

NEW ISSUES — BOOK ENTRY ONLY

In the opinion of Wohlforth, Vassar, Johnson & Brecht, P.C., Bond Counsel, and Kutak Rock LLP, Special Tax Counsel, assuming compliance with certain covenants designed to meet the requirements of the Internal Revenue Code of 1986, as amended (the "Code"), under existing laws, regulations, rulings and judicial decisions, (i) interest on the 2002 Series A Bonds is excluded from gross income for Federal income tax purposes; (ii) interest on the 2002 Series A Bonds is treated as a preference item to be included in calculating the alternative minimum tax imposed under the Code on individuals and corporations; and (iii) interest on the 2002 Series B Bonds is not excluded from gross income for Federal income tax purposes. In the opinion of Bond Counsel, under existing laws, interest on the 2002 Bonds is free from taxation by the State of Alaska except for inheritance and estate taxes and taxes of transfers by or in anticipation of death. See "Tax Matters."



\$200,000,000
ALASKA HOUSING FINANCE CORPORATION
Home Mortgage Revenue Bonds
\$170,000,000 2002 Series A (AMT) (Variable Rate)
\$30,000,000 2002 Series B (Federally Taxable) (Variable Rate)

Dated: Date of delivery
Price: 100%

Due: As shown on inside cover page

The 2002 Bonds initially will bear interest at a Weekly Rate. Interest on the 2002 Bonds is payable on December 1, 2002 and thereafter on each June 1 and December 1. See "Mode Chart for 2002 Bonds" on page (i) for a summary of information relating to Mode Periods and notice and tender requirements relating to the 2002 Bonds. See also "The 2002 Bonds" herein. **THIS OFFICIAL STATEMENT IS NOT INTENDED TO DESCRIBE THE 2002 BONDS SUBSEQUENT TO THEIR CONVERSION TO FIXED RATE BONDS OR INDEXED RATE BONDS.** The 2002 Bonds will mature on the dates and in the amounts set forth on the inside cover page.

The 2002 Bonds will be initially issued in book-entry form only, registered in the name of Cede & Co., as nominee for The Depository Trust Company ("DTC"), New York, New York, which will act as securities depository for the 2002 Bonds. Beneficial Owners (as defined herein) will not receive certificates representing their ownership of the 2002 Bonds. The 2002 Bonds are issuable as fully-registered bonds in denominations of \$100,000 or integral multiples of \$5,000 in excess of \$100,000. Interest on, principal of, and premium, if any, on the 2002 Bonds are payable by U.S. Bank, N.A., Seattle, Washington, as trustee, and upon tender under circumstances as described herein, by the Remarketing Agent or the Tender Agent, as the case may be, or the Auction Agent with respect to Auction Bonds, to Cede & Co., as nominee of DTC. DTC will in turn make payments to its direct and indirect participants, who will in turn make payments to the Beneficial Owners of the 2002 Bonds. See "The 2002 Bonds — Book Entry Only."

The Corporation, if certain conditions are met, may issue additional bonds (together with the 2002 Bonds, the "Bonds") on a parity with the 2002 Bonds. See "Sources of Payment and Security for the Bonds — Additional Bonds."

The 2002 Bonds are subject to redemption prior to maturity at 100% of their principal amount under the circumstances described herein. See "The 2002 Bonds — Redemption."



The 2002 Bonds subject to optional or mandatory tender for purchase and not remarketed by the Remarketing Agent (as described herein) will be purchased, subject to certain conditions precedent, by Dexia Credit Local, acting through its New York Agency (the "Bank"), pursuant to the terms of an Initial Liquidity Facility (as described herein) among the Corporation, the Bank, and U.S. Bank, N.A., as tender agent. UNDER CERTAIN CIRCUMSTANCES DESCRIBED HEREIN, THE INITIAL LIQUIDITY FACILITY WILL TERMINATE AND, IN SOME CIRCUMSTANCES, THE TERMINATION OF THE INITIAL LIQUIDITY FACILITY WILL BE IMMEDIATE AND WITHOUT NOTICE TO BONDHOLDERS. IN SUCH EVENT NO FUNDS MAY BE AVAILABLE PURSUANT TO THE INITIAL LIQUIDITY FACILITY TO PURCHASE 2002 BONDS. See "Liquidity Facility — Initial Liquidity Facility."



