NEW ISSUE

This Official Statement has been prepared by the North Carolina Housing Finance Agency to provide information on the Series 34 Bonds. Selected information is presented on this cover page for the convenience of the user. To make an informed decision regarding the Series 34 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.

$66,150,000
North Carolina Housing Finance Agency
Home Ownership Revenue Refunding Bonds, Series 34
(Taxable Interest)
(1998 Trust Agreement)

Dated: Date of Delivery **Due: as shown on inside front cover**

Tax Treatment	In the opinion of Bond Counsel and subject to the qualifications described herein, interest on the Series 34 Bonds is not excluded from the gross income of the owners thereof for federal income tax purposes and is exempt from all income taxes of the State of North Carolina. See "TAX TREATMENT" herein for additional information.
Redemption	The Series 34 Bonds are subject to optional redemption, special redemption and sinking fund redemption as described herein.
Security	The Series 34 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 34 BONDS." *The Series 34 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 34 Bonds.*
Interest Payment Dates	January 1 and July 1, commencing January 1, 2014
Denominations	$5,000 or any whole multiple thereof.
Closing/Settlement	November 21, 2013
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, National Association, Jacksonville, Florida

The Series 34 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

Raymond James Wells Fargo Securities

The date of this Official Statement is October 30, 2013.

$66,150,000
North Carolina Housing Finance Agency
Home Ownership Revenue Refunding Bonds, Series 34
(Taxable Interest)
(1998 Trust Agreement)

MATURITY SCHEDULE

Series 34 Bonds
$38,210,000 Serial Bonds

Maturity	Amount	Interest Rate	Price	CUSIP
July 1, 2014	$2,785,000	0.350%	100%	658207PC3
January 1, 2015	2,200,000	0.490	100	658207PD1
July 1, 2015	2,275,000	0.590	100	658207PE9
January 1, 2016	1,695,000	0.972	100	658207PF6
July 1, 2016	1,750,000	1.022	100	658207PG4
January 1, 2017	1,625,000	1.512	100	658207PH2
July 1, 2017	1,650,000	1.662	100	658207PJ8
January 1, 2018	1,715,000	2.062	100	658207PK5
July 1, 2018	1,770,000	2.162	100	658207PL3
January 1, 2019	1,830,000	2.574	100	658207PM1
July 1, 2019	1,880,000	2.674	100	658207PN9
January 1, 2020	1,940,000	2.874	100	658207PP4
July 1, 2020	1,985,000	3.024	100	658207PQ2
January 1, 2021	2,030,000	3.252	100	658207PR0
July 1, 2021	2,095,000	3.352	100	658207PS8
January 1, 2022	2,150,000	3.502	100	658207PT6
July 1, 2022	2,215,000	3.602	100	658207PU3
January 1, 2023	2,275,000	3.752	100	658207PV1
July 1, 2023	2,345,000	3.852	100	658207PW9

$3,855,000 4.002% Term Bonds maturing July 1, 2024 at 100% CUSIP 658207PY5

$24,085,000 2.812% Term Bonds maturing July 1, 2035 at 100% CUSIP 658207PZ2

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 34 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 CUSIP numbers on the inside cover of this Official Statement are provided for convenience of reference only. Neither the North Carolina Housing Finance Agency nor the Underwriters make any representation to the correctness of the CUSIP numbers either as printed on the Series 34 Bonds or as contained in this Official Statement.

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 34 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

$66,150,000
North Carolina Housing Finance Agency
Home Ownership Revenue Refunding Bonds, Series 34
(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 $66,150,000 of the Agency's Home Ownership Revenue Refunding Bonds, Series 34 (Taxable Interest) (1998 Trust Agreement) (the "Series 34 Bonds"), 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-Fourth Supplemental Trust Agreement, dated as of November 1, 2013, between the Agency and the Trustee (the "Thirty-Fourth Supplemental Trust Agreement"), authorizing the issuance of the Series 34 Bonds.

The Series 34 Bonds are being issued to provide funds, together with other available funds, to 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 "Bonds to be Refunded"). 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 Trust Agreement" herein, and the Series 34 Bonds are herein referred to as the "Bonds." Information descriptive of the Series 34 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-FOURTH 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 34 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 34 Bonds, upon the issuance of the Series 34 Bonds and the deposit of the proceeds thereof with the Trustee, the Trustee shall deposit to the credit of the Optional Redemption Account of the Redemption Fund created pursuant to the Trust Agreement proceeds of the Series 34 Bonds in an amount sufficient, together with other available funds, to redeem the Bonds to be Refunded. See "PLAN OF REFUNDING" and "SOURCES AND USES OF FUNDS."

The Series 34 Bonds and the interest thereon are payable solely from the Revenues and other moneys and assets pledged therefor under the Trust Agreement. The Series 34 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 34 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 34 BONDS — Insurance Reserve Fund."

The Series 34 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 34 Bonds. The Agency has no taxing power.

PLAN OF REFUNDING

$66,150,000 of the proceeds of the Series 34 Bonds, together with other available Agency funds, will be transferred to the Optional Redemption Account of the Trust Agreement and used to redeem certain of the Home Ownership Revenue Bonds, Series 15-A, Series 16-A, Series 17-A, Series 19, Series 20, and Series 21 (collectively, the "Bonds to be Refunded") issued pursuant to the Trust Agreement. $11,600,000 of the proceeds of the Series 34 Bonds deposited to the Optional Redemption Account will be used to pay the Redemption Price of Series 15-A, Series 16-A, and Series 17-A Bonds on December 1, 2013. $54,550,000 of the proceeds of the Series 34 Bonds deposited to the Optional Redemption Account will be used to pay the Redemption Price of the remaining Bonds to be Refunded on January 1, 2014.

The Thirty-Fourth Supplemental Trust Agreement creates a special account of the Program Fund designated as the "Series 34 Program Account." In connection with the refunding transaction, Program Loans in the aggregate amount of $72,958,274 financed with the proceeds of the Bonds to be Refunded with an approximate Weighted Average Coupon of 5.27% and Weighted Average Maturity of 256 months will be transferred from the various Program Accounts under the Trust Agreement to the Series 34 Program Account.

Information concerning individual series delinquency rates and mortgage loan rates is contained in "THE PROGRAM – Experience to Date Under Trust Agreement."

Mortgage insurance on the Series 34 Program Loans is as follows:

Insurance or Guarantee Program	Estimated Loan Balance as of October 1, 2013	Percentage of Loan Balance
FHA Mortgage Insurance	$30,298,454	41.5%
VA Guarantee	2,566,433	3.5
USDA Guarantee	11,588,146	15.9
Primary Mortgage Insurance		
Genworth	12,163,967	16.7
RMIC	2,795,292	3.8
AIG-UGIC	474,837	0.7
Radian Guaranty Inc.	1,397,434	1.9
MGIC	843,276	1.2
PMI	1,369,489	1.8
Uninsured and Non-Guaranteed Loans* (Loan to Value less than 80%)	9,460,946	13.0
Total	$72,958,274	100.0%

* In the tables in this 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, available Trust Agreement reserves in the amount of $1,280,100 will be deposited in the Debt Service Reserve Fund and $1,840,700 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 and together with an additional deposit of $42,900 from available Agency funds, will be sufficient to meet the required deposits to 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 34 Bonds, together with other available moneys, shall be applied approximately as follows:

Sources of Funds:	
Principal Amount of Series 34 Bonds	$66,150,000.00
Transfer from Trust Agreement Reserves	3,120,800.00
Transfer from Other Available Agency Funds	42,900.00
Total Sources	$69,313,700.00
Uses of Funds:	
Transfer to refund the Bonds to be Refunded	$66,150,000.00
Debt Service Reserve Fund	1,323,000.00
Insurance Reserve Fund	1,840,700.00
Total Uses	$69,313,700.00

SECURITY FOR AND SOURCES OF PAYMENT OF THE SERIES 34 BONDS

Pledge Created Under the Trust Agreement

The Series 34 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, 2013, there was on deposit in the Debt Service Reserve Fund $16,932,000.

Additional coverage for the Debt Service Reserve Fund is provided by a debt service reserve fund surety bond issued in connection with the issuance of 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"). The coverage provided by such surety bond is equal to 2% of the outstanding principal amount of the Series 15 Bonds. Following the issuance of the Series 34 Bonds and the refunding of the Series 15-A Bonds, the surety bond amount will be $140,400.

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-Fourth Supplemental Trust Agreement provides that the portion of the Debt Service Reserve Requirement in connection with the Series 34 Bonds is the amount as calculated from time to time equal to two percent (2%) of the outstanding principal amount of the Series 34 Bonds. The portion of the Debt Service Reserve Requirement related to the Series 34 Bonds will be $1,323,000, to be funded by $1,280,100 already on deposit in the Debt Service Reserve Fund and available on account of the refunding and an additional $42,900, provided by the Agency from available funds.

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 a 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 Bond

The portion of the Debt Service Reserve Requirement in connection with the Series 15 Bonds is met by the Series 15 Debt Service Reserve Fund Surety Bond issued by Assured Guaranty in the amount, as of June 30, 2013, of $382,100. The amount of the surety will be reduced to $140,400 after the redemption of Series 15-A Bonds on December 1, 2013.

Pursuant to the terms of the Series 15 Debt Service Reserve Fund Surety Bond, drawings thereunder may be made only after all cash available in the Debt Service Reserve Fund has been depleted. Drawings on the Series 15 Debt Service Reserve Fund Surety Bond are to be reimbursed, with interest, from Revenues.

The surety bond of Assured Guaranty in the Debt Service Reserve Fund continues 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 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, 2013, there was on deposit in the Revenue Reserve Fund $4,695,000 in cash and investments derived from Revenues.

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 certain series of 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.

In addition, the Agency has also deposited to the credit of the Revenue Reserve Fund additional funds made available to the Agency from the refunding of Bonds of the Agency issued under other Resolutions or Trust Agreements, following the discharge of all obligations under such other Resolutions or Trust Agreements. While in the Revenue Reserve Fund, such amounts may be used for any purpose described in the preceding paragraph (including transfer to the Agency’s General Fund under certain conditions), other than for transfer to a Special Redemption Account for the redemption of Bonds from surplus Revenues in the Revenue Reserve Fund.

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, 2013, there was on deposit in the Insurance Reserve Fund $17,524,000.

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; and (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 34 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 34 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 34 Bonds shall be met by a deposit of cash. See Appendix C—"Definitions."

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 1, 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, 2013, $842,000 of mortgage loans and $1,081,000 of cash were on deposit in the Series 20 Agency Contribution Fund.

Pursuant to the Twenty-First Supplemental Agreement, dated as of April 1, 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. As of June 30, 2013, $1,259,000 in cash and $734,000 in mortgage loans were on deposit in the Series 21 Agency Contribution Fund.

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 respective Supplemental Trust Agreements, scheduled payments and prepayments on amounts deposited to the Agency Contribution Funds are deposited to the credit of the respective 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 issuance of 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 34 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, 2013 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. The Swap Agreements include provisions permitting the Agency an option to terminate portions of the notional amounts covered by the Swap Agreements without paying a termination payment. The Agency exercised cancellation options for Series 15-C Bonds, Series 16-C Bonds and Series 18-C Bonds on July 1, 2013, in each case without incurring a termination fee. Termination other than the optional cancellation provisions prior to expected amortization of the remaining notional amounts from the Swap Agreements could require the Agency to make a termination payment which could be substantial in amount depending on market conditions.

Bond Series	Swap Notional[1]	Swap Counterparty	Fixed Rate	Floating Rate Basis	Liquidity Provider	Expiration Date on Liquidity Facility
15-C (AMT)	$6,785,000	UBS	3.508%	63% of 1M LIBOR + .30%	TD Bank, N.A.	1/11/15
16-C (AMT)	$13,650,000	Bank of America	3.810%	63% of 1M LIBOR + .30%	TD Bank, N.A.	1/11/15
17-C (AMT)	$15,540,000	Bank of America	3.725%	63% of 1M LIBOR + .30%	TD Bank, N.A.	1/11/15
18-C (AMT)	$10,900,000	Goldman Sachs	3.251%	63% of 1M LIBOR + .30%	TD Bank, N.A.	1/11/15
Total	$46,875,000					

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(1) As of July 2, 2013

Investment of Funds Under the Trust Agreement

The Trust Agreement provides that funds held thereunder may be invested in investments permitted by the Trust Agreement. For a complete description of investments that are permitted, see the definition of "Investment Obligations" in Appendix C—"SUMMARY OF CERTAIN PROVISIONS OF THE TRUST AGREEMENT AND THE THIRTY-FOURTH SUPPLEMENTAL TRUST AGREEMENT."

Historically, the Agency utilized investment agreements and repurchase agreements for the investment of a significant amount of Program Funds, Revenues and Prepayments and Reserve Funds under the Trust Agreement. More recently, on account of current market conditions, the Agency has been unable to enter into such agreements that provided for rates of returns and other provisions acceptable to the Agency. In addition, as the Agency has refunded or otherwise retired entire Series of Bonds previously issued under the Trust Agreement, the investment agreements and repurchase agreements entered in connection with such issues have expired in accordance with their terms. As a result, at present the Agency only has investment agreement arrangements in place for the investment of Revenues and Prepayments associated with the Series 15 Bonds, Series 16 Bonds, Series 18 Bonds and Series 22A Bonds, all of which are with FSA Capital Management Services LLC. Other funds held under the Trust Agreement are currently invested in other investments, principally consisting of Government Obligations and a commingled short-term Investment Fund maintained by North Carolina State Treasurer.

Should market conditions result in a return of investment rates to more attractive levels, the Agency may return to a broader use of investment and repurchase agreements permitted by the Trust Agreement.

DESCRIPTION OF THE SERIES 34 BONDS

General

The Series 34 Bonds will be dated the date of delivery thereof and will bear interest payable on January 1, 2014 and semiannually thereafter on July 1 and January 1 at the rates per annum corresponding to those principal amounts maturing as set forth on the inside front cover page of this Official Statement. Interest payable on each January 1 and July 1 shall be paid to the registered owner who appears as such on the bond registration books of the Agency at the close of business on the Record Date for such interest payment date, which shall be the 15th calendar day of the month preceding the interest payment date (or, if such day is not a business day, as of such date).

