the Debt Service Reserve Requirement resulting from the redemption of Series 32 Bonds being redeemed on such date (whether on account of the Sinking Fund Redemption or the Special Redemption from Series 32 Prepayments). The Series 32 Bonds will be redeemed only in authorized denominations.

No "Cross-Calls" or Special Redemption from Surplus Revenues. The Series 32 Bonds are not subject to special redemption from excess Revenues deposited to the Revenue Reserve Fund or from Prepayments on Program Loans other than Series 32 Program Loans. In addition, Series 32 Prepayments may only be used to redeem Series 32 Bonds, and may not be applied to redeem other Bonds issued under the Trust Agreement, until all such Series 32 Bonds are redeemed.

The Agency has provided for the redemption of the Series 32 Bonds as described under the heading "Description of the Series 32 Bonds - Redemption of the Series 32 Bonds," and the expected weighted average lives of the Series 32 Bonds set forth below have been calculated based upon the assumption that all Series 32 Prepayments are utilized to retire the Series 32 Bonds utilizing semiannual redemptions. There can be no assurance that Series 32 Prepayments will be received at the rates so assumed.

Projected Weighted Average Lives for Series 32 Bonds

PSA Speed of the Series 32 Program Loans	Average Life of Series 32 Bonds
0%	9.48 years
25%	8.57
50%	7.76
75%	7.04
100%	6.41
125%	5.84
130%	5.74
150%	5.34
175%	4.90
200%	4.50
300%	3.36
400%	2.66
500%	2.18

SIFMA Standard Prepayment Model or PSA. Prepayments on mortgage loans are commonly measured relative to a prepayment standard or model. The standard used in this Official Statement is the SIFMA Standard Prepayment Model. The SIFMA Standard Prepayment Model represents an assumed monthly rate of prepayment of the then outstanding principal balance of a pool of mortgage loans. The SIFMA Standard Prepayment Model does not purport to be either a historical description of the prepayment experience of any pool of mortgage loans or a prediction of the anticipated rate of prepayment of any pool of mortgage loans, including the Series 32 Program Loans. "100 percent PSA" assumes prepayment rates of 0.2 percent per year of the then unpaid principal balance of such pool of mortgage loans in the first month of the life of such mortgage loans and an additional 0.2 percent per year in each month thereafter (for example, 0.4 percent per year in the second month) until the thirtieth month. Beginning in the thirtieth month and in each month thereafter during the life of the mortgage loans in such pool, 100 percent PSA assumes a constant prepayment rate of the mortgage loans in such pool of 6 percent per year. Multiples will be calculated from this prepayment rate sequence, e.g. "200 percent PSA" assumes prepayment rates will be 0.4 percent per year in month one, 0.8 percent per year in month two, reaching 12 percent per year in month thirty and remaining constant at 12 percent per year thereafter. "0 percent PSA" assumes no prepayments of principal of a pool of mortgage loans will occur for the life of the pool of mortgage loans.

General Provisions as to Redemption of Series 32 Bonds

Any Series 32 Bonds to be redeemed other than by operation of the Sinking Fund Account shall be redeemed by the Trustee only upon receipt by the Trustee of an Officer's Certificate. Pursuant to the Trust Agreement, the Agency shall not cause Series 32 Bonds to be redeemed unless, after such redemption, there shall be no material adverse effect on the ability of the Agency to pay when due the principal of and interest on the Series 32 Bonds then Outstanding.

So long as DTC or its nominee is the owner of the Series 32 Bonds, if less than all of the Series 32 Bonds of any one maturity shall be called for redemption, the particular Series 32 Bonds or portions of Series 32 Bonds of such maturity to be redeemed shall be selected by DTC and its Participants in such manner as DTC and its Participants may determine. If a Series 32 Bond is of a denomination in excess of $5,000, portions of the principal amount in the amount of $5,000 or any whole multiple thereof may be redeemed.

Notice to Bondholders

At least thirty (30) days but not more than sixty (60) days before the redemption date of any Series 32 Bond, whether such redemption shall be in whole or in part, the Trustee shall cause a notice of any such redemption, signed by the Trustee, to be mailed, postage prepaid, to all Owners of Series 32 Bonds to be redeemed at their addresses as they appear on the registration books maintained by the Trustee, but failure to mail any such notice to one or more Owners or any defect in such notice shall not affect the validity of the proceedings for such redemption with respect to any other Owner. Each such notice shall set forth the CUSIP numbers of the Series 32 Bonds to be redeemed, the interest rate of the Series 32 Bonds to be redeemed, the dated date of the Series 32 Bonds to be redeemed, the date fixed for redemption, the Redemption Price to be paid, the portion of the principal amount thereof to be redeemed, the address and phone number of the Trustee, the date of the redemption notice, that on the redemption date the Series 32 Bonds called for redemption will be payable at the principal corporate trust office of the Trustee and that from the redemption date interest will cease to accrue and be payable. In case any Series 32 Bond is to be redeemed in part only, the notice of redemption which relates to such Series 32 Bond shall state also that on or after the redemption date, upon surrender of such Series 32 Bond, a new Bond or Bonds of the same Series and maturity, bearing interest at the same rate and in principal amount equal to the unredeemed portion of such Series 32 Bond will be issued.

Any notice of redemption at the option of the Agency may state that the redemption to be effected is conditioned upon the receipt by the Trustee on or prior to the redemption date of moneys sufficient to pay the principal of and premium, if any, and interest on the Series 32 Bonds to be redeemed and that if such moneys are not so received such notice shall be of no force or effect and such Series 32 Bond shall not be required to be redeemed. In the event that such notice contains such a condition and moneys sufficient to pay the principal of and premium, if any, and interest on such Series 32 Bonds are not received by the Trustee on or prior to the redemption date, the redemption shall not be made and the Trustee shall within a reasonable time thereafter give notice, in the manner in which the notice of redemption was given, that such moneys were not so received.

THE AGENCY

Organization and Purposes

The Agency was created in 1973 by the Act as a body politic and corporate and as an instrumentality of the State. It is positioned within the Office of State Budget and Management for financial reporting and budgetary purposes, and it is managed solely by its Board of Directors (the "Board"). The Executive Director is appointed by the Board subject to the approval of the Governor. The Executive Director appoints all other employees subject to an organization chart which is approved by the Board. All employees of the Agency are exempt from the State Personnel Act, but they are considered State employees for certain purposes. They receive the State employee benefits package and participate in the Teachers' and State Employees' Retirement System of North Carolina.

The Agency, like all other State agencies, is required to submit its operating budget to the Office of State Budget and Management. Appropriations, if any, from the North Carolina General Assembly to the Agency are credited to the Agency by the Office of State Budget and Management.

The Agency makes available annual audited financial statements to the Governor, the State Treasurer, the State Auditor, the Finance Committee of the Senate, the Finance Committee of the House of Representatives, the Commission, the Advisory Budget Commission, and the Office of State Budget and Management.

Board of Directors

The Board is constituted with thirteen members. The General Assembly appoints eight directors, four upon the recommendation of the Speaker of the House of Representatives (at least one of whom has had experience with a mortgage-servicing institution and one of whom is experienced as a licensed real estate broker), and four upon the recommendation of the President of the Senate (at least one of whom is experienced with a savings and loan institution and one of whom is experienced in home building). The Governor appoints four of the directors of the Agency (one of such appointees is required to be experienced in community planning, one in subsidized housing management, one in public housing policy, and one in the manufactured housing industry). The twelve members so selected elect a thirteenth member. The Governor designates a chairman from among the members of the Board. Members of the Board and officers of the Agency continue in office until their successors are appointed.

The current members of the Agency's Board are the following:

Name and Position	Term Expires	Occupation
Samuel E. Ewell, Jr. Chairman	6/30/13	Retired Businessman, Wendell
Stancil Barnes	6/30/13	Retired Businessman, Tarboro
William G. Benton	6/30/14	President and CEO, Salem Senior Housing, Winston-Salem
J. Dean Carpenter	6/30/13	President, Carpenter's Real Estate, Dallas
R. Gene Davis, Jr.	6/30/13	Attorney, Raleigh
Paul S. Jaber	6/30/15	Executive Vice President, First South Bank, Rocky Mount
James E. Nance	6/30/15	Private Businessman, Albemarle

Name and Position	Term Expires	Occupation
James W. Oglesby	6/30/15	Owner, Oglesby Insurance, Asheville
Joseph R. Parker	6/30/14	Retired Mortgage Banker, Durham
Joseph D. Crocker	9/22/13	Kate B. Reynolds Charitable Trust, Winston-Salem
Tom E. Smith	6/30/15	Prudential Carolinas Realty, Raleigh
John White	6/30/13	White Realty & Construction, Nags Head
Charles J. Worth	6/30/13	Private Businessman, Manson

Agency Staff

The Agency currently employs approximately 112 persons. The following persons have been appointed as the principal staff officers of the Agency:

Name and Position	Experience
A. Robert Kucab Executive Director	Executive Director, North Carolina Housing Finance Agency, 1988 to present; Executive Director, Idaho Housing Agency, Boise, ID, 1982-1987; Executive Director, Flint Neighborhood Improvement and Preservation Project, Flint, MI, 1977-1982. Mr. Kucab is a Past President and a former Member of the Board of Directors of the National Council of State Housing Agencies
Elizabeth I. Rozakis Chief Financial Officer	Chief Financial Officer, North Carolina Housing Finance Agency, 2004 to present; Manager of Financial Services, 2000-2004; Supervisor, Management Reporting; Supervisor, Tax; Project Business Analyst, Carolina Power & Light, 1994-2000; Tax Manager, Senior Tax Accountant, Deloitte & Touche, 1989-1994
Sharon K. Drewyor Director of Quality Control	Director of Quality Control, North Carolina Housing Finance Agency, 2010-present; Director of Home Ownership Lending, North Carolina Housing Finance Agency, 1992 to 2010; Manager of Loan Production, 1991-1992, Senior Underwriter, 1990-1991, Quality Control Officer, 1989-1990; Corporate Underwriter, Branch Manager, Loan Originator, Pope Mortgage Company, Raleigh, NC, 1986-1989
Bill Dowse Director of Strategic Investment and Home Ownership Lending	Director of Strategic Investment and Home Ownership Lending, North Carolina Housing Finance Agency, 1993-present; Director of Program Development, North Carolina Housing Finance Agency 1986-1993; Executive Director, Durham Neighborhood Housing Services, 1983-1985; Executive Director, Neighborhood Housing Services of Elgin, Illinois, 1981-1983; Program Manager, Planning Specialist, Florida Department of Community Affairs, 1977-1979; Assistant Director, Housing Rehab Specialist, Department of Planning and Development, Burlington, Iowa, 1972-1977

Name and Position	Experience
Patricia L. Amend Director of Policy, Planning and Technology	Director of Policy, Planning and Technology, North Carolina Housing Finance Agency, 2004 to present; Chief Financial Officer, 1997-2004; Controller, 1995-1997, Senior Accountant, 1994-1995; Senior Accountant, Deloitte & Touche, LLP, Raleigh, NC, 1992-1994
Carrie Freeman Manager of Bond Financing	Manager of Bond Financing, North Carolina Housing Finance Agency, 2007 to present; Tax Manager, Visa International Service Association, 2002-2005; Senior Tax Analyst and Tax Manager, The Gap, Inc., 2000-2001; Supervisor—Tax, Senior Business Analyst, Business Analyst, Analyst, Carolina Power & Light, 1996-2000; Senior, Staff, Arthur Andersen LLP, 1992-1996.

The Agency is located at 3508 Bush Street, Raleigh, North Carolina 27609, its mailing address is P.O. Box 28066, Raleigh, North Carolina 27611-8066, and its telephone number is (919) 877-5700. The Agency's web site is www.nchfa.com. Elizabeth I. Rozakis is the contact person at the Agency for questions regarding the Agency's bond programs. Her telephone number is 919-877-5687 and her e-mail address is eirozakis@nchfa.com.

THE PROGRAM

General

Under the Trust Agreement, the type of low and moderate income housing financing that will be provided, and the security for the Program Obligations to be financed by a given Series of Bonds is determined and set forth in the Supplemental Trust Agreement authorizing that Series of Bonds entered into by the Agency at the time such Bonds are issued. Program Loans may involve financing for purposes of, among others, home ownership, home improvement and residential rental housing.

Generally, proceeds of Bonds have been and are used by the Agency to purchase Program Loans originated by Lenders specifically for sale to the Agency for the purpose of providing financing for residential housing for low and moderate income households in North Carolina. Under the Thirty-Second Supplemental Trust Agreement, the Agency will refund certain of the Agency's Single Family Revenue Bonds heretofore issued under the 1985 Resolution and certain of the Agency's Home Ownership Revenue Bonds heretofore issued under the Trust Agreement and pay a portion of the costs of issuance of the Series 32 Bonds.

Pursuant to the Program, the Agency has entered into master mortgage loan origination and sale agreements (the "Program Purchase Agreements") with Lenders providing for delivery to the Agency, on a first-come, first-served basis, of Program Loans originated by Lenders. The Program Purchase Agreements provide that all Program Loans to be purchased thereunder shall constitute interest bearing obligations secured by mortgages that are a first lien on the mortgaged property. The Agency has entered into master servicing agreements with various servicers (who may be Lenders) for the servicing of Program Loans to be purchased by the Agency under the Program (the "Servicing Agreements"). Certain provisions of the proposed Servicing Agreements are summarized below under "Servicing Agreements."

The Series 32 Program Account and Program Loans

Upon the issuance of the Series 32 Bonds and the application of the proceeds thereof as described above under "Plan of Refunding," the Agency shall cause the Series 32 Program Loans to be transferred to the Series 32 Program Account.

The Agency will require that each of the Series 32 Program Loans will be continuously secured by a Mortgage on the property financed thereby. The Agency will require that each Series 32 Program Loan remains insured or guaranteed in one of the following ways:

(1) if the Series 32 Program Loan is an FHA Insured Program Loan, a VA Guaranteed Program Loan, or a USDA Guaranteed Program Loan, the applicable insurance or guaranty of the agency or instrumentality administering the insurance or guarantee program in an amount equal to the maximum coverage permitted for such Program Loan under the regulations of such agency or instrumentality; or

(2) if the Series 32 Program Loan is a PMI Insured Program Loan, unless the unpaid principal amount of the Series 32 Program Loan exceeds 80% of the Market Value of the property subject to the Mortgage, or the private mortgage insurance policy is otherwise required by law to terminate, a private mortgage insurance policy issued by a qualified insurer in an amount so that the principal amount of the Series 32 Program Loan is not greater than 80% of the Market Value of the property secured thereby plus the maximum amount payable under such private mortgage insurance policy in the event of a default by the Borrower thereunder.

Except as hereinafter provided, the Agency shall require that the insurance or guarantee of Program Loans required shall remain in effect for so long as the Series 32 Program Loan is held under the Trust Agreement and insurance or guaranty coverage is available with respect to such Series 32 Program Loan under the insurance or guaranty program or policy with respect to such Series 32 Program Loans. The insurance policy on a PMI-Insured Program Loan may be cancelled or permitted to terminate as required by applicable law.

<u>Insurance Reserve Requirement</u>. The portion of the Insurance Reserve Requirement with respect to the Series 32 Bonds shall be an amount computed for each Series 32 Program Loan determined as follows:

(1) if the Series 32 Program Loan is an FHA Insured Program Loan: 0.9000% of the principal amount thereof;

(2) if the Series 32 Program Loan is a VA Guaranteed Program Loan and:

(A) if the mortgage interest rate on the Series 32 Program Loan is greater than 6.00% and less than or equal to 7.00%, 2.8125% of the principal amount thereof; and

(B) if the mortgage interest rate on the Series 32 Program Loan is greater than 5.00% and less than or equal to 6.00%, 2.5875% of the principal amount thereof.

(3) if the Series 32 Program Loan is a USDA Guaranteed Program Loan and:

(A) if the mortgage interest rate on the Series 32 Program Loan is greater than 6.00% and less than or equal to 7.00%, 2.5875% of the principal amount thereof; and

(B) if the mortgage interest rate on the Series 32 Program Loan is greater than 5.00% and less than or equal to 6.00%, 2.3625% of the principal amount thereof.

(4) if the Series 32 Program Loan is a PMI Insured Program Loan with 40% coverage: 0.9000% of the principal amount thereof;

(5) if the Series 32 Program Loan is not an FHA Insured Program Loan, a VA Guaranteed Program Loan, a USDA Guaranteed Program Loan or a PMI Insured Program Loan: 1.6875% of the principal amount thereof.

The initial portion of the Insurance Reserve Requirement with respect to the Series 32 Bonds shall be deposited to the credit of the Insurance Reserve Fund on the date of issuance of the Series 32 Bonds. The Insurance Reserve Requirement with respect to the Series 32 Bonds will decrease as the principal amount of the Series 32 Program Loans financed with the proceeds thereof decreases.

To the extent any amounts in the Insurance Reserve Fund are required to be applied to the payment of the Bonds pursuant to the Trust Agreement, the Insurance Reserve Requirement shall be correspondingly reduced by the amount so applied and the Agency shall not be required to replenish such amounts.

Experience to Date Under Trust Agreement

The Agency has issued $2,078,530,000 of bonds under the Trust Agreement for the purposes of the Program. $2,026,359,000 of the proceeds of those bonds have been or will be used to purchase Program Loans for home ownership.

The following table summarizes as of June 30, 2011, the origination history and delinquency rate of Program Loans purchased by the Agency under the Trust Agreement.

The bond series below denoted by an asterisk will be refunded into Series 32, as described herein.

		Bonds Payable (000's)		Program Loans Receivable (000's)			
Series	Date of Issue	Original Principal Amount	Amount Outstanding	Outstanding Principal Balance	Interest Rate(s) On Mortgage[1] (%)	Type of Mortgage Insurance	Delinquency Rate[4] (%)
1*	6/17/98	$62,115	$14,145	$13,467	5.75-6.65	FHA, USDA	5.3
2	12/2/98	35,000	8,190	8,512	5.75 and 6.65	FHA, VA, USDA	3.5
3	3/11/99	65,000	17,220	18,039	5.75 -6.95	FHA, VA, USDA, PMI	4.9
4	5/27/99	50,000	12,590	12,995	5.99-6.65	FHA, VA, USDA	5.8
5*	8/19/99	55,000	12,375	13,282	5.75-6.95	FHA, VA, USDA	9.8
6*	12/2/99	45,000	6,700	7,492	6.95	FHA, VA, USDA	7.5
7*	4/5/00	65,000	12,635	12,592	6.50-7.25	FHA, VA, USDA, PMI	6.9
8	6/21/00	100,000	2,660	14,521	6.95-7.375	FHA, VA, USDA,	7.8
9*	12/13/00	65,000	23,555	22,058	5.99-7.125	FHA, VA, USDA, PMI	5.7
10[2]	4/26/01	60,000	12,810	18,202	4.75-8.375	FHA, VA, USDA, PMI	6.2
11*	9/27/01	65,000	24,885	24,164	5.99	FHA, VA, USDA, PMI	2.7
12[3]	12/20/01	78,075	33,150	26,334	4.99-13.00	FHA, VA, USDA, PMI	3.1
13	4/4/02	75,000	28,725	25,691	4.99-6.50	FHA, VA, USDA, PMI	3.7
14	6/26/02	75,000	34,700	31,821	5.125-6.25	FHA, VA, USDA, PMI	4.4
15	5/8/03	50,060	26,480	26,830	4.95-5.375	FHA, VA, USDA, PMI	2.7
16	9/16/03	50,000	25,725	26,230	5.125-5.75	FHA, VA, USDA, PMI	3.5
17	12/11/03	53,280	31,115	30,161	5.125-5.375	FHA, VA, USDA, PMI	3.1
18	4/20/04	50,000	27,905	29,061	4.625-5.875	FHA, VA, USDA, PMI	2.9
19	8/18/04	65,000	42,530	40,640	5.25-5.75	FHA, VA, USDA, PMI	3.7
20	12/7/04	65,000	44,780	42,299	5.125-5.25	FHA, VA, USDA, PMI	3.7
21	4/21/05	65,000	42,295	40,158	5.125-5.375	FHA, VA, USDA, PMI	2.2
22A	11/30/05	65,000	47,925	45,513	5.125-6.125	FHA, VA, USDA, PMI	5.4
22CE	10/1/07	80,000	69,110	65,300	5.50-5.75	FHA, VA, USDA, PMI	1.8
23	3/30/06	65,000	45,935	43,714	5.125-6.125	FHA, VA, USDA, PMI	3.7
24	6/29/06	85,000	63,440	60,325	3.95-6.375	FHA, VA, USDA, PMI	3.8
25	9/26/06	65,000	50,030	49,106	5.125-6.375	FHA, VA, USDA, PMI	4.6
26	12/20/06	65,000	51,270	48,604	5.125-6.25	FHA, VA, USDA, PMI	4.2
27	6/26/08	65,000	54,525	52,554	5.75-6.50	FHA, VA, USDA, PMI	5.3
28	4/25/07	65,000	53,650	51,491	4.75-5.99	FHA, VA, USDA, PMI	4.0
29	6/13/07	100,000	81,285	75,930	3.95-6.25	FHA, VA, USDA, PMI	3.0
30	10/23/07	65,000	55,370	53,391	5.50-6.50	FHA, VA, USDA, PMI	2.1
31	1/10/08	65,000	57,275	55,362	4.625-6.375	FHA, VA, USDA, PMI	2.8
Total		$2,078,530	$1,114,985	$1,085,839			

[1] The Agency may determine from time to time to purchase program loans at rates higher or lower than the initial rates.

[2] Proceeds of the Series 10 Bonds were applied to refund certain of the Agency's Series J and K Bonds, Series L and M Bonds and Series N and O Bonds (1985 Resolution) previously issued by the Agency. In connection with such refunding, $33,839,000 of FHA-Insured mortgage loans financed with the proceeds of the refunded Bonds were transferred to the Trust Agreement.

[3] Proceeds of the Series 12 Bonds were applied to refund certain of the Agency's Single Family Revenue Bonds, Series R, S and T (1985 Resolution) and certain of the Agency's Single Family Mortgage Purchase Bonds Series A and Series B (1976 Resolution). In connection with such refunding, $27,517,000 of mortgage loans and cash of $6,519,000 were transferred to the Trust Agreement.

[4] Program Loans that are 60/90+ days delinquent, as a percentage of the total number of Program Loans in such series outstanding as of June 30, 2011.

The overall 60/90+ day delinquency rate for the Program Loans issued pursuant to the Trust Agreement was 4.3% as of June 30, 2011. At June 30, 2011, as reported in the National Delinquency Survey prepared by the Research Division of the Mortgage Bankers Association of America, the delinquency rate for the State of North Carolina was 4.6%; the South Atlantic Region, 5.1%; and the United States, 4.7%.

As of June 30, 2011, the Agency had 94 conventional and USDA real estate owned properties with a total principal balance of $9,517,623.

The following table summarizes as of June 30, 2011 certain information with respect to all insurance and guarantee programs for the Program Loans held by the Agency under the Trust Agreement:

Insurance or Guarantee Program	Number of Program Loans Outstanding	Percentage of Total Number
FHA Mortgage Insurance	5,248	41.36%
VA Guarantee	493	3.88%
USDA Guarantee	1,275	10.05%
Primary Mortgage Insurance		
Genworth	2,225	17.53%
RMIC	396	3.12%
MGIC	840	6.62%
UGI	398	3.14%
Triad	29	0.23%
Radian	96	0.76%
PMI	186	1.47%
CMG	14	0.11%
Uninsured and Non-guaranteed loans (Loan to Value less than 80%)	1,490	11.73%
Total	12,690	100.00%

Experience to Date Under 1985 Resolution

The Agency has issued $1,061,461,000 of bonds under the 1985 Resolution for the purposes of the Program. The following table summarizes as of June 30, 2011, the origination history and delinquency rate of Program Loans purchased by the Agency under the 1985 Resolution.

The bond series below denoted by an asterisk will be refunded into Series 32, as described herein.

		Bonds Payable (000's)		Program Loans Receivable (000's)			
Series	Date of Issue	Original Principal Amount	Amount Outstanding	Outstanding Principal Balance	Interest Rate(s) On Mortgage (%)	Type of Mortgage Insurance	Delinquency Rate (%)
A	3/1/85	$102,302	$0	$5,837	4.95-9.95	FHA,VA,USDA,PMI	6.2
B	9/12/85	100,124	0	3,611	4.95-9.50	FHA,VA,USDA,PMI	9.2
D[1]	12/4/87	19,980	0	828	4.95-8.60	FHA,VA,PMI	7.7
EF[1]	6/9/88	59,000	0	0	N/A	N/A	0.0
PQ[1]	5/17/91	57,045	0	2,297	8.10	FHA	2.5
RST[1]	11/27/91	95,000	0	3,711	6.95	FHA	4.2
UV[2]	6/12/92	54,815	0	0	N/A	N/A	0.0
WX[1]	4/22/94	45,000	0	0	N/A	N/A	0.0
YZ[1]	7/28/94	40,000	0	3,797	7.30	FHA	4.2
AABB	5/5/95	60,000	1,870	5,583	6.75-7.35	FHA	9.3
CCDD	10/26/95	31,355	2,375	4,114	6.35-10.70	FHA, PMI	10.8
EEFF*	3/22/96	23,505	2,905	2,951	6.75-7.25	FHA	3.0
GGHH*	5/16/96	30,000	4,335	4,011	6.75-7.25	FHA	10.1
IIJJ	7/11/96	67,530	4,120	7,676	6.75-8.30	FHA, PMI	6.5
KKLL*	10/3/96	28,965	4,235	4,280	6.45-7.25	FHA	7.9
MMNN*	12/5/96	25,000	2,245	2,487	6.75	FHA	3.8
OOPP*	4/4/97	45,000	6,705	7,117	6.45-6.95	FHA	3.4
QQRR*	6/19/97	65,000	9,825	11,102	6.45-6.65	FHA	4.9
SSTT*	11/14/97	25,000	4,295	4,794	6.15-6.45	FHA, USDA	5.3
UUVV	2/13/98	45,000	6,780	7,652	6.15-6.65	FHA, USDA	4.3
WW*	1/27/99	41,840	22,445	3,443	8.25-8.55	FHA	5.9
Total		$1,061,461	$72,135	$85,291			

[1] The loans from EF and WX were previously transferred to the Trust Agreement. The loans from D, PQ, RST and YZ are being transferred to the Trust Agreement in conjunction with the Plan of Refunding.

[2] As of June 30, 2011, Series UV holds $2,152,000 in FNMA and GNMA mortgaged backed securities.

The overall 60/90+ day delinquency rate for the Program Loans issued pursuant to the 1985 Resolution was 6.0% as of June 30, 2011. At June 30, 2011, as reported in the National Delinquency Survey prepared by the Research Division of the Mortgage Bankers Association of America, the delinquency rate for FHA loans for the State of North Carolina was 8.3%; the South Atlantic Region, 8.2%; and the United States, 6.7%.

The following table summarizes as of June 30, 2011 certain information with respect to all insurance and guarantee programs for the Program Loans held by the Agency under the 1985 Resolution:

Insurance or Guarantee Program	Number of Program Loans Outstanding	Percentage of Total Number
FHA Mortgage Insurance	2,048	90.10%
VA Guarantee	11	0.48%
USDA Guarantee	62	2.73%
Primary Mortgage Insurance		
Genworth	11	0.49%
RMIC	4	0.18%
UGI	4	0.18%
Radian	1	0.04%
PMI	1	0.04%
Uninsured and Non-guaranteed loans (Loan to Value less than 80%)	131	5.76%
Total	2,273	100.00%

Insurance and Guarantee Programs

The Trust Agreement provides that the Supplemental Trust Agreement authorizing the issuance of a Series of Bonds for the Program shall specify any requirements for the Program Obligations to be purchased with the proceeds of the Bonds of such Series, including how such Program Obligations must be insured, guaranteed or otherwise secured.

The Thirty-Second Supplemental Trust Agreement provides that the Series 32 Program Loans must be secured by a mortgage on the property financed thereby and must be insured or guaranteed in one of the following ways: (a) if the Program Loan is an FHA Insured Program Loan, a VA Guaranteed Program Loan, or a USDA Guaranteed Program Loan (as each of such terms is defined below), the applicable insurance or guarantee of the agency or instrumentality administering the insurance or guarantee program in an amount equal to the maximum coverage permitted for such Program Loan under the regulations of such agency or instrumentality; or (b) if the Program Loan is a PMI Insured Program Loan, unless the Market Value of the property subject to the Mortgage is greater than 80% of the principal amount of the Series 32 Program Loan, a private mortgage insurance policy issued by a qualified insurer in an amount so that the principal amount of the Program Loan is not greater than 80% of the Market Value of the property secured thereby plus the maximum amount payable under such private mortgage insurance policy in the event of a default by the Borrower thereunder.