The scheduled payment of principal of and interest on the 2002 Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the 2002 Bonds by FINANCIAL SECURITY ASSURANCE INC.

The Bonds are general obligations of the Corporation for which its full faith and credit are pledged, subject to agreements made and to be made with the holders of other obligations of the Corporation pledging particular revenues and assets not pledged to the Bonds and to the exclusion of money in the Corporations Housing Development Fund. The Bonds will be secured by Program Obligations and amounts in the Funds and Accounts (excluding the Rebate Fund) held under the Indenture. See "Sources of Payment and Security for the Bonds" and "Program Obligations."

THE CORPORATION HAS NO TAXING POWER. THE BONDS DO NOT CONSTITUTE A DEBT, LIABILITY OR OBLIGATION OF THE STATE OF ALASKA OR A PLEDGE OF ITS FAITH AND CREDIT OR TAXING POWER. THE BONDS ARE GENERAL OBLIGATIONS OF THE CORPORATION AND ARE NOT INSURED OR GUARANTEED BY ANY OTHER GOVERNMENTAL AGENCY.

The 2002 Bonds (except to the extent not reoffered) are offered when, as and if issued and received by the Underwriters, subject to the approval of legality by Wohlforth, Vassar, Johnson & Brecht, P.C., Anchorage, Alaska, Bond Counsel, and to the confirmation of certain tax matters by Wohlforth, Vassar, Johnson & Brecht, P.C., and Kutak Rock LLP, Special Tax Counsel, and certain other conditions. Certain legal matters will be passed on for the Underwriters by their counsel, Hawkins, Delafield & Wood, New York, New York. It is expected that delivery of the 2002 Bonds will be made to DTC in New York, New York, on or about May 16, 2002.

Lehman Brothers

MATURITY SCHEDULE

\$170,000,000 2002 Series A Bonds (AMT) (Variable Rate)

\$50,000,000 2002 Series A Serial Bonds due June 1, 2032

\$120,000,000 2002 Series A Serial Bonds due December 1, 2036

\$30,000,000 2002 Series B Bonds (Federally Taxable) (Variable Rate)

\$30,000,000 2002 Series B Serial Bonds due December 1, 2036

MODE CHART FOR 2002 BONDS

The 2002 Bonds may bear interest in a Daily, Weekly, Monthly, Quarterly, Semiannual or Auction Mode, or be Converted to bear interest at Fixed Interest Rates or an Indexed Rate. Interest on the 2002 Bonds will be payable on the dates set forth on the cover page, except that, during an Auction Mode, interest is payable on the Business Day next succeeding the expiration of any Auction Period. The 2002 Bonds initially shall bear interest in a Weekly Mode. From time to time, and upon proper notice and certain conditions, the Mode Period may be changed to a new Mode Period, all as more fully described herein. Change to a Daily Mode Period requires confirmation from the Rating Agencies that such change, in and of itself, will not adversely affect the ratings on the 2002 Bonds without regard to any bond insurance or other form of credit enhancement that may then be in effect. During each Mode Period, the 2002 Bonds shall bear interest at the Effective Rate determined on each Rate Determination Date by the applicable Remarketing Agent, or Auction Agent with respect to Auction Bonds, until the next Effective Rate Date applicable to that Mode Period, or commencement of a new Mode Period, all as more fully described herein. Under certain circumstances, the 2002 Bonds are subject to mandatory and optional tender for purchase at a price equal to the principal amount thereof plus accrued interest, all as more fully described herein. For additional information on the 2002 Bonds see "The 2002 Bonds."