The Series 34 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 34 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, National Association, Jacksonville, Florida, will perform, with respect to the Series 34 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 34 Bonds upon original issuance and upon subsequent exchange or transfer, the exchange and transfer of the Series 34 Bonds, and the payment of the principal or redemption price of and interest on the Series 34 Bonds subject to the provisions relating to the book-entry-only system, as described below.

Special Redemption

General. The Series 34 Bonds may be redeemed pursuant to an Officer's Certificate in whole or in part on any date at a redemption price of 100% of the principal amount thereof, plus accrued interest to the date of redemption, from amounts on deposit in the Series 34 Special Redemption Account representing (i) Series 34 Prepayments, (ii) excess Revenues transferred from the Revenue Reserve Fund, and (iii) moneys withdrawn from the Proceeds Reserve Account of the Debt Service Reserve Fund in connection with an excess over the Debt Service Reserve Requirement.

Series 34 Prepayments. (i) Series 34 Prepayments up to the amounts for each period set forth below, shall be deposited by the Trustee to the Series 34 Special Redemption Account and shall be applied to the redemption of the Series 34 July 1, 2035 Term Bonds during the period indicated (the amount of Series 34 Prepayments set forth below for a specific period is defined as the "Series 34 Scheduled Principal Amount" for such period):

Period (Both Dates Inclusive)	Series 34 Scheduled Principal Amount
November 21, 2013 to July 1, 2014	$1,365,000
July 2, 2014 to January 1, 2015	1,595,000
January 2, 2015 to July 1, 2015	1,540,000
July 2, 2015 to January 1, 2016	1,485,000
January 2, 2016 to July 1, 2016	1,430,000
July 2, 2016 to January 1, 2017	1,375,000
January 2, 2017 to July 1, 2017	1,320,000
July 2, 2017 to January 1, 2018	1,270,000
January 2, 2018 to July 1, 2018	1,220,000
July 2, 2018 to January 1, 2019	1,170,000
January 2, 2019 to July 1, 2019	1,120,000
July 2, 2019 to January 1, 2020	1,075,000
January 2, 2020 to July 1, 2020	1,030,000
July 2, 2020 to January 1, 2021	980,000
January 2, 2021 to July 1, 2021	935,000
July 2, 2021 to January 1, 2022	895,000
January 2, 2022 to July 1, 2022	850,000
July 2, 2022 to January 1, 2023	810,000
January 2, 2023 to July 1, 2023	765,000
July 2, 2023 to January 1, 2024	730,000
January 2, 2024 to July 1, 2024	700,000
July 2, 2024 and thereafter	425,000

If less than the Series 34 Scheduled Principal Amount is available to be applied to the special redemption of Series 34 July 1, 2035 Term Bonds in any period, the deficiency shall be added to the Series 34 Scheduled Principal Amount for the succeeding period, subject to reduction as described below under "Special Provisions for the Series 34 July 1, 2035 Term Bonds".

After the amount of Series 34 Prepayments required to be received and applied to the redemption of Series 34 July 1, 2035 Term Bonds during any period as described above is so applied, additional Series 34 Prepayments on Series 34 Program Loans received during such period may be applied by the Agency to (a) redeem Series 34 Bonds, other than the Series 34 July 1, 2035 Term Bonds; (b) redeem Bonds other than Series 34 Bonds, to the extent the Supplemental Trust Agreement authorizing the issuance of such Bonds allows for such Bonds to be redeemed from Series 34 Prepayments; or (c) the Series 34 Program Account to purchase additional Program Obligations that meet the requirements of this Supplemental Trust Agreement. If the Prepayments are to be applied to redeem Series 34 Bonds, the Series 34 Bonds to be so redeemed shall be the Series 34 Bonds, selected pro rata by maturity (excluding the Series 34 July 1, 2035 Term Bonds) among such Series 34 Bonds in proportion to the principal amount of each maturity outstanding, unless the Agency files with the Trustee prior to the date of redemption, a notice of intent to redeem such Series 34 Bonds on other than a pro rata basis, together with a Cash Flow Certificate indicating the proposed form of redemption and prepared assuming that the Series 34 Bonds to be redeemed are selected in the manner proposed by the Agency.

Projected Weighted Average Life of the Series 34 July 1, 2035 Term Bonds. The following information is provided in order to enable potential investors to evaluate the Series 34 July 1, 2035 Term Bonds which are subject to special redemption from Prepayments described above.

The weighted average life of identical bonds of the same maturity refers to the average of the length of time that will elapse from the date of issuance of such bonds to the date each installment of principal is paid to the bondholders weighted by the amount of each such installment. The weighted average life of the Series 34 July 1, 2035 Term Bonds will be influenced by, among other things, the rate at which principal payments (including scheduled payments and principal prepayments) are made on the Series 34 Program Loans. An investor owning a specific Series 34 July 1, 2035 Term Bond may experience redemption at a rate which varies from the average life of the Series 34 July 1, 2035 Term Bonds.

Prepayments of Program Loans are commonly projected in accordance with a prepayment standard model. The following table, entitled "Projected Weighted Average Lives for the Series 34 July 1, 2035 Term Bonds" assumes, among other things, that (i) the Program Loans prepay at the indicated percentage of The Securities Industry and Financial Markets Association ("SIFMA")[1] prepayment experience, (ii) all scheduled principal and interest payments on Series 34 Program Loans and Prepayments thereof are received thirty days after the date on which due and there are no foreclosure losses experienced on such Program Loans, (iii) the Series 34 July 1, 2035 Term Bonds are not redeemed pursuant to optional redemption or excess Revenues, and (iv) Prepayments received are applied during the applicable period in the amounts necessary to redeem the Series 34 July 1, 2035 Term Bonds up to the Series 34 Scheduled Principal Amounts. Based on such assumptions, some or all of which are unlikely to reflect actual experience, the following table provides certain projected weighted average life information for the Series 34 July 1, 2035 Term Bonds.

Projected Weighted Average Lives for the Series 34 July 1, 2035 Term Bonds
(in years)

Prepayment Experience	Series 34 July 1, 2035 Term Bonds Average Life
0%	16.3
25%	11.6
50%	7.5
75%	5.0
100%	5.0
200%	5.0
300%	5.0
400%	5.0
500%	5.0

No assurance can be given that Prepayments of the Series 34 Program Loans will conform to any level of a particular prepayment projection, schedule or model or that Prepayments will be available to be applied to redemptions of any of the Bonds, including the Series 34 July 1, 2035 Term Bonds. The rates of Prepayments on Series 34 Program Loans are generally influenced by a variety of economic, geographical, social and other factors, including servicing decisions, changing property values, prevailing interest rates and the time within which such Program Loans are originated. In general, if prevailing interest rates fall significantly below the interest rates on the Series 34 Program Loans, such Program Loans may be likely to prepay at higher rates than if prevailing interest rates remain at or above the interest rates on such Program Loans. Conversely, if prevailing interest rates rise above the interest rates on the Series 34 Program Loans, the rate of Prepayments might be expected to decrease. The rates of

[1] The SIFMA Prepayment Model is based on an assumed rate of prepayment each month of the then unpaid principal balance of a pool of mortgage loans. The SIFMA Prepayment Model starts with 0.2% prepayment rate in the first month, increases the prepayment rate by 0.2% in each succeeding month until the thirtieth month (when a 6.0% annualized prepayment rate is reached) and then assumes a constant prepayment rate of 6.0% per annum of the unpaid principal balance for the remaining life of the mortgage loans.

delinquencies and foreclosures on Program Loans will also affect the expected special redemption schedules. The Agency cannot predict the number of Series 34 Program Loans that may become delinquent or subject to foreclosure proceedings.

Excess Revenues. Revenues transferred from the Revenue Reserve Fund to the Series 34 Special Redemption Account pursuant to the Trust Agreement may be applied to the special redemption of the Series 34 Bonds, in any manner directed by the Agency, except as described below under *"Special Provisions for Series 34 July 1, 2035 Term Bonds."*

Excess Debt Service Reserve Funds. Moneys in the Debt Service Reserve Fund in excess of the Debt Service Reserve Requirement to be withdrawn from the Debt Service Reserve Fund, as provided in an Officer's Certificate, may be applied to the special redemption of the Series 34 Bonds selected in any manner directed by the Agency, provided that the Series 34 July 1, 2035 Term Bonds may not be redeemed from such transfers, except as described below under *"Special Provisions for Series 34 July 1, 2035 Term Bonds."*

Special Provisions for Series 34 July 1, 2035 Term Bonds. Except as hereinafter described, the Series 34 July 1, 2035 Term Bonds may not be redeemed from excess Revenues or excess moneys in the Debt Service Reserve Fund. If Series 34 Prepayments during any period specified in the table set forth in the first paragraph under *"Prepayments"* are less than the Series 34 Scheduled Principal Amount for such period such that a deficiency is carried over to the succeeding period set forth in the table, then the Agency may redeem Series 34 July 1, 2035 Term Bonds up to the amount of such deficiency from the sources described in the first sentence of this paragraph. If the Agency so redeems any Series 34 July 1, 2035 Term Bonds, the amount of the deficiency carried over to the Scheduled Principal Amount for the subsequent period shall be correspondingly reduced.

Sinking Fund Redemption

The Series 34 Term Bonds maturing on July 1, 2024 are subject to mandatory sinking fund redemption by lot on January 1, 2024 in the principal amounts set forth below from moneys deposited to the credit of the Sinking Fund Account, at a Redemption Price equal to 100% of the principal amount of such Series 34 Term Bonds to be redeemed plus accrued interest to the redemption date.

Date	Amount
January 1, 2024	$1,995,000
July 1, 2024*	1,860,000

*Final Maturity

The Series 34 Term Bonds maturing on July 1, 2035 are subject to mandatory sinking fund redemption by lot on July 1, 2024 and each January 1 and July 1 thereafter in the principal amounts set forth below from moneys deposited to the credit of the Sinking Fund Account, at a Redemption Price equal to 100% of the principal amount of such Series 34 Term Bonds to be redeemed plus accrued interest to the redemption date.

Date	Amount
July 1, 2024	$ 180,000
January 1, 2025	2,040,000
July 1, 2025	2,085,000
January 1, 2026	770,000
July 1, 2026	775,000
January 1, 2027	795,000
July 1, 2027	820,000
January 1, 2028	840,000
July 1, 2028	865,000
January 1, 2029	885,000
July 1, 2029	900,000
January 1, 2030	905,000
July 1, 2030	955,000
January 1, 2031	995,000
July 1, 2031	1,020,000
January 1, 2032	1,235,000
July 1, 2032	945,000
January 1, 2033	965,000
July 1, 2033	985,000
January 1, 2034	1,005,000
July 1, 2034	1,050,000
January 1, 2035	1,470,000
July 1, 2035*	1,600,000

*Final Maturity

Optional Redemption

The Series 34 Bonds are each 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 January 1, 2024. 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, and upon notice as provided in Article III of the Trust Agreement at a Redemption Price equal to the principal amount of the Series 34 Bonds to be redeemed, plus accrued interest to the redemption date.

General Provisions as to Purchase or Redemption of Series 34 Bonds

Any Series 34 Bonds or portions of Series 34 Bonds to be purchased or redeemed other than by operation of the Sinking Fund Account shall be purchased or redeemed by the Trustee only upon receipt by the Trustee of an Officer's Certificate determining the following: (a) the Series from which the Series 34 Bonds are to be purchased or redeemed; (b) the maturities within such Series from which the Series 34 Bonds are to be purchased or redeemed; (c) the principal amount of Series 34 Bonds or portion of Series 34 Bonds within such maturities to be purchased or redeemed; and (d) if any of the Series 34 Bonds to be purchased or redeemed are Term Bonds, the years in which Sinking Fund Requirements are to be reduced and the amount by which such Sinking Fund Requirements are to be reduced. Pursuant to the Trust Agreement, the Agency shall not cause Series 34 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 interest on the Series 34 Bonds then Outstanding. If less than all the Series 34 Bonds of a single maturity shall be redeemed, the Series 34 Bonds shall be redeemed by lot.

So long as DTC or its nominee is the owner of the Series 34 Bonds, if less than all of the Series 34 Bonds of any one maturity shall be called for redemption, the particular Series 34 Bonds or portions of Series 34 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 34 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 34 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 34 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 34 Bonds to be redeemed, the interest rate of the Series 34 Bonds to be redeemed, the dated date of the Series 34 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 34 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 34 Bond is to be redeemed in part only, the notice of redemption which relates to such Series 34 Bond shall state also that on or after the redemption date, upon surrender of such Series 34 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 34 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 34 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 34 Bonds 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 34 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.

So long as DTC or its nominee is the owner of the Series 34 Bonds, the Agency and the Trustee will recognize DTC or its nominee as the registered owner of the Series 34 Bonds for all purposes, including notices and voting. Conveyance of notices and other communications by DTC to Participants and by Participants to beneficial owners will be governed by arrangements among them, subject to any statutory and regulatory requirements as may be in effect from time to time. Any failure on the part of DTC or failure on the part of a nominee of a beneficial owner (having received notice from a Participant or otherwise) to notify the beneficial owner so affected shall not affect the validity of the redemption.

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
Joseph R. Parker, Chairman	6/30/14	Retired Mortgage Banker, Durham
Stancil Barnes	6/30/15	Retired Businessman, Tarboro
William G. Benton	6/30/14	President and CEO, Salem Senior Housing, Winston-Salem
J. Dean Carpenter	6/30/15	President, Carpenter’s Real Estate, Dallas
Joseph D. Crocker	9/22/13*	Director, Poor & Needy Division, Kate B. Reynolds Charitable Trust, Winston-Salem
R. Gene Davis, Jr.	6/30/17	Attorney, Raleigh
Paul S. Jaber	6/30/15	Executive Vice President, First South Bank, Rocky Mount
Paul L. Kennedy	6/30/17	Sr. Vice President, Carolina Bank, Greensboro
M. Charles Mullen	6/30/17	President, Mullen & Company, Inc., 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
Christopher C. Parrish	6/30/17	Co-Owner, Parrish Manor, Inc., Garner
Tom E. Smith	6/30/15	Prudential York Simpson Underwood Realty, Raleigh

* Serves until reappointed or replaced.

Agency Staff

The Agency currently employs approximately 117 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
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

Name and Position	Experience
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-Fourth Supplemental Trust Agreement, the Agency will refund certain of the Agency's Single Family Revenue Bonds heretofore issued under the Trust Agreement and pay a portion of the costs of issuance of the Series 34 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 Servicing Agreements are summarized below under "Servicing Agreements."