FHA Mortgage Insurance. Program Loans insured by FHA in the manner described below, are herein defined as "FHA-Insured Program Loans." Sections 203 and 221 of the National Housing Act, as amended (the "Housing Act"), authorize the Federal Housing Administration ("FHA") of the Department of Housing and Urban Development ("HUD") to insure certain mortgage loans. Such mortgage loans must be in conformance with the maximum mortgage loan amount limitations and minimum down payment requirements specified in the Housing Act and regulations promulgated thereunder. In addition, the mortgagor under either of these programs must establish to the satisfaction of FHA that his or her income is adequate to meet the periodic payments required in the mortgage loan.

FHA administers the Section 203(k) loan program for the acquisition and rehabilitation of single family properties. Eligible borrowers obtain one mortgage loan to finance both the acquisition and the rehabilitation of the property. The mortgage amount may include funds for the purchase of the property, the costs incidental to closing the transaction, and the completion of the proposed rehabilitation. The mortgage proceeds allocated for the rehabilitation are escrowed at closing. Following loan closing, the lender submits copies of the mortgage documents to the HUD office for mortgage insurance endorsement. HUD reviews the submission and, if found acceptable, issues a Mortgage Insurance Certificate to the lender. At this point, the lender is submitting a fully-insured Program Loan to the Agency for purchase.

Under the provisions of Section 184 of the Housing and Community Development Act of 1992, as amended ("Section 184"), HUD has the authority to guarantee loans for the construction, acquisition, rehabilitation, or refinancing of 1- to 4-family homes to be owned by Native Americans (as defined in Section 184) on eligible land (as defined in Section 184). Loans guaranteed under Section 184 must bear a fixed rate of interest and be in a principal amount not in excess of 97.75% of the appraised value of the property, excluding closing costs (98.75% if the appraised value is $50,000 or less), but in no event in excess of 150% of the FHA loan limit for the area. The HUD guarantee under Section 184 is 100% of unpaid principal and interest plus reasonable fees and expenses for loans processed through foreclosure by the holder of the guarantee certificate of 100% of unpaid principal and interest for loans assigned to HUD without foreclosure.

All mortgages are subject to a mortgage insurance premium. The premium must be included in the proposed monthly housing expense for underwriting purposes.

Under the terms of either of the foregoing FHA insurance programs, a failure to make a mortgage payment (or to perform any other obligation under the mortgage), if continued for thirty (30) days, constitutes a default which would entitle the mortgagee to claim insurance benefits. The Housing Act gives authority to the Secretary of HUD (the "Secretary") to settle claims for insurance benefits under mortgages insured under Sections 203 and 221 either in cash or debentures. Currently the Secretary is paying claims under Section 203 in cash and has not paid claims in debentures since 1965.

Insurance benefits are paid on foreclosure and conveyance of title. Benefit payments made by FHA on conveyed properties are equal to the unpaid principal amount of the mortgage loans plus certain tax, insurance and other payments made, and a portion of any foreclosure expenses incurred by the mortgagee, as well as interest from date of default at a rate equivalent to the debenture interest rate (which may be less than the interest rate of the insured mortgage), less certain amounts received or retained in respect of the mortgaged property.

When any property which is to be conveyed to FHA has been damaged by fire, earthquake, flood or tornado, it is generally required, as a condition of payment of an insurance claim, that such property be repaired by the mortgagee prior to such conveyance.

In June 1991 HUD released Mortgagee Letter 91-27 declaring HUD's policy regarding adjustments to a Borrower's debt attributable to the bankruptcy of a Borrower. If a Borrower enters bankruptcy, the Program Loan is divided into two claims, a secured claim, equal to the appraised value of the property at the time of the bankruptcy, and an unsecured claim, equal to the difference between the balance of the Program Loan and such appraised value. If the Borrower successfully concludes the bankruptcy proceedings, the unsecured claim may be discharged in bankruptcy. Mortgagee Letter 91-27 states HUD policy to be that if, following such a discharge in bankruptcy of the unsecured portion of a mortgage debt, a Borrower defaults on a mortgage and the mortgagee forecloses on the mortgage and then files a claim for HUD benefits, the claim will be paid based on the unpaid principal balance of the secured portion of the bankruptcy claim. Consequently, the portion of a Program Loan exceeding the appraised value of the property at the time of the bankruptcy filing would not be covered by FHA insurance following a bankruptcy proceeding by the Borrower.

VA Guarantee. Program Loans that are guaranteed as to payment by the United States Veterans Administration in the manner described in this Section are herein referred to as "VA Guaranteed Program Loans." The Serviceman's Readjustment Act of 1944, as amended, permits a veteran (or, in certain instances, his or her spouse) to obtain a VA Guaranteed Program Loan covering mortgage financing of the purchase of a one-to-four family dwelling unit at interest rates agreed upon by the purchaser and the mortgagee, as the VA may elect. The program has no mortgage loan limits (other than that the amount may not exceed the property's reasonable value as determined by the VA), requires no down payment from the purchaser and permits the guarantee of VA Guaranteed Program Loans with terms of up to 30 years.

The guarantee provisions for VA Guaranteed Program Loans are as follows: (a) for home and condominium loans of $45,000 or less, 50 percent of the loan is guaranteed (for loans with an original principal balance of $45,000 and not more than $56,250, the guarantee will not exceed $22,500); (b) for home and condominium loans of more than $56,250 but less than or equal to $144,000, 40 percent of the loan is guaranteed subject to a maximum guarantee of $36,000; (c) for home and condominium loans of more than $144,000, 25 percent of the principal amount of the loan is guaranteed; and (d) for loans for manufactured homes, 40 percent of the loan is guaranteed (with a maximum guarantee of $20,000). The Agency does not allow purchases of manufactured homes that are not permanently affixed and are not considered real property.

The liability on the guarantee is reduced or increased pro rata with any reduction or increase in the amount of the indebtedness, but in no event will the amount payable on the guarantee exceed the amount of the original guarantee. Notwithstanding the dollar and percentage limitations of the guarantee, a mortgage holder will ordinarily suffer a monetary loss only where the difference between the unsatisfied indebtedness and the proceeds of a foreclosure sale of mortgaged premises is greater than the original guarantee as adjusted. The VA may, at its option and without regard to the guarantee, make full payment to a mortgage holder of unsatisfied indebtedness on a mortgage upon its assignment to the VA.

USDA Guarantee. Program Loans guaranteed by the United States Department of Agriculture, Rural Development are herein referred to as "USDA-Guaranteed Program Loans." Title V of the Housing Act of 1949 permits USDA to provide mortgage guarantees for single family rural housing loans. A USDA guarantee constitutes an obligation supported by the full faith and credit of the United States.

The maximum loss payment under a USDA guarantee will be the lesser of:

(1) Any loss of an amount equal to 90 percent of the principal amount actually advanced to the mortgagor, or

(2) An amount up to 35 percent of the principal amount actually advanced to the mortgagor, plus any additional loss sustained by the lender of an amount up to 85 percent of the remaining 65 percent of the principal amount actually advanced to the mortgagor.

Loss includes only (1) principal and interest evidenced by the note; (2) any loan subsidy due and owing; and (3) any principal and interest indebtedness on USDA approved protective advances for protection and preservation of collateral. Interest is covered by the guarantee to the date of the final loss settlement when the lender conducts liquidation of collateral in an expeditious manner. Net proceeds received from liquidation of the collateral will be used in calculating the amount of loss sustained. If the lender acquires the collateral, the net proceeds from collateral for calculating loss shall be determined by the USDA as follows: (i) the USDA will have the collateral appraised at its current market value as of the date of acquisition by the lender, then (ii) deduct from such appraised value an estimate of liquidation costs which will include an allowance for the estimated time the property will be held by the lender. The USDA will pay its claim based on an appraisal after foreclosure has occurred rather than upon the sale of the property. The Agency expects that it would liquidate through foreclosure proceedings, rather than acquire, the property securing a defaulted Program Loan.

Primary Mortgage Insurance. Program Loans that are insured by a policy of primary private mortgage insurance in the manner described in this Section are herein referred to as "PMI Insured Program Loans."

The Thirty-Second Supplemental Trust Agreement provides that a "PMI Insured Program Loan" is any Program Loan purchased with the proceeds of the Series 32 Bonds that is insured by a private mortgage insurance company that has been approved by Fannie Mae or Freddie Mac to insure mortgage loans purchased by them. The federal Homeowners Protection Act of 1998 requires the automatic termination of private mortgage insurance for any mortgage loan incurred after July 1999 if payments are current on the loan and the loan to value ratio is 78% or less. In addition, borrowers who are current on their mortgage loan payments are entitled to termination of primary mortgage insurance requirements upon request if the loan to value ratio is 80% or less. For purpose of determining the loan to value ratio, the value of the subject property is the lesser of the contract sales price and the appraised value at the time the mortgage loan is made. The Agency will not require (and cannot require) borrowers to maintain private mortgage insurance after the borrower is entitled to termination of the private mortgage insurance in accordance with federal law.

The Thirty-Second Supplemental Trust Agreement provides that at the option of the Agency, the insurance policy on a PMI-Insured Program Loan may be cancelled or permitted to terminate as required by applicable law.

Uninsured and Non-Guaranteed Loans. In addition to FHA Insured Program Loans, VA Guaranteed Program Loans, USDA Guaranteed Program Loans and PMI Insured Program Loans, the Thirty-Second Supplemental Trust Agreement provides that the Agency may purchase any other Program Loan so long as, at the time of purchase of the Program Loan by the Agency, the unpaid principal amount of the Program Loan does not exceed 80% of the Market Value of the property that is subject to the Mortgage securing such Program Loan.

Other Loan and Guarantee Programs. Future supplemental trust agreements may permit the Agency to purchase Program Obligations having insurance and guarantee features different from those described above.

Standard Hazard Insurance

Each mortgagor is required to obtain and maintain for the mortgaged property a standard hazard and casualty insurance policy in an amount which is not less than (i) the maximum insurable value of the mortgaged property or (ii) the unpaid principal amount of the Program Loan. The standard hazard and casualty insurance policy is required to be written by an insurance company qualified to do business in the State and having a current general policyholder's rating in Alfred M. Best's Insurance Reports of B and a financial size category of Class III or better.

In general, a standard homeowner's form of fire with extended coverage policy insures against physical damage to or destruction of the improvements on the property by fire, lightning, explosion, smoke, windstorm, hail, riot, strike, and civil commotion, subject to the conditions and exclusions particularized in each policy. Policies typically exclude physical damage resulting from the following: war, revolution, governmental action, floods and other water-related causes, earth movement (including earthquakes, landslides and mudslides), nuclear reactions, wet or dry rot, vermin, rodents, insects or domestic animals, theft, and, in certain cases, vandalism.

Flood insurance is required to be obtained and maintained by mortgagors whose mortgaged property is in an area designated by HUD as having special flood hazards and for which flood insurance is available under the National Flood Insurance Program. The limit of flood insurance must be the lowest of (i) the unpaid principal balance of the Program Loan, (ii) the full insurable value of the mortgaged property, and (iii) the maximum amount of flood insurance available.

Servicing Agreements

The Agency and each Agency-approved Servicer have entered into a servicing agreement for the servicing of Program Loans purchased by the Agency. Each Servicing Agreement provides for an annual servicing fee in an amount no more than 3/8 of 1% of the principal balance, computed monthly, of each non-delinquent Program Loan serviced thereunder for which payments of principal and interest have been received by the Servicer.

The Servicing Agreements will require the Servicers to perform all services and duties customary to the servicing of mortgages, including, among other things, inspecting the mortgaged premises when payments by a mortgagor have become delinquent or upon request of the Agency, collecting all payments due with respect to each Program Loan, and applying properly and rendering an accounting to the Agency of all sums collected from a mortgagor for payment of principal and interest, taxes, assessments and hazard and mortgage insurance premiums. In the event a mortgagor fails to make a payment when due or in the event of any default on a Program Loan, each Servicer must give notice to the Agency and, in the event of default, is also obligated, unless otherwise notified by the Agency, to take all actions necessary and proper to collect the applicable mortgage insurance and to enforce the applicable contractual provisions, including, if necessary, instituting foreclosure proceedings and managing the mortgaged property. Agency-approved foreclosure and related expenses shall be borne by the Agency.

Under each Servicing Agreement the Servicer must deposit all funds received on account of Program Loans being serviced in segregated accounts in a state or national bank or savings and loan association acceptable to the Agency and in which deposits are insured by the Federal Deposit Insurance Corporation, which may be the Servicer, and in segregated accounts in the Federal Home Loan Bank, and must hold the accounts as trustee for the Agency and the various mortgagors. From the funds so deposited the Servicer must pay, when due, mortgage and hazard insurance premiums, taxes and assessments. Once a month or at any time when the amount on deposit exceeds the insured amount, the Servicer is to remit to the Trustee the total amount of all payments of principal and interest. Prepayments of the Program Loans, proceeds of mortgage insurance, condemnation proceeds, proceeds resulting from action taken with respect to a defaulted Program Loan, and proceeds of hazard insurance that will not be used to restore or rehabilitate the mortgaged property shall be remitted as they are received.

The Servicing Agreements will require Servicers to maintain hazard and casualty insurance on each of the mortgaged premises in an amount sufficient to ensure that the Agency will not become a co-insurer under the terms and conditions of the applicable policy or policies. The Servicer must also comply, as to each Program Loan, with all rules and requirements of the Agency and the applicable rules and requirements of the insurance or guarantee program with respect to Program Loans, and must at all times keep such insurance in full force and effect. See "Standard Hazard Insurance" above. In addition, each Servicer must maintain blanket bond coverage as customarily used in the mortgage banking industry, including among other provisions, fidelity coverage and insurance against losses resulting from the errors and omissions of the Servicer.

OTHER AGENCY PROGRAMS

Single Family Programs

Including refundings, the Agency has issued over $3.8 billion of revenue bonds to provide funds for its single family home ownership programs. The bonds were issued pursuant to several bond resolutions of the Agency, all of which have been defeased except the 1985 Resolution, the Trust Agreement and the 2009 Trust Agreement. As of June 30, 2011, the 1985 Resolution and the 2009 Trust Agreement had $207,135,000 in single family home ownership bonds outstanding (this amount includes the Bonds being refunded by the Series 32 Bonds).

Multifamily Programs

In addition to its home ownership programs, the Agency has several programs to provide financing for residential rental housing for low and moderate income households. As of June 30, 2011, the Agency had approximately $11,010,000 of multifamily revenue bonds outstanding, with a multifamily mortgage loan portfolio of approximately $9,313,000, of loans securing such bonds.

The Agency also administers both the federal and state low-income housing tax credit programs and the rental production program. These funds are available to developers, on a competitive basis, for the development of affordable rental housing in the State. The Agency's goals include supporting the best developments possible given the limited resources available. Therefore, the Agency selects developments serving low-income residents for the longest period of time, at appropriate locations, with strong market demand, with the healthiest financial structures, the best architectural design and the best quality of building materials and workmanship. The Agency has administered this program since its inception in 1987 and has helped create 1,881 projects comprising 58,544 rental units, allocating $297,798,731 of tax credits.

Other Activities

The Agency offers a downpayment assistance program in the form of a zero-interest second mortgage loan for FHA and VA loans. Buyers must invest $1,000 from their own funds in their home, and the second mortgage will pay up to $8,000 of the balance. Loans are repayable upon resale or refinance of the home. To qualify for downpayment assistance, buyers must meet certain income and credit score limits for the low-interest mortgage program and are limited to a sales price of $225,000 for new or existing homes.

The Agency established a mortgage credit certificate ("MCC") program in July 1987. An MCC permits first-time homebuyers who meet federal limits for family income and acquisition costs, to take 30% of annual mortgage interest as a federal income tax credit. As of June 30, 2011, the Agency had issued 25,371 certificates under the MCC program totaling $1,971,502,711 in mortgages.

In 2010, the Agency became eligible to administer up to $482.7 million from the United States Department of the Treasury's Hardest Hit Fund to help prevent home foreclosures for workers who lose their jobs or experience other employment-related hardships. Funds are expected to be available through 2017, and to assist up to 21,000 homeowners. The Agency has created the N.C. Foreclosure Prevention Fund to disburse the fund, and it has two programs available. The Mortgage Payment Program offers zero-interest loans to pay the mortgage and related expenses for struggling homeowners. The Second Mortgage Refinance Program refinances a high-cost second mortgage to reduce a borrower's monthly mortgage payment to an affordable level. Agency funds are not used in carrying out the program, and the change does not affect the Agency's operating budget.

In 2004, the State of North Carolina created a Home Protection Program to help homeowners avoid foreclosure if they lose their jobs because of changing economic conditions. When the Agency became eligible to provide foreclosure assistance through the Treasury's Hardest Hit Fund, it recommended that the North Carolina General Assembly reduce funds for the Home Protection Program to a de minimis amount that would keep the program open and allow certain of its provisions to apply to the new N.C. Foreclosure Prevention Fund. For fiscal years 2012 and 2013, the appropriation was reduced from $2,269,579 to $187,879.

In July 2011 the State Home Foreclosure Prevention Project was transferred to the Agency from the Office of the North Carolina Commissioner of Banks. This effort funds free counseling assistance through many of the same HUD-Approved counseling agencies that are participating in the N.C. Foreclosure Prevention Fund to homeowners facing foreclosure. No Agency resources are used to operate the program.

Since 1987 the General Assembly of North Carolina has provided appropriations for the North Carolina Housing Trust Fund to produce housing for low-income households by leveraging private, local government, and federal resources. The Agency manages the Trust Fund and pays its operating costs so that all appropriated funds go directly into housing construction and rehabilitation. The annual appropriation for the Trust Fund has varied over its history, from the initial appropriation of $21 million in 1987 to zero. The most recent appropriations have been $10 million for fiscal years 2010 and 2011, and $7,876,755 for fiscal years 2012 and 2013. While the reduction for fiscal years 2012 and 2013 is indicative of the significant cuts in the entire State budget for fiscal years 2012 and 2013 and reduces the amount of financing available for households with extremely low incomes, it does not affect the Agency's operating budget.

In September 2000, the Agency issued $27,175,000 Student Housing Variable Rate Revenue Bonds for the purpose of financing a student housing facility located near the campus of Appalachian State University in Boone, North Carolina. These bonds are secured by the revenues of the student housing facility and by a letter of credit issued by a major bank. In May 2002 the Agency issued $9,712,000 of multifamily housing bonds in four issues to finance the acquisition and renovation by four separate non-profit corporations of housing developments for elderly residents. The four non-profit corporations are controlled by National Church Residences, an Ohio non-profit corporation that specializes in providing housing for the elderly. The multifamily bonds are secured by Ginnie Mae certificates issued in connection with the financing. Also, in August 2002 the Agency issued $8,000,000 of bonds to finance improvements to facilities owned and operated by The Masonic Home for Children at Oxford, Inc., a North Carolina non-profit corporation that provides housing for needy children. These bonds are secured by the loan repayments to be paid by the corporation and a letter of credit issued by a major bank. The Agency issued $14,200,000 of multifamily housing revenue bonds in December 2010 to finance the cost of acquiring, renovating, improving, equipping and furnishing certain multifamily housing facilities within the State.

The Agency may issue additional series of bonds under any of its programs, including the Program, and may adopt other programs under which bonds could be issued. The Agency's ability to issue additional bonds to finance its programs is restricted by federal tax law.

TAX TREATMENT

General. The following discussion is a brief summary of the principal United States federal income tax consequences of the acquisition, ownership and disposition of the Series 32 Bonds by original purchasers of the Series 32 Bonds who are "U.S. Holders" (hereinafter defined). This summary (a) is based on certain relevant provisions of the Internal Revenue Code of 1986, as amended (the "Code") under existing law and are subject to change at any time, possibly with retroactive effect; (b) assumes that the Series 32 Bonds will be held as "capital assets;" and (iii) does not discuss all of the United States federal income tax consequences that may be relevant to an owner of the Series 32 Bonds in light of its particular circumstances or to owners of the Series 32 Bonds subject to special rules, such as insurance companies, financial institutions, tax-exempt organizations, dealers in securities or foreign currencies, persons or entities holding the Series 32 Bonds as a position in a "hedge" or "straddle," or owners whose functional currency (as defined in Section 985 of the Code) is not the United States dollar, or owners who acquire Series 32 Bonds in the secondary market.

Owners of the Series 32 Bonds should consult with their own tax advisors concerning the United States federal income tax and other consequences with respect to the acquisition, ownership and disposition of the Series 32 Bonds, as well as any tax consequences that may arise under the laws of any state, local or foreign tax jurisdiction.

The term "U.S. Holder" means a beneficial owner of a Series 32 Bond that is (a) a citizen or resident of the United States, (b) a corporation, partnership or other entity created or organized in or under the laws of the United States or of any political subdivision thereof, (c) an estate the income of which is subject to United States federal income taxation regardless of its source or (d) a trust whose administration is subject to the primary jurisdiction of a United States court and which has one or more United States fiduciaries who have the authority to control all substantial decisions of the trust.

Opinion of Bond Counsel. In the opinion of Bond Counsel, interest on the Series 32 Bonds is not excluded from gross income of the owners thereof for purposes of federal income taxation imposed by the Code. Bond Counsel is also of the opinion, based on existing law, that interest on the Series 32 Bonds will be exempt from all State of North Carolina income taxes.

Disposition and Defeasance. Generally, upon the sale, exchange, redemption or other disposition (which would include a legal defeasance) of a Series 32 Bond, an owner of such Series 32 Bond generally will recognize taxable gain or loss in an amount equal to the difference between the amount realized (other than amounts attributable to accrued interest not previously includable in income) and such owner's adjusted tax basis in the Series 32 Bond. Such gain or loss generally will be capital gain or loss, and will be long-term capital gain or loss if such Series 32 Bond has been held for more than one year at the time of sale, exchange, redemption or other disposition. An owner's adjusted tax basis in a Series 32 Bond generally will equal the cost of such Series 32 Bond to the owner, increased by any original issue discount included in income and decreased by the amount of any payments other than "qualified stated interest payments" received and amortized bond premium taken with respect to such Series 32 Bond.

The Agency may cause the deposit of moneys or securities in escrow in such amount and manner as to cause the Series 32 Bonds to be deemed to be no longer outstanding under the Trust Agreement (a "defeasance"). For federal income tax purposes, such defeasance could result in a deemed exchange under Section 1001 of the Code and a recognition by such owner of taxable income or loss without any corresponding receipt of moneys. In addition, the character and timing of receipt of payments on the Series 32 Bonds subsequent to any such defeasance could also be affected.

ERISA. The Employees Retirement Income Security Act of 1974, as amended ("ERISA"), and the Code generally prohibit certain transactions between a qualified employee benefit plan under ERISA or tax-qualified retirement plans and individual retirement accounts under the Code (collectively, the "Plans") and persons who, with respect to a Plan, are fiduciaries or other "parties in interest" within the meaning of ERISA or "disqualified persons" within the meaning of the Code. All fiduciaries of Plans should consult their own tax advisors with respect to the consequences of any investment in the Series 32 Bonds.

Backup Withholding and Information Reporting. In general, information reporting requirements will apply to non-corporate holders with respect to payments of principal, payments of interest, and the accrual of original issue discount, on a Series 32 Bond and the proceeds of the sale of a Series 32 Bond before maturity within the United States. Such payments will be subject to backup withholding, except in the case of certain "exempt payees" as defined in the Code, if the owner of a Series 32 Bond (a) fails to furnish to the Agency such owner's social security number or other taxpayer identification number ("TIN"), (b) furnished the Agency an incorrect TIN, (c) fails to report properly interest, dividends or other "reportable payments" as defined in the Code or (d) under certain circumstances, fails to provide the Agency with a certified statement, signed under penalty of perjury, that the TIN provided to the Agency is correct and that such owner is not subject to backup withholding. Any amounts withheld under the backup withholding rules from a payment to a beneficial owner, and which constitutes over-withholding, would be allowed as a refund or a credit against such beneficial owner's United States federal income tax provided the required information is furnished to the United State Internal Revenue Service (the "Service").

IRS Circular 230 Disclosure. The advice under this subheading "TAX TREATMENT" concerning certain income tax consequences of the acquisition, ownership and disposition of the Series 32 Bonds, was written to support the marketing of the Series 32 Bonds. To ensure compliance with requirements imposed by the Service, Bond Counsel to the Agency informs the prospective purchasers of the Series 32 Bonds that (a) any federal tax advice contained in this Official Statement (including any attachments) or in writings furnished by Bond Counsel to the Agency is not intended to be used, and cannot be used, by any owner of the Series 32 Bonds for the purpose of avoiding penalties that may be imposed on such owner by the Code, and (b) owners of the Series 32 Bonds should seek advice based on such owner's particular circumstances from an independent tax advisor.

FINANCIAL STATEMENTS

The financial statements of the Agency as of and for the year ended June 30, 2011, included in this Official Statement as Appendix A have been audited by BDO USA, LLP, independent auditors, as stated in their report appearing herein.

RATINGS

Moody's Investors Service, Inc. ("Moody's") and Standard & Poor's Ratings Services, a division of the McGraw-Hill Companies, Inc. ("S&P") are expected to assign ratings of "Aa2" and "AA", respectively, to the Series 32 Bonds. Such ratings are not a recommendation to buy, sell or hold securities. Any desired explanation of the significance of such ratings should be obtained from Moody's and S&P, respectively. There is no assurance that a particular rating will remain in effect for any given period of time or that it will not be lowered, suspended or withdrawn entirely if, in the judgment of the rating agency furnishing such rating, circumstances so warrant. Any suspension, downward revision or withdrawal of one or both of such ratings could have an adverse effect on the marketability or the market price of the Series 32 Bonds. The Agency assumes no responsibility to take any actions with regard to possible rating changes.

LITIGATION

At the time of the delivery of and payment for the Series 32 Bonds, the Agency will certify that, to the best of its knowledge, there is no controversy or litigation of any nature at such time pending or threatened to restrain or enjoin the issuance, sale, execution or delivery of the Series 32 Bonds, or in any way contesting or affecting the validity of the Series 32 Bonds or any proceedings of the Agency taken with respect to the issuance or sale thereof or the pledge or application of any moneys or security provided for the payment of the Series 32 Bonds or the existence or powers of the Agency.

CERTAIN LEGAL MATTERS

Legal matters incident to the authorization, issuance and sale of the Series 32 Bonds are subject to the approving opinion of Womble Carlyle Sandridge & Rice, LLP, Raleigh, North Carolina, Bond Counsel to the Agency. Copies of the approving opinion of said law firm in substantially the form included herein as Appendix B will be available at the time of delivery of the Series 32 Bonds. Certain legal matters will be passed upon for the Agency by the Counsel and Manager of Legal Services for the Agency and for the Underwriters by their counsel, Bode, Call & Stroupe, L.L.P., Raleigh, North Carolina.

LEGAL INVESTMENT

The Act provides that the Series 32 Bonds shall be securities in which all public officers and public bodies of the State and its political subdivisions, and all North Carolina insurance companies, trust companies, banking associations, investment companies, executors, administrators, trustees and other fiduciaries may properly and legally invest funds, including capital in their control or belonging to them.

UNDERWRITING

RBC Capital Markets LLC, Merrill Lynch, Pierce, Fenner & Smith Incorporated, Citigroup Global Markets, Inc., Morgan Keegan & Company, Inc. and Wells Fargo Bank, National Association (together, the "Underwriters"), have jointly and severally agreed, subject to certain conditions, to purchase all of the Series 32 Bonds at a price equal to the aggregate principal amount of the Series 32 Bonds. The Underwriters will receive from the Agency a fee of $1,183,826. The initial public offering prices of the Series 32 Bonds may be changed from time to time by the Underwriters.

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. Certain of the Underwriters and their respective affiliates may have, from time to time, performed and may in the future perform, various investment banking services for the Agency, for which they received or will receive customary fees and expenses. In the ordinary course of their various business activities, the Underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and/or credit default swaps) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the Agency.

Citigroup Inc., the parent company of Citigroup Global Markets Inc., an underwriter of the Series 32 Bonds, has entered into a retail brokerage joint venture with Morgan Stanley. As part of the joint venture, Citigroup Global Markets Inc. will distribute municipal securities to retail investors through the financial advisor network of a new broker-dealer, Morgan Stanley Smith Barney LLC. As part of this arrangement, Citigroup Global Markets Inc. will compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the Series 32 Bonds.

Wells Fargo Securities is the trade name for certain capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wells Fargo Bank, National Association (“WFBNA”).