For each Mode Period following the date of delivery of the 2002 Bonds, the Rate Determination Date, the Effective Rate Date, the Statement of Effective Rate, the Irrevocable Notice of Tender by Holder to Remarketing Agent or Tender Agent and Tender and Purchase Date, and the Written Mode Change Notice and Mandatory Tender Notice shall be determined in accordance with the following schedule:

	DAILY MODE	WEEKLY MODE	MONTHLY MODE	QUARTERLY MODE	SEMIANNUAL MODE	AUCTION MODE
Rate Determination Date	Each Business Day by 10:00 A.M.†	First Business Day preceding Effective Rate Date by 4:00 P.M.	First Business Day preceding Effective Rate Date by 4:00 P.M.	First Business Day preceding Effective Rate Date by 4:00 P.M.	First Business Day preceding Effective Rate Date by 4:00 P.M.	Auction Rate determined not later than 4:00 P.M. on the Auction Date
Effective Rate Date	Daily	Thursday following the Rate Determination Date	First day of each calendar month	March 1, June 1, September 1 and December 1 of each year	June 1 and December 1 of each year	First Business Day of each Auction Period
Statement of Effective Rate	Trustee to provide or cause to be provided to Holder monthly statement of Daily Effective Rates for prior month within 7 Business Days of end of each calendar month	Trustee to provide or cause to be provided to Holder monthly statement of Weekly Effective Rates for prior month within 7 Business Days of end of each calendar month	Trustee to provide or cause to be provided to Holder notice of Effective Rate for each month within 7 Business Days following each Rate Determination Date	Trustee to provide or cause to be provided to Holder notice of Effective Rate within 7 Business Days following the respective Rate Determination Dates	Trustee to provide or cause to be provided to Holder notice of Effective Rate within 7 Business Days following the respective Rate Determination Dates	Broker-Dealer advises Existing and Potential Owner as to Auction Rate determined on Auction Date
Irrevocable Notice of Tender by Holder to applicable Remarketing Agent or Tender Agent†† and Tender and Purchase Date (Within Mode Period)	Notice by Holder to applicable Remarketing Agent prior to 11:00 A.M. on any Business Day, which day shall also be the Tender and Purchase Date	Notice by Holder to applicable Remarketing Agent not later than 5:00 P.M. on any Business Day at least 7 days prior to the Tender and Purchase Date, which shall be any Business Day and shall be set forth in the Tender Notice	Notice by Holder to applicable Remarketing Agent not later than 5:00 P.M. on the Business Day at least 7 days prior to next Effective Rate Date, which date is the Tender and Purchase Date and shall be set forth in the Tender Notice	Notice by Holder to Tender Agent not later than 5:00 P.M. on the Business Day 13 days prior to next Effective Rate Date, which date is the Tender and Purchase Date and shall be set forth in the Tender Notice	Notice by Holder to Tender Agent not later than 5:00 P.M. on the Business Day 15 days prior to next Effective Rate Date, which date is the Tender and Purchase Date and shall be set forth in the Tender Notice	No optional tender of Bonds in Auction Mode Period (see "Auction Procedures" in Appendix D of this Official Statement)
Written Mode Change Notice; Mandatory Tender Notice	<ul style="list-style-type: none"> Corporation to give notice to Notice Parties of Mode Change Date 20 days prior to change to Weekly Mode, and 45 days prior to change to Auction Mode or Monthly or longer Mode Trustee to give notice to Holders 15 days prior to change to Weekly Mode and 30 days prior to change to Auction Mode or Monthly or longer Mode 	<ul style="list-style-type: none"> Corporation to give notice to Notice Parties of Mode Change Date 20 days prior to change to Daily Mode, and 45 days prior to change to Auction Mode or longer Mode Trustee to give notice to Holders 15 days prior to change to Daily Mode and 30 days prior to change to Auction Mode or longer Mode 	<ul style="list-style-type: none"> Corporation to give notice to Notice Parties of Mode Change Date 45 days prior to Mode Change Date Trustee to give notice to Holders 30 days prior to Mode Change Date 	<ul style="list-style-type: none"> Corporation to give notice to Notice Parties of Mode Change Date 45 days prior to Mode Change Date Trustee to give notice to Holders 30 days prior to Mode Change Date 	<ul style="list-style-type: none"> Corporation to give notice to Notice Parties of Mode Change Date at least 30 days prior to Mode Change Date Trustee to give notice to Holders on or before third Business Day after receipt of Corporation's notice 	<ul style="list-style-type: none"> Corporation to give notice to Notice Parties of Mode Change Date at least 30 days prior to Mode Change Date Trustee to give notice to Holders on or before third Business Day after receipt of Corporation's notice