The Series 34 Program Account and Program Loans

Upon the issuance of the Series 34 Bonds and the application of the proceeds thereof as described above under "Plan of Refunding," the Agency shall cause the Series 34 Program Loans to be transferred to the Series 34 Program Account.

Series 34 Prepayments in excess of the amount required to redeem Series 34 Bonds pursuant to the Thirty-Fourth Supplemental Trust Agreement may be used to purchase new Program Loans. Such new Program Loans shall consist of thirty-year loans, incurred by the Borrower for permanent single family home ownership (not a construction loan or land development loan) secured by a mortgage on a permanent structure containing no more than one dwelling unit, including an individual condominium or townhouse for households of low and moderate income. The combination of the interest rate or rates and discount points shall be determined from time to time by the Agency and communicated to the Lenders. Each such Program Loan purchased with Series 34 Prepayments shall be secured by a Mortgage on the property financed thereby. The unpaid principal amount of a Program Loan purchased with Series 34 Prepayments shall not exceed, at the time of the purchase thereof by the Agency, 80% of the Market Value of the property subject to the Mortgage unless the Program Loan is insured or guaranteed in one of the following ways:

(1) if the 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 Program Loan is a PMI Insured 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.

Each private mortgage insurance policy described in (2) above shall be issued by a private mortgage insurance company approved by Fannie Mae or Freddie Mac to insure mortgage loans purchased by them. The Agency shall not purchase a Program Loan insured by a private mortgage insurance company if the purchase of a Program Loan insured by such insurer would have an adverse effect on the ratings then in effect on the Series 34 Bonds.

The Agency will require that each of the Series 34 Program Loans will be continuously secured by a Mortgage on the property financed thereby. The Agency will require that each Series 34 Program Loan remains insured or guaranteed in one of the following ways:

(1) if the Series 34 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 34 Program Loan is a PMI Insured Program Loan, unless the unpaid principal amount of the Series 34 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 34 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 34 Program Loan is held under the Trust Agreement and insurance or guaranty coverage is available with respect to such Series 34 Program Loan under the insurance or guaranty program or policy with respect to such Series 34 Program Loans. The insurance policy on a PMI-Insured Program Loan may be cancelled or permitted to terminate as required by applicable law.

Insurance Reserve Requirement. The portion of the Insurance Reserve Requirement with respect to the Series 34 Bonds shall be an amount computed for each Series 34 Program Loan determined as follows:

(1) if the Series 34 Program Loan is an FHA Insured Program Loan: 0.9000% of the principal amount thereof;

(2) if the Series 34 Program Loan is a VA Guaranteed Program Loan and:

(A) if the mortgage interest rate on the Series 34 Program Loan is greater than 6.00%, 2.8125% of the principal amount thereof; and

(B) if the mortgage interest rate on the Series 34 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 34 Program Loan is a USDA Guaranteed Program Loan and:

(A) if the mortgage interest rate on the Series 34 Program Loan is greater than 6.00%, 2.5875% of the principal amount thereof; and

(B) if the mortgage interest rate on the Series 34 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 34 Program Loan is a PMI Insured Program Loan with 40% coverage: 0.9000% of the principal amount thereof;

(5) if the Series 34 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 34 Bonds shall be deposited to the credit of the Insurance Reserve Fund on the date of issuance of the Series 34 Bonds. The Insurance Reserve Requirement with respect to the Series 34 Bonds will decrease as the principal amount of the Series 34 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 (excluding refunding Bonds) for the purposes of the Program.

The following table summarizes as of June 30, 2013, 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 are being refunded in part or in whole by proceeds of the Series 34 Bonds, 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[2] (%)
15*	5/8/03	$50,060	$19,105	$19,279	4.950-5.375	FHA, VA, USDA, PMI	2.37
16*	9/16/03	50,000	18,345	18,719	5.125-5.750	FHA, VA, USDA, PMI	3.64
17*	12/11/03	53,280	24,230	22,665	5.125-5.375	FHA, VA, USDA, PMI	2.45
18	4/20/04	50,000	17,810	21,950	4.625-5.875	FHA, VA, USDA, PMI	5.02
19*	8/18/04	65,000	32,385	30,962	5.250-5.750	FHA, VA, USDA, PMI	2.43
20*	12/7/04	65,000	36,405	33,502	5.125-5.250	FHA, VA, USDA, PMI	2.41
21*	4/21/05	65,000	32,380	29,931	5.125-5.375	FHA, VA, USDA, PMI	1.97
22A	11/30/05	65,000	36,830	34,642	5.125-6.125	FHA, VA, USDA, PMI	4.33
22CE	10/1/07	80,000	54,710	49,323	5.500-5.750	FHA, VA, USDA, PMI	3.31
23	3/30/06	65,000	33,505	31,223	5.125-6.125	FHA, VA, USDA, PMI	3.41
24	6/29/06	85,000	46,340	44,955	3.950-6.375	FHA, VA, USDA, PMI	7.17
25	9/26/06	65,000	36,835	36,734	5.125-6.375	FHA, VA, USDA, PMI	4.74
26	12/20/06	65,000	37,665	35,925	5.125-6.125	FHA, VA, USDA, PMI	3.90
27	6/26/08	65,000	28,470	41,437	5.750-6.500	FHA, VA, USDA, PMI	7.95
28	4/25/07	65,000	40,085	39,000	5.500-5.990	FHA, VA, USDA, PMI	4.16
29	6/13/07	100,000	57,600	55,169	5.625-6.250	FHA, VA, USDA, PMI	3.31
30	10/23/07	65,000	42,290	39,065	5.500-6.250	FHA, VA, USDA, PMI	3.71
31	1/10/08	65,000	46,025	43,349	4.625-6.375	FHA, VA, USDA, PMI	3.31
32	11/17/11	136,160	109,020	114,363	4.950-8.600	FHA, VA, USDA, PMI	6.30
33	7/19/12	121,670	111,980	102,797	4.750-8.375	FHA, VA, USDA, PMI	5.04
Total			$862,015	$844,990			

[1] The Agency may determine from time to time to purchase program loans at rates higher or lower than the initial rates.
[2] 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, 2013.

The overall 60/90+ day delinquency rate for the Program Loans issued pursuant to the Trust Agreement was 4.79% as of June 30, 2013. At June 30, 2013, 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 3.74%; the South Atlantic Region, 3.96%; and the United States, 3.64%.

As of June 30, 2013, the Trust Agreement had 170 properties in foreclosure with a total principal balance of $14,931,592 and 63 conventional and USDA real estate owned properties with a total principal balance of $6,035,453.

The following table summarizes as of June 30, 2013 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	6,011	50.28%
VA Guarantee	308	2.58
USDA Guarantee	1,023	8.56
Primary Mortgage Insurance		
Genworth	1,856	15.52
RMIC	326	2.73
MGIC	712	5.96
UGI	337	2.82
Triad	25	0.21
Radian	78	0.65
PMI	157	1.31
CMG	11	0.09
Uninsured and Non-Guaranteed loans (Loan to Value less than 80%)	1,111	9.29
Total	11,955	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-Fourth Supplemental Trust Agreement provides that the Series 34 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 34 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.

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.

<u>USDA Guarantee</u>. 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.

<u>Primary Mortgage Insurance</u>. 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-Fourth Supplemental Trust Agreement provides that a "PMI Insured Program Loan" is any Program Loan purchased with the proceeds of the Series 34 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-Fourth 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-Fourth 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

In addition to Bonds issued pursuant to the Trust Agreement, the Agency has issued bonds pursuant to the Trust Agreement entered into by the Agency and the Trustee on November 20, 2009 (the "2009 Trust Agreement"), the Single Family Revenue Bond Resolution adopted by the Agency on February 28, 1985 (the "1985 Resolution"), the Single Family Revenue Bond Resolution adopted by the Agency on April 14, 1983 (the "1983 Resolution"), the Home Mortgage Revenue Bond Resolution adopted by the Agency on November 12 1981 (the "1981 Resolution"), the Single Family Housing Bond Resolution adopted by the Agency on April 25, 1980 (the "1980 Resolution"), and the Single Family Mortgage Purchase Bond Resolution adopted by the Agency on July 28, 1976 (the "1976 Resolution") for the purpose of providing moneys to purchase mortgage loans for single family residential housing for households of low and moderate income in the state. All single family bond resolutions and trust agreements have been retired except the Trust Agreement and the 2009 Trust Agreement. As of June 30, 2013, the 2009 Trust Agreement had $181,270,000 in single family home ownership bonds outstanding.

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 May, 2012, the Agency no longer had multifamily revenue bonds outstanding. As of June 30, 2013, the Agency had $19,453,000 in multifamily mortgage loans in the Trust Agreement.

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 1,943 projects comprising 62,170 rental units, allocating $322,506,162 of tax credits.

Other Activities

In conjunction with loans originated under the Trust Agreement and the 2009 Trust Agreement, the Agency offers a down payment 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 down payment 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.

In March 2013, the Agency started offering its N.C. Home Advantage Mortgage, which provides borrowers a 30-year fixed-rate FHA, VA or USDA mortgage and 3% of zero-interest down payment assistance. The mortgages are pooled into GNMA securities and are sold to finance the production of the mortgages and related down payment assistance.

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, 2013, the Agency had issued 26,419 certificates under the MCC program totaling $2,114,438,900 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. The Agency has assisted over 13,000 homeowners with these programs. No Agency funds are used to operate the program.

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 funds 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 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. The Agency issued $20,330,000 of multifamily housing revenue draw down bonds in May 2013 to finance the cost of acquiring, renovating, improving, equipping and furnishing certain multifamily housing facilities within the State. As of June 30, 2013, the 2002 Resolution had $2,185,000 in bonds outstanding and the 2013 Resolution had $8,189,000 in bonds outstanding.

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 34 Bonds by original purchasers of the Series 34 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 34 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 34 Bonds in light of its particular circumstances, the Medicare tax under Section 1411 of the Code, or to owners of the Series 34 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 34 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 34 Bonds in the secondary market.

Owners of the Series 34 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 34 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 34 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 34 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 34 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 34 Bond, an owner of such Series 34 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 34 Bond. Such gain or loss generally will be capital gain or loss, and will be long-term capital gain or loss if such Series 34 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 34 Bond generally will equal the cost of such Series 34 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 34 Bond.

The Agency may cause the deposit of moneys or securities in escrow in such amount and manner as to cause the Series 34 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 34 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 34 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 34 Bond and the proceeds of the sale of a Series 34 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 34 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 States 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 34 Bonds, was written to support the marketing of the Series 34 Bonds. To ensure compliance with requirements imposed by the Service, Bond Counsel to the Agency informs the prospective purchasers of the Series 34 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 34 Bonds for the purpose of avoiding penalties that may be imposed on such owner by the Code, and (b) owners of the Series 34 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, 2013, included in this Official Statement as Appendix A have been audited by BDO USA, LLP, independent auditors, as stated in their report appearing herein.

Historically, in accordance with the accounting pronouncements of the Governmental Accounting Standards Board ("GASB"), the Agency has accounted for costs of issuance associated with its bond issues as a deferred asset that has been amortized over the lifetime of the issue. GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* ("GASB 65") changes this accounting treatment, requiring that deferred bond issuance costs be treated as expenses of the current period. In order to implement GASB 65, which will be effective for the Agency's fiscal year ending June 30, 2014, the Agency will be taking a one-time expense charge of approximately $12.3 million in deferred bond issuance costs in the fiscal year ending June 30, 2014. Approximately $10.9 million of this amount will be charged to the Trust Agreement.

RATINGS

Moody's Investors Service, Inc. ("Moody's") and Standard & Poor's Ratings Services, a division of the McGraw-Hill Companies, Inc. ("S&P") have assigned ratings of "Aa2" and "AA", respectively, to the Series 34 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 34 Bonds. The Agency assumes no responsibility to take any actions with regard to possible rating changes.

Due to the ongoing uncertainly regarding the economy of the United States of America (including, without limitation, matters such as the current and future political uncertainty regarding the United States debt limit), obligations, such as the Series 34 Bonds, issued by state and local governments, and instrumentalities thereof, could be subject to a rating downgrade. Additionally, if a significant default or other financial crisis should occur in the affairs of the United States or of any of its agencies or political subdivisions, then such event could also adversely affect the market for and ratings, liquidity, and market value of outstanding debt obligations, including the Series 34 Bonds. When certain automatic spending cuts are imposed on the federal government as a result of actions taken or not taken by the federal government (commonly referred to as a sequester) or when the federal government fails to pass certain spending authorizations prior to certain deadlines, resulting in a cessation of various governmental functions and operations (commonly referred to as a government shutdown), there may not be any immediate direct adverse impact on FHA, VA or the Agency. No assurance can be given, however, that a sequester or a government shutdown that lasts an extended period of time would continue to have no direct adverse impact upon the United States housing industry in general or the Agency in particular.

LITIGATION

At the time of the delivery of and payment for the Series 34 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 34 Bonds, or in any way contesting or affecting the validity of the Series 34 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 34 Bonds or the existence or powers of the Agency.

CERTAIN LEGAL MATTERS

Legal matters incident to the authorization, issuance and sale of the Series 34 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 34 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 34 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, Raymond James & Associates, 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 34 Bonds at a price equal to the aggregate principal amount of the Series 34 Bonds. The Underwriters will receive from the Agency a fee of $484,486.57. The initial public offering prices of the Series 34 Bonds may be changed from time to time by the Underwriters.

Wells Fargo Securities is the trade name for certain securities-related capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wells Fargo Bank, National Association ("WFBNA"). WFBNA, one of the underwriters of the Series 34 Bonds, has entered into an agreement (the "Distribution Agreement") with its affiliate, Wells Fargo Advisors, LLC ("WFA"), for the distribution of certain municipal securities offerings, including the Series 34 Bonds. Pursuant to the Distribution Agreement, WFBNA will share a portion of its underwriting or remarketing agent compensation, as applicable, with respect to the Series 34 Bonds with WFA. WFBNA also utilizes the distribution capabilities of its affiliates, Wells Fargo Securities, LLC ("WFSLLC") and Wells Fargo Institutional Securities, LLC ("WFIS"), for the distribution of municipal securities offerings, including the Series 34 Bonds. In connection with utilizing the distribution capabilities of WFSLLC, WFBNA pays a portion of WFSLLC's expenses based on its municipal securities transactions. WFBNA, WFSLLC, WFIS, and WFA are each wholly-owned subsidiaries of Wells Fargo & Company.