WFBNA has entered into an agreement (the "Distribution Agreement") with Wells Fargo Advisors, LLC ("WFA") for the retail distribution of certain municipal securities offerings, including the Series 32 Bonds. Pursuant to the Distribution Agreement, WFBNA will share a portion of its underwriting compensation with respect to the Series 32 Bonds with WFA. WFA is also a subsidiary of Wells Fargo & Company.

CONTINUING DISCLOSURE

Pursuant to the Thirty-Second Supplemental Trust Agreement, the Agency has agreed to provide to the beneficial owners of the Series 32 Bonds the Annual Financial Information and notices of events of the type described below as if Rule 15c2-12 (the "Rule") applied to the Series 32 Bonds, and certain other financial information:

(a) by not later than seven months from the end of each fiscal year of the Agency, audited financial statements of the Agency prepared in accordance with Section 159-34 of the General Statutes of North Carolina, as it may be amended from time to time, or any successor statute, or, if such audited financial statements of the Agency are not available by seven months from the end of such fiscal year, unaudited financial statements of the Agency to be replaced subsequently by audited financial statements of the Agency to be delivered within fifteen (15) days after such audited financial statements become available for distribution;

(b) concurrently with the delivery of the audited financial statements referred to in (a) above, the most recent financial and statistical data available to the Agency as of a date not earlier than the end of the preceding fiscal year, regarding Bonds payable, Program Obligations held under the Trust Agreement and Agency experience with Program Obligation delinquencies and Program Obligations in foreclosure, under the Trust Agreement, to the extent such items are not included in the audited financial statements referred to in (a) above;

(c) in a timely manner not in excess of ten business days after the occurrence of the event, notice of any of the following events with respect to the Series 32 Bonds:

(1) principal and interest payment delinquencies;

(2) non-payment related defaults, if material;

(3) unscheduled draws on debt service reserves reflecting financial difficulties;

(4) unscheduled draws on any credit enhancements reflecting financial difficulties;

(5) substitution of any credit or liquidity providers, or their failure to perform;

(6) [Intentionally Omitted];

(7) modification to the rights of the beneficial owners of the Series 32 Bonds, if material;

(8) bond calls, other than calls for mandatory sinking fund redemption, if material, and tender offers;

(9) defeasances of any of the Series 32 Bonds;

(10) release, substitution or sale of any property securing repayment of the Series 32 Bonds, if material;

(11) rating changes;

(12) bankruptcy, insolvency, receivership or similar event of the Agency;

(13) the consummation of a merger, consolidation or acquisition involving the Agency or the sale of all or substantially all of the assets of the Agency, 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, if material; and

(14) appointment of a successor or additional Trustee or escrow agent or the change of the name of the Trustee or escrow agent, if material; and

(d) in a timely manner, notice of a failure of the Agency to provide required annual financial information described in (a) or (b) above on or before the date specified.

The Agency shall provide the documents referred to above to the MSRB in an electronic format as prescribed by the MSRB and accompanied by identifying information as prescribed by the MSRB.

The Agency may discharge its undertaking described above by transmitting the documents referred to above to any entity and by any method authorized by the U.S. Securities and Exchange Commission.

The Agency reserves the right to modify from time to time the information to be provided to the extent necessary or appropriate in the judgment of the Agency, provided that:

(a) any such modification may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of the Agency;

(b) the information to be provided, as modified, would have complied with the requirements of Rule 15c2-12 as of the date of the Official Statement, after taking into account any amendments or interpretations of Rule 15c2-12, as well as any changes in circumstances; and

(c) any such modification does not materially impair the interests of the beneficial owners of the Series 32 Bonds, as determined by the Trustee or bond counsel to the Agency, or by approving vote of the Owners of a majority in principal amount of the Series 32 Bonds pursuant to the terms of the Trust Agreement at the time of the amendment.

In the event that the Agency makes such a modification, the annual financial information containing the modified operating data or financial information shall explain, in narrative form, the reasons for the modification and the impact of the change in the type of operating data or financial information being provided.

The continuing disclosure provisions of the Thirty-Second Supplemental Trust Agreement shall terminate upon payment, or provision having been made for payment in a manner consistent with Rule 15c2-12, in full of the principal and interest with respect to all of the Series 32 Bonds.

In the event of a failure of the Agency to comply with any provision of the covenant set forth above, the Trustee may (and, at the request of the owners of at least 25% aggregate principal amount of Outstanding Series 32 Bonds, shall), or any beneficial owner of the Series 32 Bonds may, take such actions as may be necessary and appropriate, including seeking mandamus or specific performance by court order, to cause the Agency to comply with the continuing disclosure provisions of the Thirty-Second Supplemental Trust Agreement. However, a default with respect to the continuing disclosure provisions of the Thirty-Second Supplemental Trust Agreement shall not be deemed an Event of Default under the Trust Agreement, and the remedy in the event of any failure of the Agency to comply with the continuing disclosure provisions of the Thirty-Second Supplemental Trust Agreement shall be the actions referred to above.

The Agency has not failed to provide any information required to be provided by any undertaking previously made by the Agency pursuant to the requirements of the Rule.

MISCELLANEOUS

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the Agency and the purchasers or holders of any of the Series 32 Bonds.

NORTH CAROLINA HOUSING FINANCE AGENCY

By: /s/ Elizabeth I. Rozakis
Chief Financial Officer

The interest rates, maturities, sale price and manner of sale of the Series 32 Bonds have been determined, with the approval of the North Carolina Housing Finance Agency and the Local Government Commission of the State of North Carolina.

By: /s/ T. Vance Holloman
Secretary of the Local Government Commission
of North Carolina

Dated: October 27, 2011

APPENDIX A

FINANCIAL STATEMENTS

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NORTH CAROLINA HOUSING FINANCE AGENCY

Financial Statements
Year Ended June 30, 2011

NORTH CAROLINA HOUSING FINANCE AGENCY
FINANCIAL STATEMENTS AND ADDITIONAL INFORMATION
FOR THE YEAR ENDED JUNE 30, 2011

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FINANCIAL STATEMENTS

ADDITIONAL INFORMATION

MANAGEMENT DISCUSSION AND ANALYSIS (*Unaudited*)
June 30, 2011

The discussion and analysis of the North Carolina Housing Finance Agency's (the Agency) financial performance provides an overview of the Agency's financial activities for the year ended June 30, 2011. The financial statements, accompanying notes, and additional information should be read in conjunction with the following discussion.

Overview

The North Carolina Housing Finance Agency was created in 1974 to provide financing for residential housing, both ownership and rental, to North Carolina households with low and moderate incomes. The Agency has issued bonds to finance housing throughout the State of North Carolina (State). In addition to its bond programs, the Agency administers the U.S. Department of the Treasury's (Treasury) Hardest Hit Fund (HHF), Section 8 Program, the HOME Investment Partnerships Program (HOME), Low-Income Housing Tax Credits, the North Carolina Housing Trust Fund (HTF) and other federal and state programs. These programs provide different types of assistance such as rent subsidies, down payment assistance, low-interest mortgage loans, foreclosure prevention mortgage assistance, foreclosure prevention counseling, and various types of rehabilitation of both single and multifamily properties.

Financial Highlights

The following information is an analysis of the Agency's performance for the year ended June 30, 2011, with reference to prior fiscal year's results and activities.

The Agency's *Total Assets* decreased $97,638,000 or 4.8%, and *Total Liabilities* decreased $114,363,000 or 7.5%. *Total Operating Revenues* increased $60,412,000 or 18.4% and *Total Operating Expenses* increased $60,004,000, or 19.0%.

The low interest rate environment continued to be a challenge as it directly impacted the Agency's ability to issue bonds that would produce a marketable mortgage interest rate. Low interest rates also encouraged borrowers to refinance their mortgages and pay off their existing loans. The impact of the low interest rates is evident throughout the Agency's financial statements. *Mortgage loans receivable, net* decreased $94,386,000, or 6.5% from the previous year because of increased prepayments and weak production of FirstHome mortgage loans resulting in a $6,285,000, or 7.6%, reduction in *Interest on mortgage loans*. The Agency funded mortgage loans with its existing funds in the absence of a traditional bond issuance during the year, which accounts for the majority of the $23,716,000, or 8.2%, decrease in *Cash and cash equivalents*. The weak economy caused mortgage loan delinquencies to rise which necessitated an increase in the loan loss reserve; this increase in the loan loss reserve accounts for most of the $3,748,000, or 142.6%, increase in *Other expenses*.

Additionally, *Bonds payable, net* decreased $115,517,000, or 7.9%, as prepayments were used to call outstanding bonds, reducing the *Interest on bonds* by $10,082,000, or 14%. (See additional comments under the section on "Debt Administration"). GASB Statement No. 62 (GASB 62) required deferred bond issuance costs to be reported as deferred charges, and thus these costs were reclassified from *Bonds payable, net* to *Other assets, net* in 2011 which accounts for the majority of the $13,554,000, or 90.2%, increase in *Other assets, net*. *Accrued interest payable* decreased by $12,943,000, or 30.7%, as a result of bond calls and the reclassification of bond premium/discounts of $6,503,000 to *Bonds payable, net*.

Interest on investments decreased by $3,338,000, or 29%, as the interest rate on the State's Short Term Investment Fund was 23.9% lower than last year, and the Agency used its cash to purchase mortgage loans.

Long-term interest rates at June 30, 2011 were higher than interest rates at June 30, 2010 which accounts for the $1,640,000, or 24.5%, decrease in *Deferred outflow of resources* and corresponding *Derivative instrument-interest rate swap*.

Federal program awards received and *Federal program expense* increased $63,668,000, or 28.9%, and $63,453,000, or 28.9%, respectively, due to the disbursement of tax credit funds for rental properties using the Tax Credit Assistance Program (TCAP) and U.S. Department of the Treasury's Exchange Program. *State tax credits* increased $6,334,000, or 22.6%, as a result of the increased tax credit production in low and moderate income counties. *State program expense* increased $11,279,000, or 26.5%, as disbursements for construction on state tax credit properties increased.

As discussed in the "New Business" section, the Agency was awarded $482 million as part of the Treasury 's Hardest Hit Fund (HHF) initiative to help prevent foreclosures in the state. The impact of the new program is reflected throughout the Agency's financial statements. *Deferred revenues* increased $15,849,000, or 173.5%, from funds the Agency received but were not disbursed as of June 30, 2011 for HHF. *Accounts payable* increased $598,000, or 25.2%, and *General and administrative expense* increased $3,009,000, or 18.2%, due in large part to the additional operating expenses that the Agency incurred for HHF. *Program income/fees* increased $6,165,000, or 45.5%, from the reimbursement of costs associated with HHF. The Home Protection Program which was previously funded with *State appropriations received* accounts for the $2,193,000, or 15.8%, decrease; since the Agency has received HHF, HPP is still intact but does not require funding at the same level. Because of the Agency's experience in foreclosure prevention, the State Home Foreclosure Prevention Project was transferred to the Agency effective July 1, 2011. Any funds remaining at June 30, 2011 were earmarked to be transferred to the Housing Trust Fund. These funds were accrued and account for the $6,883,000, or 133.1%, increase in *State grant received*.

Net Assets increased $16,725,000, or 3.2%, due to the receipt of federal stimulus funds in difficult economic times and as a result of the Agency's proactive management of its funds in an unstable economy.

Financial Analysis

The following tables summarize the changes in net assets between June 30, 2011 and 2010 (*in thousands):*

Condensed Balance Sheet Information

	2011	2010	Change	%
Assets**				
Cash and cash equivalents	$ 265,631	$ 289,347	$ (23,716)	(8.2)
Accrued interest receivable on investments	834	898	(64)	(7.1)
Accrued interest receivable on mortgage loans	11,098	11,111	(13)	(0.1)
Investments	229,967	222,770	7,197	3.2
Mortgage loans receivable, net	1,347,572	1,441,958	(94,386)	(6.5)
State receivables	54,470	53,040	1,430	2.7
Deferred outflow of resources	5,058	6,698	(1,640)	(24.5)
Other assets, net	28,583	15,029	13,554	90.2
Total Assets	$ 1,943,213	$ 2,040,851	$ (97,638)	(4.8)
Liabilities**				
Bonds payable, net	$ 1,339,633	$ 1,455,150	$ (115,517)	(7.9)
Derivative instrument-interest rate swap	5,058	6,698	(1,640)	(24.5)
Accrued interest payable	29,274	42,217	(12,943)	(30.7)
Accounts payable	2,974	2,376	598	25.2
Deferred revenues	24,982	9,133	15,849	173.5
Other liabilities	4,856	5,566	(710)	(12.8)
Total Liabilities	$ 1,406,777	$ 1,521,140	$ (114,363)	(7.5)
Net Assets				
Restricted	$ 522,565	$ 507,456	$ 15,109	3.0
Unrestricted	13,871	12,255	1,616	13.2
Total Net Assets	$ 536,436	$ 519,711	$ 16,725	3.2
Total Liabilities and Net Assets	$ 1,943,213	$ 2,040,851	$ (97,638)	(4.8)

** For information on current and noncurrent balance sheet items, please see the audited balance sheet in the accompanying financial statements.

Condensed Statement of Revenues, Expenses and Changes in Net Assets Information

	2011	2010	Change	%
Operating Revenues				
Interest on investments	$ 8,163	$ 11,501	$ (3,338)	(29.0)
Net increase (decrease) in fair value of investments	178	(46)	224	(487.0)
Interest on mortgage loans	76,371	82,656	(6,285)	(7.6)
Federal program awards received	283,907	220,239	63,668	28.9
Program income/fees	19,716	13,551	6,165	45.5
Other revenues	288	310	(22)	(7.1)
Total Operating Revenues	$ 388,623	$ 328,211	$ 60,412	18.4
Operating Expenses				
Interest on bonds	$ 62,105	$ 72,187	$ (10,082)	(14.0)
Mortgage servicing expense	4,314	4,626	(312)	(6.7)
Federal program expense	282,927	219,474	63,453	28.9
Nonfederal program expense	963	775	188	24.3
General and administrative expense	19,521	16,512	3,009	18.2
Other expenses	6,376	2,628	3,748	142.6
Total Operating Expenses	$ 376,206	$ 316,202	$ 60,004	19.0
Operating Income	$ 12,417	$ 12,009	$ 408	3.4
Non-Operating Revenues (Expenses)				
State appropriations received	$ 11,685	$ 13,878	$ (2,193)	(15.8)
State grant received	12,053	5,170	6,883	133.1
State tax credits	34,339	28,005	6,334	22.6
State program expense	(53,769)	(42,490)	(11,279)	26.5
Total Non-Operating Revenues(Expenses)	$ 4,308	$ 4,563	$ (255)	(5.6)
Change in Net Assets	$ 16,725	$ 16,572	$ 153	0.9

New Business

The economy continued to struggle throughout fiscal year 2011, and any temporary improvements in the market were matched with an equal number of setbacks. The market reflects domestic and international unease, both financial as well as political. Ironically, these poor economic conditions created what should be tremendous benefits for a potential homebuyer: unprecedented low mortgage rates along with the lowest housing prices in years. However, these advantages have not been sufficient to increase mortgage loan production in a market where people continue to worry about whether they will have a job. Unemployment or the threat of unemployment continues to be one of the biggest impediments in the decision to buy a home. Therefore, the Agency has focused a significant amount of its attention on helping struggling homeowners who are facing foreclosure.

The Treasury approved the Agency's Hardest Hit Fund (HHF) programs effective August 2010 to use $482 million of funds authorized under the Emergency Economic Stabilization Act of 2008 in the Troubled Asset Relief Program (TARP). These funds are made available to homeowners in all counties through the N.C. Foreclosure Prevention Fund™ which operates under the Agency's Home Protection Program (HPP). Services are provided by the U.S. Department of Housing and Urban Development (HUD) approved counseling agencies statewide. The fund is expected to enable 21,000 unemployed homeowners to keep their homes, and the programs will be available over the next three to five years.

The N.C. Foreclosure Prevention Fund™ currently offers two programs. The Mortgage Payment Program (MPP) makes mortgage payments and pays related expenses for unemployed homeowners while they seek jobs or job training in a new field. As of June 30, 2011, approximately 3,800 applications had been submitted to the Agency, and 926 homeowners had received assistance. The Second Mortgage Refinance Program (SMRP) provides refinancing for high-cost second mortgages in order to make the total monthly housing payment affordable for the borrower.

The Agency closed a multifamily bond issue for $14,200,000 on December 15, 2010. The Multifamily Housing Revenue Bonds (Pendergraph 2010 Rural Development Portfolio) Series 2010 is a special facility for the Agency, and is structured as a draw-down bond. The bond issue financed the cost of the acquisition, rehabilitation and equipping of eight multifamily rental housing projects throughout the state.

Due to federal budget constraints, HUD decreased its appropriation of the HOME program for fiscal year 2011 by $2.6 million, bringing the total to $19.1 million for the year ended June 30, 2011. HOME is the largest federal block grant to state and local governments designed exclusively to create affordable housing for low-income households.

The General Assembly appropriated $10 million to the Housing Trust Fund and $1.6 million as matching funds for the federal HOME program. The $3 million appropriation for the HPP was reduced to $500,000 due to the Agency's receipt of the Hardest Hit Fund. The State reduced the Agency's total fiscal year 2011 appropriation by 3.5%.

The Rapid Equity Builder (REB) Program was created to provide incentives for the purchase of Agency-owned properties (REOs) in its portfolio. The REB provides an interest-free, forgivable subordinate lien up to $10,000 to pay a substantial part of the down payment for homebuyers below 80% of the area median income. Homebuyers must purchase an Agency REO property and use a Federal Housing Administration (FHA) first mortgage. The Agency is using sales price discounts, interest rate reductions, and paid closing costs to attract buyers.

Debt Administration

The Agency's *Bonds payable, net* decreased $115,517,000, or 7.9%, in the absence of a single-family bond issuance during the fiscal year. The last traditional single-family bond issuance for the Agency occurred in 2008. Since that time, the Agency has continued funding its mortgage loans through the use of recycled prepayments and reserves. The Agency's FirstHome Mortgage Program assisted 362 families during the year. Although mortgage production for the Agency remained low during the fiscal year, the Agency continued to warehouse mortgage loans in anticipation of a future bond sale.

In response to the difficulties that housing finance agencies (HFAs) nationwide experienced in obtaining a full-spread rate on a bond issue, Treasury, together with HUD and the Federal Housing Finance Agency (FHFA), developed the HFA Initiative as a part of President Obama's Making Home Affordable program. The HFA Initiative consisted of two programs: the New Issue Bond Program (NIBP) and the Temporary Credit and Liquidity Program (TCLP). The NIBP offered lower-cost bonds, and the TCLP offered more affordable liquidity rates on variable rate debt. The Agency continued to participate in both programs in fiscal year 2011.

The Agency sold $135,000,000 of bonds to Fannie Mae and Freddie Mac (the GSEs) in December 2009 as a part of the NIBP, and received the proceeds of the sale in January 2010. The Agency created the 2009 Single-Family Resolution in which to place the NIBP proceeds. Based on program requirements, the bonds sold to the GSEs represent 60% of a total bond issue, and the other 40% to be sold on the open market. The program was originally set to expire in December 2010. However, many HFAs were unable to use their NIBP proceeds because the market's mortgage rates remained so low that obtaining a full-spread rate was unachievable. In response, the NIBP program was extended through December 2011. The Agency's NIBP proceeds remained in escrow at June 30, 2011. On August 25, 2011, the Agency issued $85 million in Home Ownership Revenue Bonds related to the NIBP in the 2009 Trust Agreement. The Agency rolled out $51,000,000 in NIBP proceeds (60% of the bond issue) which were paired with $34,000,000 in market bonds (40% of the bond issue) for a total bond issue of $85,000,000. The remaining $84,000,000 of NIBP proceeds remain in escrow invested in 4-week treasuries, the only permitted investment available to the Agency under the NIBP program.

The TCLP continued to offer below-market rates on liquidity for its variable rate debt. The Agency paid 50 basis points (bps) until January 2010, at which time the rate increased to 75 bps. In January 2012, the rate will increase to 100 bps, so the Agency is actively seeking alternative liquidity sources to ensure that it is receiving the most favorable rates available.

Changes in market interest rates saw short-term rates drop during fiscal year 2011 while long-term interest rates rose. The historically low short-term rate environment contributed to lower debt service for the Agency's variable rate bonds and higher periodic payments on its swap agreements for the current fiscal year. The increase in long-term rates resulted in noticeably lower termination values for the swap portfolio with the fair market value liability falling from $6,698,000 as of June 30, 2010, to $5,058,000 as of June 30, 2011. Since their inception, the Agency's swap contracts have produced variable cash flows in excess of the rates paid to bondholders, and this positive basis has also kept debt service low.

The Agency has many direct and indirect business partners, including repurchase agreement providers, private mortgage insurers, bond insurers, and swap counterparties. As a result of the continued downgrades of the private mortgage insurers, the rating agencies assumed more rigorous stresses when determining the Agency's appropriate parity for its current bond ratings. Based on the rating agencies' periodic reviews of the Agency's loan loss models, the Agency was not required to take action as a result of downgrades of any of its partners during fiscal year 2011.

The rating agencies are keeping watch over HFA delinquency rates, and they are adjusting their loan loss models accordingly. As of June 30, 2011, the Agency's 60-day-plus quarterly average delinquency rate was 4.9%. This rate was below the North Carolina average of 5.4% and well below the national average of 6.0%. The loan servicers and the Agency are working closely with borrowers to ensure that they are receiving every loss mitigation tool possible to keep borrowers in their homes, including the N.C. Foreclosure Prevention Fund™.

The Agency had scheduled bond maturities of $35,950,000 for Single-Family Revenue Bonds and $530,000 for Multifamily Revenue Bonds. There were unscheduled bond redemptions of $99,885,000 for Single-Family Revenue Bonds and $675,000 for the Multifamily Revenue Bonds. In August 2010, the Agency redeemed the 1984 J Multifamily Resolution in its entirety. The remaining mortgage loans, cash and other assets in this resolution were transferred to the 1985 Single-Family Resolution. As of June 30, 2011, the only multifamily resolution (not including special facilities) remaining is the 1992 Multifamily Resolution. Refer to the accompanying notes to financial statements for more detailed information concerning maturities and redemptions for the single-family and multifamily revenue bonds.

Programs

For the year ended June 30, 2011, the Agency made cash disbursements of approximately $302,718,000 in federal funds for the following programs:

- Affordable Home Ownership Program (AHOP)
- Construction Training Partnership Program (CTP)
- Displacement Prevention Partnership (DPP)
- Exchange Program (Exchange)
- Individual Development Account Loan Pool (IDALP)
- Lead Abatement Partnership Program (LAPP)
- Mortgage Payment Program (MPP)
- National Foreclosure Mitigation Counseling Program (NFMC)
- Neighborhood Stabilization Loan Program (NSLP)
- New Homes Loan Pool (NHLP)
- Preservation Loan Program (PLP)
- Rental Production Program (RPP)
- Reverse Mortgage Counseling and Training Program (RMCT)
- Section 8 Contract Administration
- Section 8 New Construction
- Section 8 Rehabilitation
- Self-Help Loan Pool (SHLP)
- Single-Family Rehabilitation Program (SFR)
- Single-Family Rehabilitation Loan Pool (SFRLP)
- Statewide Down Payment Assistance Program (SWDAP)
- Supportive Housing Development Program (SHDP)
- Supportive Housing Predevelopment Loan Program (SHPL)
- Tax Credit Assistance Program (TCAP)
- Urgent Repair Program (URP)

For the year ended June 30, 2011, the Agency made cash disbursements of approximately $55,349,000 in state funds for the following programs:

- Displacement Prevention Partnership (DPP)
- Home Protection Program (HPP)
- Key Program (KEY)
- Loan Modification Program (LMP)
- Preservation Loan Program (PLP)

- Rental Production Program (RPP)
- Self-Help Loan Pool (SHLP)
- Statewide Down Payment Assistance Program (SWDAP)
- Supportive Housing Development Program (SHDP)
- Supportive Housing Development Program 400 (SHDP400)
- State Tax Credit (STC)
- Urgent Repair Program (URP)

For the year ended June 30, 2011, the Agency made cash disbursements of approximately $794,000 in Agency funds for the following programs:

- Duke Home Energy Loan Pool (HELP)
- Individual Development Account Loan Pool (IDALP)
- Loan Modification Program (LMP)
- Multifamily Rental Assistance (MFRA)
- Statewide Down Payment Assistance Program (SWDAP)
- Statewide Down Payment Assistance Program High Income (SWDAPHI)

<u>Home Ownership Programs</u> The Agency's mission is to create affordable housing opportunities for North Carolinians whose needs are not met by the market. Given the historic lows in market mortgage rates and the overall recession, the Agency has focused its efforts to help homeowners in trouble or those needing additional assistance in buying or rehabilitating their home.

The FirstHome Mortgage Program, funded with tax-exempt mortgage revenue bonds, offers 30-year low-rate mortgages to moderate and low-income individuals who have not owned a home in the last three years. Annual household income and home purchase price limits apply to borrowers. In the current fiscal year, 362 homes were purchased.

The Statewide Down Payment Assistance Program offered $8,000 for an interest-free, deferred second mortgage to qualified households whose incomes are equal to or below 80% of area median income. The SWDAPHI allowed households above 80% of area median income to apply for a down payment up to $4,000. However, the program was expanded as of June 30, 2011 to offer $8,000 in down payment assistance to all qualifying borrowers regardless of whether they were above or below 80% of median income. This down payment assistance is available for FHA and VA loans only, and it requires a 650 minimum credit score. The program was expanded to increase the homeowner benefit from the FirstHome program and to differentiate the Agency's program from other lenders. In the current fiscal year, 110 FirstHome mortgage loans used SWDAP assistance.

The Agency helped community-based groups bring home ownership opportunities to 327 lower-income households. The Individual Development Account Loan Pool provides interest-free, deferred second mortgages to homebuyers participating in local Individual Development Account (IDA) programs. Grants of up to $1,000 are also provided to participants to match their IDA savings. The NHLP provides interest-free, deferred payment second mortgages for the purchase of newly-constructed, substantially rehabilitated, or foreclosed homes. The SHLP provides interest-free and amortizing mortgage loans for permanent financing of newly-built homes using homebuyer sweat equity. Incentive funding of $4,000 is also available when homes are built to certain SystemVision standards of energy efficiency and with an additional $1,000 if the affiliate also meets a major Green Building Certification.

The Neighborhood Stabilization Program provides federal funding to aid in the purchasing, rehabilitating, redeveloping, and reselling of foreclosed or abandoned homes to stabilize neighborhoods and stem the decline of property values. The Agency provided second mortgages for buyers of foreclosed homes or rental housing developments. This fiscal year, 46 FirstHome borrowers received assistance from NSP.

The Mortgage Credit Certificate Program (MCC) permits first-time homebuyers who are within federal guidelines for family income and acquisition costs to take up to 30% or $2,000 of annual mortgage interest as a federal income tax credit for every year the homebuyer occupies the home. The Agency provided MCCs for 322 homebuyers this fiscal year.

Single-Family Rehabilitation and Single-Family Rehabilitation Loan Pool programs provide deferred, forgivable loans to rehabilitate moderately deteriorated owner-occupied homes, primarily assisting homeowners below 80% of area median income with elderly and/or disabled household members. All units are improved to stringent energy and construction standards. This fiscal year the Agency upgraded the program to a loan pool in order for funds to be reserved on a unit-by-unit basis.

The Urgent Repair Program provides grants to local governments, regional agencies, and nonprofit organizations to correct housing conditions that pose an imminent threat to life, safety, or displacement of low-income homeowners. The number of households expected to be assisted with the 2011 awards is 570.

The Displacement Prevention Partnership, which operates in partnership with local offices of the Independent Living Rehabilitation Program in the N.C. Department of Health and Human Services, provides accessibility modifications to very low-income households that may be displaced due to severe mobility limitations. This year 323 households were assisted.

The Duke Home Energy Loan Pool provides funds for energy-efficiency measures performed in association with the comprehensive rehabilitation of the homes of Duke Energy customers. The Pool is funded by a subsidiary of Duke Energy Corporation. Eligible owner-occupants must have an income of 80% or less of the area median income. This year 49 households were assisted.

<u>Foreclosure Prevention Programs</u> In light of North Carolina's high unemployment rate, the Agency made use of several programs that target troubled homeowners. The National Foreclosure Mitigation Counseling Program provides Federal funds for foreclosure prevention counseling and legal assistance across the state. Counseling sessions are provided on a short-term basis by HUD-approved counseling intermediaries primarily in defined areas of greatest need. This year 2,519 households received counseling.