† All times referred to in this Mode Chart for 2002 Bonds are New York City time.

†† Notice of Tender to the Tender Agent must be in writing and addressed to: U.S. Bank, N.A., 1420 Fifth Avenue, Seventh Floor, Seattle, Washington 98101.

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No dealer, broker, salesman or other person has been authorized by the Corporation or the Underwriter to give any information or to make any representations, other than as contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the 2002 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 obtained from the Corporation and other sources which are believed to be reliable, but is not guaranteed as to accuracy or completeness and is not to be construed as a representation by the Underwriter. All summaries herein of documents and agreements are qualified in their entirety by reference to such documents and agreements, and all summaries herein of the 2002 Bonds are qualified in their entirety by reference to the form thereof included in the Indenture and the provisions with respect thereto included in the aforesaid documents and agreements. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall under any circumstances create any implication that there has been no change in the information or opinions set forth herein after the date of this Official Statement.

In connection with this offering of the 2002 Bonds (except to the extent not reoffered) the Underwriter may overallocate or effect transactions which stabilize or maintain the market price of the 2002 Bonds (except to the extent not reoffered) at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

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**OFFICIAL STATEMENT
OF
ALASKA HOUSING FINANCE CORPORATION
Relating to
\$200,000,000
HOME MORTGAGE REVENUE BONDS**

**\$170,000,000 2002 Series A (AMT) (Variable Rate)
\$30,000,000 2002 Series B (Federally Taxable) (Variable Rate)**

INTRODUCTION

This Official Statement (including the cover page, inside cover pages and appendices) of the Alaska Housing Finance Corporation (the "Corporation") sets forth information in connection with the Corporation's Home Mortgage Revenue Bonds, 2002 Series A (the "2002 Series A Bonds") and 2002 Series B (the "2002 Series B Bonds"; together with the 2002 Series A Bonds, the "2002 Bonds"). The 2002 Bonds are authorized to be issued pursuant to Chapters 55 and 56 of Title 18 of the Alaska Statutes, as amended (the "Act"); an Indenture, dated as of May 1, 2002 (the "General Indenture"), by and between the Corporation and U.S. Bank, N.A., Seattle, Washington, as trustee (the "Trustee"); and a 2002 Series A/B Supplemental Indenture, dated as of May 1, 2002 (the "2002 Series A/B Supplemental Indenture"), by and between the Corporation and the Trustee. All bonds outstanding under the General Indenture (including additional bonds which may hereafter be issued) are referred to collectively as the "Bonds." Each series of Bonds is issued pursuant to a Supplemental Indenture. The General Indenture and all Supplemental Indentures (including the 2002 Series A/B Supplemental Indenture) are referred to collectively as the "Indenture." Capitalized terms used and not otherwise defined herein have the respective meanings ascribed thereto in the Indenture. See "Summary of Certain Provisions of the Indenture — Certain Definitions" and Appendix F.

The 2002 Series A Bonds and 2002 Series B Bonds are the first and second Series of Bonds, respectively, issued under the Indenture. The Corporation is permitted to issue additional Bonds (including refunding Bonds) pursuant to and secured under the Indenture ("Additional Bonds"), subject to certain conditions. See "Sources of Payment and Security for the Bonds — Additional Bonds." The 2002 Bonds will be secured on a parity with any Additional Bonds.