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 services. Certain of the Underwriters and their respective affiliates have, from time to time, performed, and may in the future perform, various financial advisory and 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, which may include credit default swaps) and financial instruments (including bank loans) 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.

The Underwriters and their respective affiliates may also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in respect of such assets, securities or instruments and may at any time hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities and instruments.

CONTINUING DISCLOSURE

Pursuant to the Thirty-Fourth Supplemental Trust Agreement, the Agency has agreed to provide to the beneficial owners of the Series 34 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 34 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 34 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 34 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 34 Bonds;

(10) release, substitution or sale of any property securing repayment of the Series 34 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 34 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 34 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-Fourth 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 34 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 34 Bonds, shall), or any beneficial owner of the Series 34 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-Fourth Supplemental Trust Agreement. However, a default with respect to the continuing disclosure provisions of the Thirty-Fourth 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-Fourth 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 34 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 34 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 30, 2013

APPENDIX A

FINANCIAL STATEMENTS

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NORTH CAROLINA HOUSING FINANCE AGENCY

Financial Statements
Year Ended June 30, 2013

Audited Financial Statements

June 30, 2013

NORTH CAROLINA
HOUSING
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AGENCY

NORTH CAROLINA HOUSING FINANCE AGENCY
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2013

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MANAGEMENT DISCUSSION AND ANALYSIS (*Unaudited*)
June 30, 2013

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, 2013. The financial statements, accompanying notes, and supplementary 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. In addition to its bond programs, the Agency administers the United States Department of the Treasury's Hardest Hit Fund®, the Section 8 Program, the HOME Investment Partnerships Program, Low-Income Housing Tax Credits, the North Carolina Housing Trust Fund 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, 2013, with reference to prior fiscal year's results and activities.

The Agency's *Total assets* decreased $144,466,000, or 7.8%, and *Total liabilities* decreased $188,237,000, or 14.4%. The Agency's *Deferred outflow of resources* decreased $2,960,000, or 36.4%. *Total operating revenues* increased $18,052,000, or 5.4%, and *Total operating expenses* increased $28,252,000, or 8.9%.

Although interest rates made modest increases during the fiscal year, they continued to reflect historic lows presenting certain challenges for the Agency. However, the Agency took advantage of the interest rates by refunding bonds at a higher interest rate with those at a lower rate of interest. Because low mortgage interest rates precluded the Agency from issuing bonds for the purchase of new mortgage loans, the Agency turned to sales of mortgage-backed securities (MBS) on the secondary market in order to finance single family homes. In conjunction with this new method of financing single family homes, the Agency introduced its new N.C. Home Advantage Mortgage (HomeAd). Existing FirstHome Program mortgage loans financed with mortgage revenue bonds decreased due to low interest rates, refinances of FirstHome mortgages increased, and the HomeAd Program was introduced on March 1, 2013. As a result, the Agency's purchase of FirstHome Program mortgage loans remained relatively sluggish while the Agency experienced continued payoffs of existing loans, resulting in a decrease of *Mortgage loans receivable, net* of $94,537,000, or 7.3%, a decrease in *Accrued interest receivable on mortgage loans* of $37,000, or 0.4%, and a decrease in *Interest on mortgage loans* of $5,915,000, or 8.4%. A majority of the decrease in *Cash and cash equivalents* of $98,745,000, or 23.8%, was related to the purchase of the FirstHome mortgage loans during the fiscal year. *Mortgage servicing expense* reflected an increase of $307,000, or 9.6%, because a settlement received from servicers in fiscal year 2012 of $557,000 was reflected in that year as a reduction of *Mortgage servicing expense*.

The bond refunding issued in July 2012 caused several guaranteed investment contracts (GICs) to be terminated, bringing the balance of GICs from $20.4 million in fiscal year 2012 to $9 million in fiscal year 2013, a difference of $11.5 million. The Agency compensated for the loss of the GICs by increasing its investments in government securities by $26.5 million. These transactions are the primary reasons for the overall increase of *Investments* of $12,172,000, or 23.2%. The interest rates on the government securities were lower than those of the liquidated GICs, resulting in an overall decrease in *Interest on investments* of $3,589,000, or 47.8%. The modest increases in interest rates in fiscal year 2013 resulted in the *Net decrease in fair value of investments* of $3,597,000, or 397.9%, and a decrease of $2,960,000, or 36.4%, in both *Accumulated decrease in fair value of hedging derivative* and *Derivative instrument—interest rate swap.* The increase in *Accrued interest receivable on investments* of $88,000, or 53%, was attributable to a change in the timing of interest payments for the new government investments compared with the liquidated GICs. Scheduled debt service payments as well as bond calls during the fiscal year produced a decrease in *Bonds payable* of $163,610,000, or 13.5%, a decrease in *Accrued interest payable* of $5,489,000, or 20.4%, and a decrease in *Interest on bonds* of $10,563,000, or 17.9%. Although interest rates reflected a moderate increase during the fiscal year, the decrease in *Other liabilities* of $372,000, or 5.6%, was primarily due to a decrease in the Agency's arbitrage liability since interest rates remain at historic lows.

Federal program awards received and *Federal program expense* increased by $27,629,000, or 12.2%, and $30,700,000, or 13.8%, respectively. These increases are primarily due to increased spending on the Hardest Hit Fund® (HHF). *Unearned revenues* decreased $17,353,000, or 36%, consistent with spending money on the HHF at a faster pace. *Nonfederal program expense* increased by $6,668,000, or 312.9%. Of this increase, approximately $2.5 million resulted from the movement by the General Assembly of all aspects of the State Home Foreclosure Prevention Project (SHFPP) to the Agency in December 2012. The remaining portion of the increase was attributable to amounts spent on the funding of the Agency's down payment assistance programs related to FirstHome and N.C. Home Advantage Mortgage Programs. *State tax credits* increased by $14,893,000, or 48.1%, due to changes in the number of projects awarded and whether these projects are in a low, moderate or high income county. *State program expense* decreased $9,162,000, or 15.5%, because of the amount of state tax credits awarded and the transfer of approximately $2.5 million of SHFPP expenses from *State program expense to Nonfederal expense*.

Other assets, net, decreased by $3,066,000, or 10.6%, primarily due to amortization of deferred bond issuance costs as the related bonds were called. *Accounts payable* increased $1,547,000, or 49.2%, because funds related to the National Foreclosure Mitigation Counseling Program Round Seven were received. *Program income/fees* increased $3,979,000, or 14.6%, as all functions for SHFPP were moved to the Agency in December 2012 and the fees are now reported in this account rather than *State grants received.* The decrease in *Other revenues* of $455,000, or 34.6%, was due to a change in loan loss reserve of $1.17 million in Federal and State Programs and a gain of $691,000 on the sale of mortgage-backed securities related to the Agency's new N.C. Home Advantage Program. *Other expenses* increased $963,000 or 34.4% primarily due to an increase in the mortgage loan loss reserve in the 1998 Home Ownership Program.

State receivables increased $39,659,000, or 81.5%, and *State grants received* increased $23,593,000, or 156%, because of the National Mortgage Settlement of $30,590,000 awarded to the Agency during the fiscal year. The State made cuts of $7,900,000 for the Housing Trust Fund to *State appropriations received*, resulting in the majority of the decrease in *State appropriations received* of $8,467,000, or 87.5%, but it allowed the Agency to use National Mortgage Settlement funds towards the decrease and is reflected in *Transfers in* related to the Housing Trust Fund.

Net position increased $40,811,000, or 7.4%, due to the receipt of federal funds in difficult economic times and as a result of the Agency's proactive management of its funds in a sluggish economy.

Financial Analysis

The following tables summarize the changes in net position between June 30, 2013 and June 30, 2012 (*in thousands)*:

Condensed Statement of Net Position	**2013**	**2012**	**Change**	**%**
Assets**				
Cash and cash equivalents	$315,621	$414,366	$(98,745)	-23.8
Accrued interest receivable on investments	254	166	88	53.0
Accrued interest receivable on mortgage loans	10,328	10,365	(37)	-0.4
Investments	64,733	52,561	12,172	23.2
Mortgage loans receivable, net	1,195,100	1,289,637	(94,537)	-7.3
State receivables	88,325	48,666	39,659	81.5
Other assets, net	25,790	28,856	(3,066)	-10.6
Total Assets	$1,700,151	$1,844,617	$(144,466)	-7.8
Deferred Outflow of Resources				
Accum decrease in fair value of hedging derivative	$5,181	$8,141	$(2,960)	-36.4
Total Deferred Outflow of Resources	$5,181	$8,141	$(2,960)	-36.4

Liabilities**	2013	2012	Change	%
Bonds payable	$1,047,938	$1,211,548	$(163,610)	-13.5
Accrued interest payable	21,366	26,855	(5,489)	-20.4
Accounts payable	4,692	3,145	1,547	49.2
Derivative instrument--interest rate swap	5,181	8,141	(2,960)	-36.4
Unearned revenues	30,823	48,176	(17,353)	-36.0
Other liabilities	6,255	6,627	(372)	-5.6
Total Liabilities	$1,116,255	$1,304,492	$(188,237)	-14.4
Net Position				
Restricted	$573,696	$534,216	$39,480	7.4
Unrestricted	15,381	14,050	1,331	9.5
Total Net Position	$589,077	$548,266	$40,811	7.4

Condensed Statement of Revenues, Expenses and Changes in Net Position

Operating Revenues	2013	2012	Change	%
Interest on investments	$3,914	$7,503	$(3,589)	-47.8
Net (decrease) increase in fair value of investments	(2,693)	904	(3,597)	-397.9
Interest on mortgage loans	64,751	70,666	(5,915)	-8.4
Federal program awards received	253,470	225,841	27,629	12.2
Program income/fees	31,223	27,244	3,979	14.6
Other revenues	859	1,314	(455)	-34.6
Total Operating Revenues	$351,524	$333,472	$18,052	5.4
Operating Expenses				
Interest on bonds	$48,535	$59,098	$(10,563)	-17.9
Mortgage servicing expense	3,502	3,195	307	9.6
Federal program expense	253,761	223,061	30,700	13.8
Nonfederal program expense	8,799	2,131	6,668	312.9
General and administrative expense	28,309	28,132	177	0.6
Other expenses	3,759	2,796	963	34.4
Total Operating Expenses	$346,665	$318,413	$28,252	8.9
Operating Income	$4,859	$15,059	$(10,200)	-67.7
Non-Operating Revenues (Expenses)				
State appropriations received	$1,206	$9,673	$(8,467)	-87.5
State grants received	38,718	15,125	23,593	156.0
State tax credits	45,874	30,981	14,893	48.1
State program expense	(49,846)	(59,008)	9,162	-15.5
Total Non-Operating Revenues (Expenses)	$35,952	$(3,229)	$39,181	1213.4
Change in Net Position	$40,811	$11,830	$28,981	245.0

**For information on current and noncurrent statement of net position items, please see the audited statement of net position in the accompanying financial statements.

New Business

Fiscal year 2013 showed incremental signs of a recovering economy, although US unemployment rates remained high and the European economic crisis continued. To spur the sluggish recovery, the US Department of the Treasury (Treasury) continued to keep interest rates relatively low, creating both issues and opportunities for the Agency.

The low mortgage interest rates hindered the Agency's ability to issue tax-exempt debt to finance its single family mortgage loans under its FirstHome Program. To continue funding single family mortgage loans, the Agency rolled out a new program in March 2013 called N.C. Home Advantage Mortgage (HomeAd), which is financed by selling government-insured mortgage-backed securities (MBS) on the secondary market. HomeAd offers competitive fixed-rate, 30-year government insured mortgages loans for homebuyers within approved income and credit score limits. Qualifying homebuyers may also be eligible for a 3% deferred/forgiven down payment assistance loan (HomeAd DPA), a Mortgage Credit Certificate (MCC), and a second mortgage from the Community Partners Loan Pool (discussed below). Although the FirstHome Program was available only to first-time homebuyers, HomeAd is available for both first-time homebuyers as well as move-up buyers on the purchase of a home.

The Agency took advantage of the low interest rates by issuing Series 33 in the 1998 Trust Agreement in July 2012. Series 33 refunded selected series in the 1998 Trust Agreement at higher rates of interest with bonds at lower current market rates. The bond sale is discussed in more detail in the "Debt Administration" section.

The Agency combined the New Homes Loan Pool (NHLP) and the Individual Development Account Loan Pool (IDALP) to create the Community Partners Loan Pool (CPLP) to simplify access to funding for our partners. This pool provides interest-free, deferred-payment second mortgages of 15% of the home sales price or $18,000, whichever is less, for the purchase of newly-constructed or substantially rehabilitated homes. Grants of up to $1,000 are also provided to participants to match their Individual Development Account (IDA) savings. Incentive funding of $4,000 is also available when homes are built to certain SystemVision standards of energy efficiency with an additional $1,000 if the affiliate also meets a major Green Building Certification.

Amidst continued federal budget constraints, the US Congress decreased the overall US Department of Housing and Urban Development (HUD) HOME Investment Partnerships Program (HOME) allocations to $12.1 million in 2013. Prior years' appropriations were $12.5 million in 2012, $19.1 million in 2011 and $21.6 million in 2010. Although there was not a significant decrease in appropriations between 2012 and 2013, the 2013 allocation amount of $12.1 million represents a 44% reduction in appropriations compared to the $21.6 million allocation in 2010 and reflects the lowest appropriation since the Agency began working with the HOME Program in 1992. The significant decrease in appropriations from earlier years reduced the Agency's ability to fund the single family loan pools and rental programs.

For fiscal year 2013, the NC General Assembly eliminated the current year funding of the Housing Trust Fund (HTF) by a nonrecurring cut of $7.9 million. However, a General Assembly provision allowed the Agency to transfer funds from the National Mortgage Settlement (discussed below) to offset the $7.9 million cut. The allocation for the State's matching funds for HOME remained at $1.6 million, the same as the previous two fiscal years.