Through the Home Protection Program (HPP), the Agency partners with housing counseling organizations that serve all 100 counties. HPP is funded by the General Assembly. The program helps homeowners who lose their jobs through no fault of their own, and it provides up to $24,000 in assistance for up to a 24-month period. The interest-free, deferred payment loan is used to cover monthly mortgage payments and mortgage-related expenses on a one-time, short-term, or long-term basis. This year, 117 unemployed homeowners were assisted. The N.C. Foreclosure Prevention Fund, discussed in "New Business", will now serve homeowners who would have previously qualified for HPP.

<u>Rental Programs</u> The Agency administers both the Federal Low-Income Housing Tax Credit Program and the State Tax Credit (STC) Program. These credits are available to developers on a competitive basis to fund the creation of affordable rental housing in the state. The Agency's goals include awarding tax credits to the best developments possible given the limited resources available. The Qualified Allocation Plan establishes criteria that include the following to use in selecting developments that serve low-income residents: locations with strong market demand, healthy financial structures, attractive architectural design, and the best quality of building materials and workmanship.

Unlike the federal tax credit, the STC is not a tax-shelter equity investment. It is either claimed directly by the property owner in the form of a grant or transferred to the Agency by the N.C. Department of Revenue. The amount of the transferred STC becomes a secured loan from the Agency to the property owner. In every case to date, the owner has transferred its credit to the Agency because of the federal income tax treatment and the needs of the project. Once the property has reached certain milestones, primarily completion of a certain amount of construction, the loan becomes eligible to close.

The Rental Production Program provides new development, substantial rehabilitation, or acquisition/rehabilitation loans for the production of rental housing for low-income tenants. These RPP loans are gap financing for the projects financed with federal low-income tax credits.

The Federal Low-Income Housing Tax Credit Program, in conjunction with STC and RPP, is expected to create 2,384 units from the 2011 awards.

The Agency and the N.C. Department of Health and Human Services partnered to create the KEY Program by providing rental assistance to low-income persons with disabilities, including the homeless. Funding is available to all targeted units produced under the Preservation Loan Program, Housing Credit, and the Supportive Housing Development Program 400 programs; however, it does not provide assistance if rental subsidies are available through another program. This year 858 households were assisted.

The Supportive Housing Development Program provides funding for emergency, transitional, and permanent housing for children and adults with a wide range of disabilities or special housing needs. Eligible applicants are mission driven nonprofit organizations and units of local government. The number of units expected to be assisted from the 2011 awards is 304.

The Agency administers the Section 8 Housing Assistance Payment Program on behalf of HUD for properties throughout North Carolina. The Agency contracted with a third-party administrator, Quadel Consulting Corporation, to assist with the administration of the program. This year, the program provided assistance to 24,172 apartments occupied by low-income tenants.

Other Programs The Construction Training Program, which is a partnership with the North Carolina Home Builders Association (NCHBA) and local governments, provides funding for the hard costs of new construction or rehabilitation projects. NCHBA conducts a range of training services to low-income unemployed persons. Training consists of classroom and "hands on" residential field training followed by job placement activities. The local government pays for the cost of training, identifies eligible projects, and serves as or procures a general contractor.

Additional Information

This discussion and analysis is intended to provide additional information regarding the activities of the Agency. If you have questions about the report or need additional financial information, contact Elizabeth I. Rozakis, Chief Financial Officer, North Carolina Housing Finance Agency, P.O. Box 28066, Raleigh, North Carolina 27611-8066, (919) 877-5687, eirozakis@nchfa.com, or visit the Agency's website at www.nchfa.com.

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
North Carolina Housing Finance Agency

We have audited the accompanying basic financial statements of the North Carolina Housing Finance Agency (the Agency), a public agency and component unit of the State of North Carolina as of and for the year ended June 30, 2011, as listed in the table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Agency as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Governmental Auditing Standards*, we have also issued our report dated September 22, 2011 on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 10 is not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

BDO USA, LLP

September 22, 2011

NORTH CAROLINA HOUSING FINANCE AGENCY

BALANCE SHEET

YEAR ENDED JUNE 30, 2011

(in thousands)

ASSETS		
Current assets:		
Cash and cash equivalents	$	3,999
Restricted cash and cash equivalents		261,632
Restricted investments		136,309
Accrued interest receivable on investments		834
Mortgage loans receivable, net		145,054
Accrued interest receivable on mortgage loans		11,098
State receivables		54,470
Other assets		12,605
TOTAL CURRENT ASSETS	$	626,001
Noncurrent assets:		
Investments	$	2,044
Restricted investments		91,614
Mortgage loans receivable, net		1,202,518
Deferred outflow of resources		5,058
Other assets, net		15,978
TOTAL NONCURRENT ASSETS	$	1,317,212
TOTAL ASSETS	$	1,943,213
LIABILITIES		
Current liabilities:		
Bonds payable	$	171,450
Accrued interest payable		29,274
Accounts payable		2,974
Deferred revenues		16,787
Other liabilities		520
TOTAL CURRENT LIABILITIES	$	221,005
Noncurrent liabilities:		
Bonds payable, net	$	1,168,183
Derivative instrument - interest rate swap		5,058
Deferred revenues		8,195
Other liabilities		4,336
TOTAL NONCURRENT LIABILITIES	$	1,185,772
TOTAL LIABILITIES	$	1,406,777
NET ASSETS		
Restricted	$	522,565
Unrestricted		13,871
TOTAL NET ASSETS	$	536,436
TOTAL LIABILITIES AND NET ASSETS	$	1,943,213

The accompanying notes are an integral part of this financial statement.

NORTH CAROLINA HOUSING FINANCE AGENCY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

YEAR ENDED JUNE 30, 2011

(in thousands)

OPERATING REVENUES	
Interest on investments	$ 8,163
Net increase in fair value of investments	178
Interest on mortgage loans	76,371
Federal program awards received	283,907
Program income/fees	19,716
Other revenues	288
TOTAL OPERATING REVENUES	$ 388,623
OPERATING EXPENSES	
Interest on bonds	$ 62,105
Mortgage servicing expense	4,314
Federal program expense	282,927
Nonfederal program expense	963
General and administrative expense	19,521
Other expenses	6,376
TOTAL OPERATING EXPENSES	$ 376,206
OPERATING INCOME	$ 12,417
NON-OPERATING REVENUES (EXPENSES)	
State appropriations received	$ 11,685
State grant received	12,053
State tax credits	34,339
State program expense	(53,769)
TOTAL NON-OPERATING REVENUES (EXPENSES)	$ 4,308
CHANGE IN NET ASSETS	$ 16,725
TOTAL NET ASSETS-BEGINNING	$ 519,711
TOTAL NET ASSETS-ENDING	$ 536,436

The accompanying notes are an integral part of this financial statement.

NORTH CAROLINA HOUSING FINANCE AGENCY

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2011

(in thousands)		
Cash flows from operating activities:		
Interest on mortgage loans	$	76,152
Principal payments on mortgage loans		140,335
Purchase of mortgage loans		(51,193)
Federal awards received		299,186
Federal program expense		(282,772)
Nonfederal program expense		(963)
Federal grant administration income		13,283
Program income/fees		6,622
Other expenses		(22,169)
Other revenues		(2,458)
Net cash provided by operating activities	$	176,023
Cash flows from non-capital financing activities:		
Principal repayments on bonds	$	(137,040)
Interest paid		(66,778)
Bond issuance costs paid		(7)
State appropriations received		11,685
State grant received		5,994
State tax credits		38,968
State program expense		(53,769)
Net cash used in non-capital financing activities	$	(200,947)
Cash flows from investing activities:		
Proceeds from sales or maturities of investments	$	2,025,486
Purchase of investments		(2,032,505)
Earnings on investments		8,227
Net cash provided by investing activities	$	1,208
Net decrease in cash		(23,716)
Cash and cash equivalents at beginning of year		289,347
Cash and cash equivalents at end of year	$	265,631
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$	12,417
Adjustments to reconcile operating income to net cash		
(used in) provided by operating activities:		
Interest on investments		(8,163)
Increase in fair value of investments		(178)
Interest on bonds		62,105
Change in assets and liabilities:		
Decrease in mortgage loans		94,386
Decrease in interest receivable on mortgage loans		13
Increase in other assets		(3,750)
Increase in accounts payable and other liabilities		3,344
Increase in deferred revenues		15,849
Total adjustments	$	163,606
Net cash provided by operating activities	$	176,023

The accompanying notes are an integral part of this financial statement.

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2011

A. AUTHORIZING LEGISLATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Authorizing Legislation The North Carolina Housing Finance Agency (the Agency) is a public agency and component unit of the State of North Carolina (the State). The accompanying financial statements represent the financial position of the Agency only. The Agency was created to provide financing for residential housing construction, new or rehabilitated, for sale or rental, to residents of the State with low and moderate incomes. Pursuant to its enabling legislation, the Agency is authorized to issue bonds and other obligations to fulfill its corporate purpose up to a total outstanding amount of $3 billion. The debt obligations of the Agency do not constitute a debt, grant or line of credit of the State, and the State is not liable for the repayment of such obligations.

Basis of Presentation The accompanying financial statements of the Agency have been prepared in accordance with generally accepted accounting principles in the United States of America (GAAP) as applicable to governments. The Governmental Accounting Standards Board (GASB) establishes standards of financial accounting and reporting for state and local government entities. Financial Accounting Standards Board standards of financial accounting and reporting issued on or before November 30, 1989, are applied by the Agency to the extent that those standards do not conflict with or contradict GASB pronouncements.

Measurement Focus and Basis of Accounting The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, except for Agency funds which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows.

Programs The Agency's accounts are organized on the basis of programs. Each program represents a separate accounting entity. Agency resources are allocated to these programs based on legal responsibility, fiscal accountability, and management designation. A summary of the Agency's primary programs are as follows:

<u>Agency Programs</u> Direct administrative and operational activities, including operating expenses of various programs, are recorded in Agency Programs. Since the inception of the State Tax Credit (STC) program, the General Assembly of the State of North Carolina awarded $255,315,000 in STCs, of which the Agency received $38,968,000 during fiscal year 2011. Under this program, the STC project will receive the credit in the form of a loan or direct refund.

<u>Housing Trust Fund Programs</u> The North Carolina Housing Trust and Oil Overcharge Act created the North Carolina Housing Trust Fund (Housing Trust Fund) and the North Carolina Housing Partnership (Housing Partnership). The purpose of the Housing Trust Fund is to increase the supply of decent, affordable, and energy-efficient housing for residents of the State with low and moderate incomes. The State has appropriated funds of which substantially all are to be used to make loans and grants under the Housing Trust Fund programs. The Agency received state appropriations in the amount of $9,576,000 for the year ended June 30, 2011. This appropriation is reported in *Non-Operating Revenues (Expenses)* in the financial statements. The Housing Partnership is responsible for developing policy with respect to the operation of programs within the Housing Trust Fund. The Agency provides staff services to the Housing Partnership and administers the Housing Trust Fund Programs. In June 2011, the North Carolina General Assembly, Session 2011, passed a bill to transfer the management of the State Home Foreclosure Prevention Project and Fund to the Agency. Allocated funds are to be used to counsel homeowners who are at risk of foreclosure. The act became effective July 1, 2011. Per the enabling legislation, the remainder of the 2011 fund in the amount of $6,059,000 was transferred to the Housing Trust Fund in July 2011. These funds are to complement the amount appropriated by the General Assembly for the Housing Trust Fund. These funds are also reported in *Non-Operating Revenues (Expenses)* in the financial statements.

Federal and State Programs The Agency administers thirteen federal programs. The Section 8 Programs, the Low-Income Housing Projects in Lieu of Tax Credits program, the Tax Credit Assistance Program, and the HOME Investment Partnerships Program (HOME program) represent 44%, 29%, 18%, and 7% respectively, of *Federal program expense*. The Agency receives a fee for administering these programs. The HOME program is matched with funds appropriated by the General Assembly of the State; the amount of matching funds received during the year was $1,608,000. In August 2010, the U.S. Department of the Treasury (Treasury) authorized the Agency to use Hardest Hit Funds to help unemployed homeowners avoid foreclosure. This program is similar to the Home Protection Program (HPP) that was established by the General Assembly of the State in 2004. Because of the federal funding, the HPP appropriation was reduced to $500,000 in fiscal year 2011.

Home Ownership Bond Programs The Home Ownership Bond Programs were created through various single-family bond resolutions and are restricted as to their use. The proceeds of individual bond issues are used to purchase first-time home buyer mortgage loans on single-family residential units.

Rental Bond Programs The Rental Bond Programs were created through various multifamily bond resolutions and are restricted as to their use. The proceeds of individual bond issues are used to provide mortgage loans to developers of rental housing projects.

Significant Accounting Policies Below is a summary of the Agency's significant accounting policies:

Cash and cash equivalents Cash and cash equivalents are comprised of cash on hand, amounts on deposit with financial institutions, which are insured or are collateralized under provisions of North Carolina laws and regulations, amounts in pooled cash accounts managed by the State Treasurer, and highly liquid investments with original maturities of three months or fewer. Funds deposited in an investment pool of the State Treasurer are invested in a variety of instruments as authorized by State law. The majority of *Cash and cash equivalents* classified as restricted on the balance sheet are restricted for the Agency's debt service payments and bond calls and for purchasing mortgage loans under the Agency's different programs.

Investments Investments are reported at fair value in accordance with GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools* (GASB 31), except for certain mortgage-backed securities. The Agency intends to hold all securities to maturity.

Mortgage loans receivable, net Mortgage loans receivable are carried at cost less unamortized discount and loan loss reserve, plus unamortized direct loan origination costs. The discount on loans and all direct loan origination costs are amortized over the terms of the mortgages using the effective interest rate method. It is the Agency's policy to provide for potential mortgage loan losses based on a periodic evaluation of the loan portfolios.

State receivables In 2002, the General Assembly converted the State Housing Credit into a refundable credit providing funds that can be efficiently invested directly in Housing Credit properties through the Agency. The Agency recorded a $48,411,000 receivable for STCs for the fiscal year ended June 30, 2011. This amount represents the remaining 2009 and 2010 outstanding awards. During the year, the Agency received STCs in the amount of $38,968,000 from the General Assembly for the 2008 outstanding awards (second installment) and the 2009 awards (first installment). These funds are committed to provide loans to housing credit properties through the Agency. The North Carolina General Assembly passed legislation transferring the State Home Foreclosure Prevention Project (SHFPP) and Fund to the Agency as of July 1, 2011. The SHFPP will provide counseling to homeowners who are at risk of foreclosure on their homes. The Agency recorded a $6,059,000 receivable for the fiscal year ended June 30, 2011 which represents the remaining funds in the State Home Foreclosure Prevention Trust Fund as of June 30, 2011. Funds received and disbursed are reflected in *Non-Operating Revenues (Expenses).*

Other assets, net Fixed assets, net of accumulated depreciation, in the amount of $3,596,000 are included in *Other assets, net* in the financial statements. Assets of $500 or greater are capitalized and depreciated over the economic useful lives of five years using the straight-line method. Recorded in *Other assets* (current) is $3,554,000 in accounts receivables for Quadel Consulting Corporation contract administration, Hardest Hit Fund Program advanced expenses, Neighborhood Stabilization Program (NSP) program expenses, National Foreclosure Mitigation Counseling (NFMC) Rounds Two, Three, and Four program close-out, and HOME Program loans closed in fiscal year 2011 but reimbursed in fiscal year 2012. Other assets in the amount of $20,961,000 are reflected in the Home Ownership Bond Programs. Included in this amount are mortgage payments collected by servicers that will be remitted to the Agency in fiscal year 2012 and deferred bond issuance costs of $13,260,000 (see footnote below).

Deferred bond issuance costs These costs represent deferred bond issuance costs and deferred losses on refundings. Deferred losses on refundings result from a difference between the reacquisition price and the net carrying amount of the old debt and are amortized on a straight-line basis over the shorter of the life of the old debt or the new debt. Deferred bond issuance costs are amortized on a straight-line basis over the terms of the bonds and are written down to the extent any bond calls are completed. The amortization of deferred losses on refunding and deferred bond issuance costs is included as a component of *Interest on bonds.* Deferred bond issuance costs in the past have been included as part of *Bonds payable, net*, but were reclassified to *Other assets, net* for financial statement presentation for June 30, 2011 as required by GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements (GASB 62).

Bond premium/discount Bond premium/discount on bonds represents the difference in the amount received upon the sale of the bonds versus the par value of the bonds. The premiums and discounts relate to the planned amortization (PAC) bonds sold in conjunction with many series in the 1998 Home Ownership Revenue Bond Resolution. The bond premium/discount is amortized using the effective interest rate method over the life of the related PAC bonds and are adjusted accordingly for any bond calls that occur during the year. The amortization of the bond premium/discount is included as a component of *Interest on bonds.* In the prior fiscal year, bond premium/discount was included as a component of *Accrued interest payable.* As of June 30, 2011, the Agency reflected the unamortized portion of bond premium/discount as a component of *Bonds payable, net.*

Deferred revenues Deferred revenues are monitoring fees received for the Low-Income Housing Tax Credit and for loans issued under the State Disaster Program. These fees are amortized on a straight-line basis over the life of the tax credit or over the life of the loan. Also included under *Deferred revenues* is funding from the Treasury for the Hardest Hit Fund. The funds are to be used for loans to assist homeowners who are at risk of foreclosure.

Interprogram receivable/payable During the normal course of operations, the Agency has numerous transactions among programs in order to provide services. To the extent that certain transactions among programs have not been settled as of June 30, 2011, these balances are recorded as *Interprogram receivable/(payable)*. These interprogram transactions are eliminated in the financial statements.

Net assets Net assets are reported as restricted when constraints placed on them are either externally imposed by creditors, grantors, or laws or regulations or by law through constitutional provisions.

The Agency's Board of Directors annually approves an operating budget that is funded with revenues generated by administrative fees earned on federal programs, interest income earned on investments, and reserves from bond resolutions. All of these revenue sources are earmarked to cover operating expenses. The decision to use restricted or unrestricted receipts to fund a payment is transactional-based. For projects funded by tax-exempt debt proceeds and other resources, the debt proceeds are always used first.

As of June 30, 2011, the Agency had $13,871,000 of unrestricted net assets. The Agency intends to use these net assets for potential home ownership mortgage loan losses, to meet rating agencies' requirements, to cover the operating budget, and to support other Agency housing commitments.

Net assets of the Home Ownership Bond Programs and Rental Bond Programs are restricted pursuant to the Agency's agreements with its bondholders as determined in each bond resolution. The Agency has restricted net assets in amounts sufficient to meet required debt service and operating expenses as defined by each bond resolution.

The net assets of the Housing Trust Fund Programs are restricted in accordance with the policies of the Housing Partnership. The Federal and State Programs' net assets are restricted in accordance with each specific program's requirements.

The Agency implemented GASB 31 Accounting and Financial Reporting for Certain Investments and for External Investment Pools on July 1, 1997, which requires the Agency to report investments at fair market value. The effect of the adoption on the Agency's financial statements for the past years ended June 30, 2011 and 2010 are as follows:

(*in thousands*)	**June 30, 2011**	**June 30, 2010**
Increase (Decrease) in Operating Income	$ 178	$ (46)
Increase in Net Assets	$ 185	$ 7

Operating Revenues and Expenses One of the Agency's main functions is to borrow funds in the bond market and to use those funds to make home ownership and rental mortgage loans. The Agency has the authority to issue bonds to the investing public in order to create a flow of private capital. These funds are used to purchase mortgage loans for qualified housing sponsors and certain qualified individuals. A significant portion of operating income is derived from interest earned on mortgage loans less the interest expense of bonds outstanding. Additional operating income is earned from the administration of federal programs.

Non-Operating Revenues and Expenses *State appropriations received, State grants received*, and *State tax credits* from the State of North Carolina are classified in *Non-Operating Revenues (Expenses)*. The related expenses are classified as *State program expense*. In fiscal year 2011, the Agency accrued $34,339,000 in *State tax credits* for the 2010 award year and $6,059,000 in State Home Foreclosure Prevention Program Funds (see additional comments under "State receivables").

General and administrative expense General and administrative expenses are classified by the related program. To the extent allowed by bond resolutions and federal and state programs, transfers are made from the funds of the bond issue or the federal and state programs to the Agency to reimburse certain general and administrative expenses. In the event the bond resolution or federal and state programs do not permit payment of general and administrative expenses, expenses are paid from Agency reserve funds. Certain indirect costs were allocated to Federal and State Programs based on an independently prepared cost allocation study. These costs are allocated on certain parameters such as office square footage, number of approved positions, and number of transactions processed.

Use of estimates The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period (e.g., loan loss reserve). Actual results could differ from those estimates.

New accounting pronouncements GASB 62 provides that reporting for governmental and business-type activities should be based on all applicable GASB pronouncements as well as the Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure, issued on or before November 30, 1989 (collectively, the FASB and AICPA Pronouncements), unless those pronouncements conflict with or contradict GASB pronouncements. The primary objective of GASB 62 is to directly incorporate the applicable guidance from those FASB and AICPA Pronouncements into the state and local government accounting and financial reporting standards, with the provisions modified, as appropriate, to recognize the effects of the governmental environment and the needs of governmental financial statement users without affecting the substance of the applicable guidance. GASB 62 is effective for financial statements for periods beginning after December 15, 2011 with earlier application being encouraged. The Agency adopted the provisions of GASB 62 as of July 1, 2010 and as described above in deferred bond issuance section of this footnote, resulted in a reclassification of bond issuance costs out of bonds payable and into other assets.

B. CASH, CASH EQUIVALENTS, INVESTMENTS, AND SECURITIES LENDING TRANSACTIONS

Cash and cash equivalents As of June 30, 2011, the Agency had deposits in pooled investment accounts of the State Treasurer with a carrying value of approximately $113,279,000 and a bank balance of approximately $114,017,000. The State Treasurer investment account has the characteristics of a demand deposit account in that the Agency may deposit cash at any time and may withdraw cash at any time without prior notice or penalty. Included in the investment accounts of the State Treasurer is the amount of $3,420,000 representing escrow and replacement reserves maintained on behalf of multifamily and single-family mortgagors; accordingly, a corresponding liability of the same amount is also included on the balance sheet.

The Agency also had deposits with both a carrying value of $152,349,000 and bank balance approximating $152,949,000 on deposit with the Agency's fiduciary agent. Such deposits are collateralized with eligible securities held by a third-party custodian. The Agency also had deposits held in other financial institutions with both a carrying value and bank balance of $3,300.

Deposits - custodial credit risk Custodial credit risk is the risk that in the event of a bank failure, the Agency's deposits may not be returned to it. At June 30, 2011, the Agency was not exposed to any material custodial credit risk.

Investments Repurchase agreements are collateralized by obligations of the U.S. Government, its agencies, or direct investments of such obligations. The market value of securities subject to such agreements must be maintained at least equal to 100 percent of the principal and accrued interest on the invested funds daily. The Agency invests in repurchase agreements for mostly long-term (generally reserved) investments. On June 30, 2011, approximately $81,175,000 was invested in such long-term agreements having maturity dates ranging from September 1, 2018, to July 1, 2039, primarily at rates ranging from 4.00% to 7.15%.

At June 30, 2011, the Agency held the following investments with the listed maturities at annual rates ranging from 0.45% to 7.15%. Ratings are displayed with the Standard & Poor's rating listed first and the Moody's Investors Service second *(in thousands)*.

		Investment Maturities (in Years)			
Investments	Carry Amount	Less Than 1	1 - 5	6 – 10	More Than 10
GNMA MBS's** Rated AAA/Aaa	$ 1,768	$ -	$ -	$ -	$ 1,768
FNMA MBS's** Rated Aaa	384	-	-	-	384
Repurchase Agreements- Rated BBB*/Baa1 or higher	81,175	-	-	9,298	71,877
US Agency and State and Local Obligations- Rated AAA/Aaa**	146,640	136,309	-	10,331	-
Total Categorized	$229,967	$136,309	-	$19,629	$74,029

*Note that Bayerische Landesbank and Westdeutsche Landesbank are guaranteed by the German state of Bavaria.

**Note that in August 2011 Standard and Poor's Rating Agency downgraded federal government securities from AAA to AA+

Interest rate risk Interest rate risk is the risk that changes in the market rates will adversely affect the fair market value of an investment. The Agency 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. In practice, the Agency does limit investments to 20 years to minimize fair value losses arising from interest rate risk.

Credit risk Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The General Statutes of the State authorize the Agency to invest in (i) direct obligations or obligations on which the principal and interest are unconditionally guaranteed by the U.S. Government; (ii) obligations issued by an approved Agency or corporation wholly-owned by the U.S. Government; (iii) interest-bearing time deposits, certificates of deposit, or other approved forms of deposits in any bank or trust company in North Carolina which satisfies insurance and, if necessary, collateral requirements for holding Agency money; (iv) duly established investment programs of the State Treasurer; (v) repurchase agreements; and (vi) repurchase agreements with banks and financial institutions which are chartered outside of North Carolina and meet specified rating and collateral requirements of the various bond resolutions. Mortgage-Backed Securities (MBS) are securitized by the Federal National Mortgage Association (FNMA), (Fair Value - $384,000, rated AAA/Aaa), and by the Government National Mortgage Association (GNMA), (Fair Value - $1,768,000, rated AAA/Aaa). The Government National Mortgage Association is a direct obligation of the U.S. Government. Repurchase agreements are fully collateralized by obligations issued by the U.S. Government or its agencies. The Government Securities are comprised of U.S. Treasuries, State and Local Government Securities, and Federal Farm and Bank Securities which are direct obligations of the Treasury (rated AAA/Aaa). The U.S. Treasuries have a Fair Value of $135,125,000, the State and Local Government Securities have a Fair Value of $1,184,000 and Federal Farm and Bank Securities have a Fair Value of $10,331,000.

Concentration of credit risk The Agency has a practice of entering into repurchase agreements with several investment providers to minimize the Agency's exposure to a bond rating downgrade should one of the providers have a ratings event. The investments consist of repurchase agreements and obligations of the U.S. and state government which represent 35.30% and 63.77%, respectively, of the Agency's total investments. Investments in any one issuer that represent 5% or more of total investments as of June 30, 2011 are as follows (in thousands):

Investment Issuer	Amount
Bayerische Landesbank, repurchase agreement	$18,907
Westdeutsche Landesbank, repurchase agreement	16,989
Societe Generale, repurchase agreement	11,673

Custodial credit risk Custodial credit risk occurs in the event that investment securities are uninsured and are not registered in the name of the Agency, and there is a failure of the counterparty. At year end, the Agency was not exposed to custodial credit risk. The U.S. Government securities are on deposit with the Agency's fiduciary agent, which holds these securities by book entry in its fiduciary Federal Reserve accounts. The Agency's ownership of these securities is identified through the internal records of the fiduciary agent.

In accordance with the 1985 Single-family Revenue Bonds Series U and V, bond proceeds were used to purchase fully-modified mortgage-backed pass-through certificates of GNMA and mortgage-backed pass-through certificates of FNMA from pools of qualified mortgages originated under the Agency's program guidelines. The securities are based on cash flows from underlying mortgages and are not considered derivatives.

Foreign currency risk   Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The Agency is not at risk for foreign currency risk.

Securities lending transactions GASB 28, *Accounting and Financial Reporting for Securities Lending Transactions* (GASB 28) established accounting and financial reporting standards for transactions where governmental entities transfer their securities to broker-dealers and other entities (borrowers) in exchange for collateral (which may be cash, securities, or letters of credit) and simultaneously agree to return the collateral in exchange for the original securities in the future. The Agency does not directly engage in securities lending transactions; however, the State Treasurer does. The State Treasurer is authorized to engage in these types of transactions under North Carolina General Statute 147-69.3c. The types of securities loaned include U.S. Government securities and corporate bonds and notes which are held in the pooled investment accounts of the State Treasurer. A securities custodian manages the securities lending program for the State and receives cash as collateral from the borrowers. Collateral is invested in a collateral investment pool and must be maintained at 100% of the market value of the original securities lent. This investment in the collateral investment pool is considered to be a highly liquid investment. The State has a custodial credit risk related to the transactions and incurred no losses during the year ended June 30, 2011, related to these transactions.

As of June 30, 2011, the Agency had deposits in the pooled investment accounts of the State Treasurer. The risk associated with these transactions is recorded by the State in its fiduciary funds. No allocation will be made to the Agency; therefore, these financial statements do not reflect the risk associated with securities lending transactions as called for in GASB 28.