Lehman Brothers Inc. ("Lehman Brothers") will act as sole underwriter with respect to the 2002 Bonds. The 2002 Bonds will be issued initially bearing interest at a Weekly Rate. See "Mode Chart for 2002 Bonds" on page (i) for a summary of information relating to Mode Periods and notice and tender requirements relating to the 2002 Bonds. See also "The 2002 Bonds." Lehman Brothers initially will act as sole Remarketing Agent with respect to the 2002 Bonds. The Corporation may replace any Remarketing Agent at any time, and any Remarketing Agent may resign as such at any time, in each case upon 30 days' notice. The Corporation may appoint multiple Remarketing Agents.

Concurrently with the issuance of the 2002 Bonds, Financial Security Assurance Inc. (the "Insurer") will issue its Municipal Bond Insurance Policy for the 2002 Bonds (the "Policy"). The Policy guarantees the scheduled payment of principal of and interest on the 2002 Bonds when due as set forth in the form of the Policy included as Appendix H to this Official Statement. The Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law. See "Financial Security Assurance Inc." for a description of the Insurer.

The 2002 Bonds shall initially be issued in a Weekly Mode. The Corporation may elect to cause the 2002 Bonds to change to a Daily Mode (subject to the consent of the Rating Agencies), Monthly Mode, Quarterly Mode, Semiannual Mode, or Auction Mode or to Convert to Bonds bearing interest at Fixed Interest Rates or an Indexed Rate. In each such case, the 2002 Bonds shall be subject to mandatory tender for purchase. Prior to Conversion, the 2002 Bonds (other than Auction Bonds) also are subject to tender by the Holders thereof under the circumstances set forth in the 2002 Series A/B Supplemental Indenture. There will be a Liquidity Facility provided in connection with the issuance of the 2002 Bonds (other than Auction Bonds), pursuant to a Standby Bond Purchase Agreement dated as of May 1, 2002 (the "Initial Liquidity Facility"), by and among Dexia Credit Local, acting through its New York Agency ("Dexia" or the "Bank"), the Corporation, and U.S. Bank, N.A., as tender agent (the "Tender Agent"), which agreement will provide for the purchase by the Bank, on the terms and conditions specified therein, of tendered 2002 Bonds (other than Auction Bonds) that cannot be remarketed as provided in the 2002 Series A/B Supplemental Indenture. **A default under the Initial Liquidity Facility by the Bank is not an Event of Default under the Indenture.** See "Liquidity Facility — Initial Liquidity Facility — General."

The Corporation may provide an Alternate Liquidity Facility in substitution for the Initial Liquidity Facility, and in such event the Initial Liquidity Facility will terminate. **A default under an Alternate Liquidity Facility by an Alternate Liquidity Provider is not an Event of Default under the Indenture.** See "Liquidity Facility — Initial Liquidity Facility."

In the event that the Initial Liquidity Facility terminates and is not replaced with an Alternate Liquidity Facility, the 2002 Bonds are subject to mandatory tender and the Corporation may elect to (i) cause the 2002 Bonds to bear interest at an Auction Rate determined in accordance with the Indenture, (ii) Convert the 2002 Bonds to bear interest at Fixed Interest Rates or an Indexed Rate, or (iii) redeem the 2002 Bonds. No Alternate Liquidity Facility will be required in connection with the 2002 Bonds subsequent to the exercise of any of the foregoing options. See "Liquidity Facility — Initial Liquidity Facility." **THIS OFFICIAL STATEMENT IS NOT INTENDED TO DESCRIBE THE 2002 BONDS SUBSEQUENT TO THEIR CONVERSION TO FIXED RATE BONDS OR INDEXED RATE BONDS.**