The federal government and 49 state Attorneys General reached a landmark agreement in February 2012 known as the National Mortgage Settlement which gives relief for distressed borrowers, states and the federal government. The settlement provides benefits to borrowers whose loans are either owned or serviced by the settling banks. In fiscal year 2013, the State of North Carolina received a total of $338 million, and the North Carolina Attorney General's office requested that the Agency disburse $30,590,000 for housing counseling and legal services for distressed homeowners in the State. The Agency has allotted $13,813,000 to housing counseling providers through the Housing Counseling Capacity Building Program and $8,315,000 to legal service providers through the National Mortgage Settlement—Legal Services Program. Both programs will disburse funds over a three-year period.

Neighborworks® America (NW), which receives funding from the Treasury, awarded the Agency $1.4 million for round six and $2.6 million for round seven of the National Foreclosure Mitigation Counseling Program (NFMC) in fiscal year 2013. The Agency has participated in all five previous rounds. NFMC disburses funds to approved housing counseling agencies for counseling sessions attended by homeowners facing foreclosure. NW also awarded funding of $220,000 from the Making Home Affordable Outreach and Intake Project (MHA). This award provides assistance through four participating counseling agencies to help homeowners apply for foreclosure prevention assistance.

Debt Administration

Although historically low interest rates have risen modestly in the last months of fiscal year 2013, they continued to make traditional tax-exempt bond financing difficult. In the absence of a tax-exempt bond issuance to continue financing its mortgage revenue bond FirstHome Program, it offered a new mortgage product starting March 1, 2013 called N.C. Home Advantage Mortgage (HomeAd), which is financed by the sale of mortgage-backed securities on the secondary market. The HomeAd Program is discussed in more detail in the "New Business" section.

The Agency took advantage of low rates through a taxable refunding in July 2012 by issuing Series 33, a taxable issuance under the 1998 Trust Agreement, for $121,670,000. Series 33 refunded Series 2, 3, 4, 8, 10, 12, 13 and 14 in the 1998 Single Family Trust Agreement. The Agency anticipates a present value of over $17 million in debt service savings for the Agency.

On July 1, 2012, the Agency cancelled $3,865,000 of the notional amount of its derivative interest rate swap with Goldman Sachs for Series 18 in the 1998 Single Family Trust Agreement. On the same date, the Agency called an equal amount of bonds, keeping the notional amount of the swap and the bonds outstanding equal. This optional cancellation was available under the existing swap contract and no swap termination charge was incurred.

Apart from scheduled debt service payments, the Agency had six bond calls from July 1, 2012 through June 1, 2013 which totaled $250,200,000. These bond calls included the redemption of the bonds associated with the Series 33 refunding as well as the redemption of the underlying bonds associated with the Goldman Sachs swap cancellation, both referenced above.

Programs

For the year ended June 30, 2013, the Agency made cash disbursements of approximately $280,706,000 in Federal funds for the following programs:

- Community Partners Loan Pool (CPLP)
- Individual Development Account Loan Pool (IDALP)
- Mortgage Payment Program (MPP)
- National Foreclosure Mitigation Counseling Program (NFMC)
- Neighborhood Stabilization Loan Pool (NSLP)
- New Homes Loan Pool (NHLP)
- Rental Production Program (RPP)
- Second Mortgage Refinance Program (SMRP)
- Section 8 New Construction
- Section 8 Contract Administration
- Self-Help Loan Pool (SHLP)
- Single-Family Rehabilitation (SFR)
- Single-Family Rehabilitation Loan Pool (SFRLP)
- Supportive Housing Development Program (SHDP)
- Supportive Housing Predevelopment Loan Program (SHPLP)

For the year ended June 30, 2013, the Agency made cash disbursements of approximately $51,943,000 in State funds for the following programs:

- Affordable Home Ownership Program (AHOP)
- Displacement Prevention Partnership (DPP)
- Home Protection Program (HPP)
- Housing Counseling Capacity Building Program/National Mortgage Settlement (HCCBP)
- Individual Development Account Loan Pool (IDALP)
- Key Program (KEY)
- National Mortgage Settlement-Legal Services (NMS Legal)
- New Homes Loan Pool (NHLP)
- Preservation Loan Program (PLP)
- Rental Production Program (RPP)
- Self-Help Loan Pool (SHLP)

- Single-Family Rehabilitation Loan Pool (SFRLP)
- State Home Foreclosure Prevention Project (SHFPP)
- Statewide Down Payment Assistance Program (SWDAP)
- Supportive Housing Development Program (SHDP)
- Supportive Housing Development Program 400 (SHDP400)
- Supportive Housing Predevelopment Loan Program (SHPLP)
- State Tax Credit (STC)
- Urgent Repair Program (URP)

For the year ended June 30, 2013, the Agency made cash disbursements of approximately $100,875,000 from other funding sources for the following programs:

- Community Partners Loan Pool (CPLP)
- Construction Training Partnership Program (CTP)
- Duke Home Energy Loan Pool (HELP)
- FirstHome Program (FirstHome)
- Individual Development Account Loan Pool (IDALP)
- Multifamily Rental Assistance (MFRA)
- New Homes Loan Pool (NHLP)
- N.C. Home Advantage Mortgage (HomeAd)
- N.C. Home Advantage Down Payment Assistance (HomeAd DPA)
- Single-Family Rehabilitation Loan Pool (SFRLP)
- State Home Foreclosure Prevention Project (SHFPP)
- Statewide Down Payment Assistance Program (SWDAP)
- Supportive Housing Development Program (SHDP)

For the year ended June 30, 2013, the Agency made non-cash disbursements of approximately $42,989,000 in miscellaneous funds for the following programs:

- Low-Income Housing Tax Credit Program (LIHTC)
- Mortgage Credit Certificate (MCC)

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.

Home Ownership Programs The Agency supported approximately 2,000 homebuyers with disbursements from its Home Ownership Programs in fiscal year 2013.

The FirstHome Program, funded with tax-exempt mortgage revenue bonds, offers 30-year 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. The Statewide Down Payment Assistance Program is used in conjunction with the Agency's FirstHome Program to increase the homeowner benefit and to differentiate the Agency's program from other lenders. It offers $8,000 for an interest-free deferred subordinate mortgage to qualified households. This assistance is only available for FHA and VA loans only, and it requires a 650 minimum credit score and $1,000 investment from the borrower's own funds.

The N.C. Home Advantage Mortgage Program discussed in the "New Business" section offers 30-year mortgages to moderate and low-income first-time homebuyers as well as move-up buyers for the purchase of a home. Income limits and credit score limits apply, and up to 3% of deferred, forgiven N.C. Home Advantage Down Payment Assistance is available to any borrower obtaining an N.C. Home Advantage Mortgage.

The Agency helped community-based groups bring home ownership opportunities to lower-income households. The Individual Development Account Loan Pool and the New Homes Loan Pool were combined in fiscal year 2013 to form a new program, the Community Partners Loan Pool, which is discussed in the "New Business" section. The pool offers gap financing as a deferred, 0% interest loan that can be used with an N.C. Home Advantage Mortgage or the Rural Development Section 502 Program. The Self-Help Loan Pool provides interest-free and amortizing mortgage loans for permanent financing of newly-built or foreclosed homes using homebuyer sweat equity. Incentive funding of $4,000 is also available to all loan pools when homes are built to certain SystemVision standards of energy efficiency with an additional $1,000 if the affiliate also meets a major Green Building Certification.

The Mortgage Credit Certificate Program 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. Although the mortgage credit certificate cannot be used with a FirstHome Mortgage, it is available for qualifying first-time homebuyers using the N.C. Home Advantage Mortgage.

The Construction Training Partnership 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.

Housing Preservation Programs The Agency supported approximately 3,100 households with disbursements from its Housing Preservation Programs in fiscal year 2013.

The Single-Family Rehabilitation Loan Pool Program provides 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.

The Urgent Repair Program provides grants to local governments, regional agencies, and non-profit organizations to correct housing conditions that pose an imminent threat to life, safety, or displacement of low-income homeowners.

The Displacement Prevention Partnership, which operates in partnership with local offices of the Independent Living Rehabilitation Program in the North Carolina Department of Health and Human Services (DHHS), provides accessibility modifications to very low-income households that may be displaced due to severe mobility limitations.

The Rental Production Program provides substantial rehabilitation or acquisition/rehabilitation loans for the production of rental housing, primarily targeting households below 50% of area median income. The Rental Production Program loans are usually gap financing for the projects financed with federal low-income housing tax credits.

Foreclosure Prevention Financing Programs In light of the State's high unemployment rate, the Agency made use of several programs that target homeowners in financial trouble. The Agency disbursed funds from the N.C. Foreclosure Prevention Fund to over 10,200 households in fiscal year 2013.

The Mortgage Payment Program of the Hardest Hit Fund® (HHF) pays mortgage payments and related expenses for unemployed homeowners up to 18 months while they look for a job or up to 36 months while they complete job training, with a standard maximum assistance of $36,000. The assistance is in the form of a 0% interest deferred loan which will be forgiven if the homeowner continues to live in the home for ten years.

The Second Mortgage Refinance Program of HHF provides assistance to recovered, employed homeowners who have an unaffordable second mortgage due to prior unemployment, under-employment, or other program-eligible financial hardship. The assistance is in the form of a 0% interest, non-recourse, deferred-payment subordinate loan up to $30,000.

Foreclosure Counseling The Agency provided counseling to over 9,000 homeowners with disbursements to local counseling agencies from its Foreclosure Counseling Programs in fiscal year 2013.

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 United States Department of Housing and Urban Development (HUD) approved counseling intermediaries primarily in defined areas of greatest need.

Homeowners facing foreclosure are also assisted by approved housing counseling agencies through the Making Home Affordable Outreach and Intake Project, discussed in "New Business" section. The Agency is in the process of rolling out the program and will begin disbursements in fiscal year 2014.

Through the State Home Foreclosure Prevention Project, every homeowner facing foreclosure is notified of available counseling services. Fees paid by servicers for each registered home foreclosure are used to pay for housing counseling, legal aid, and administrative costs. Counseling agencies throughout the State provide assistance to homeowners and servicers regarding foreclosure alternatives.

The Housing Counseling Capacity Building Program receives funding from the National Mortgage Settlement (discussed in "New Business" section). In fiscal year 2013, the Agency funded 47 organizations with $2.2 million to build human capital, training, technology and marketing capacity of HUD-certified non-profit housing and foreclosure counseling agencies. The Settlement also provided funding of $2.8 million in fiscal year 2013 to establish and administer two law school-based foreclosure and consumer financial transaction clinics and to provide funding to Legal Aid of North Carolina, which disburses the funds to qualified non-profit legal services providers.

Rental Production Programs The Agency supported approximately 5,000 households with disbursements from its Rental Production Programs in fiscal year 2013.

The Agency administers both the federal Low-Income Housing Tax Credit Program and the State Tax Credit 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 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 state tax credit 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 North Carolina Department of Revenue. The amount of the transferred state tax credit 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 low cost loans for rental housing, mainly targeting households below 50% of area median income. These RPP loans are usually gap financing for the projects financed with federal low-income housing tax credits.

Rental Assistance Programs The Agency supported approximately 25,700 households with disbursements from its Rental Assistance Programs in fiscal year 2013.

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 this program.

The Agency and DHHS 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; however, it does not provide assistance if rental subsidies are available through another program.

Special Needs Housing Programs The Agency supported over 500 households with disbursements from its Special Needs Housing Programs in fiscal year 2013.

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 non-profit organizations and units of local government.

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 Auditor's Report

The Board of Directors
North Carolina Housing Finance Agency

Report on the Financial Statements

We have audited the accompanying financial statements of the North Carolina Housing Finance Agency (the "Agency"), a public agency and component unit of the State of North Carolina, which comprise the statement of net position as of June 30, 2013, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the North Carolina Housing Finance Agency as of June 30, 2013, and the changes in its net position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 10 be presented to supplement the financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 19, 2013 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* in considering the Agency's internal control over financial reporting and compliance.

BDO USA, LLP

September 19, 2013

NORTH CAROLINA HOUSING FINANCE AGENCY

STATEMENT OF NET POSITION

AS OF JUNE 30, 2013

(in thousands)		
ASSETS		
Current assets:		
Cash and cash equivalents	$	2,723
Restricted cash and cash equivalents		306,302
Accrued interest receivable on investments		254
Mortgage loans receivable		165,624
Accrued interest receivable on mortgage loans		10,328
State receivables		75,445
Other assets		21,548
TOTAL CURRENT ASSETS	$	582,224
Noncurrent assets:		
Restricted cash and cash equivalents	$	6,596
Investments		3,109
Restricted investments		61,624
Mortgage loans receivable, net		1,029,476
State receivable		12,880
Other assets, net		4,242
TOTAL NONCURRENT ASSETS	$	1,117,927
TOTAL ASSETS	$	1,700,151
DEFERRED OUTFLOW OF RESOURCES		
Accumulated decrease in fair value of hedging derivative	$	5,181
TOTAL DEFERRED OUTFLOW OF RESOURCES	$	5,181
LIABILITIES		
Current liabilities:		
Bonds payable	$	32,620
Accrued interest payable		21,366
Accounts payable		4,692
Unearned revenues		20,836
Other liabilities		119
TOTAL CURRENT LIABILITIES	$	79,633
Noncurrent liabilities:		
Bonds payable, net	$	1,015,318
Derivative instrument - interest rate swap		5,181
Unearned revenues		9,987
Other liabilities		6,136
TOTAL NONCURRENT LIABILITIES	$	1,036,622
TOTAL LIABILITIES	$	1,116,255
NET POSITION		
Restricted	$	573,696
Unrestricted		15,381
TOTAL NET POSITION	$	589,077

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

NORTH CAROLINA HOUSING FINANCE AGENCY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

YEAR ENDED JUNE 30, 2013

(in thousands)

OPERATING REVENUES		
Interest on investments	$	3,914
Net decrease in fair value of investments		(2,693)
Interest on mortgage loans		64,751
Federal program awards received		253,470
Program income/fees		31,223
Other revenues		859
TOTAL OPERATING REVENUES	$	351,524
OPERATING EXPENSES		
Interest on bonds	$	48,535
Mortgage servicing expense		3,502
Federal program expense		253,761
Nonfederal program expense		8,799
General and administrative expense		28,309
Other expenses		3,759
TOTAL OPERATING EXPENSES	$	346,665
OPERATING INCOME	$	4,859
NON-OPERATING REVENUES (EXPENSES)		
State appropriations received	$	1,206
State grants received		38,718
State tax credits		45,874
State program expense		(49,846)
TOTAL NON-OPERATING REVENUES (EXPENSES)	$	35,952
CHANGE IN NET POSITION	$	40,811
TOTAL NET POSITION-BEGINNING	$	548,266
TOTAL NET POSITION-ENDING	$	589,077