C. MORTGAGE LOANS RECEIVABLE

Mortgage loans purchased with the proceeds of the various single-family and multifamily bond issuances have stated interest rates ranging from 3.95% to 13.00%. Unamortized discounts as of June 30, 2011 totaled $760,000.

The existing and future mortgage loans which the Agency may purchase under the bond programs must comply with guidelines established by the Agency, including the requirement that all such mortgage loans be insured by the Federal Housing Administration, guaranteed by the Veterans Administration, guaranteed by the U.S. Department of Agriculture, Rural Department, insured under a private mortgage insurance program, or have a loan-to-value ratio equal to or less than 80%. As of June 30, 2011, all outstanding mortgage loans purchased with mortgage revenue bond proceeds satisfy these requirements. The Agency has an allowance for loan losses in the single-family mortgage loan program of $5,585,000 as of June 30, 2011.

Mortgage loans made with funds from the Agency Programs, Housing Trust Fund Programs, and federal and state programs have allowances for loan losses of $13,000, $784,000 and $1,404,000 respectively, as of June 30, 2011.

For the Home Ownership and Rental Bond Programs, the Agency has collateralized $1,261,618,000 in mortgage loans receivable, and $128,338,000 in reserves to repay $1,333,130,000 single-family and multi-family bonds payable at June 30, 2011. Proceeds from the bonds issued were used to finance housing throughout the State. The bonds are payable through 2039 and are paid down from cash collections on mortgage loans receivable, interest receivable on mortgage loans, unexpended bond proceeds, and sale of investments. The Agency expects 100% of the mortgage loans, both principal and interest, to pay the principal and interest debt service requirements on the bonds. The total debt service requirement to be paid based on projected cash flows as of June 30, 2011 is $2,188,111,000 (see page 26 "maturities"). For the current fiscal year, principal and interest paid for scheduled debt service payments and Homeownership and Rental Programs' operating income excluding bond interest expense were $103,258,000 and $72,134,000 respectively.

D. BONDS PAYABLE

Bonds payable activity for the year ended June 30, 2011 was as follows (*in thousands*):

	Beginning Balance	Additions	Reductions	Ending Balance
Bonds payable				
Home Ownership	$ 1,457,955	$ -	$ (135,835)	$ 1,322,120
Rental	12,215	-	(1,205)	11,010
	$ 1,470,170	-	$ (137,040)	$ 1,333,130
Plus Bond Premium/Discount				
Home Ownership	$ 8,746	$ -	$ (2,243)	$ 6,503
Rental	-	-	-	-
	$ 8,746	$ -	$ (2,243)	$ 6,503
Total Bonds payable, net	**$ 1,478,916**	**$ -**	**$ (139,283)**	**$ 1,339,633**

Bonds payable as of June 30, 2011 are as follows (*in thousands*):

Issue	Stated Rates (%)	Final Maturity	Principal Amount
Single-family Revenue Bonds			
(1985 Resolution)			
Series AA/BB	6.25	2017	$1,870
Series CC/DD	5.95 - 6.20	2027	2,375
Series EE/FF	5.90 - 6.25	2028	2,905
Series GG/HH	5.90 - 6.30	2028	4,335
Series II/JJ	6.20	2017	4,120
Series KK/LL	5.88 - 6.20	2028	4,235
Series MM/NN	5.45 - 5.95	2028	2,245
Series OO/PP	5.80 - 6.25	2028	6,705
Series QQ/RR	5.75 - 5.85	2028	9,825
Series SS/TT	5.38 - 5.70	2028	4,295
Series UU/VV	4.85 - 5.35	2029	6,780
Series WW	6.25	2018	22,445
			$72,135

Issue			
Home Ownership Revenue Bonds			
(1998 Trust Agreement)			
Series 1	5.00 - 5.38	2030	$14,145
Series 2	4.70 - 5.25	2030	8,190
Series 3	4.55 - 5.20	2030	17,220
Series 4	4.70 - 5.30	2030	12,590
Series 5	5.25 - 5.63	2030	12,375
Series 6	5.45 - 6.20	2030	6,700
Series 7	5.45 - 6.25	2031	12,635
Series 8	6.00 - 6.40	2031	2,660
Series 9	4.95 - 5.88	2032	23,555

Issue	Stated Rates (%)	Final Maturity	Principal Amount
Home Ownership Revenue Bonds			
(1998 Trust Agreement)			
Series 10	4.35 - 5.40	2033	12,810
Series 11	4.60 - 5.38	2033	24,885
Series 12	4.55 - 5.45	2033	33,150
Series 13	4.55 - 5.35	2034	28,725
Series 14	4.50 - 5.53	2034	34,700
Series 15	*Variable - 4.95	2032	26,480
Series 16	*Variable - 5.40	2032	25,725
Series 17	*Variable - 5.00	2034	31,115
Series 18	*Variable - 4.45	2035	27,905
Series 19	3.80 - 5.25	2035	42,530
Series 20	3.90 - 4.75	2035	44,780
Series 21	3.85 - 5.00	2035	42,295
Series 22A	4.00 - 5.50	2037	47,925
Series 22CE	4.00 - 5.25	2039	69,110
Series 23	3.60 - 5.00	2037	45,935
Series 24	3.75 - 5.50	2038	63,440
Series 25	4.10 - 5.75	2037	50,030
Series 26	3.60 - 5.50	2038	51,270
Series 27 A	4.15 - 6.00	2038	54,525
Series 28	3.55 - 5.50	2039	53,650
Series 29	3.95 - 5.50	2038	81,285
Series 30	3.55 - 5.50	2039	55,370
Series 31	3.85 - 5.50	2038	57,275
			$1,114,985

Issue	
Home Ownership Revenue Bonds	
(2009 Resolution) Series A	$135,000
Total Bonds Outstanding	$1,322,120
Plus Bond Premium/Discount	$6,503
Total Home Ownership Bond Programs	**$1,328,623**

*See Footnote E. “Derivative Instrument-Interest Rate Swap” for variable rate interest calculation methodology.

Issue	Stated Rates (%)	Final Maturity	Principal Amount
Multifamily Revenue Refunding Bonds			
(1992 Resolution) Series C	3.40 - 4.80	2024	$ 11,010
Total Rental Bond Programs			**$ 11,010**

To the extent provided in the authorizing resolutions, the bonds of each Home Ownership Bond Program and Rental Bond Program are collateralized by the investments and mortgage loans receivable of that program and revenues derived therefrom and do not constitute a general obligation of the Agency. The bond resolutions further provide for the processing of money through specifically designated funds and accounts, periodic reporting, and the performance of other covenants, conditions, agreements, and provisions contained therein.

Maturities Debt service requirements, including sinking fund requirements on term bonds, subsequent to June 30, 2011, are as follows (*in thousands*):

Bonds Outstanding without Interest Rate Swaps

Fiscal Year Ending June 30	Principal	Interest
2012	$ 170,030	$ 56,344
2013	37,635	55,226
2014	38,765	53,482
2015	40,485	51,632
2016	38,540	49,725
2017-2021	170,780	221,132
2022-2026	175,610	180,046
2027-2031	261,395	124,053
2032-2036	243,490	55,625
2037-2039	88,920	6,810
Total Requirements	**$ 1,265,650**	**$854,075**

Bonds Outstanding with Interest Rate Swaps

Fiscal Year Ending June 30	Principal	Interest
2012	$1,420	$60
2013	1,355	59
2014	1,300	58
2015	1,235	57
2016	1,185	56
2017-2021	9,405	255
2022-2026	13,715	211
2027-2031	23,125	124
2032-2035	14,740	26
Total Requirements	**$67,480**	**$906**

Total Bonds Outstanding

Fiscal Year Ending June 30	Principal	Interest
2012	$171,450	$56,404
2013	38,990	55,285
2014	40,065	53,540
2015	41,720	51,689
2016	39,725	49,781
2017-2021	180,185	221,387
2022-2026	189,325	180,257
2027-2031	284,520	124,177
2032-2036	258,230	55,651
2037-2039	88,920	6,810
Total Requirements	**$1,333,130**	**$854,981**

Bond Redemptions The bond series resolutions provide for various methods of redemption. Bonds are redeemed at par from prepayments of mortgage loans securing the issues, from unexpended bond proceeds of the issues, or from funds released via the related decreases in the respective debt service reserve requirements. Losses on these bond redemptions represent the reduction of the proportionate amount of unamortized deferred bond issuance costs for the bonds redeemed. Such losses are included in *Interest on bonds* for financial statement purposes. Various bond issues are redeemable at the option of the Agency. Currently, no outstanding bonds have any prepayment premiums. However, the 1992 Multifamily Revenue Refunding Bonds do not allow redemption of bonds prior to January 1, 2012.

For the year ended June 30, 2011 bond redemptions and losses recognized by resolution were as follows (*in thousands*):

Issue		Amount Redeemed		Loss Recorded
Single-family Revenue Bonds (1985 Resolution)	$	3,650	$	(41)
Home Ownership Revenue Bonds (1998 Trust Agreement)		96,235		(953)
Total Home Ownership Bond Programs	**$**	**99,885**	**$**	**(994)**
Multifamily Revenue Bonds (1984 Resolution)	$	675	$	(33)
Total Multifamily Ownership Bond Programs	**$**	**675**	**$**	**(33)**

Special Facilities (Conduits) The Agency issued the Housing Facilities Revenue Bonds, Multifamily Housing Revenue Bonds and Student Housing Variable and Taxable Rate Revenue Bonds, which are not presented in the basic financial statements of the Agency. These bonds are secured solely by the properties and related revenues of the projects and the applicable credit enhancements, with the exception of the 2002 Resolution, which is secured by payments received on GNMA mortgages. These bonds do not constitute a debt of and are not guaranteed by the state of North Carolina, any political subdivision thereof or the Agency. Accordingly, these obligations are excluded from the Agency's financial statements.

Bonds payable as of June 30, 2011 for Special Facilities are as follows (*in thousands*):

Issue	**Bond Type**	**Bonds Outstanding**
2000 Resolution* (Series A/B)	Student Housing Variable and Taxable Rate Revenue Bonds	$15,235
2002 Resolution* (Series A, B, C, D)	Multifamily Housing Revenue Bonds	8,790
2002 Resolution*	Housing Facilities Revenue Bonds	4,000
2010 Resolution (Series 2010)	Multifamily Housing Revenue Bonds	9,341
Total		**$37,366**

*These are Section 501(c)3 entities and did not require volume cap when the bonds were issued.

E. DERIVATIVE INSTRUMENT - INTEREST RATE SWAP

Summary Information During the reporting period from July 1, 2010, to June 30, 2011 the Agency did not execute, amend or terminate any derivative contracts. The Agency has four, pay-fixed, interest rate swap agreements with four separate financial counterparties (further described herein) each designated as a hedging derivative instrument representing cash flow hedges for the organization (*in thousands*):

Hedgeable Item	Hedging Derivative Instrument	Notional Amount	Classification	Fair Value at June 30, 2011 Liability	Classification	Change in Fair Value Decrease
Series 15C Bonds	Pay-Fixed Interest Rate Swap	$15,285	Hedging Derivative	$ (568)	Deferred Outflow of Resources	$ (662)
Series 16C Bonds	Pay-Fixed Interest Rate Swap	15,615	Hedging Derivative	(1,632)	Deferred Outflow of Resources	(150)
Series 17C Bonds	Pay-Fixed Interest Rate Swap	18,580	Hedging Derivative	(1,932)	Deferred Outflow of Resources	(437)
Series 18C Bonds	Pay-Fixed Interest Rate Swap	18,000	Hedging Derivative	(926)	Deferred Outflow of Resources	(391)

There were no derivative instruments reclassified from a hedging derivative to an investment derivative instrument during the period. There was no deferral amount within investment revenue due to any reclassifications during the period.

Objective The Agency has entered into interest rate swaps in connection with all of its variable-rate revenue bonds associated with four series in its 1998 Home Ownership Revenue Bond Resolution as a means to manage the future cash flow impact associated with the hedged debt. The intention of the swap was to create more certainty for the Agency associated with the interest rate spread between its assets and liabilities.

Terms and credit risk The terms and credit risk of the outstanding swaps as of June 30, 2011 were as follows (*in thousands*):

Notional Amount	Counterparty	Counterparty Credit Rating Moody's/S&P	Date of Swap Execution	Maturity Date of Swap	Fixed Rate	Floating Index
$15,285[1]	UBS AG	Aa3/A+	5/8/2003	7/1/2032	3.508%	63%L[2] + 0.30%
15,615[1]	Bank of America, N.A.	Aa3/A+	9/16/2003	7/1/2032	3.810%	63%L[2] + 0.30%
18,580[1]	Bank of America, N.A.	Aa3/A+	12/11/2003	7/1/2033	3.725%	63%L[2] + 0.30%
18,000[1]	Goldman Sachs Mitsui Marine	Aa1/AAA	4/20/2004	1/1/2035	3.288%	63%L[2] + 0.30%

[1] The swap contracts contain optionality that allows the Agency the right to change the notional to better match the principal schedule on the bonds.

[2] L represents the USD, 1-Month LIBOR index as published on Telerate page 3750

Fair value In total, the swaps have a fair value of negative $5,058,000 as of June 30, 2011. Because the coupons on the Agency's variable-rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase. The fair value was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swap. Additionally, if at the time of termination, the swap has a negative fair value, the Agency would be liable to the counterparty for a payment equal to the swap's fair value.

Interest rate risk Under all of the swaps, the Agency pays the counterparties a fixed rate and receives a variable payment computed as 63% of 1-Month LIBOR plus 30 basis points. The bonds' variable-rate coupons are remarketed weekly and generally track the variable SIFMA index, which was 0.09% as of June 30, 2011.

Basis risk and termination risk The swaps expose the Agency to basis risk should the relationship between LIBOR and SIFMA converge, changing the synthetic rate on the bonds. The swap contracts for the Agency use a compound formula for the floating rate index to reduce this risk. During the accounting period, the Agency realized a benefit of 20.54 basis points due to the floating rate formula for its swap contracts when compared to the floating rate on the respective bonds. For all swaps, collateral thresholds have been established if the counterparty's ratings reach A2 for Moody's or A for S&P. Series 16C, 17C and 18C swaps may be terminated if the counterparty's or the Agency's rating falls below Baa2 as issued by Moody's or BBB as issued by S&P. The series 15C swap may be terminated if the counterparty's or the Agency's rating falls below Baa3 as issued by Moody's and BBB- as issued by S&P.

Credit risk Credit risk is the risk that the counterparty will not fulfill its obligations. All of the contracts as of June 30, 2011 reflect liabilities and, therefore, the Agency does not have current credit risk on its contracts. The Agency monitors the ratings of its counterparties to ascertain credit risk.

Foreign currency risk Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. All of the Agency's swaps are denominated in U.S. dollars and are, therefore, not subject to foreign currency risk.

Rollover risk Rollover risk exists when the derivative does not last as long as the associated debt is outstanding. The maturity dates of the Agency's swap contracts match the maturity dates of the hedged debts; therefore, the Agency has no rollover risk.

Market access risk Market access risk is the risk that the Agency will not be able to enter credit markets as planned or that credit will become more costly. The Agency's current market access risk is limited because of its participation in the TCLP, which will not expire until January 2013, and the Agency has cancellation features available with each of its swaps, offering the Agency flexibility.

Quantitative Method of Evaluating Effectiveness In order to assess the effectiveness of each hedging derivative instrument, the Agency employed the "Synthetic Instrument Method". Under the Synthetic Instrument Method, a hedging derivative instrument is effective if the synthetic price is substantively fixed. The synthetic price as of the evaluation date, June 30, 2011, is compared to the synthetic price expected at the establishment of the hedge by calculation of an effectiveness percentage. If the effectiveness percentage is within a range of 90 to 111 percent, the synthetic price is substantively fixed. Following are the results of the testing as of the end of the reporting period:

Hedgeable Item	Hedgeable Item Effective Bond Variable Rate	Derivative Instrument Floating Rate	Floating Rate Basis	Synthetic Price	90 to 111% Range	Test Performance
Series 15C Bonds	0.2681	0.4735	0.2054	3.3646%	3.2130 – 3.9627	PASS
Series 16C Bonds	0.2681	0.4735	0.2054	3.6046%	3.4290 – 4.2291	PASS
Series 17C Bonds	0.2681	0.4735	0.2054	3.5196%	3.3525 – 4.1348	PASS
Series 18C Bonds	0.2681	0.4735	0.2054	3.0826%	2.9592 – 3.6497	PASS

Swap payments and associated debt As rates vary, variable-rate bond interest payments and net swap payments will differ between the fixed payments paid to the counterparty and the variable rate paid to the Agency. Using rates as of June 30, 2011, debt service requirements of the variable-rate debt and net swap payments are as follows (*in thousands*):

Fiscal Year	Variable-Rate Bond		Interest Rate	Total
Ending June 30	Principal	Interest	Swap, Net	Interest
2012	$ 1,420	$ 60	$ 2,122	$ 2,182
2013	1,355	59	2,077	2,136
2014	1,300	58	2,033	2,091
2015	1,235	57	1,991	2,048
2016	1,185	56	1,952	2,008
2017-2021	9,405	255	8,939	9,194
2022-2026	13,715	211	7,326	7,537
2027-2031	23,125	124	4,273	4,397
2032-2035	14,740	26	862	888
Total	**$67,480**	**$906**	**$31,575**	**$32,481**

F. NONCURRENT LIABILITY

Noncurrent Liability and Current Debt

Noncurrent liability and current debt activity for the year ended June 30, 2011 was as follows *(in thousands):*

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Bonds Payable					
Bonds Payable, net	$1,470,170	$-	($137,040)	$1,333,130	$171,450
Bond Premium/Discount	8,746	-	(2,243)	6,503	-
Derivative Instrument—Interest Rate Swap	6,698	-	(1,640)	5,058	-
Deferred Revenues	9,133	47,023	(31,174)	24,982	16,787
Other Liabilities					
Arbitrage Rebate Payable	1,104	37	(723)	418	361
Compensated Absences	997	338	(317)	1,018	127
Deposits Payable	3,465	2,009	(2,054)	3,420	32
	$1,500,313	$49,407	($175,191)	$1,374,529	$188,757

G. OPERATING LEASE

The Agency leases office space with future minimum lease payments of $212,000 for fiscal year 2012, and $42,000 for four months in fiscal year 2013. Total rent expense for all operating leases amounted to $596,000 for the year ended June 30, 2011. The Agency's lease for its main office will expire August 31, 2011. The Agency will pay monthly rent in the amount of $43,000 until a new lease is negotiated.

H. FEDERAL AWARDS

As a designated Public Housing Authority for the Department of Housing and Urban Development's (HUD) Section 8 Programs, the Agency requisitions Section 8 Program funds and makes disbursements to eligible landlords. For the year ended June 30, 2011, $137,866,000 which was received by the Agency and disbursed to property owners, is included in the *Federal program awards received* and *Federal program expense* in the Federal and State Programs.

The Agency is designated as the participating entity under grant agreements with HUD for the HOME Program. The HOME Program provides funding for the purpose of developing affordable housing for persons of low and very low income. For the year ended June 30, 2011, $21,892,000 was received and disbursed by the Agency, and is included in the *Federal program awards received* and *Federal program expense* and *Mortgage loans receivable, net* in the Federal and State Programs, depending upon the terms of the transaction.

The Agency is designated as a participating entity under a grant agreement with HUD for the Tax Credit Assistance Program (TCAP). TCAP provides funding for the purpose of developing housing for persons of low and very low income to qualified low-income builders. For the year ended June 30, 2011, $47,628,000 was received and disbursed by the Agency and is included in the *Federal program awards received* and *Federal program expense* in the Federal and State Programs.

The Agency was selected as a participating entity under a grant agreement with the Treasury for the Section 1602, Grants to Low-Income Housing in Lieu of Low-Income Housing Credits Program. The Section 1602 program provides funding for the purpose of financing construction of low-income housing in lieu of low-income housing tax credits. For the year ended June 30, 2011, $72,845,000 was received and disbursed by the Agency, and is included in the *Federal program awards received* and *Federal program expense* in the Federal and State Programs.

The Agency was selected as a participating entity under a grant agreement with the Treasury passed through NeighborWorks® for the National Foreclosure Mitigation Counseling Program (NFMC). The NFMC Program provides funding for the purpose of counseling homeowners who are in danger of foreclosure. For the year ended June 30, 2011, $1,218,000 was received and disbursed by the Agency, and is included in the *Federal program awards received* and *Federal program expense* in the Federal and State Programs.

The Agency was selected as a participating entity under a grant agreement with the Treasury for the Hardest Hit Fund (HHF) Program. The HHF Program provides funding for the purpose of providing loans to unemployed homeowners who are unable to make their mortgage payments and are in danger of losing their homes to foreclosure. Loan proceeds will be used to pay the mortgage and related costs such as real estate taxes, homeowner insurance and homeowner dues until the homeowner secures employment or completes training for a new career. For the year ended June 30, 2011, $5,840,000 was received and disbursed to the Agency and is included in the *Federal program awards received* and the *Federal program expense* in the Federal and State Programs.

The Agency was awarded Neighborhood Stabilization Program (NSP) funds through the State of North Carolina, Department of Commerce, Division of Community Assistance. NSP funding is provided to the State through the U.S. Department of Urban Development Community Development Block Grant. The NSP provides funding for the purpose of providing zero-interest forgivable loans on foreclosed properties to stabilize neighborhoods in the State of North Carolina. For the year ended June 30, 2011, $2,084,000 was disbursed by the Agency and is included in the *Federal program awards received* and the *Federal program expense* in the Federal and State Programs.

The Agency earned fees of $14,934,000 for administering these and other federal programs for the year ended June 30, 2011. Of these fees, $4,403,000 was paid to Quadel Consulting Corporation for the Section 8 Program Contract Administration, and $1,218,000 was paid to counseling agencies for providing counseling services under the Hardest Hit Fund Program which is reported in *General and administrative expense*.

Federal awards are subject to be audited by the grantor agencies. The Agency could be held liable for amounts received in excess of allowable expenditures.

I. PENSION PLAN

Plan Description All permanent full-time employees of the Agency participate in the Teachers' and State Employees' Retirement System of North Carolina (the System), a cost-sharing multiple-employer defined benefit pension plan administered by the State. The System provides retirement benefits to plan members and beneficiaries. State statute assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Teachers' and State Employees' Retirement System is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for the System. The report may be obtained by writing to the Office of the State Controller, 3512 Bush Street, Raleigh, North Carolina 27609, or by calling (919) 981-5454.

Funding Policy Plan members are required to contribute 6% of their annual covered salary, and the Agency is required to contribute at an actuarially determined rate. The current rate is 10.51% of the annual covered payroll. The contribution requirements of plan members and the Agency are established and may be amended by the North Carolina General Assembly. The following table represents the three-year trend of the annual contributions made by the Agency to the State retirement system. The Agency made 100% of its required contributions for the years ended June 30, 2011, 2010, and 2009.

	2011	2010	2009
Retirement Benefit	$335,000	$244,000	$238,000
Percentage of Covered Payroll	4.93%	3.57%	3.36%

J. POST-EMPLOYMENT / DISABILITY BENEFITS

In addition to pension benefits, employees are provided post-employment health care benefits and long-term disability benefits in accordance with State statutes. These benefits are provided through plans administered by the State. The Agency makes monthly contributions to the State for these benefits. Health care benefits are provided to long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the System who have at least five years of creditable service under the System. The System pays the full cost of coverage for retirees enrolled in the State's self-funded Teachers' and State Employees' Preferred Provider Organization (PPO) medical plan who were hired prior to October 1, 2006, and retire with five or more years of State System membership service. For employees hired on or after October 1, 2006, the System will pay the full cost of coverage for retirees with 20 or more years of service, the System will pay 50% of the cost of coverage for retirees with at least 10 years but less than 20 years of service, and the retiree with less than 10 years of service will pay the full cost of coverage. In addition, persons who became surviving spouses of retirees prior to October 1, 1986, receive the same coverage as retirees. Retirees and the aforementioned surviving spouses pay for the entire cost of coverage of their dependents. The health benefit plans are funded by the State on a pay-as-you-go basis.

Short-term and long-term disability benefits are provided through the Disability Income Plan of North Carolina (Disability Income Plan), a State-administered plan. Long-term disability benefits are payable from the Disability Income Plan after the conclusion of the short-term disability period or after salary continuation payments cease, whichever is later, for as long as an employee is disabled. An employee is eligible to receive long-term disability benefits provided the following requirements are met: (1) the employee has five years of contributing membership service in the System earned within 96 months prior to the end of the short-term disability period; (2) the employee must make application to receive long-term benefits within 180 days after the conclusion of the short-term disability period, after salary continuation payments cease, or after monthly payments for workers' compensation cease, whichever is later; (3) the employee must be certified by the Medical Board to be mentally or physically disabled for the further performance of employees' usual occupation; (4) the disability must have been continuous, likely to be permanent and incurred at the time of active employment; and (5) the employee must not be eligible to receive unreduced retirement benefits from the System. In addition, recipients of long-term disability benefits are eligible to receive the State-paid health insurance coverage. The monthly long-term disability benefit is equal to 65% of one-twelfth of an employee's annual base rate of compensation reduced by any social security or worker's compensation to which the recipient may be entitled up to a maximum of $3,900 per month. When an employee qualifies for an unreduced service retirement allowance from the System, the benefits payable from the Disability Income Plan cease, and the employee will commence retirement under the System.

All short-term disability benefit payments are made by the various State-administered plans. The Agency has no liability beyond payment of monthly contributions except for short-term disability benefits, which are paid by the Agency during the first six months of the short-term period. Contributions are determined as a percentage of covered monthly payrolls. Annually, the State sets monthly contribution rates for post-employment health care benefits, death benefits and disability benefits, which are the same for all agencies across the State.

The following table represents the three-year trend of the annual contributions made by the Agency to the State post-employment benefit plans. The Agency made 100% of its required contributions for the years ended June 30, 2011, 2010, and 2009.

	2011	2010	2009
Health Care Benefit	$333,000	$307,000	$291,000
Disability Benefit	$35,000	$36,000	$37,000
Death Benefit	$11,000	$11,000	$11,000
Percentage of Covered Payroll			
Health Care Benefit	4.90%	4.50%	4.10%
Disability Benefit	0.52%	0.52%	0.52%
Death Benefit	0.16%	0.16%	0.16%

Since the benefit payments are made by the various State-administered plans and not by the Agency, the Agency does not determine the number of eligible participants.

K. RISK MANAGEMENT

The Agency's risk management policies provide for participation in the State's risk management programs. The following types of risk are covered under these programs, as disclosed in the State of North Carolina's Comprehensive Annual Financial Report:

- Automobile, Fire and Other Property Losses
- Public Officers' and Employees' Liability Insurance
- Employee Dishonesty and Computer Fraud
- Workers' Compensation Program/Fund

The State is responsible for the administration of all liability insurance policies. The deductible and amount of loss in excess of the policy is the responsibility of the Agency.

L. SEGMENT INFORMATION

The Agency's Home Ownership Bond Programs and Rental Bond Programs are initially funded with bond proceeds. These proceeds are used to purchase mortgage loans which provide the income along with investment earnings to repay the debt. Condensed financial statements at June 30, 2011 for these two segments are as follows (*in thousands*):

BALANCE SHEET	**Home Ownership**	**Rental**
ASSETS		
Current assets		
Restricted cash and cash equivalents	$ 111,322	$ 13,584
Restricted investments	135,124	1,185
Accrued interest receivable on investments	773	15
Mortgage loans receivable	138,274	530
Accrued interest receivable on mortgage loans	10,945	45
Other assets	8,983	34
Interprogram receivable (payable)	418	801
TOTAL CURRENT ASSETS	$ 405,839	$ 16,194
Noncurrent assets		
Restricted investments	$ 86,486	$ 3,084
Mortgage loans receivable, net	1,108,138	9,107
Deferred outflow of resources	5,058	-
Other assets, net	11,978	404
TOTAL NONCURRENT ASSETS	$ 1,211,660	$ 12,595
TOTAL ASSETS	$ 1,617,499	$ 28,789
LIABILITIES		
Current liabilities		
Bonds payable	$ 170,890	$ 560
Accrued interest payable	29,031	243
Accounts payable	462	-
Other liabilities	361	-
TOTAL CURRENT LIABILITIES	$ 200,744	$ 803

BALANCE SHEET (continued)	Home Ownership	Rental
Noncurrent liabilities		
Bonds payable, net	$ 1,157,733	$ 10,450
Derivative instrument - interest rate swap	5,058	-
Other liabilities	58	-
TOTAL NONCURRENT LIABILITIES	$ 1,162,849	$ 10,450
TOTAL LIABILITIES	$ 1,363,593	$ 11,253
TOTAL NET ASSETS, RESTRICTED	$ 253,906	$ 17,536
TOTAL LIABILITIES AND NET ASSETS	$ 1,617,499	$ 28,789

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

OPERATING REVENUES		
Interest on investments	$ 6,577	$ 291
Net increase in fair value of investments	99	-
Interest on mortgage loans	74,557	561
Other revenues	122	-
TOTAL OPERATING REVENUE	$ 81,355	$ 852
OPERATING EXPENSES		
Interest on bonds	$ 61,543	$ 562
Mortgage servicing expense	4,301	10
General and administrative expense	1,054	2
Other expenses	4,706	-
TOTAL OPERATING EXPENSES	$ 71,604	$ 574
OPERATING INCOME	$ 9,751	$ 278
NON-OPERATING REVENUES (EXPENSES)		
Transfers in (out) to other Agency Programs	$ 7,135	$ (9,695)
TOTAL NON-OPERATING REVENUES (EXPENSES)	$ 7,135	$ (9,695)
CHANGE IN NET ASSETS	$ 16,886	$ (9,417)
TOTAL NET ASSETS - BEGINNING	$ 237,020	$ 26,953
TOTAL NET ASSETS - ENDING	$ 253,906	$ 17,536

STATEMENT OF CASH FLOWS

Net cash provided by operating activities	$ 160,708	$ 1,104
Net cash used in non-capital financing activities	(195,938)	(10,447)
Net cash provided by investing activities	1,541	2,369
Net decrease in cash	$ (33,689)	$ (6,974)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	145,011	20,558
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 111,322	$ 13,584

M. SUBSEQUENT EVENTS

On August 25, 2011, the Agency issued $85 million in Home Ownership Revenue Bonds related to the New Issue Bond Program (NIBP) in the 2009 Trust Agreement. The Agency rolled out $51,000,000 in NIBP proceeds (60% of the bond issue) which were paired with $34,000,000 in market bonds (40% of the bond issue) for a total bond issue of $85,000,000. The remaining $84,000,000 of NIBP proceeds remain in escrow invested in 4-week treasuries, the only permitted investment available to the Agency under the NIBP program. Please see “Debt Administration” under the “Management Discussion and Analysis” for more information.

North Carolina Housing Finance Agency

Additional Information

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INDEPENDENT AUDITOR'S REPORT
ON ADDITIONAL INFORMATION

Our audit of the basic financial statements of the North Carolina Housing Finance Agency included in the preceding section of this report were performed for the purpose of forming an opinion on those statements taken as a whole. The additional information presented in the following section of this report is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

BDO USA, LLP

September 22, 2011

NORTH CAROLINA HOUSING FINANCE AGENCY

COMBINING BALANCE SHEET

YEAR ENDED JUNE 30, 2011

(in thousands)	AGENCY PROGRAMS	GRANT PROGRAMS: Housing Trust Fund	GRANT PROGRAMS: Federal and State Programs	HOME OWNERSHIP BOND PROGRAMS: 1985	HOME OWNERSHIP BOND PROGRAMS: 1998	HOME OWNERSHIP BOND PROGRAMS: 2009	RENTAL BOND PROGRAMS: 1984	RENTAL BOND PROGRAMS: 1992	TOTAL
ASSETS									
Current assets:									
Cash and cash equivalents	$ 3,999	-	-	-	-	-	-	-	$ 3,999
Restricted cash and cash equivalents	47,251	39,879	49,596	8,390	102,931	1	-	13,584	261,632
Restricted investments	-	-	-	-	-	135,124	-	1,185	136,309
Accrued interest receivable on investments	11	35	-	692	81	-	-	15	834
Mortgage loans receivable, net	224	1,378	4,648	13,482	124,792	-	-	530	145,054
Accrued interest receivable on mortgage loans	76	11	21	1,165	9,780	-	-	45	11,098
State receivables	48,411	6,059	-	-	-	-	-	-	54,470
Other assets	33	-	3,555	1,158	7,582	243	-	34	12,605
Interprogram receivable/(payable)	3,899	(16)	(5,102)	106	312	-	-	801	-
TOTAL CURRENT ASSETS	$ 103,904	47,346	52,718	24,993	245,478	135,368	-	16,194	$ 626,001
Noncurrent assets:									
Investments	$ 2,044	-	-	-	-	-	-	-	$ 2,044
Restricted investments	2,044	-	-	37,681	48,805	-	-	3,084	91,614
Mortgage loans receivable, net	4,587	14,913	65,773	123,039	985,099	-	-	9,107	1,202,518
Deferred outflow of resources	-	-	-	-	5,058	-	-	-	5,058
Other assets, net	3,596	-	-	1,148	10,830	-	-	404	15,978
TOTAL NONCURRENT ASSETS	$ 12,271	14,913	65,773	161,868	1,049,792	-	-	12,595	$ 1,317,212
TOTAL ASSETS	$ 116,175	62,259	118,491	186,861	1,295,270	135,368	-	28,789	$ 1,943,213
LIABILITIES									
Current liabilities:									
Bonds payable	$ -	-	-	5,610	30,280	135,000	-	560	$ 171,450
Accrued interest payable	-	-	-	1,456	27,449	126	-	243	29,274
Accounts payable	358	-	2,154	110	352	-	-	-	2,974
Deferred revenues	1,127	-	15,660	-	-	-	-	-	16,787
Other liabilities	156	-	3	85	276	-	-	-	520
TOTAL CURRENT LIABILITIES	$ 1,641	-	17,817	7,261	58,357	135,126	-	803	$ 221,005
Noncurrent liabilities:									
Bonds payable, net	$ -	-	-	66,525	1,091,208	-	-	10,450	$ 1,168,183
Derivative instrument - interest rate swap	-	-	-	-	5,058	-	-	-	5,058
Deferred revenues	8,195	-	-	-	-	-	-	-	8,195
Other liabilities	4,278	-	-	25	33	-	-	-	4,336
TOTAL NONCURRENT LIABILITIES	$ 12,473	-	-	66,550	1,096,299	-	-	10,450	$ 1,185,772
TOTAL LIABILITIES	$ 14,114	-	17,817	73,811	1,154,656	135,126	-	11,253	$ 1,406,777
NET ASSETS									
Restricted	$ 88,190	62,259	100,674	113,050	140,614	242	-	17,536	$ 522,565
Unrestricted	13,871	-	-	-	-	-	-	-	13,871
TOTAL NET ASSETS	$ 102,061	62,259	100,674	113,050	140,614	242	-	17,536	$ 536,436
TOTAL LIABILITIES AND NET ASSETS	$ 116,175	62,259	118,491	186,861	1,295,270	135,368	-	28,789	$ 1,943,213

NORTH CAROLINA HOUSING FINANCE AGENCY

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

YEAR ENDED JUNE 30, 2011

	AGENCY PROGRAMS	GRANT PROGRAMS		HOME OWNERSHIP PROGRAMS			RENTAL BOND PROGRAMS		
(in thousands)		Housing Trust Fund	Federal and State Programs	1985	1998	2009	1984	1992	TOTAL
OPERATING REVENUES									
Interest on investments	$ 711	404	180	2,348	4,229	-	15	276	$ 8,163
Net increase (decrease) in fair value of investments	79	-	-	27	81	(9)	-	-	178
Interest on mortgage loans	86	348	819	8,624	65,933	-	10	551	76,371
Federal program awards received	-	-	283,907	-	-	-	-	-	283,907
Program income/fees	3,650	819	15,247	-	-	-	-	-	19,716
Other revenues	166	-	-	-	25	97	-	-	288
TOTAL OPERATING REVENUES	$ 4,692	1,571	300,153	10,999	70,268	88	25	827	$ 388,623
OPERATING EXPENSES									
Interest on bonds	$ -	-	-	4,918	56,499	126	37	525	$ 62,105
Mortgage servicing expense	3	-	-	427	3,874	-	-	10	4,314
Federal program expense	1,343	-	281,584	-	-	-	-	-	282,927
Nonfederal program expense	963	-	-	-	-	-	-	-	963
General and administrative expense	12,848	-	5,617	33	994	27	-	2	19,521
Other expenses	-	406	1,264	37	4,669	-	-	-	6,376
TOTAL OPERATING EXPENSES	$ 15,157	406	288,465	5,415	66,036	153	37	537	$ 376,206
OPERATING INCOME (LOSS)	$ (10,465)	1,165	11,688	5,584	4,232	(65)	(12)	290	$ 12,417
NON-OPERATING REVENUES (EXPENSES)									
Transfers in (out)	$ 11,970	(90)	(9,320)	7,283	(182)	34	(9,703)	8	$ -
State appropriations received	-	9,576	2,109	-	-	-	-	-	11,685
State grant received	-	6,059	5,994	-	-	-	-	-	12,053
State tax credits	34,339	-	-	-	-	-	-	-	34,339
State program expense	(37,708)	(11,128)	(4,933)	-	-	-	-	-	(53,769)
TOTAL NON-OPERATING REVENUES (EXPENSES)	$ 8,601	4,417	(6,150)	7,283	(182)	34	(9,703)	8	$ 4,308
CHANGE IN NET ASSETS	$ (1,864)	5,582	5,538	12,867	4,050	(31)	(9,715)	298	$ 16,725
TOTAL NET ASSETS - BEGINNING	103,925	56,677	95,136	100,183	136,564	273	9,715	17,238	519,711
TOTAL NET ASSETS - ENDING	$ 102,061	62,259	100,674	113,050	140,614	242	-	17,536	$ 536,436

NORTH CAROLINA HOUSING FINANCE AGENCY

COMBINING STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2011

	AGENCY PROGRAMS	GRANT PROGRAMS		HOME OWNERSHIP PROGRAMS			RENTAL BOND PROGRAMS		
(in thousands)		Housing Trust Fund	Federal and State Programs	1985	1998	2009	1984	1992	Total
Cash flows from operating activities:									
Interest on mortgage loans	$ 92	347	812	8,586	65,747	-	15	553	$ 76,152
Principal payments on mortgage loans	265	1,430	4,634	16,015	117,443	-	5	543	140,335
Purchase of mortgage loans	-	(1,001)	(9,227)	(21,914)	(19,051)	-	-	-	(51,193)
Federal awards received	-	-	299,186	-	-	-	-	-	299,186
Federal program expense	(1,343)	-	(281,429)	-	-	-	-	-	(282,772)
Nonfederal program expense	(963)	-	-	-	-	-	-	-	(963)
Federal grant administration income	-	-	13,283	-	-	-	-	-	13,283
Program income/fees	3,839	819	1,964	-	-	-	-	-	6,622
Other expenses	(13,455)	-	(2,162)	(354)	(6,159)	(27)	-	(12)	(22,169)
Other revenues	(2,880)	-	-	(159)	484	97	-	-	(2,458)
Net cash provided by (used in) operating activities	$ (14,445)	1,595	27,061	2,174	158,464	70	20	1,084	$ 176,023
Cash flows from non-capital financing activities:									
Principal repayments on bonds	$ -	-	-	(9,085)	(126,750)	-	(685)	(520)	$ (137,040)
Interest paid	-	-	-	(4,794)	(61,463)	-	(22)	(499)	(66,778)
Bond issuance costs paid	-	-	-	-	-	(7)	-	-	(7)
Net transfers	11,970	(90)	(9,320)	6,309	(182)	34	(8,729)	8	-
State appropriations received	-	9,576	2,109	-	-	-	-	-	11,685
State grant received	-	-	5,994	-	-	-	-	-	5,994
State tax credits	38,968	-	-	-	-	-	-	-	38,968
State program expense	(37,708)	(11,128)	(4,933)	-	-	-	-	-	(53,769)
Net cash provided by (used in) non-capital financing activities	$ 13,230	(1,642)	(6,150)	(7,570)	(188,395)	27	(9,436)	(1,011)	$ (200,947)
Cash flows from investing activities:									
Proceeds from sales or maturities of investments	$ -	-	-	12,212	68,632	1,941,284	2,219	1,139	$ 2,025,486
Purchase of investments	(4,009)	-	-	(15,152)	(70,673)	(1,941,381)	-	(1,290)	(2,032,505)
Earnings on investments	713	414	180	2,338	4,281	-	23	278	8,227
Net cash provided by (used in) investing activities	$ (3,296)	414	180	(602)	2,240	(97)	2,242	127	$ 1,208
Net increase (decrease) in cash	$ (4,511)	367	21,091	(5,998)	(27,691)	-	(7,174)	200	$ (23,716)
Cash and cash equivalents at beginning of year	55,761	39,512	28,505	14,388	130,622	1	7,174	13,384	289,347
Cash and cash equivalents at end of year	$ 51,250	39,879	49,596	8,390	102,931	1	-	13,584	$ 265,631
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:									
Operating income (loss)	$ (10,465)	1,165	11,688	5,584	4,232	(65)	(12)	290	$ 12,417
Adjustments to reconcile operating income to net cash (used in) provided by operating activities:									
Interest on investments	(711)	(404)	(180)	(2,348)	(4,229)	-	(15)	(276)	(8,163)
Decrease (increase) in fair value of investments	(79)	-	-	(27)	(81)	9	-	-	(178)
Interest on bonds	-	-	-	4,918	56,499	126	37	525	62,105
Net operating transfers	-	-	-	974	-	-	(974)	-	-
Change in assets and liabilities:									
(Increase) decrease in mortgage loans	105	835	(3,330)	(6,959)	102,213	-	979	543	94,386
(Increase) decrease in interest receivable on mortgage loans	6	(1)	(7)	58	(50)	-	5	2	13
(Increase) decrease in other assets	(3,669)	-	(381)	(159)	459	-	-	-	(3,750)
Increase (decrease) in accounts payable and other liabilities	179	-	3,611	133	(579)	-	-	-	3,344
Increase in deferred revenues	189	-	15,660	-	-	-	-	-	15,849
Total adjustments	$ (3,980)	430	15,373	(3,410)	154,232	135	32	794	$ 163,606
Net cash provided by (used in) operating activities	$ (14,445)	1,595	27,061	2,174	158,464	70	20	1,084	$ 176,023

APPENDIX B

FORM OF APPROVING OPINION OF BOND COUNSEL
WITH RESPECT TO SERIES 32 BONDS

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APPENDIX B

LEGAL OPINION

Upon the delivery of the Series 32 Bonds, Womble Carlyle Sandridge & Rice, LLP, Bond Counsel to the Agency, proposes to issue its approving opinion in substantially the following form:

November __, 2011

North Carolina Housing Finance Agency
Raleigh, North Carolina

We have acted as bond counsel to the North Carolina Housing Finance Agency (the "Agency") in connection with the authorization and issuance of $136,160,000 North Carolina Housing Finance Agency Home Ownership Revenue Refunding Bonds, Series 32 (Taxable Interest) (1998 Trust Agreement) (the "Series 32 Bonds"). We have examined (i) the Constitution and laws of the State of North Carolina, including Chapter 122A of the General Statutes of North Carolina, as amended (the "Act"), (ii) certified copies of the proceedings of the Agency authorizing the issuance, sale and delivery of the Series 32 Bonds, (iii) executed originals of the Trust Agreement, dated as of May 1, 1998 (the "Trust Agreement") and the Thirty-Second Supplemental Trust Agreement, dated as of November 1, 2011 (the "Thirty-Second Supplemental Trust Agreement") pursuant to which the Series 32 Bonds are issued and (iv) other proofs submitted relative to the issuance and sale of the Series 32 Bonds.

The Series 32 Bonds are dated as of their date of delivery and are stated to mature on January 1, 2030. The Series 32 Bonds are issued for the purposes of providing funds to the Agency, together with other available funds, to (a) refund certain Bonds of the Agency issued under the Bond Resolution adopted February 28, 1985, (b) refunding certain Bonds of the Agency issued under the Trust Agreement, (c) making the deposits to the credit of the Debt Service Reserve Fund created under the Trust Agreement and (d) paying a portion of the costs of issuance of the Series 32 Bonds;.

The Series 32 Bonds are issued under and pursuant to the Trust Agreement and the Thirty-Second Supplemental Trust Agreement. The Agency has heretofore issued thirty-one series of Bonds under the Trust Agreement (the "Existing Bonds"). The Trust Agreement also provides for the issuance, from time to time, under the conditions, limitations and restrictions therein set forth, of additional Bonds. The Existing Bonds, the Series 32 Bonds and any such additional Bonds are herein collectively referred to as the "Bonds."

The Series 32 Bonds are subject to redemption prior to their maturity at the times, in the manner and upon the terms set forth in the Trust Agreement and the Thirty-Second Supplemental Trust Agreement.

From such examination, we are of the opinion, as of the date hereof and under existing law, that:

1. The Agency has been duly created as a body politic and corporate constituting a public agency and instrumentality of the State of North Carolina with good, right and lawful authority to perform its obligations under the terms and conditions of the Trust Agreement and the Thirty-Second Supplemental Trust Agreement.

2. The Agency has duly authorized, executed and delivered the Trust Agreement and the Thirty-Second Supplemental Trust Agreement and such Agreements constitute legal, valid and binding agreements of the Agency, enforceable in accordance with their terms.

3. The Series 32 Bonds are valid and binding special obligations of the Agency secured by a valid pledge in the manner and to the extent set forth in the Trust Agreement, enforceable in accordance with their terms.

4. The Trust Agreement creates the valid and binding pledge it purports to create of the Program Obligations, Revenues and Prepayments (as such terms are defined in the Trust Agreement), and all moneys, securities and Funds and Accounts held or set aside pursuant to the Trust Agreement, to secure the payment of the Bonds in accordance with the terms thereof, subject to the provisions of the Trust Agreement permitting the disposition, use and payment thereof for or to the purposes and on the terms and conditions of the Trust Agreement. Such pledge shall become effective with respect to the assets and revenues so pledged immediately upon the receipt thereof by the Agency in the manner provided in the Trust Agreement.

5. The Series 32 Bonds do not constitute a debt, liability or obligation of the State of North Carolina or of any political subdivision thereof or a pledge of the faith and credit of the State or of any such political subdivision, but are payable solely from the revenues and assets of the Agency pledged therefor.

6. Interest on the Series 32 Bonds is not excluded from the gross income of the owners thereof for federal income tax purposes. This opinion is not intended or provided by this firm to be used and cannot be used by an owner of the Series 32 Bonds for the purpose of avoiding penalties that may be imposed on the owner of the Series 32 Bonds. The opinion set forth in this paragraph is provided to support the promotion or marketing of the Series 32 Bonds. Each owner of the Series 32 Bonds should seek advice based on its particular circumstances from an independent tax advisor.

7. Interest on the Series 32 Bonds is exempt from all income taxes of the State of North Carolina.

The rights of the owners of the Series 32 Bonds and the enforceability thereof and of the Trust Agreement and Thirty-Second Supplemental Trust Agreement may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore and hereafter enacted to the extent constitutionally applicable, and their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

To be signed:

WOMBLE CARLYLE SANDRIDGE & RICE, LLP

APPENDIX C

SUMMARY OF CERTAIN PROVISIONS OF THE TRUST AGREEMENT
AND THE THIRTY-SECOND SUPPLEMENTAL TRUST AGREEMENT

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SUMMARY OF CERTAIN PROVISIONS OF THE TRUST AGREEMENT AND THE THIRTY-SECOND SUPPLEMENTAL TRUST AGREEMENT

Definitions

In addition to words and terms elsewhere defined in this Official Statement, the following words and terms have the following meanings under the Trust Agreement, the Supplemental Trust Agreements thereunder and as used in this Official Statement, unless some other meaning is plainly intended:

"BMA Swap Index Rate" means The Bond Market Association Municipal Swap Index, produced by Municipal Market Data to be an index of 7-day high grade tax-exempt variable rate demand obligations as announced from time to time by The Bond Market Association (or any successor index produced by or on behalf of The Bond Market Association). Any change in the BMA Swap Index Rate shall become effective as of the date the change is announced by The Bond Market Association. If The Bond Market Association does not publish The Bond Market Association Municipal Swap Index, then "BMA Swap Index Rate" shall be the alternative interest rate index designated by the Agency to the Trustee.

"Bond Insurance" means an irrevocable policy of municipal bond insurance, a guaranty agreement or any similar instrument issued or entered into with a municipal bond insurer assuring timely payment of principal and interest on all or a portion of a Series of Bonds.

"Borrower" means the borrower under a Program Loan.

"Capital Appreciation Bond" means any Bond or Bonds of a Series sold at a price less than the principal amount thereof payable at maturity, if such Bond or Bonds are designated as a Capital Appreciation Term or Serial Bond or Bonds (or such other term describing Bonds having the characteristics of Capital Appreciation Bonds) by the Supplemental Trust Agreement providing for the issuance of such Series of Bonds.

"Cash Flow Certificate" means a certificate that is filed as required or permitted by an Authorized Officer, which certificate, after taking into account the effect of the conditions or circumstances for which such certificate is required, will show that scheduled payments of principal and interest on the Program Obligations are such that the Revenues, including, without limitation, investment income (based on the investment rates reasonably expected by the Agency to be received from the investment of amounts held under the Trust Agreement and to be set forth in such certificate) on the Funds and Accounts available for such payments, excluding the investment of amounts held in the Insurance Reserve Fund, and the moneys held for the credit of the Debt Service Reserve Fund (and any Special Debt Service Reserve Account with respect to any Bonds secured by a Special Debt Service Reserve Account) shall be sufficient to pay when due the principal of, Sinking Fund Requirements on account of, and interest on the Bonds and the Program Expenses.

Each Cash Flow Certificate shall set forth the assumptions upon which the investments therein are based, which assumptions shall be based upon the Agency's reasonable expectations at the time such Cash Flow Certificate is filed.

In determining the amount held in any Fund or Account under the Trust Agreement for purposes of preparing a Cash Flow Certificate, accrued but unpaid interest on amounts held in such Fund or Account invested in Investment Obligations shall be credited to the Fund or Account as if the same had been received and deposited to such Fund or Account on the date of calculation. In determining the amount held in the Funds and Accounts under the Trust Agreement, amounts held under any Fund or Account created under a Supplemental Trust Agreement shall be included in the calculation, unless the Supplemental Trust Agreement expressly excludes such amounts.

"Compounded Amount" means the amount of principal and accrued interest of a Capital Appreciation Bond as of a given date determined in the manner provided in the Supplemental Trust Agreement authorizing the issuance of such Capital Appreciation Bond.

"Debt Service Reserve Requirement" means, as of any particular time of calculation, the sum of the amounts established in each Supplemental Trust Agreement authorizing the issuance of a Series of Bonds secured by the Debt Service Reserve Fund as the portion of the Debt Service Reserve Requirement attributable to that Series (which amounts may decrease or increase over time in accordance with the terms of the Supplemental Trust Agreement). The portion of the Debt Service Reserve Requirement attributable to any Series of Bonds may be met through a deposit of cash, Investment Obligations or Reserve Alternative Instruments, or any combination thereof, as the case may be.

"Defeasance Obligations" means (a) noncallable Government Obligations and (b) Defeased Municipal Obligations.

"Defeased Municipal Obligations" means obligations of state or local government municipal bond issuers which are rated the highest rating category by each Rating Agency, the provision for the payment of the principal of, premium, if any, and interest on which shall have been made by deposit with a trustee or escrow agent of Government Obligations, the maturing principal of and interest on which, when due and payable, shall provide sufficient money to pay the principal of, premium, if any, and interest on such obligations of state or local government municipal bond issuers. References in this definition to state or local government bond issuers shall mean the State of North Carolina, local government bond issuers, and, to the extent permitted by law, states other than the State of North Carolina and local government bond issuers other than North Carolina local government bond issuers.

"Federal Mortgage Agency" means the Government National Mortgage Association, Fannie Mae, Freddie Mac and any other public or private agency created by the United States Congress for the purpose of housing finance and which is an agency or instrumentality of the United States or sponsored thereby.

"FHA-Insured Program Loan" means a Program Loan the payment of which is insured by the Federal Housing Administration under the National Housing Act of 1934, as amended.

"Financing Fees" means any fees, charges or deposits that are authorized to be collected by the Agency from a Borrower or a Lender in order for the Agency to assure that funds are available in the Program Fund to purchase a Program Obligation on behalf of a specific Borrower. Financing Fees may be refundable or non-refundable as shall be specified in the Supplemental Trust Agreement authorizing the issuance of the Bonds financing the segment of the Program for which such Financing Fees are paid. Financing Fee shall not be "Revenues" within the meaning of the Trust Agreement unless a Supplemental Trust Agreement specifically designates such funds as Revenues.

"Government Obligations" means direct obligations of, or obligations the principal of and the interest on which are unconditionally guaranteed by, the United States Government.

"Insurance Reserve Requirement" means, as of any particular time of calculation, the sum of the amounts, if any, established in each Supplemental Trust Agreement authorizing the issuance of a Series of Bonds as the portion of the Insurance Reserve Requirement attributable to that Series (which amounts may increase or decrease over time in accordance with the terms of the Supplemental Trust Agreement). The portion of the Insurance Reserve Requirement attributable to any Series of Bonds may be met through a deposit of cash, Investment Obligations or Reserve Alternative Instruments, or any combination thereof, as the case may be.

"Interest Payment Date" means for any Bond the dates specified in the Supplemental Trust Agreement authorizing such Bonds as the "Interest Payment Date" therefor, notwithstanding that in respect of Capital Appreciation Bonds all or some portion of the interest is paid on a deferred basis.

"Investment Obligations" means

(1) Government Obligations,

(2) bonds, debentures, notes or other similar obligations (but not including "stripped" coupon obligations or the principal portion of any stripped obligation purchased in excess of par) issued by the Federal Intermediate Credit Bank, the Federal Home Loan Banks, Fannie Mae, the Bank for Cooperatives, the Federal Financing Bank, the Federal Farm Credit Bank, Freddie Mac, the Government National Mortgage Association, the Federal Housing Administration, the Farmers Home Administration, the Export-Import Bank, the International Bank for Reconstruction and Development, the Inter-American Development Bank, the Asian Development Bank and the Federal Land Banks, if the timely payment of the principal of and interest thereon is secured by the full faith and credit of the United States of America,

(3) interest bearing time deposits or certificates of deposit or such other forms of deposit as the Local Government Commission may approve in any bank or trust company located outside or in the State, including a Depositary, provided that such bank or trust company with which moneys are invested as herein provided: (i) is duly chartered under the laws of the United States or any state within the United States and authorized to engage in banking or trust activities, (ii) has a credit rating from a Rating Agency with respect to such bank's or trust company's long-term unsecured debt (or, if the debt of the bank is not rated, if its parent holding company has such a rating and the obligations of such institution are expressly and unconditionally guaranteed by the parent holding company) in one of its top two ratings categories, without regard to gradations within a category, and (iii) is approved by the Local Government Commission,

(4) deposits with the State Treasurer in an investment program established pursuant to Section 147-69.3 of the General Statutes of North Carolina,

(5) repurchase agreements that meet the requirements of Section 122A-11(5) of the General Statutes of North Carolina or any successor statute,

(6) participating shares in a mutual fund for North Carolina local governments if the investments of the fund are limited to those qualifying for investment under Section 159-30(c) of the North Carolina General Statutes, as amended, and the fund is certified by the Local Government Commission of North Carolina as a mutual fund permitted for local government investment;

(7) any other investment in which the Agency is authorized from time to time to invest the moneys held under the Trust Agreement, if the Agency receives confirmation from each Rating Agency that such investment would not impair such Rating Agency's Rating then in effect with respect to any Bonds.

"Lender" means any bank or trust company, savings bank, national banking association, savings and loan association, building and loan association, life insurance company, mortgage banking company, any governmental entity or other entity or institution authorized to transact mortgage lending business in the State, including the Agency and any local housing authority.

"Market Value" means the fair market value of property financed by a Program Loan, as demonstrated by an appraisal prepared by an appraiser acceptable to the Agency.

"Mortgage" means a deed of trust or other instrument securing a Program Loan that constitutes a first lien upon the property secured thereby, subject to minor easements, rights of way, and similar exceptions customarily acceptable to lenders of funds secured by residential real property and acceptable to the Agency.

"Officer's Certificate" means a certificate signed by an Authorized Officer, including certificates signed by an "electronic signature" of such Authorized Officer.

"Opinion of Counsel" means a written opinion of counsel who may (except as otherwise expressly provided in the Trust Agreement) be counsel for the Agency.