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

NORTH CAROLINA HOUSING FINANCE AGENCY

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2013

(in thousands)		
Cash flows from operating activities:		
Interest on mortgage loans	$	64,590
Principal payments on mortgage loans		174,500
Purchase of mortgage loans		(82,669)
Federal program awards received		236,395
Federal program expense		(252,201)
Nonfederal program expense		(8,799)
Federal grant administration income		18,436
Program income/fees		13,738
Other expenses		(28,184)
Other revenues		(3,149)
Net cash provided by operating activities	$	132,657
Cash flows from non-capital financing activities:		
Issuance of bonds	$	121,670
Principal repayments on bonds		(284,075)
Interest paid		(53,143)
Bond issuance costs paid		(1,108)
State appropriations received		1,206
State grants received		12,957
State tax credits		31,976
State program expense		(49,846)
Net cash used in non-capital financing activities	$	(220,363)
Cash flows from investing activities:		
Proceeds from sales or maturities of investments	$	54,933
Purchase of investments		(69,798)
Earnings on investments		3,826
Net cash used in investing activities	$	(11,039)
Net decrease in cash	$	(98,745)
Cash and cash equivalents at beginning of year		414,366
Cash and cash equivalents at end of year	$	315,621
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$	4,859
Adjustments to reconcile operating income to net cash		
(used in) provided by operating activities:		
Interest on investments		(3,914)
Decrease in fair value of investments		2,693
Interest on bonds		48,535
Change in assets and liabilities:		
Decrease in mortgage loans		94,537
Decrease in interest receivable on mortgage loans		37
Increase in other assets		(3,125)
Increase in accounts payable and other liabilities		6,388
Decrease in unearned revenues		(17,353)
Total adjustments	$	127,798
Net cash provided by operating activities	$	132,657

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

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2013

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.

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. The General Assembly of the State of North Carolina provides state tax credits to the Agency for use in developing housing credit properties. The Agency received $31,976,000 in state tax credits during fiscal year 2013. Under this program, the state tax credit project will receive the credit in the form of a loan or direct refund.

In 2008, the State authorized the formation of the State Home Foreclosure Prevention Project (SHFPP) in response to the foreclosure crisis. Beginning in 2010, State statute requires all parties who wish to initiate a foreclosure against a home in North Carolina must remit a $75 fee to the Office of the Commissioner of Banks. In June 2011, the North Carolina General Assembly passed a bill to transfer the management of the State Home Foreclosure Prevention Project (SHFPP) to the Agency. The fees collected are used to counsel and/or provide legal assistance to homeowners who are at risk of foreclosure. Any excess funds are allocated to the Housing Trust Fund annually. Prior to December 2012, the funds were recorded as *State grants received* in the amount of $2,573,000 and $427,000 in *State program expense* under Federal and State Programs because the NC Commissioner of Banks collected the funds. In December 2012, the North Carolina General Assembly transferred all aspects of SHFPP to the Agency. Subsequent funds in the amount of $3,454,000 were received and recorded as *Program income/fees* under Agency Programs. Expenses of $2,455,000 related to the SHFPP are reflected in *Nonfederal program expense.*

<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 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. Traditionally, the State has appropriated funds of which substantially all are to be used to make loans and grants under the

Housing Trust Fund Programs. However, for fiscal year 2013, the General Assembly authorized the Agency to use $7,876,000 of the National Mortgage Settlement for the Housing Trust Fund, which is reflected in *State receivable(s)*. Per the enabling SHFPP legislation (referenced above in Agency Programs), the remainder of the 2013 SHFPP fund in the amount of $2,042,000 was transferred to the Housing Trust Fund. These funds are reported in *Non-Operating Revenues (Expenses)* in the financial statements.

<u>Federal and State Programs</u> The Agency administers seven federal programs. Of the Agency's federal programs, the Section 8 Programs, the Hardest Hit Fund®, and the HOME Investment Partnerships Program (HOME Program) represent 52%, 40%, and 7% respectively. 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. The Agency received $1,206,000 in matching funds from the State, and the State allowed the Agency to replace matching funds with unused Home Protection Program (HPP) Funds in the amount of $402,000, totaling $1,608,000.

The State of North Carolina was awarded $338 million from the National Mortgage Settlement. In fiscal year 2013, the Agency signed a Memorandum of Understanding with the NC Department of Justice to oversee $30,590,000 of these funds, all of which are reflected in *State grants received*. These funds are to be used to help build the capacity of HUD-approved housing counseling agencies in the state as well as to provide funding for legal services. As of June 30, 2013, $5,026,000 was disbursed and reflected in *State program expense* and $25,761,000 was recorded as *State receivables.*

As described in Agency Programs, the State Home Foreclosure Prevention Project was transferred to the Agency in December 2012. Prior to this date, $2,573,000 was recorded as *State grants received* and $427,000 in *State program expense*.

<u>Home Ownership Bond Programs</u> The Home Ownership Bond Programs were created through various single-family trust agreements and are restricted as to their use. The proceeds of individual bond issues are used to purchase first-time homebuyer mortgage loans on single-family residential units.

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

<u>Cash and cash equivalents</u> *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 statement of net position are restricted for the Agency's debt service payments, bond calls, and for purchasing mortgage loans under the Agency's different programs.

<u>Investments</u> *Investments* are reported at fair value in accordance with GASB Section I50, *Investments* (GASB I50), except for certain mortgage-backed securities. With the exception of the mortgage-backed securities associated with the N.C. Home Advantage Mortgage Program which are purchased and sold on the same day, the Agency intends to hold all securities to maturity.

<u>Mortgage loans receivable, net</u> Mortgage loans are carried at cost less loan loss reserve plus unamortized direct loan origination costs. 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.

<u>State receivables</u> In 2002, the General Assembly converted the State Tax Credit (STC) into a refundable credit providing funds that can be efficiently invested directly in housing credit properties through the Agency. The Agency recorded a $62,564,000 receivable for state tax credits for the fiscal

year ended June 30, 2013, representing the remaining 2011 and 2012 outstanding awards. The Agency received state tax credits in the amount of $31,976,000 from the General Assembly for the 2010 outstanding awards (second installment) and the 2011 awards (first installment). These funds are used to provide loans to housing credit properties.

The Agency recorded a $25,761,000 receivable from the NC Department of Justice (DOJ) for the National Mortgage Settlement in fiscal year 2013. This amount represents the remaining balance awarded to the Agency. These funds provide housing counseling and legal services to distressed North Carolina homeowners.

Other assets, net Fixed assets, net of accumulated depreciation, in the amount of $4,242,000 are included in *Other assets, net* in the financial statements. Assets of $5,000 or greater are capitalized and depreciated over a five-year economic useful life using the straight-line method. Recorded in *Other assets* (current) for Federal and State Programs in the amount of $2.4 million includes Quadel Consulting Corporation contract administration, Hardest Hit Fund® advanced expenses and trustee reconciling items, National Foreclosure Mitigation Counseling (NFMC) Round Six Program close-out, and HOME Program loans closed in fiscal year 2013 but reimbursed in fiscal year 2014. Other assets in the amount of $18,773,000 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 2014 and deferred bond issuance costs of approximately $12.3 million (see footnote below).

Deferred bond issuance costs These costs are included as a component of *Other assets, net* and represent unamortized bond issuance costs and 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 bond issuance costs and losses on refunding is included as a component of *Interest on bonds.*

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* (GASB 65), requires that deferred bond issuance costs be treated as expenses of the current period. Because GASB 65 will be effective for the agency's fiscal year ending June 30, 2014, the Agency will be expensing approximately $12.3 million in deferred bond issuance costs in fiscal year 2014.

Bond premium/discount, net 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 and is included as a part of *Bonds payable, net*. The premiums and discounts relate to the planned amortization class (PAC) bonds sold in conjunction with many series in the 1998 and 2009 Housing Revenue Bonds Trust Agreements. 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.*

Unearned revenues *Unearned 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 *Unearned revenues* is funding from the Treasury for the Hardest Hit Fund®. The funds are used for loans to assist homeowners 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, 2013, these balances are recorded as *Interprogram receivable/(payable)*. These interprogram transactions are eliminated in the financial statements.

Net position *Net position* is reported as restricted when constraints placed on them are 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 trust agreements. All of these revenue sources are earmarked to cover operating expenses. The decision to use restricted or unrestricted receipts to fund a payment is transaction-based. For projects funded by tax-exempt bond proceeds and other resources, the bond proceeds are always used first.

As of June 30, 2013, the Agency had $15,381,000 of unrestricted net position. The Agency intends to use net position 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 position of the Home Ownership Bond Programs is restricted pursuant to the Agency's agreements with its bondholders as determined in each trust agreement. The Agency has restricted these funds in amounts sufficient to meet required debt service and operating expenses as defined by each trust agreement.

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

The Agency implemented GASB I50, 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, 2013 and 2012 are as follows (*in thousands*):

	June 30, 2013	**June 30, 2012**
(Decrease)/Increase in Operating Income	$ (2,693)	$ 904
(Decrease)/Increase in Net Position	$ (1,604)	$ 1,089

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 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*.

General and administrative expense *General and administrative expense* is classified by the related program. To the extent allowed by the trust agreements 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 Home Ownership Bond Programs 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 based 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.

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

Cash and cash equivalents As of June 30, 2013, the Agency had deposits in pooled investment accounts of the State Treasurer with a carrying value of approximately $107,769,000 and a bank balance of approximately $108,295,000. The State Treasurer investment account has the characteristics of a demand deposit account in that the Agency may deposit and withdraw cash at any time without prior notice or penalty. Included in the investment accounts of the State Treasurer is the amount of $3,458,000 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 statement of net position.

The Agency also had deposits with both a carrying value of $207,850,000 and bank balance approximating $207,902,000 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 $2,000.

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. At June 30, 2013, the Agency was not exposed to any material custodial credit risk.

Investments The Agency's investments are comprised of repurchase agreements and government securities which include Federal Farm Credit Bank securities, Federal Home Loan Bank securities, Federal Home Loan Mortgage Corporation securities, and mortgage-backed securities (MBS) insured by the Federal National Mortgage Association (FNMA) and the Government National Mortgage Association (GNMA).

Repurchase agreements are collateralized by obligations of the US 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, 2013, approximately $8,971,000 was invested in such long-term agreements having maturity dates ranging from January 1, 2024 to January 1, 2035 at a rate of 4.01%.

In fiscal year 2013, the Agency started a new program called the N.C. Home Advantage Mortgage. The mortgages are made by the lenders, purchased by the Agency's master servicer and securitized into GNMA mortgage-backed securities. The Agency then purchases the mortgage-backed securities from its master servicer, and on the same day, sells the securities to its third-party hedger. Because the MBSs are purchased and sold on the same day, there is no balance of the MBS reflected on the statement of net position as of June 30, 2013.

At June 30, 2013, the Agency held the following investments with the listed maturities at annual rates ranging from 1.25% to 6.90%. 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 AA+/Aaa	$ 1,346	$ -	$ -	$ 1 ,322	$ 24
FNMA MBS's Rated AA+/Aaa	317	-	-	317	-
Repurchase Agreements- Rated AA-/A2	8,971	-	-	-	8,971
US Agency Rated AA+/Aaa	54,099	-	13,692	40,407	-
Total Categorized	**$64,733**	**$ -**	**$13,692**	**$42,046**	**$8,995**

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 US Government; (ii) obligations issued by an approved Agency or corporation wholly-owned by the US 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 trust agreements. Mortgage-Backed Securities (MBS) are securitized by the Federal National Mortgage Association (FNMA), (Fair Value - $317,000, rated AA+/Aaa), and by the Government National Mortgage Association (GNMA), (Fair Value - $1,346,000, rated AA+/Aaa). The Government National Mortgage Association is a direct obligation of the US Government. Repurchase agreements are fully collateralized by obligations issued by the US Government or its agencies. Government Securities are comprised of Federal Farm Credit Bank, Federal Home Loan Bank and Federal Home Loan Mortgage Corporation Securities which are direct obligations of the Treasury (rated AA+/Aaa). The Government Securities have a Fair Value of $54,099,000.

Concentration of credit risk The Agency has a practice of entering into repurchase agreements with 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 US Government which represent 14% and 84%, respectively, of the Agency's total investments. Investments in any one issuer that represent 5% or more of total investments as of June 30, 2013 are as follows (*in thousands*):

Investment Issuer	**Amount**
Federal Home Loan Bank	$42,916
FSA Capital Management, repurchase agreement	8,971
Federal Home Loan Mortgage Corporation	6,858
Federal Farm Credit Bank	4,325

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 US 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.

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 mortgage revenue bond program guidelines. The securities are based on cash flows from underlying mortgages and are not considered derivatives. In addition to these securities, the Agency purchases and sells other mortgage-backed pass-through certificates of GNMA associated with the Agency's N.C. Home Advantage Mortgage Program; however, those securities are purchased and sold within the same business day, and the Agency does not hold any of those securities as of June 30, 2013.

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 Section I60, *Investments—Security Lending (*GASB I60), establishes 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 147-69.3e. The types of securities loaned include US 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.

As of June 30, 2013, and during the year then ended, the Agency had deposits in the pooled investment accounts of the State Treasurer. The risk associated with these transactions will be 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 I60.

C. MORTGAGE LOANS RECEIVABLE

Mortgage loans purchased with the proceeds of the various single-family bond issuances have stated interest rates ranging from 3.25% to 10.70%.

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 US 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, 2013, 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 $5,656,000 as of June 30, 2013.

Mortgage loans made with funds from the Agency Programs, Housing Trust Fund Programs, and Federal and State Programs have allowances for loan losses of $5,700, $258,000 and $22,000 respectively, as of June 30, 2013.

For the Home Ownership Bond Programs, the Agency has collateralized $1,101,569,000 in mortgage loans receivable, $135,266,000 in debt service, insurance, and revenue reserves and $6,596,000 in Program Funds to repay $1,043,285,000 single-family bonds payable at June 30, 2013. Proceeds from the bonds issued were used to finance housing throughout the State. The bonds are payable through July 2041 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, 2013 is $1,643,099,000 (see page 24 “maturities”). For the current fiscal year, debt service payments in the amount of $337,218,000 were made for the Home Ownership Bond Programs. Principal and interest payments received on mortgage loans for the Home Ownership Bond Programs were $230,763,000 in fiscal year 2013.

D. BONDS PAYABLE

Bonds payable activity for the year ended June 30, 2013 was as follows (*in thousands*):

	Beginning Balance	Additions	Reductions	Ending Balance
Bonds payable				
Home Ownership	$ 1,205,690	$ 121,670	$ (284,075)	$ 1,043,285
Bond Premium/(Discount), Net	5,858	1,061	(2,266)	4,653
Total Bonds payable, net	**$ 1,211,548**	**$ 122,731**	**$ (286,341)**	**$ 1,047,938**

Bonds payable as of June 30, 2013 are as follows (*in thousands*):

Issue	Stated Rates (%)	Final Maturity	Principal Amount
Home Ownership Revenue Bonds			
(1998 Housing Revenue Bonds Trust Agreement)			
Series 15	*Variable - 4.95	7/1/2032	$ 19,105
Series 16	*Variable - 5.40	7/1/2032	18,345
Series 17	*Variable - 5.00	7/1/2034	24,230
Series 18	*Variable - 4.45	1/1/2035	17,810
Series 19	4.15 - 5.15	7/1/2035	32,385
Series 20	3.90 - 4.75	7/1/2035	36,405
Series 21	4.20 - 4.75	7/1/2035	32,380
Series 22 A	4.30 - 5.50	1/1/2037	36,830
Series 22 CE	4.30 - 5.25	1/1/2039	54,710
Series 23	3.75 - 5.00	1/1/2037	33,505
Series 24	3.90 - 5.50	1/1/2038	46,340
Series 25	4.25 - 5.75	7/1/2037	36,835
Series 26	3.75 - 5.50	7/1/2038	37,665
Series 27 A	4.55 - 6.00	1/1/2038	28,470
Series 28	3.65 - 5.50	1/1/2039	40,085
Series 29	4.05 - 5.50	7/1/2038	57,600
Series 30	3.65 - 5.50	7/1/2039	42,290
Series 31	3.45 - 5.50	7/1/2038	46,025
Series 32	4.00	1/1/2030	109,020
Series 33	0.50 - 4.32	1/1/2034	111,980
			$ 862,015
Home Ownership Revenue Bonds			
(2009 Housing Revenue Bonds Trust Agreement)			
Series A-1 and Series 1	0.88 - 4.50	7/1/41	$ 81,775
Series A-2 and Series 2	0.60 - 4.25	7/1/41	99,495
			$ 181,270
Total Bonds Outstanding			$1,043,285
Plus Bond Premium/(Discount), Net			$ 4,653
Total Home Ownership Bond Programs			**$1,047,938**

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

Series 33 in the 1998 Trust Agreement closed on July 19, 2012, and a majority of the mortgage loans associated with the refunded series was transferred to Series 33. On August 1, 2012 the proceeds of Series 33 in the 1998 Trust Agreement refunded all bonds in the following amounts for the series below (*in thousands*):

Series	**Bonds Refunded**
1998 Trust Agreement, Series 2	$ 6,680
1998 Trust Agreement, Series 3	14,405
1998 Trust Agreement, Series 4	10,305
1998 Trust Agreement, Series 8	175
1998 Trust Agreement, Series 10	8,295
1998 Trust Agreement, Series 12	29,520
1998 Trust Agreement, Series 13	23,310
1998 Trust Agreement, Series 14	28,980
Total	**$121,670**

To the extent provided in the authorizing resolutions, the bonds of each Home Ownership 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, 2013, are as follows (*in thousands*):

Bonds Outstanding without Interest Rate Swaps

Fiscal Year Ending June 30	**Principal**	**Interest**
2014	$ 31,320	$ 42,040
2015	32,000	40,938
2016	32,180	39,797
2017	32,555	38,609
2018	32,415	37,378
2019-2023	174,900	166,141
2024-2028	206,470	124,539
2029-2033	206,670	76,527
2034-2038	192,980	30,948
2039-2042	46,580	2,328
Total Requirements	**$ 988,070**	**$ 599,245**

Bonds Outstanding with Interest Rate Swaps

Fiscal Year Ending June 30	Principal	Interest
2014	$ 1,300	$ 44
2015	1,235	43
2016	1,185	42
2017	1,695	41
2018	2,015	39
2019-2023	9,180	174
2024-2028	16,385	128
2029-2033	18,545	55
2034-2035	3,675	3
Total Requirements	**$ 55,215**	**$ 569**

Total Bonds Outstanding

Fiscal Year Ending June 30	Principal	Interest
2014	$ 32,620	$ 42,084
2015	33,235	40,981
2016	33,365	39,839
2017	34,250	38,650
2018	34,430	37,417
2019-2023	184,080	166,315
2024-2028	222,855	124,667
2029-2033	225,215	76,582
2034-2038	196,655	30,951
2039-2042	46,580	2,328
Total Requirements	**$ 1,043,285**	**$ 599,814**

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 from excess revenues, 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.

For the year ended June 30, 2013, bond redemptions and losses recognized by the Home Ownership Bond Programs were as follows (*in thousands*):

Issue	Amount Redeemed	Loss Recorded
Housing Revenue Bonds (1998 Trust Agreement)	$ 281,075	$ (1,378)
Housing Revenue Bonds (2009 Trust Agreement)	3,000	(9)
Total Home Ownership Bond Programs	**$ 284,075**	**$ (1,387)**

Special facilities (Conduits) The Agency issued Multifamily Housing Revenue Bonds which are not presented in the 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, 2013 for special facilities are as follows (*in thousands*):

Issue	**Bond Type**	**Bonds Outstanding**
2002 Resolution* (Series D)	Multifamily Housing Revenue Bonds	$ 2,185
2013 Resolution	Multifamily Housing Revenue Bonds	8,189
Total		**$10,374**

*This is a Section 501(c)3 entity 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, 2012, to June 30, 2013, the Agency did not execute or terminate any derivative contracts. The Agency has four, pay-fixed, interest rate swap agreements with three 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, 2013 Liability**	**Classification**	**Change in Fair Value Decrease**
Series 15C Bonds	Pay-Fixed Interest Rate Swap	$13,905	Hedging Derivative	$(814)	Deferred Outflow of Resources	$557
Series 16C Bonds	Pay-Fixed Interest Rate Swap	$14,220	Hedging Derivative	$(1,509)	Deferred Outflow of Resources	$711
Series 17C Bonds	Pay-Fixed Interest Rate Swap	$16,260	Hedging Derivative	$(2,019)	Deferred Outflow of Resources	$974
Series 18C Bonds	Pay-Fixed Interest Rate Swap	$12,075	Hedging Derivative	$(839)	Deferred Outflow of Resources	$718

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 Housing Revenue Bond Trust Agreement as a means to manage the future cash flow impact associated with the hedged debt. The intention of the swaps 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, 2013 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
$13,905[1]	UBS AG	A2/A	5/8/2003	7/1/2032	3.508%	63%L[2] + 0.30%
$14,220[1]	Bank of America, N.A.	A3/A	9/16/2003	7/1/2032	3.810%	63%L[2] + 0.30%
$16,260[1]	Bank of America, N.A.	A3/A	12/11/2003	7/1/2032	3.725%	63%L[2] + 0.30%
$12,075[1]	Goldman Sachs Mitsui Marine	Aa2/AAA	4/20/2004	1/1/2035	3.251%	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 $5,181,000 as of June 30, 2013. 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 0.08% for all four series as of June 30, 2013.

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 18.13 basis points (bps) for Series 15 and 28.31 bps for Series 16, 17 and 18 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 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, 2013 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 US 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 liquidity agreement with TD Bank which will not expire until January 2015, and the Agency has cancellation features available with each of its swaps except for Series 17C, offering the Agency further 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, 2013, 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	0.2620	0.4433	0.1813	3.32%	3.2130 – 3.9627	PASS
Series 16C Bonds	0.1602	0.4433	0.2831	3.52%	3.4290 – 4.2291	PASS
Series 17C Bonds	0.1602	0.4433	0.2831	3.44%	3.3525 – 4.1348	PASS
Series 18C Bonds	0.1602	0.4433	0.2831	2.96%	2.9259 – 3.6086	PASS

Swap payments and associated debt As rates vary, variable-rate bond interest payments and net swap payments will differ between the fixed rate paid to the counterparty and the variable rate paid to the Agency. Using rates as of June 30, 2013, 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
2014	$ 1,300	$ 44	$ 1,740	$ 1,784
2015	1,235	43	1,698	1,741
2016	1,185	42	1,658	1,700
2017	1,695	41	1,621	1,662
2018	2,015	39	1,558	1,597
2019-2023	9,180	174	6,860	7,034
2024-2028	16,385	128	5,002	5,130
2029-2033	18,545	55	2,120	2,175
2034-2035	3,675	3	120	123
Total	**$55,215**	**$569**	**$22,377**	**$22,946**

F. NONCURRENT LIABILITIES

Noncurrent liabilities for the year ended June 30, 2013 was as follows *(in thousands):*

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Bonds Payable					
Bonds Payable, Net	$1,205,690	$121,670	$(284,075)	$1,043,285	$32,620
Bonds Premium/(Discount), Net	5,858	1,061	(2,266)	4,653	-
Derivative Instrument—Interest Rate Swap	8,141	-	(2,960)	5,181	-
Unearned Revenues	48,176	102,655	(120,008)	30,823	20,836
Other Liabilities					
Arbitrage Rebate Payable	1,954	-	(465)	1,489	-
Compensated Absences	1,217	108	(15)	1,310	112
Deposits Payable	3,456	2,567	(2,567)	3,456	7
	$1,274,492	**$228,061**	**$(412,356)**	**$1,090,197**	**$53,575**

G. OPERATING LEASE

The Agency leases office space with future minimum lease payments of $642,000 for fiscal year 2014 and $172,000 for three months in fiscal year 2015. Total rent expense for all operating leases amounted to $632,000 for the year ended June 30, 2013. The Agency's lease for its main office will expire September 30, 2014.

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, 2013, $142,164,000 which was received by the Agency and disbursed to property owners is included in *Federal program awards received* and *Federal program expense* in 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, 2013, $18,257,000 was received and disbursed by the Agency and is included in *Federal program awards received*, *Federal program expense* and *Mortgage loans receivable, net* in Federal and State Programs, depending upon the terms of the transaction.

The Agency was selected as a participating entity under a grant agreement with Treasury passed through NeighborWorks® for the National Foreclosure Mitigation Counseling Program (NFMC). NFMC provides funding for the purpose of counseling homeowners at risk of foreclosure. For the year ended June 30, 2013, $1,291,000 was received and disbursed by the Agency and is included in *Federal program awards received* and *Federal program expense* in 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). HHF provides funding for the purpose of providing loans to unemployed homeowners unable to make their mortgage payments and 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, 2013, $98,643,000 was received and disbursed by the Agency and is included in *Federal program awards received* and *Federal program expense* in 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 US Department of Urban Development Community Development Block Grant. NSP provides funding for the purpose of providing zero-interest forgivable loans on foreclosed properties to stabilize neighborhoods in North Carolina. For the year ended June 30, 2013, $283,000 was disbursed by the Agency and is included in *Federal program awards received, Federal program expense* and *Mortgage loans receivable, net* in Federal and State Programs depending upon the terms of the transaction.

The Agency earned fees of $20,120,000 for administering these and other federal programs for the year ended June 30, 2013. Of these fees, $3,343,000 was paid to Quadel Consulting Corporation for the Section 8 Program Contract Administration, and $6,492,000 was paid to counseling agencies for providing counseling services under HHF which is reported in *General and administrative expense*.

Federal awards are subject to audit 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 from the website for the North Carolina Office of State Controller using the following link: http://www.osc.nc.gov/financial/index.html.

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 14.23% 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, 2013, 2012, and 2011:

	2013	2012	2011
Retirement Benefit	$624,000	$546,000	$335,000
Percentage of Covered Payroll	8.33%	7.44%	4.93%

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, 2013, 2012, and 2011:

	2013	**2012**	**2011**
Health Care Benefit	$397,000	$367,000	$333,000
Disability Benefit	33,000	38,000	35,000
Death Benefit	12,000	12,000	11,000
Percentage of Covered Payroll			
Health Care Benefit	5.30%	5.00%	4.90%
Disability Benefit	0.44%	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 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, 2013 for this segment is as follows (*in thousands*):

STATEMENT OF NET POSITION

ASSETS		**Home Ownership**
Current assets:		
Restricted cash and cash equivalents	$	173,349
Accrued interest receivable on investments		236
Mortgage loans receivable		158,854
Accrued interest receivable on mortgage loans		10,217
Other assets		18,773
Interprogram receivable		1,806
TOTAL CURRENT ASSETS	$	363,235
Noncurrent assets:		
Restricted cash and cash equivalents	$	6,596
Restricted investments		55,528
Mortgage loans receivable, net		937,470
TOTAL NONCURRENT ASSETS	$	999,594
TOTAL ASSETS	$	1,362,829
DEFERRED OUTFLOW OF RESOURCES		
Accumulated decrease in fair value of hedging derivative	$	5,181
TOTAL DEFERRED OUTFLOW OF RESOURCES	$	5,181
LIABILITIES		
Current liabilities:		
Bonds payable	$	32,620
Accrued interest payable		21,366
Accounts payable		135
TOTAL CURRENT LIABILITIES	$	54,121
Noncurrent liabilities:		
Bonds payable, net	$	1,015,318
Derivative instrument - interest rate swap		5,181
Other liabilities		1,488
TOTAL NONCURRENT LIABILITIES	$	1,021,987
TOTAL LIABILITIES	$	1,076,108

STATEMENT OF NET POSITION (continued)