"Outstanding," when used with reference to the Bonds, shall mean, as of a particular date, all Bonds theretofore authenticated and delivered under the Trust Agreement, except:

(1) Bonds theretofore canceled by the Trustee;

(2) Bonds for the payment or redemption of which moneys or Defeasance Obligations, or both, in the necessary amount have theretofore been deposited in separate accounts with the Trustee in trust for the Owners (whether upon or prior to maturity or the redemption date of such Bonds), the principal of and the interest on such Defeasance Obligations, if any, when due, providing sufficient moneys to pay, with such other moneys so deposited with the Trustee, the principal and redemption premium of and the interest on such Bonds being paid or redeemed; and

(3) Bonds in exchange for or in lieu of which other Bonds have been authenticated and delivered pursuant to the Trust Agreement.

"PMI Insured Program Loan" means a Program Loan the payment of which has been insured by a private mortgage insurance company that has been approved by Fannie Mae or Freddie Mac to insure mortgages purchased by them.

"Prepayments" means any moneys representing principal of a Program Obligation received or recovered by or for the account of the Agency from any payment of principal of any Program Obligation prior to the scheduled payment of principal called for by such Program Obligation, including, without limitation, (i) any payments of principal of any Program Obligation prior to the scheduled payment of principal called for by such Program Obligation, including any prepayment penalty, fee, premium or other additional charge as may be provided by the terms of such Program Obligation, (ii) amounts received upon the sale, assignment or other disposition of any Program Obligation, (iii) proceeds from the condemnation of any property financed by a Program Obligation, (iv) amounts received from any legal proceedings taken upon an event of default by a Borrower, (v) any amounts received by the Agency from a claim under any mortgage insurance, mortgage guarantee, mortgage pool insurance, title insurance or hazard insurance (other than amounts to be applied to replace, repair or restore the property with respect to which the hazard insurance payment was paid), (vi) amounts received from the sale or other disposition, including pursuant to foreclosure proceedings, of any property financed under a Program Obligation, and (vii) transfers from the Insurance Reserve Fund or the Revenue Reserve Fund of amounts to cover the deficiencies between the principal amount of a Program Loan and the amount received by the Agency upon the disposition of the same from the proceeds of foreclosure and any applicable insurance or guaranty payments.

"Program" means the Agency's program created under the Trust Agreement for the Agency to acquire Program Obligations and to hold the same, all for the purpose of assisting in providing housing to low and moderate income persons in the State.

"Program Expenses" means the Agency's expenses of carrying out and administering its powers, duties and functions relating to the Program as authorized by the Enabling Act, including, without limiting the generality of the foregoing, administrative expenses, salaries, supplies, utilities, mailing, labor, materials, office rent, maintenance, furnishings, equipment, machinery and apparatus, insurance premiums, legal, accounting, management, consulting and banking services and expenses, the fees and expenses of the Trustee and Depositaries, cost of issuance of Bonds not paid from proceeds of such Bonds, payments for pension, retirement, health and hospitalization and life and disability insurance benefits and any other expenses required or permitted to be paid by the Agency under the provisions of the Enabling Act or the Agreement, all to the extent such expenses are properly allocable to the Program in accordance with generally accepted accounting principles.

“Program Loan” means an obligation made or purchased by the Agency in order to finance or otherwise provide housing principally on behalf of households of low and moderate income with moneys in the Program Fund derived from the proceeds of, or otherwise made available in connection with the issuance of, Bonds pursuant to the Trust Agreement or that was purchased with the proceeds of bonds issued under another trust agreement or bond resolution of the Agency, which bonds were refunded by Bonds issued under the Trust Agreement.

“Program Obligation” means any Program Loan or Program Security.

“Program Security” means an obligation representing an undivided interest in a pool of Program Loans, to the extent the payments to be made on such obligations are guaranteed or insured by a Federal Mortgage Agency, acquired by the Agency by the expenditure of funds from the Program Fund or that was purchased with the proceeds of bonds issued under another trust agreement or bond resolution, which bonds were refunded by Bonds issued under the Trust Agreement.

“Rating” means with respect to any Series of Bonds, the rating issued by a Rating Agency in force immediately prior to the proposed action to be taken by the Agency, and an action which does not “impair” the Rating with respect to a Series of Bonds shall be an action that will not cause the Rating Agency to lower or withdraw the rating it has assigned to the Series of Bonds.

“Rating Agency” means any nationally recognized entity that, upon the request of the Agency, has issued a credit rating on any Series of Bonds issued under the Trust Agreement.

“Reserve Alternative Instrument” means an insurance policy, surety bond, irrevocable letter of credit, guaranty or similar instrument deposited in any Fund or Account created under the Trust Agreement, including any Supplemental Trust Agreement, in lieu of or in partial substitution for the deposit of cash and Investment Obligations in satisfaction of the Debt Service Reserve Requirement, Insurance Reserve Requirement, a Special Debt Service Reserve Account Requirement or other requirement of such Fund or Account. The Reserve Alternative Instrument shall be payable to make the payments otherwise required to be paid from such Fund or Account in a timely manner. Except as hereinafter provided, the provider of a Reserve Alternative Instrument shall be, at the time such Reserve Alternative Instrument is delivered to the Trustee (a) an insurer whose long term debt or claims paying ability has been assigned a rating by each Rating Agency in one of the two highest rating categories (without regard to gradations, such as “plus” or “minus,” of such categories), or (b) a commercial bank, insurance company or other financial institution the bonds payable or guaranteed by which are assigned a rating by each Rating Agency in one of the two highest rating categories (without regard to gradations such as “plus” or “minus” of such categories). In the event that a Reserve Alternative Instrument is being delivered to provide all or a portion of a requirement of a Special Debt Service Reserve Account, then the Reserve Alternative Instrument and the requirements of the provider thereof shall meet the requirements set forth in the Supplemental Trust Agreement creating such Special Debt Service Reserve Account. Whenever for any purposes of the Trust Agreement the amounts on deposit in the Funds or Accounts under the Trust Agreement are required to be determined, the amount available to be drawn under any Reserve Alternative Instrument shall be deemed to be cash on deposit in the applicable Fund or Account.

“Reserve Fund Surety Bonds” means any surety bonds issued with regard to the Debt Service Reserve Fund Requirements or Insurance Reserve Fund Requirements for a particular series of Bonds.

“Revenues” means all payments of principal of and interest on the Program Obligations including both timely and delinquent payments (including late charges to the extent such late charges are collected by the Agency), and investment earnings on any amounts held in any Fund or Account under the Trust Agreement to the extent said earnings are required pursuant to the Trust Agreement or a Supplemental Trust Agreement to be deposited to the Revenue Fund, but shall not include Escrow Payments, Prepayments, Program Obligation Accrued Interest or Financing Fees, or escrow fees or servicing fees received by a Servicer pursuant to a Servicing Agreement (including the Agency acting as Servicer).

“Serial Bonds” means the Bonds of a Series which shall be stated to mature in fixed installments on a fixed payment date, rather than through mandatory redemption in accordance with Sinking Fund Installments, as designated by the Supplemental Trust Agreement authorizing the issuance thereof.

“Series” means any issued or authorized to be issued at any one time pursuant to the Trust Agreement and authorized as “Series” of Bonds by the Supplemental Trust Agreement authorizing the issuance thereof.

“Servicer” means any bank or trust company, savings bank, national banking association, savings and loan association, building and loan association, life insurance company and other mortgage banker or financial institution which shall service any of the Program Loans pursuant to a Servicing Agreement with the Agency, or the Agency if the Agency determines to service any Program Loans held pursuant to the Trust Agreement.

“Servicing Agreement” means an agreement between the Agency and a Servicer, if the Agency is not the Servicer, for the servicing of any of the Program Loans by the Servicer.

“Sinking Fund Calculation Period” means the period of time set forth in the Supplemental Trust Agreement authorizing the issuance of Term Bonds during which the Agency is to deposit from the Revenue Fund to the credit of the Sinking Fund Account an established amount to be applied to the purchase or redemption of such Term Bonds in accordance with a Sinking Fund Requirement for such period also established in such Supplemental Trust Agreement.

“Sinking Fund Requirement” means, with respect to the Term Bonds of any Sinking Fund Calculation Period, the principal amount fixed or computed for such Sinking Fund Calculation Period for the retirement of such Term Bonds by purchase or redemption (or by payment at maturity in the case of the final Sinking Fund Requirement for any maturity).

“State Treasurer” means the Treasurer of the State of North Carolina.

“Subordinated Indebtedness” means all indebtedness incurred by the Agency in respect of the Program that is made payable from the Revenues, but only after the payments described below under the heading “Application of Revenues and Other Moneys” have been made, to the extent incurred in accordance with the requirements of the Trust Agreement.

“Supplemental Trust Agreement” means a resolution of the Board providing for the issuance of any particular Series of Bonds which is required to be executed and delivered prior to the issuance of such Series.

“Swap Agreement” means any interest rate swap agreement entered into by the Agency with a Swap Provider, pursuant to which the Agency and the Swap Provider agree to make payments thereunder with respect to a notional amount corresponding to Bonds for the purpose of effectively converting the interest rate on the Agency’s bonds bearing interest at a variable interest rate to a fixed interest rate, or converting the interest rate on the Agency’s bonds bearing interest at a fixed interest rate to a variable interest rate.

“Swap Agreement Periodic Payments” means payments required to be paid by the Agency under a Swap Agreement, other than Swap Agreement Termination Payments.

“Swap Agreement Termination Payments” means payments required to be paid by the Agency under a Swap Agreement in connection with the termination of the Swap Agreement, whether voluntarily or upon the occurrence of an event of default or similar event thereunder.

“Swap Provider” means any financial institution with which the Agency enters into an interest rate swap agreement with respect to Bonds.

“Swap Termination Value Holdback” means the amount, computed for each Fiscal Year as of July 1 of that Fiscal Year, equal to 35% of the Swap Agreement Termination Payment, if any, that the Agency would be required to pay on each Swap Agreement entered into under the Trust Agreement if the Swap Agreement were terminated as of such July 1.

"Term Bonds" means the Bonds of a Series designated Term Bonds in the Supplemental Trust Agreement authorizing the issuance thereof.

"Trustee" means the Trustee serving as such under the Trust Agreement, whether original or successor.

"USDA Guaranteed Program Loan" means a Program Loan the payment of which is guaranteed by the United States Department of Agriculture Rural Development under its loan guarantee program created under Title V of the Housing Act of 1949, or any successor program.

"VA Guaranteed Program Loan" means a Program Loan the payment of which is guaranteed by the United States Veterans Administration.

Additional Bonds; Supplemental Trust Agreements

Bonds of the Agency may be issued under and secured by the Trust Agreement from time to time for the purpose of providing sufficient funds, with any other available funds, for (a) the making or purchase by the Agency of Program Obligations, (b) refunding Bonds of the Agency issued under the Trust Agreement or under trust agreements or bond resolutions other than the Trust Agreement, including the payment of any redemption premium thereon, (c) the payment of Program Expenses, (d) the payment of interest on such Bonds for the period specified in the Supplemental Trust Agreement authorizing the issuance thereof, and (e) the making of any deposit to the credit of the Debt Service Reserve Fund, the Insurance Reserve Fund or a Special Debt Service Reserve Account required in connection with the issuance of such Series of Bonds.

Before any Bonds shall be issued under the Trust Agreement, the Agency and the Trustee shall enter into a Supplemental Trust Agreement authorizing the issuance of such Bonds fixing the amount and the details thereof. Such Supplemental Trust Agreement shall designate the Series of Bonds and shall set forth the authorized denominations, dates, maturities, interest rates, Interest Payment Dates, redemption provisions, Sinking Fund Requirements and other terms of the details of the Bonds authorized thereby. Each Supplemental Trust Agreement shall specify whether the Series of Bonds authorized thereby shall be entitled to the benefit of the Debt Service Reserve Fund, a Special Debt Service Reserve Account created under the Supplemental Trust Agreement or neither and shall specify the Debt Service Reserve Requirement or the requirement for the Special Debt Service Reserve Account in connection with the Bonds of such Series. Each Supplemental Trust Agreement shall specify the Insurance Reserve Requirement in connection with the Program Obligations to be financed with the proceeds of the Bonds issued thereunder. Each Supplemental Trust Agreement shall specify any requirements for the Program Obligations to be purchased with the proceeds of the Bonds authorized thereby, including how payment of such Program Obligations must be insured, guaranteed or otherwise secured. Each Supplemental Trust Agreement shall specify whether a policy of Bond Insurance will be delivered in connection with the issuance of such Bonds and provide any additional covenants and provisions with respect thereto.

Funds and Accounts

The Trust Agreement creates the following Funds and Accounts:

(a) Revenue Fund

(b) Bond Service Fund

(i) Interest Account

(ii) Principal Account

(iii) Sinking Fund Account

(c) Reserve Fund Surety Bond Reimbursement Fund

(d) Swap Agreement Payment Fund

(e) Debt Service Reserve Fund

(i) Contribution Reserve Account

(ii) Equity Reserve Account

(iii) Proceeds Reserve Account

(f) Insurance Reserve Fund

(g) Redemption Fund

(h) Revenue Reserve Fund

(i) Program Fund

Any Supplemental Trust Agreement may establish such additional Funds and Accounts as shall be deemed necessary or desirable in order to effectuate the transactions contemplated by the Trust Agreement. A Supplemental Trust Agreement may provide for the creation of a Special Debt Service Reserve Account for the Bonds authorized by such Supplemental Trust Agreement and for the deposit of moneys to and withdrawal of moneys from such Account.

In addition to the foregoing, the Seventeenth Supplemental Trust Agreement created the Reserve Fund Surety Bond Reimbursement Fund and the Swap Agreement Payment Fund.

Program Fund.

Each Supplemental Trust Agreement authorizing the issuance of a Series of Bonds shall create a separate account in the Program Fund for the Program Obligations associated with the Bonds of such Series.

Money held for the credit of any Program Account shall be used to pay the following costs of the Program relating to the Series of Bonds for which such Account was established:

(a) the amount determined by the Agency to be required to make or purchase any Program Obligation;

(b) costs of issuance;

(c) interest on such Bonds to the extent set forth in the Supplemental Trust Agreement authorizing such Series of Bonds;

(d) any obligation or expense heretofore or hereafter incurred or paid by the Agency for any of the items mentioned in clause (b) above; and

(e) to pay, either at maturity or otherwise in accordance with their terms, any notes theretofore issued by the Agency to provide interim financing for any of the purposes for which Bonds may be issued pursuant to the Trust Agreement.

The Agency covenants that immediately after any moneys are paid by the Trustee to a Lender or other person, firm, or corporation for the making of or purchase by the Agency of any Program Loans, the Agency will physically deliver, or cause to be physically delivered, to the Trustee the note or other instrument evidencing each Program Loan made or acquired as a result of such payment.

The Trustee shall not apply any moneys in the Program Fund to the purchase of a Program Security unless arrangements have been made so that immediately after such use the Trustee shall hold, on behalf of the Owners, a first perfected security interest in such Program Security, either through physical delivery of such Program Security or adequate notation on book-entry records for book-entry only securities. No Program Security shall be financed unless such Program Security represents a pass through or participation in a pool of mortgage loans that the Agency is eligible to finance under the Enabling Act and the Program Security provides for a guaranty of all payments to be made thereunder by a Federal Mortgage Agency.

Any Program Obligation may be withdrawn from the Program Fund and transferred by the Trustee to the recipient directed by the Agency free and clear from any pledge, lien, security interest or other interest created under the Trust Agreement upon the delivery to the Trustee of an Officer's Certificate directing such transfer and certifying that:

(a) such transfer is being made in order to provide for the redemption (whether optional or special, to the extent permitted by the applicable Supplemental Trust Agreement) or purchase of Bonds having a value corresponding to the value of the Program Obligation being withdrawn as reasonably estimated by the Agency and set forth in the Officer's Certificate; and

(b) the proposed transfer of the Program Obligation to the Agency and the sale, assignment, transfer or other disposition thereof by the Agency would not have a material adverse effect on the ability of the Agency to pay the principal of, and interest on, and premium, if any on the Bonds as the same become due, and to pay the Program Expenses.

Pledge

Pursuant to the Trust Agreement, the Agency has pledged for the security of the Bonds, subject to the provisions of the Trust Agreement:

(a) All Program Obligations, Revenues, Program Obligation Accrued Interest, Financing Fees and Prepayments (as such terms are herein defined), and all moneys, securities and Funds and Accounts held or set aside pursuant to the Trust Agreement; and

(b) All money and securities held by or on behalf of the Trustee in all of the funds, accounts or subaccounts established pursuant to the Trust Agreement, except those funds, accounts and subaccounts that are expressly pledged in a Supplemental Trust Agreement as security only for a specified Series of Bonds and a Special Debt Service Reserve Account (hereinafter defined).

The pledge of the moneys, securities and Funds and Accounts and of the Program Obligations, Revenues, Program Obligation Accrued Interest, Financing Fees and Prepayments is valid and binding from and after the delivery of the first Bond delivered under the Trust Agreement. The Program Obligations, Revenues, Program Obligation Accrued Interest, Financing Fees and Prepayments and other moneys and securities so pledged and then or thereafter received by the Agency shall immediately be subject to the lien of such pledge without any physical delivery or further act, except that the Program Obligations shall be subject to the lien of such pledge only after the delivery of the Program Loan notes to the Trustee and the lien of such pledge shall be valid and binding as against all parties having claims of any kind in tort, contract or otherwise against the Agency, irrespective of whether such parties have notice thereof.

Application of Revenues and Other Moneys

All Revenues, Program Obligation Accrued Interest, Financing Fees and Prepayments shall be collected by or on behalf of the Agency and deposited as received either with the Trustee or with a qualified depositary designated by the Agency which shall receive the same as deposits of moneys held by the Trustee. The Trustee is only responsible for money actually deposited with the Trustee.

All Revenues shall be deposited by the Trustee to the credit of the Revenue Fund.

Any Prepayment shall be deposited by the Trustee to the credit of the Special Redemption Account for the Series of Bonds that provided the funds that financed the purchase of the Program Obligation to which such Prepayment relates (or that refunded the Bonds that financed such purchase), or, to the extent provided by the Supplemental Trust Agreement for the Series of Bonds that provided the funds that financed the purchase of the Program Obligation to which such Prepayment relates, to the credit of the Program Account for such Series of Bonds to be applied to purchase additional Program Obligations.

Any Financing Fees attributable to a Series of Bonds received by the Agency shall be deposited by the Agency as received as shall be provided in the Supplemental Trust Agreement for such Series.

Any moneys or other assets received by the Trustee from the Agency with instructions that the same be deposited to the credit of any Fund or Account under the Trust Agreement shall be so deposited to such Fund or Account.

In the event the Trustee or Agency receives a single payment all or any part of which constitutes Revenues, Prepayments, Program Obligation Accrued Interest or Financing Fees, the Trustee or Agency, as the case may be, shall segregate such payment into Revenues, Prepayments, or Program Obligation Accrued Interest and Financing Fees prior to making the deposits provided for above.

The Trustee, as of the last business day of each month, shall withdraw from the Revenue Fund and deposit to the credit of the following several Funds or Accounts, but as to each Fund or Account only within the limitation hereinbelow indicated with respect thereto and only after maximum payment within such limitation into every such Fund or Account previously mentioned in the following tabulation:

> First: To the credit of the Interest Account, to the extent, if any, needed to increase the amount in the Interest Account so that it equals the amount of interest then or to become within the next ensuing six months due and payable on the Bonds of each Series then Outstanding; provided, however, that if interest on any Bonds is payable on a periodic basis other than a semi-annual basis, then the deposit requirement for the Interest Account may be adjusted pursuant to the Supplemental Trust Agreement authorizing such Bonds to reflect the payment of interest on such other periodic basis, provided, further, however, that the Agency shall not establish any schedule for the deposit of funds to the Interest Account to pay interest on Bonds on other than a semi-annual basis that would cause the Agency to default in the payment of the principal and Sinking Fund Requirements of, and interest on, any other Series of Bonds;
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> Second: To the credit of the Principal Account, to the extent, if any, needed to increase the amount in the Principal Account so that it equals the amount of principal of the Serial Bonds of each Series then or to become due and payable within the next ensuing six months; provided, however, that if the principal of any Series of Bonds is payable on an annual basis, then such amount of principal of the Serial Bonds of such Series, then or to become due and payable within the next ensuing twelve months (or if the date of such deposit is the last business day of the first six months of such annual period, one-half of the amount of such principal to become due and payable within the next ensuing twelve months); and provided further, that if principal on any Bonds is payable on a periodic basis other than a semi-annual or annual basis, then the deposit requirement for the Principal Account may be adjusted pursuant to the Supplemental Trust Agreement authorizing such Bonds to reflect the payment of principal on such other periodic basis, provided, further, however, that the Agency shall not establish any schedule for the deposit of funds to the Principal Account to pay principal on Bonds on other than a semi-annual or annual basis that would cause the Agency to default in the payment of the principal and Sinking Fund Requirements of, and interest on, any other Series of Bonds;

Third: To the credit of the Sinking Fund Account, to the extent, if any, needed to make the amounts so deposited in the then current Sinking Fund Calculation Period to the credit of the Sinking Fund Account for the Term Bonds of each Series then Outstanding equal to the Sinking Fund Requirements, if any, for each such Sinking Fund Calculation Period, plus the premiums, if any, on such principal amount of the Term Bonds which would be payable if such principal amount of Term Bonds were to be redeemed in such period from money held for the credit of the Sinking Fund Account;

Fourth: To the credit of the Reserve Fund Surety Bond Reimbursement Fund the amount, if any, necessary to make payments to the issuers of the Reserve Fund Surety Bonds to reimburse such issuers for payments with respect to the Reserve Fund Surety Bonds in accordance with the terms of the agreements between the Agency and such issuers in connection therewith;

Fifth: To the credit of the Swap Agreement Payment Fund the amount, if any, needed to increase the amount in that Account so that it equals the amount estimated at the time of the transfer to be necessary to pay to any Swap Providers (i) the Swap Agreement Periodic Payments required to be paid during the ensuing six months and (ii) any Swap Agreement Termination Payments then due and payable. In the event that the Agency enters into more than one Swap Agreement and there are not sufficient funds at the end of a month to make all deposits to all Accounts of the Swap Agreement Payment Fund, amounts shall be deposited to the Series 17 Account of the Swap Agreement Payment Fund and any other Account created with respect to a Swap Agreement on a pro rata basis;

Sixth: To the credit of the Debt Service Reserve Fund, to the extent, if any, needed to increase the amount in the Debt Service Reserve Fund so that it equals the Debt Service Reserve Requirement;

Seventh: To the credit of any Special Debt Service Reserve Account, to the extent, if any, needed to increase the amount in such Special Debt Service Reserve Account to the amount required to be on deposit therein by the Supplemental Trust Agreement creating such Special Debt Service Reserve Account; in the event that there are deficiencies in more than one Special Debt Service Reserve Account, to the extent there are insufficient funds to make the deposits required to be made to all Special Debt Service Reserve Accounts, the available amount shall be deposited to all of the Special Debt Service Reserve Accounts pro rata based upon the amounts then required to be deposited to each such Special Debt Service Reserve Account;

Eighth: To the credit of the Insurance Reserve Fund, to the extent, if any, needed to increase the amount in the Insurance Reserve Fund so that it equals the Insurance Reserve Requirement;

Ninth: To the credit of the Revenue Reserve Fund, for deposit therein, the balance remaining.

A Supplemental Trust Agreement may provide for the deposit of Revenues to a Fund or Account created thereunder or for another application of Revenues prior to the deposit of remaining Revenues to the credit of the Debt Service Reserve Fund, a Special Debt Service Reserve Account, the Insurance Reserve Fund or the Revenue Reserve Fund; provided however, that the Supplemental Trust Agreement providing for such change in the application of Revenues shall not be effective without the prior written consent of any Swap Provider that is adversely affected by such change.

Interest Account and Principal Account.

The Trustee shall, on each Interest Payment Date remit payment of interest on the Bonds then due from the Interest Account. The Trustee shall, on each Principal payment date remit payment of principal on the Bonds then due from the Principal Account.

Sinking Fund Account.

Moneys held for the credit of the Sinking Fund Account shall be applied during each Sinking Fund Calculation Period for the retirement of Term Bonds of each Series then Outstanding.

Reserve Fund Surety Bond Reimbursement Fund

Amounts deposited to the Reserve Fund Surety Bond Reimbursement Fund shall be applied to reimburse the issuer of the respective Prior Reserve Surety Bonds for the amount of drawings and to pay expenses with respect to drawings, including interest expenses, incurred by the Agency under agreements entered by the Agency in connection with the procurement of the Prior Reserve Fund Surety Bonds.

Swap Agreement Payment Fund

Amounts deposited to the respective accounts of the Swap Agreement Payment Fund shall be applied to make payments to the Swap Provider in accordance with the terms of the respective Swap Agreement.

Redemption Fund.

Moneys in the Redemption Fund will be applied to the optional or special redemption of Bonds. Each Supplemental Trust Agreement authorizing a Series of Bonds under the Trust Agreement shall create a separate account in the Redemption Fund designated the Special Redemption Account. The Redemption Prices and the times and conditions for redemption of Bonds of each Series which are subject to redemption from moneys held for the credit of a Special Redemption Account, and the Redemption Prices and the times and conditions for redemption of Bonds of each Series which are subject to redemption from moneys held for the credit of the Optional Redemption Account shall be the respective Redemption Prices and times and conditions for redemption specified in the Supplemental Trust Agreement for such Series of Bonds. Any Supplemental Trust Agreement may provide redemption priorities or protection to any maturities of the Bonds authorized by such Supplemental Trust Agreement with respect to redemptions to be made.

Any Supplemental Trust Agreement may provide that Prepayments deposited to the Special Redemption Account created thereby may be applied to redeem Bonds other than the Series of Bonds authorized thereby, and may provide any additional conditions that must be met prior to such a redemption.

Debt Service Reserve Fund

Moneys deposited to the credit of the Debt Service Reserve Fund shall be credited to the Proceeds Reserve Account to the extent such moneys are proceeds of Bonds, to the Contribution Reserve Account to the extent that such moneys are derived from appropriations by the State to the Agency and to the Equity Reserve Account to the extent such moneys are not proceeds of Bonds or are not derived from appropriations by the State to the Agency. Any amounts deposited to the Debt Service Reserve Fund from the Revenue Fund as described above under the heading "Application of Revenues and Other Moneys" shall be credited to the Proceeds Reserve Account, Contribution Reserve Account or the Equity Reserve Account as necessary to replenish the amounts withdrawn from such respective Accounts as hereinafter described.

If at any time the moneys held for the credit of the Bond Service Fund, including moneys transferred from the Revenue Reserve Fund as described below under the heading "Revenue Reserve Fund" and any amounts transferred under Funds and Accounts created under any Supplemental Trust Agreement to the extent required to be transferred to the Bond Service Fund or an Account thereof, shall be insufficient to pay when due the interest, principal and Sinking Fund Requirements of the Bonds secured by the Debt Service Reserve Fund the Trustee shall transfer from the Debt Service Reserve Fund to the credit of the Bond Service Fund an amount sufficient to make up any such deficiency.

Amounts shall be transferred from the Debt Service Reserve Fund to the Bond Service Fund only to the extent necessary to pay the interest on and principal and Sinking Fund Requirements of Bonds secured by the Debt Service Reserve Fund. In the event that any portion of the Debt Service Reserve Requirement is being provided by a Reserve Alternative Instrument, the Trustee shall make such drawings under such Reserve Alternative Instrument, pursuant to the terms thereof, as shall be necessary so that the proceeds of such drawing shall be available to make the transfers to the Bond Service Fund required by this paragraph.

If at any time the moneys held for the credit of the Debt Service Reserve Fund shall exceed the Debt Service Reserve Requirement and all transfers of moneys from the Debt Service Reserve Fund have been made, the Agency, by an Officer's Certificate, may instruct the Trustee to withdraw from the Debt Service Reserve Fund the amount of the excess therein over the Debt Service Reserve Requirement. If the Trustee is directed to make such withdrawal, the Trustee shall (i) if the withdrawal is from the Proceeds Reserve Account, deposit the amount withdrawn to the Optional Redemption Account or a Special Redemption Account as shall be directed in such Officer's Certificate, or (ii) if the amount withdrawn is from the Contribution Reserve Account or the Equity Reserve Account, pay the amount as directed by the Agency, including depositing such amounts to the credit of the Optional Redemption Account or a Special Redemption Account.

Any deficiency in the Debt Service Reserve Fund, whether resulting from a drawing on a Reserve Alternative Instrument or transfers of cash, may be satisfied through the deposit of additional moneys or the providing of an additional, or increase in a, Reserve Alternative Instrument. If a drawing under a Reserve Alternative Instrument occurs, amounts held in the Debt Service Reserve Fund shall be applied to reimburse the issuer of the Reserve Alternative Instrument, including interest thereon, in connection with such drawing under such terms as shall be agreed upon between the Agency and the issuer of the Reserve Alternative Instrument.