	Home Ownership
NET POSITION	
Restricted	$ 291,902
TOTAL NET POSITION	$ 291,902

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

OPERATING REVENUES	
Interest on investments	$ 3,202
Net decrease in fair value of investments	(2,443)
Interest on mortgage loans	63,324
Other revenues	12
TOTAL OPERATING REVENUES	$ 64,095
OPERATING EXPENSES	
Interest on bonds	$ 48,535
Mortgage servicing expense	3,501
General and administrative expense	1,152
Other expenses	3,646
TOTAL OPERATING EXPENSES	$ 56,834
OPERATING INCOME	$ 7,261
NON-OPERATING REVENUES	
Transfers in	$ 6,095
TOTAL NON-OPERATING REVENUES	$ 6,095
CHANGE IN NET POSITION	$ 13,356
TOTAL NET POSITION – BEGINNING	$ 278,546
TOTAL NET POSITION – ENDING	$ 291,902

STATEMENT OF CASH FLOWS

	Home Ownership
Net cash provided by operating activities	$ 149,702
Net cash used in non-capital financing activities	(210,561)
Net cash used in investing activities	(11,762)
Net decrease in cash	$ (72,621)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	252,566
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 179,945

North Carolina Housing Finance Agency

Supplementary Information

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Independent Auditor's Report on Supplementary Information

Our audits of the financial statements included in the preceding section of this report were conducted for the purpose of forming an opinion on those statements as a whole. The supplementary information presented in the following section of this report is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

BDO USA, LLP

September 19, 2013

NORTH CAROLINA HOUSING FINANCE AGENCY

COMBINING STATEMENT OF NET POSITION

AS OF JUNE 30, 2013

	AGENCY PROGRAMS	GRANT PROGRAMS		HOME OWNERSHIP PROGRAMS		
(in thousands)		Housing Trust Fund	Federal and State Programs	1998	2009	Total
ASSETS						
Current assets:						
Cash and cash equivalents	$ 2,723	-	-	-	-	$ 2,723
Restricted cash and cash equivalents	35,111	35,676	62,166	161,096	12,253	306,302
Accrued interest receivable on investments	7	11	-	197	39	254
Mortgage loans receivable	408	1,062	5,300	155,272	3,582	165,624
Accrued interest receivable on mortgage loans	75	12	24	9,484	733	10,328
State receivables	62,564	-	12,881	-	-	75,445
Other assets	375	-	2,400	16,630	2,143	21,548
Interprogram (payable)/receivable	(304)	9,896	(11,398)	1,806	-	-
TOTAL CURRENT ASSETS	$ 100,959	46,657	71,373	344,485	18,750	$ 582,224
Noncurrent assets:						
Restricted cash and cash equivalents	$ -	-	-	-	6,596	$ 6,596
Investments	3,109	-	-	-	-	3,109
Restricted investments	6,096	-	-	50,436	5,092	61,624
Mortgage loans receivable, net	3,614	14,924	73,468	768,258	169,212	1,029,476
State receivable	-	-	12,880	-	-	12,880
Other assets, net	4,242	-	-	-	-	4,242
TOTAL NONCURRENT ASSETS	$ 17,061	14,924	86,348	818,694	180,900	$ 1,117,927
TOTAL ASSETS	$ 118,020	61,581	157,721	1,163,179	199,650	$ 1,700,151
DEFERRED OUTFLOW OF RESOURCES						
Accumulated decrease in fair value of hedging derivative	$ -	-	-	5,181	-	$ 5,181
TOTAL DEFERRED OUTFLOW OF RESOURCES	$ -	-	-	5,181	-	$ 5,181
LIABILITIES						
Current liabilities:						
Bonds payable	$ -	-	-	29,005	3,615	$ 32,620
Accrued interest payable	-	-	-	18,566	2,800	21,366
Accounts payable	395	-	4,162	133	2	4,692
Unearned revenues	1,267	-	19,569	-	-	20,836
Other liabilities	113	-	6	-	-	119
TOTAL CURRENT LIABILITIES	$ 1,775	-	23,737	47,704	6,417	$ 79,633
Noncurrent liabilities:						
Bonds payable, net	$ -	-	-	836,590	178,728	$ 1,015,318
Derivative instrument - interest rate swap	-	-	-	5,181	-	5,181
Unearned revenues	9,987	-	-	-	-	9,987
Other liabilities	4,648	-	-	1,488	-	6,136
TOTAL NONCURRENT LIABILITIES	$ 14,635	-	-	843,259	178,728	$ 1,036,622
TOTAL LIABILITIES	$ 16,410	-	23,737	890,963	185,145	$ 1,116,255
NET POSITION						
Restricted	$ 86,229	61,581	133,984	277,397	14,505	$ 573,696
Unrestricted	15,381	-	-	-	-	15,381
TOTAL NET POSITION	$ 101,610	61,581	133,984	277,397	14,505	$ 589,077

NORTH CAROLINA HOUSING FINANCE AGENCY

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

YEAR ENDED JUNE 30, 2013

	AGENCY PROGRAMS	GRANT PROGRAMS		HOME OWNERSHIP PROGRAMS		
(in thousands)		**Housing Trust Fund**	**Federal and State Programs**	**1998**	**2009**	**Total**
OPERATING REVENUES						
Interest on investments	$ 411	174	127	3,045	157	$ 3,914
Net decrease in fair value of investments	(250)	-	-	(2,140)	(303)	(2,693)
Interest on mortgage loans	72	372	983	57,649	5,675	64,751
Federal program awards received	-	-	253,470	-	-	253,470
Program income/fees	8,857	819	21,547	-	-	31,223
Other revenues	743	-	104	12	-	859
TOTAL OPERATING REVENUES	$ 9,833	1,365	276,231	58,566	5,529	$ 351,524
OPERATING EXPENSES						
Interest on bonds	$ -	-	-	42,904	5,631	$ 48,535
Mortgage servicing expense	1	-	-	3,012	489	3,502
Federal program expense	-	-	253,761	-	-	253,761
Nonfederal program expense	8,799	-	-	-	-	8,799
General and administrative expense	17,322	-	9,835	1,099	53	28,309
Other expenses	1	110	2	3,627	19	3,759
TOTAL OPERATING EXPENSES	$ 26,123	110	263,598	50,642	6,192	$ 346,665
OPERATING (LOSS) INCOME	$ (16,290)	1,255	12,633	7,924	(663)	$ 4,859
NON-OPERATING REVENUES (EXPENSES)						
Transfers in (out)	$ 4,763	9,835	(20,693)	1,873	4,222	$ -
State appropriations received	-	-	1,206	-	-	1,206
State grants received	-	-	38,718	-	-	38,718
State tax credits	45,874	-	-	-	-	45,874
State program expense	(30,572)	(10,347)	(8,927)	-	-	(49,846)
TOTAL NON-OPERATING REVENUES (EXPENSES)	$ 20,065	(512)	10,304	1,873	4,222	$ 35,952
CHANGE IN NET POSITION	$ 3,775	743	22,937	9,797	3,559	$ 40,811
TOTAL NET POSITION - BEGINNING	97,835	60,838	111,047	267,600	10,946	$ 548,266
TOTAL NET POSITION - ENDING	$ 101,610	61,581	133,984	277,397	14,505	$ 589,077

NORTH CAROLINA HOUSING FINANCE AGENCY

COMBINING STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2013

(in thousands)	AGENCY PROGRAMS	GRANT PROGRAMS Housing Trust Fund	GRANT PROGRAMS Federal and State Programs	HOME OWNERSHIP PROGRAMS 1998	HOME OWNERSHIP PROGRAMS 2009	Total
Cash flows from operating activities:						
Interest on mortgage loans	$ 73	372	978	57,802	5,365	$ 64,590
Principal payments on mortgage loans	396	1,000	5,508	163,217	4,379	174,500
Purchase of mortgage loans	-	(714)	(7,407)	(1,556)	(72,992)	(82,669)
Federal program awards received	-	-	236,395	-	-	236,395
Federal program expense	-	-	(252,201)	-	-	(252,201)
Nonfederal program expense	(8,799)	-	-	-	-	(8,799)
Federal grant administration income	-	-	18,436	-	-	18,436
Program income/fees	9,808	819	3,111	-	-	13,738
Other expenses	(17,198)	-	(4,898)	(5,548)	(540)	(28,184)
Other revenues	4,474	(7,198)	-	(207)	(218)	(3,149)
Net cash (used in) provided by operating activities	$ (11,246)	(5,721)	(78)	213,708	(64,006)	$ 132,657
Cash flows from non-capital financing activities:						
Issuance of bonds	$ -	-	-	121,670	-	$ 121,670
Principal repayments on bonds	-	-	-	(281,075)	(3,000)	(284,075)
Interest paid	-	-	-	(47,664)	(5,479)	(53,143)
Bond issuance costs paid	-	-	-	(1,108)	-	(1,108)
Net transfers	4,763	9,835	(20,693)	1,873	4,222	-
State appropriations received	-	-	1,206	-	-	1,206
State grants received	-	-	12,957	-	-	12,957
State tax credits	31,976	-	-	-	-	31,976
State program expense	(30,572)	(10,347)	(8,927)	-	-	(49,846)
Net cash provided by (used in) non-capital financing activities	$ 6,167	(512)	(15,457)	(206,304)	(4,257)	$ (220,363)
Cash flows from investing activities:						
Proceeds from sales or maturities of investments	$ 16,780	-	-	38,153	-	$ 54,933
Purchase of investments	(16,780)	-	-	(49,882)	(3,136)	(69,798)
Earnings on investments	414	182	127	2,976	127	3,826
Net cash provided by (used in) investing activities	$ 414	182	127	(8,753)	(3,009)	$ (11,039)
Net decrease in cash	$ (4,665)	(6,051)	(15,408)	(1,349)	(71,272)	$ (98,745)
Cash and cash equivalents at beginning of year	42,499	41,727	77,574	162,445	90,121	414,366
Cash and cash equivalents at end of year	$ 37,834	35,676	62,166	161,096	18,849	$ 315,621
Reconciliation of operating (loss) income to net cash (used in) provided by operating activities:						
Operating (loss) income	$ (16,290)	1,255	12,633	7,924	(663)	$ 4,859
Adjustments to reconcile operating (loss) income to net cash (used in) provided by operating activities:						
Interest on investments	(411)	(174)	(127)	(3,045)	(157)	(3,914)
Decrease in fair value of investments	250	-	-	2,140	303	2,693
Interest on bonds	-	-	-	42,904	5,631	48,535
Change in assets and liabilities:						
Decrease (increase) in mortgage loans	390	396	(1,896)	164,210	(68,563)	94,537
Decrease (increase) in interest receivable on mortgage loans	1	-	(5)	382	(341)	37
Decrease (increase) in other assets	3,322	(7,198)	1,168	(219)	(198)	(3,125)
Increase (decrease) in accounts payable and other liabilities	495	-	6,499	(588)	(18)	6,388
Increase (decrease) in unearned revenues	997	-	(18,350)	-	-	(17,353)
Total adjustments	$ 5,044	(6,976)	(12,711)	205,784	(63,343)	$ 127,798
Net cash (used in) provided by operating activities	$ (11,246)	(5,721)	(78)	213,708	(64,006)	$ 132,657

NORTH CAROLINA HOUSING FINANCE AGENCY

Our Mission *is to create affordable housing opportunities for North Carolinians whose needs are not met by the market*

Our Vision *is to lead the nation in creating sustainable housing opportunities that people can afford.*

Our Values*: We Care, We Act, We Lead*

North Carolina Housing Finance Agency
3508 Bush Street
Raleigh, NC 27609-7509

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APPENDIX B

FORM OF APPROVING OPINION OF BOND COUNSEL
WITH RESPECT TO SERIES 34 BONDS

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APPENDIX B

LEGAL OPINION

Upon the delivery of the Series 34 Bonds, Womble Carlyle Sandridge & Rice, LLP, Bond Counsel to the Agency, proposes to issue its approving opinion in substantially the following form:

November __, 2013

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 $66,150,000 North Carolina Housing Finance Agency Home Ownership Revenue Refunding Bonds, Series 34 (Taxable Interest) (1998 Trust Agreement) (the "Series 34 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 34 Bonds, (iii) executed originals of the Trust Agreement, dated as of May 1, 1998 (the "Trust Agreement") and the Thirty-Fourth Supplemental Trust Agreement, dated as of November 1, 2013 (the "Thirty-Fourth Supplemental Trust Agreement") pursuant to which the Series 34 Bonds are issued and (iv) other proofs submitted relative to the issuance and sale of the Series 34 Bonds.

The Series 34 Bonds are dated as of their date of delivery and are stated to mature on each July 1 and January 1 from July 1, 2014 through July 1, 2023, inclusive, on July 1, 2024 and on July 1, 2035. The Series 34 Bonds are issued for the purposes of providing funds to the Agency, together with other available funds, to refund certain Bonds of the Agency issued under the Trust Agreement.

The Series 34 Bonds are issued under and pursuant to the Trust Agreement and the Thirty-Fourth Supplemental Trust Agreement. The Agency has heretofore issued thirty-three 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 34 Bonds and any such additional Bonds are herein collectively referred to as the "Bonds."

The Series 34 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-Fourth 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-Fourth Supplemental Trust Agreement.

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

3. The Series 34 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 34 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 34 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 34 Bonds for the purpose of avoiding penalties that may be imposed on the owner of the Series 34 Bonds. The opinion set forth in this paragraph is provided to support the promotion or marketing of the Series 34 Bonds. Each owner of the Series 34 Bonds should seek advice based on its particular circumstances from an independent tax advisor.

7. Interest on the Series 34 Bonds is exempt from all income taxes of the State of North Carolina.

The rights of the owners of the Series 34 Bonds and the enforceability thereof and of the Trust Agreement and Thirty-Fourth 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-FOURTH SUPPLEMENTAL TRUST AGREEMENT

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SUMMARY OF CERTAIN PROVISIONS OF THE TRUST AGREEMENT AND THE THIRTY-FOURTH 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 than 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 Series 34 Bonds. The Series 34 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 Series 34 Bond certificate will be issued for each maturity of the Series 34 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 Series 34 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 34 Bonds on DTC's records. The ownership interest of each actual GSEs of each Series 34 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 Series 34 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 Series 34 Bonds, except in the event that use of the book-entry system for the Series 34 Bonds is discontinued.

To facilitate subsequent transfers, all Series 34 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 Series 34 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 Series 34 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 34 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 Series 34 Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Series 34 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 Series 34 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 Series 34 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 Series 34 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 Series 34 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Series 34 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 Series 34 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, Series 34 Bonds 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, Series 34 Bonds 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.