Insurance Reserve Fund

The Insurance Reserve Requirement with respect to each Series of Bonds, if any, is to be set forth in the Supplemental Trust Agreement authorizing the issuance of such Bonds. To date, the Insurance Reserve Requirement for each Series of Bonds, including the Insurance Reserve Requirement for the Bonds now being offered, has been a percentage of the Program Loans to be financed with the proceeds of the Bonds, with the percentage based upon whether the Program Loan is an FHA Insured Program Loan, a VA Guaranteed Program Loan, a USDA Guaranteed Program Loan, a PMI Insured Program Loan or a Program Loan that does not require insurance or a guaranty.

The Insurance Reserve Requirement for any subsequent Series of Bonds, if any, will be set forth in the Supplemental Trust Agreement authorizing the issuance of such Bonds.

Money deposited in the Insurance Reserve Fund shall be used for the purpose of paying the portion of any loss with respect to a Program Loan in default that is not paid from any public or private insuring or guaranteeing agency. The Agency shall promptly furnish to the Trustee an Officer's Certificate stating the amount of the loss, when determinable, and whether such loss is attributable to the receipt by the Agency of less that a scheduled payment of principal and interest on the defaulted Program Loan or less than the principal amount of the Program Loan upon final payment of the insurance claim or guaranty. To the extent the loss is attributable to a deficiency in payment of scheduled principal and interest on the Program Loan, the amount of such loss shall be transferred to the Revenue Fund. To the extent the loss is attributable to a deficiency in the loss payment over the principal amount of the Program Loan, the amount of such loss shall be transferred to the Special Redemption Account for the Series of Bonds that financed the purchase of the Program Loan (or that refunded the Bonds that financed such purchase).

To the extent any amounts in the Insurance Reserve Fund are required to be applied to the payment of Bonds, the Agency is not required to replenish such amounts.

If, at any time, the amount on deposit in the Insurance Reserve Fund shall be in excess of the Insurance Reserve Requirement, the Trustee shall leave the amount of such excess in the Insurance Reserve Fund, or, if so directed in writing by the Agency in an Officer's Certificate, transfer the amount of such excess as described in this Section. In the event that the amount of the surplus in the Insurance Reserve Fund was provided from the proceeds of Bonds, the amount of the surplus shall be transferred to the Special Redemption Account for the Series of Bonds that provided the deposit to the Insurance Reserve Fund. In the event that the amount of the surplus in the Insurance Reserve Fund was provided from Revenues transferred from the Revenue Fund or a transfer from the Revenue Reserve Fund, the amount of the surplus shall be transferred to the Revenue Fund. In the event that the amount of the surplus in the Insurance Reserve Fund was provided from Agency funds, the amount of the surplus shall be transferred to the Agency's General Fund.

Revenue Reserve Fund

Money deposited in the Revenue Reserve Fund shall be used in the following order of priority:

1. If at any time the moneys held to the credit of the Bond Service Fund shall be insufficient to pay when due the interest, principal or the Sinking Fund Requirements of any Bonds, the Trustee shall transfer from the Revenue Reserve Fund to the credit of the Bond Service Fund an amount sufficient to make up any such deficiency.

2. The Trustee shall transfer from the Revenue Reserve Fund such amount as shall be necessary to be paid from time to time to the United States of America or to the borrowers under the Program Obligations in order for the Agency to comply with the applicable covenants made by the Agency regarding the exclusion of interest on the Bonds from federal income taxation.

3. The Trustee shall transfer from the Revenue Reserve Fund to the credit of the applicable Special Redemption Account, whenever Prepayments are received with respect to any defaulted Program Loan, the amount, if any, by which the portion of such Prepayments to be deposited in such Special Redemption Account, representing the payment of principal on such Program Loan, is less than the amount by which the principal balance of the defaulted Program Loan has been reduced as a result of the receipt of such Prepayments, as determined in an Officer's Certificate filed with the Trustee.

4. The Trustee shall transfer from the Revenue Reserve Fund to the Agency any amount certified in an Officer's Certificate filed with the Trustee as necessary for the payment of real estate taxes, insurance, foreclosure fees, including appraisal and legal fees, and similar expenses incurred by the Agency in connection with the acquisition of any property secured by a mortgage on behalf of the Agency or expenses for repairs, rehabilitation, improvements, maintenance, renting or sale and similar expenses incurred by the Agency in connection with such property.

5. The Trustee shall transfer from the Revenue Reserve Fund to the Optional Redemption Account or any Special Redemption Account the amount specified to the Trustee by the Agency to redeem Bonds.

6. The Trustee shall transfer from the Revenue Reserve Fund to any Program Account the amount specified to the Trustee by the Agency in an Officer's Certificate for the purpose of paying Issuance Costs in connection with the issuance of a new Series of Bonds or to purchase additional Program Obligations.

7. The Trustee shall transfer from the Revenue Reserve Fund the amount specified to the Trustee by the Agency in an Officer's Certificate for the purpose of paying Program Expenses if, as shown by an Officer's Certificate filed with the Trustee, the Agency has purchased and owns Program Obligations with scheduled payments of principal and interest such that the Revenues and Prepayments, if any, estimated by the Agency in good faith to be received from such Program Obligations, together with any other moneys estimated in good faith to be available for the payments hereinafter mentioned, including, without limitation, investment income on the Funds and Accounts available for such

payments and the moneys held for the credit of the Debt Service Reserve Fund and any Special Debt Service Reserve Account, shall be sufficient to pay when due (i) the Program Expenses and (ii) the principal of, Sinking Fund Requirements on account of, and interest on the Bonds.

8. The Trustee shall transfer from the Revenue Reserve Fund the amounts directed by the Agency for any purpose for which amounts in the Revenue Reserve Fund may be applied pursuant to the Trust Agreement.

9. The Trustee shall transfer from the Revenue Reserve Fund to the Agency's General Fund the amount specified to the Trustee by the Agency in an Officer's Certificate, at any time by which (A) the amount in the Revenue Reserve Fund, together with the amount in all other Funds and Accounts under the Resolution (other than the Interest Account and the Insurance Reserve Account) and the outstanding principal balance of all Program Obligations exceeds (B) 102% of the Outstanding principal amount of Bonds plus the most recently calculated Swap Termination Value Holdback; but only if as shown by an Officer's Certificate filed with the Trustee, the Agency has purchased and owns Program Obligations with scheduled payments of principal and interest such that the Revenues and Prepayments, if any, estimated by the Agency in good faith to be received from such Program Obligations, together with any other moneys estimated in good faith to be available for the payments hereinafter mentioned, including, without limitation, investment income on the Funds and Accounts available for such payments and the moneys held for the credit of the Debt Service Reserve Fund and any Special Debt Service Reserve Account, shall be sufficient to pay when due (A) the Program Expenses and (B) the principal of, Sinking Fund Requirements on account of, and interest on the Bonds. For purposes of determining whether such a transfer to the General Fund may be made, investments in all Funds and Accounts shall be valued at cost plus amortization of discount or minus amortization of premium.

In addition, amounts deposited to the Revenue Reserve Fund may be applied to the following additional purposes:

(i) If at any time the Agency is required to make a Swap Agreement Periodic Payment or a Swap Agreement Termination Payment, the Trustee shall transfer from the Revenue Reserve Fund to the Swap Agreement Payment Fund the amount required to pay the applicable payment to the Swap Provider.

(ii) In the event there is a Swap Agreement Periodic Payment or a Swap Agreement Termination Payment required to be paid by the Agency, and such payment is paid by an insurer or guarantor, the Trustee shall transfer from the Revenue Reserve Fund to the Swap Agreement Payment Fund the amount required to reimburse the payment of the Swap Agreement Periodic Payment or a Swap Agreement Termination Payment by such insurer or guarantor.

Funds on deposit in the Revenue Reserve Fund shall be used for the purposes described in items (i) and (ii) above without regard to the priorities for expenditure of funds set forth above; provided, however, that if funds are required for the purpose described in item 1. above (relating to transfers from the Revenue Reserve Fund to pay principal and interest on Bonds), then the funds shall be used for that purpose before the uses described in items (i) and (ii) above.

1974 Appropriation Reserve Fund

In addition to the foregoing, the Twelfth Supplemental Trust Agreement creates the 1974 Appropriation Reserve Fund. In connection with the issuance of the Series 12 Bonds, the Agency deposited $4,000,000 to the 1974 Appropriation Reserve Fund.

If at any time the moneys held to the credit of the Bond Service Fund shall be insufficient to pay when due the principal and Sinking Fund Requirements of, and interest on, the Bonds, and if the amounts transferred to the credit of the Bond Service Fund from the Debt Service Reserve Fund and the Revenue Reserve Fund are insufficient to make up the deficiency, the Trustee shall transfer from the 1974 Appropriation Reserve Fund to the credit of the Bond Service Fund an amount sufficient to make up the deficiency.

The Board may by resolution, which may be amended from time to time, direct the Trustee to withdraw all or any part of the interest earned or other income derived from the investment or deposit of moneys in the 1974 Appropriation Reserve Fund and pay such moneys to the Agency, and the Agency may apply such moneys to the payment of any operating expenses of the Agency incurred or to be incurred under the program of the Agency.

The Board may from time to time by resolution direct the Trustee to withdraw any moneys held for the credit of the 1974 Appropriation Reserve Fund and pay such moneys to the Agency or to the trustee under a bond resolution or trust agreement of the Agency other than the Trust Agreement for deposit by the Agency or such trustee to the credit of one or more debt service reserve funds securing bonds of the Agency not issued under the provisions of the Trust Agreement.

Investment of Money

Money held for the credit of each Fund and Account shall, as nearly as may be practicable, be continuously invested and reinvested by the Trustee, at the direction of the Agency, in Investment Obligations

The Investment Obligations may be purchased by the Trustee through its own investment division or other bank facilities established for such purpose.

Encumbrances

The Agency covenants that it will not create or suffer to be created any lien, encumbrance or charge upon the Program Obligations, Revenues, Prepayments or Funds and Accounts pledged under the Trust Agreement except the pledge, lien and charge for the security of the Bonds secured hereby upon the Program Obligations, Revenues, Prepayments and Funds and Accounts, except as otherwise provided in the Trust Agreement.

To the extent of their respective rights therein, the Agency and the Trustee have granted to the Swap Provider(s) a security interest in the moneys, securities and Funds and Accounts and Program Obligations, Revenues, Program Obligation Accrued Interest, Financing Fees and Prepayments (the "Trust Estate") to secure the obligations of the Agency to the Swap Providers under any Swap Agreements entered into by the Agency. Such security interest shall be subject and subordinate to the security interest in and pledge of the Trust Estate created in favor of the Trustee and the holders of the Bonds under the Trust Agreement and the security interest and pledge made by the Agency to the issuers of the Reserve Fund Surety Bonds to secure the payments required to be paid to such issuers in connection with drawings under such surety bonds from the Reserve Fund Surety Reimbursement Fund in accordance with the provisions of the Seventeenth Supplemental Trust Agreement.

The Agency may at any time issue indebtedness secured by a lien, pledge or other security interest in the Program Obligations, Revenues, Prepayments and Funds and Accounts pledged under the Trust Agreement if such indebtedness constitutes Subordinated Indebtedness. The Agency shall not incur such Subordinated Indebtedness unless:

(i) Prior to incurring such Subordinated Indebtedness, the Agency shall file with the Trustee an Officer's Certificate to the effect that the incurrence of such Subordinated Indebtedness and the payment thereof from the Revenues and other amounts available will not materially and adversely affect the ability of the Agency to pay the principal of, Sinking Fund Requirements on account of, and interest on the Bonds then outstanding.

(ii) The terms of such Subordinated Indebtedness shall provide that payment of such indebtedness shall be subordinate and junior in right of payment to the prior payment in the event (a) of any insolvency or bankruptcy proceedings, any receivership, liquidation, reorganization, arrangement or other similar proceedings in connection therewith, relative to the Agency or the Program, or in the event of any proceedings for voluntary liquidation, dissolution or other winding-up of the Agency or the Program whether or not involving insolvency or bankruptcy, (b) any Subordinated Indebtedness is declared or otherwise becomes due and payable before its stated maturity because of the occurrence of an event of default occurring under the documents pursuant to which such Subordinated Indebtedness was incurred, or (c) any Event of Default under the Trust Agreement shall occur and be continuing and (1) written notice of such default shall have been given to the Agency and (2) judicial proceedings shall be commenced in respect of such Event of Default within 180 days in the case of a default in payment of principal or interest on the Bonds and within 90 days in the case of any other default after the giving of such notice, then, for so long as any action described in clause (a), (b) or (c) hereof shall not have been remedied or cured in the opinion of the Trustee, the Owners of the Bonds shall be entitled to receive payment in full of all principal, premium and interest on all Bonds before the owners of the Subordinated Indebtedness are entitled to receive any payment on account of principal of or interest on the Subordinated Indebtedness, and to that end the Owners of the Bonds shall be entitled to receive for application in payment thereof any payment or distribution of any kind of character, whether in cash or property or securities, which may be payable or deliverable in any such proceedings in respect of the Subordinated Indebtedness after giving effect to any concurrent payment or distribution in respect to the Bonds.

Records and Accounts

The Agency covenants that promptly after the close of each Fiscal Year it will cause an audit to be made of its books and accounts by an independent firm of certified public accountants of recognized ability and standing. The Agency covenants that it will cause an annual report of the operations and accomplishments of each program of the Agency to be prepared. As soon as practicable thereafter, reports of each such audit and copies of each annual report shall be filed with the Trustee, and copies of such reports shall be mailed to all Owners who have sent the Agency a written request for such reports.

Program Covenants

The Agency shall do all such acts and things necessary to receive and collect Revenues, Prepayments and Escrow Payments, and to enforce the Servicing Agreements, as may be consistent with sound banking practices and principles and shall diligently enforce, and take all steps, actions and proceedings reasonably necessary in the judgment of the Agency for the enforcement of all terms, covenants and conditions of the Program Obligations. The Agency may, in its discretion, reduce the amounts to be collected under any Program Loan to the extent that such action is required in connection with the federal income tax requirements relating to the tax-exempt status of the Agency's Bonds.

The Agency shall not cause Bonds to be purchased or redeemed unless, after such purchase or redemption, there shall be no material adverse effect on the ability of the Agency to pay when due the principal of and the interest on, and any Sinking Fund Requirements on account of, the Bonds then Outstanding.

The Agency will make or purchase Program Obligations with the proceeds of such Bonds with scheduled payments of principal and interest such that the Revenues and Prepayments, if any, estimated by the Agency to be received from such Program Obligations, together with any other moneys estimated to be available will be sufficient to pay when due the principal of, Sinking Fund Requirements on account of, and interest on the Bonds.

The Agency will not cause money to be withdrawn from the Debt Service Reserve Fund unless an Authorized Officer shall determine in an Officer's Certificate which shall be filed with the Trustee at the time of such withdrawal that such amounts being so withdrawn are not likely to be needed while any Bonds are Outstanding under the provisions of the Trust Agreement for paying the principal of, Sinking Fund Requirements on account of, and interest on Bonds secured by the Debt Service Reserve Fund.

The Agency will not delay in the prosecution and collection of any claim for a mortgage insurance or guarantee payment to which it shall be entitled, permit any such delay under its control nor fail to elect to assign any Program Obligation whenever it shall be necessary to do so to obtain the benefits of mortgage insurance or guarantees. The Agency shall not delay in the prosecution or collection of any claim for insurance which it shall be entitled to make or permit any such delay under its control.

Whenever necessary in order to protect and enforce the interests and security of Owners of the Bonds, the Agency shall commence foreclosure or pursue other appropriate remedies with respect to any Program Obligation which is in default. In the event that the Agency shall, in its discretion, determine such action to be in the best interests of the Owners of the Bonds, the Agency may bid for and purchase the premises covered by any such Program Obligation at any foreclosure sale thereof and may otherwise take possession of or acquire such property.

The Agency shall not expend for Program Expenses in any Fiscal Year more than is reasonable and necessary therefor.

Default and Remedies

Each of the following events is an "Event of Default":

(a) payment of the principal or Redemption Price of any of the Bonds is not made when the same shall become due and payable, either at maturity or by proceedings for redemption or otherwise; or

(b) payment of any installment of interest on any of the Bonds is not made when the same shall become due and payable; or

(c) the total amount deposited in the Sinking Fund Account in any applicable period set forth in a Supplemental Trust Agreement shall be less than the Sinking Fund Requirements for such period; or

(d) final judgment for the payment of money is rendered against the Agency and any such judgment is not discharged within sixty (60) days from the entry thereof or an appeal is not taken therefrom or from the order, decree or process upon which or pursuant to which such judgment was granted or entered, in such manner as to stay the execution of or levy under such judgment, order, decree or process or the enforcement thereof; or

(e) an order or decree is entered, with the consent or acquiescence of the Agency, appointing a receiver or receivers of any Revenues, Prepayments, or other money or assets, including the Program Obligations pledged under the provisions of the Trust Agreement, or if such order or decree, having been entered without the consent or acquiescence of the Agency, is not vacated, discharged or stayed on appeal within ninety (90) days after the entry thereof; or

(f) any proceeding is instituted, with the consent or acquiescence of the Agency, for the purpose of effecting a composition between the Agency and its creditors or for the purpose of adjusting the claims of such creditors pursuant to any federal or State statute now or hereafter enacted, if the claims of such creditors are under any circumstances payable from any Revenues or Prepayments, or other moneys or assets, including the Program Obligations, pledged under the provisions of the Trust Agreement; or

(g) the Agency defaults in the due and punctual performance of any other of the covenants, conditions, agreements and provisions contained in the Bonds or in the Trust Agreement or any Supplemental Trust Agreement on the part of the Agency to be performed, and such default continues for thirty (30) days after written notice specifying such default and requiring it to be remedied shall have been given to the Agency by the Trustee, which may give such notice in its discretion and shall give such notice at the written request of the Owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding; provided, however, that if the default cannot be corrected within such thirty day period and the Agency is pursuing diligent efforts to cure such default, then an Event of Default shall not have occurred so long as the Agency continues diligent efforts to cure the default.

Upon the happening and continuance of any Event of Default the Trustee may, and upon the written request of the Owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding shall, by a notice in writing to the Agency, declare the principal of all of the Bonds then Outstanding (if not then due and payable) to be due and payable immediately, and upon such declaration the same shall become and be immediately due and payable, anything contained in the Bonds or in the Trust Agreement to the contrary notwithstanding; subject to certain actions by the Agency to cure the Event of Default before the Bonds are paid.

Upon the happening and continuance of any Event of Default, then and in every such case the Trustee may proceed, and upon the written request of the Owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding shall proceed, to protect and enforce its rights and the rights of the Owners by such suits, actions or special proceedings in equity or at law, or by proceedings in the office of any board or officer having jurisdiction, for the specific performance of any covenant or agreement contained herein or in aid or execution of any power herein the enforcement of any proper legal or equitable remedy, as the Trustee, being advised by counsel, shall deem most effectual to protect and enforce such rights.

In the enforcement of any remedy under the Trust Agreement, the Trustee shall be entitled to sue for, enforce payment of and receive any and all unpaid amounts then or during any default becoming and at any time remaining, due from the Agency for principal, interest or otherwise under any of the provisions of the Trust Agreement or of the Bonds and unpaid, with interest on overdue payments of principal at the rate or rates of interest specified in such Bonds, together with any and all costs and expenses, without prejudice to any other right or remedy of the Trustee or of the Owners, and to recover and enforce any judgment or decree against the Agency, but solely as provided herein and in such Bonds, for any portion of such amounts remaining unpaid and interest, costs and expenses as above provided, and to collect (but solely from money in the Funds and Accounts pledged to secure the Bonds under the provisions of the Trust Agreement and any other money available for such purpose) in any manner provided by law, the money adjudged or decreed to be payable.

If at any time the money in the Bond Service Fund shall not be sufficient to pay the interest on or the principal of the Bonds as the same shall become due and payable (either by their terms or by acceleration of maturities), such money, together with any money then available or thereafter becoming available for such purpose, including any money then held for the credit of any Funds and Accounts pledged to secure the payment of the Bonds, whether through the exercise of the remedies provided for in this Article or otherwise, shall be applied as follows:

(a) If the principal of all the Bonds shall not have become or shall not have been declared due and payable, all such money shall be applied:

first: to the payment to the persons entitled thereto of all installments of interest then due and payable in the order in which such payments became due and payable and, if the amount available shall not be sufficient to pay in full any particular installment, then to the payment, ratably, according to the amounts due on such installment, to the persons entitled thereto, without any discrimination or preference except as to any difference in the respective rates of interest specified in the Bonds;

second: to the payment to the persons entitled thereto of the unpaid principal of any of the Bonds which shall have become due and payable (other than Bonds called for redemption for the payment of which money is held pursuant to the provisions of the Trust Agreement) in the order of their due dates, with interest on the principal amount of such Bonds at the respective rates specified therein from the respective dates upon which such Bonds became due and payable, and, if the amount available shall not be sufficient to pay in full the principal of the Bonds due and payable on any particular date, together with such interest, then principal of the Bonds due and payable on any particular date, together with such interest, then to the payment first of such interest, ratably, according to the amount of such interest due on such date, and then to the payment of such principal, ratably, according to the amount of such principal due on such date, to the persons entitled thereto without any discrimination or preference except as to any difference in the respective rates of interest specified in the Bonds; and

third: to the payment of the interest on and the principal of the Bonds, to the purchase and retirement of Bonds and to the redemption of Bonds.

(b) If the principal of all the Bonds shall have become or shall have been declared due and payable, all such money shall be applied:

first: to the payment to the persons entitled thereto of all interest due and payable on or prior to maturity, if any, in the order in which such interest became due and payable and, if the amount available shall not be sufficient to pay in full any particular installment, then to the payment, ratably, according to the amounts due on such installment, to the persons entitled thereto, without any discrimination or preference except as to any difference in the respective rates of interest specified in the Bonds, and then to the payment of any interest due and payable after maturity on the Bonds, ratably, to the persons entitled thereto, without any discrimination or preference except as to any difference in the respective rates of interest specified in the Bonds; and

second: to the payment of the principal of the Bonds, ratably, to the persons entitled thereto, without preference or priority of any Bond over any other Bond.

Control of Proceedings by the Owners

The Owners of a majority in principal amount of the Bonds then Outstanding shall have the right, subject to the indemnification provisions described below to direct the method and place of conducting all remedial proceedings to be taken by the Trustee.

No Owner shall have any right to institute any suit, whether in equity or at law, on any Bond or for any other remedy unless such Owner previously shall have given to the Trustee written notice of the event of default on account of which such suit, action or proceeding is to be instituted, and unless also the Owners of not less than twenty per centum (20%) in aggregate principal amount of the Bonds then Outstanding shall have made written request of the Trustee after the right to exercise such powers or right of action, as the case may be, shall have accrued, and shall have afforded the Trustee a reasonable opportunity either to proceed to exercise the powers hereinabove granted or to institute such action, suit or proceeding in its or their name, and unless, also, there shall have been offered to the Trustee reasonable security and indemnity against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee shall have refused or neglected to comply with such request within a reasonable time.

Nothing impairs the right of any Owner to enforce the payment of the principal of and interest on his Bond, or the obligation of the Agency to pay the principal of and interest on each Bond to the Owner thereof, at the time and place in said Bond expressed.

Concerning the Trustee

The Trustee shall be under no obligation to institute any suit, or to take any remedial proceeding under the Trust Agreement, or to enter any appearance or in any way defend in any suit in which it may be made defendant, or to take any steps in the execution of the trusts hereby created or in the enforcement of any rights and powers under the Trust Agreement, until it shall be indemnified to its reasonable satisfaction against any and all costs and expenses, outlays and counsel fees and other reasonable disbursements, and against all liability.

Any bank or trust company acting as Trustee under the Trust Agreement, and its directors, officers, employees or agents, may in good faith buy, sell, own, hold and deal in any of the Bonds issued under and secured by the Trust Agreement, may join in any action which any Owner may be entitled to take with like effect as if such bank or trust company were not the Trustee under the Trust Agreement.

The Trustee may resign and thereby become discharged from the trusts hereby created by notice in writing to the Owners, but such resignation shall take effect immediately upon the appointment of a successor Trustee. If no Event of Default shall have occurred and be continuing, and no event that but for the giving of notice on the passage of time would become an Event of Default shall have occurred and be continuing, the Agency may remove the Trustee at any time. The Trustee may also be removed at any time for any breach of trust or for acting or proceeding in violation of, or for failing to act or proceed in accordance with, any provision of the Trust Agreement with respect to the duties and obligations of the Trustee, by any court of competent jurisdiction upon the application of the Agency or of the Owners of not less than ten per centum (10%) in aggregate principal amount of the Bonds then Outstanding.

Supplemental Trust Agreements

The Agency and the Trustee may from time to time and at any time enter into such Agreements supplemental hereto to amend the provisions hereof as, in the opinion of the Agency and the Trustee, shall not materially adversely affect the interests of the Owners (which supplemental indentures shall thereafter form a part hereof), including supplemental indentures:

(a) to cure any ambiguity or formal defect or omission, to correct or supplement any provision therein which may be inconsistent with any other provision herein, or to make any other provisions with respect to matters or questions arising under the Trust Agreement which shall not be inconsistent with the provisions of the Trust Agreement, or

(b) to grant to or confer upon the Trustee for the benefit of the Owners any additional rights, remedies, powers, authority or security that may lawfully be granted to or conferred upon the Owners or the Trustee, including, without limitation, the issuance of bearer Bonds with appurtenant interest coupons, or

(c) to add to the conditions, limitations and restrictions on the issuance of Bonds under the provisions of the Trust Agreement other conditions, limitations and restrictions thereafter to be observed, or

(d) to amend any of the provisions of the Trust Agreement to the extent required to permit compliance by the Agency with the Internal Revenue Code of 1986, as amended, and the regulations in effect thereunder, or

(e) to add to the covenants and agreements of the Agency in the Trust Agreement other covenants and agreements thereafter, to be observed by the Agency or to surrender any right or power herein reserved to or conferred upon the Agency, or

(f) to make any other change to the provisions of the Trust Agreement that do not materially impair the security of the Owners.

The Owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding may consent to and approve the adoption by the Board of such other supplemental trust agreements as shall be deemed necessary or desirable by the Agency for the purpose of modifying, altering, amending, adding to, repealing or rescinding in any particular any of the terms or provisions contained in the Trust Agreement or in any supplemental indenture; provided, however, that nothing herein contained shall permit, or be construed as permitting (a) an extension of the maturity of the principal of or the interest on any Bond, (b) a reduction in the principal amount or Redemption Price of any Bond, any Sinking Fund Requirement on account of the Bonds or the rate of interest on any Bond, (c) the creation of a lien upon or a pledge of the Program Obligations, Revenues, Prepayments and other money and assets pledged other than the lien and pledge created by the Trust Agreement, (d) a preference or priority of any Bond or Bonds over any other Bond or Bonds, or (e) a reduction in the aggregate principal amount of the Bonds required for consent to such supplemental indenture without the consent of the Owners of all Bonds Outstanding under the Trust Agreement.

A Supplemental Agreement that relates only to the issuance of a particular Series of Bonds and that does not purport to alter or amend the rights or security of any Owners of any Bonds of any other Series shall not be deemed or considered to be a supplemental trust agreement for purposes of the amendment provisions.

Defeasance

If, the Bonds have become due and payable in accordance with their terms or shall have been duly called for redemption or irrevocable instructions to call the Bonds for redemption shall have been given by the Agency to the Trustee, the whole amount of the principal and the interest and the premium, if any, so due and payable upon all of the Bonds then Outstanding shall be paid or sufficient money, or Government Obligations the principal of and the interest on which when due will provide sufficient money to pay such whole amount, shall be held by the Trustee for such purpose under the provisions of the Trust Agreement, and provision shall also be made for paying all other sums payable by the Agency, then and in that case the right, title and interest of the Trustee under the Trust Agreement shall thereupon cease, determine and become void.

APPENDIX D

BOOK-ENTRY-ONLY SYSTEM

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BOOK-ENTRY-ONLY SYSTEM

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

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instrument 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, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). 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 and www.dtc.org.

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 GSEs 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 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. Beneficial Owners of Related Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Related Bonds, such as redemptions, tenders, defaults, and proposed amendments to the security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Related Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners, in the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.

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 such other DTC nominee) will consent or vote with respect to the Related Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Agency as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Related Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments 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 Agency 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 Agency or the Trustee, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Agency and 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 Agency 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 Agency 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 Agency believes to be reliable, but the Agency takes no responsibility for the accuracy thereof.