In connection with the issuance of the 2002 Series A Bonds, the Corporation will enter into one or more interest rate swap agreements relating thereto (the "Swap Agreement") with Lehman Brothers Derivative Products Inc. (the "Counterparty"), an affiliate of Lehman Brothers. The purpose of the Swap Agreement is to place the aggregate net obligation of the Corporation with

respect to the portion of the Program financed by the 2002 Series A Bonds on an approximately fixed-rate basis. Payments made to the Counterparty by the Corporation under the Swap Agreement will be paid from Pledged Revenues pledged under the Indenture in the same order of priority as payments of interest on the Bonds; *provided* that if any such payments are due in respect of an Early Termination Date (as defined in the Swap Agreement), the Corporation has covenanted to transfer such amounts (but *only* to the extent that Bond Coverage can be demonstrated following such transfer) from the Indenture to the Corporation as described in clause (iv) of paragraph *Fifth* under "Summary of Certain Provisions of the Indenture — Redemption Fund" for payment to the Counterparty. Payments made to the Corporation by the Counterparty under the Swap Agreement will be pledged as Pledged Revenues under the Indenture and deposited in the Revenue Fund on receipt.

A portion of the proceeds of the 2002 Series A Bonds will be treated for Federal tax purposes as used, within 90 days of the date of issuance of the 2002 Bonds, to refund and replace certain other of the Corporation's outstanding obligations, the transferred proceeds of which will be available to purchase Mortgage Loans from and after such replacement and refunding. The balance of the 2002 Series A Bonds and the 2002 Series B Bonds are being issued to provide the Corporation with funds to purchase Mortgage Loans. Such proceeds will be available to purchase Mortgage Loans on and after the date of issuance of the 2002 Bonds.

The Corporation from its general unrestricted funds will make deposits to the Debt Service Reserve Account and the Special Reserve Account and pay costs of issuance. In addition, amounts in satisfaction of the Loan Loss Requirement will be deposited in the Loan Loss Fund. See "Sources of Payment and Security for the Bonds — Debt Service Reserve Account," " — Loan Loss Fund" and " — Special Reserve Account" and "Estimated Sources and Uses of Funds."

The Corporation has no taxing power. The Bonds do not constitute a debt, liability or obligation of the State of Alaska (the "State") or a pledge of its faith and credit or taxing power. The Bonds are general obligations of the Corporation and are not insured or guaranteed by any other governmental agency.

The Bonds are general obligations of the Corporation for which its full faith and credit are pledged, subject to agreements made and to be made with the holders of other obligations of the Corporation pledging particular revenues and assets not pledged to the Bonds and to the exclusion of moneys in the Corporation's Housing Development Fund. A significant portion of the assets of the Corporation is pledged to the payment of outstanding obligations of the Corporation. See Appendix A, which contains the most recent audited financial statements of the Corporation.

It is expected that the Bonds will be primarily secured by a portfolio of Program Obligations, consisting of whole mortgage loans (the "Mortgage Loans"). The Bonds also may be secured by mortgage-backed pass-through certificates and, if there will be no adverse effect on the ratings then assigned to the Bonds, other mortgage instruments. The Mortgage Loans will be first-lien mortgage loans with respect to single family residences located in the State. See "Sources of Payment and Security for the Bonds," "Program Obligations" and the definitions of Mortgage

Loan and Program Obligations under "Summary of Certain Provisions of the Indenture — Certain Definitions."

The Mortgage Loans, or portions of Mortgage Loans, to be financed with proceeds attributable to the 2002 Series A Bonds and 2002 Series B Bonds are referred to respectively as the "2002 Series A Mortgage Loans" and "2002 Series B Mortgage Loans" and collectively as the "2002 Series A/B Mortgage Loans." The Corporation currently expects that a portion of 2002 Series A/B Mortgage Loans will consist of the Available Mortgage Loans (defined below), with the balance consisting of new mortgage loan originations. See "Sources of Payment and Security for the Bonds — Program Obligations."

The summaries herein of the 2002 Bonds, the Indenture, and other documents and materials are brief outlines of certain provisions contained therein and do not purport to summarize or describe all the provisions thereof. For further information, reference is hereby made to the Act, the Indenture, and such other documents and materials for the complete provisions thereof, copies of which will be furnished by the Corporation upon request. See "The Corporation — General" for the Corporation's address and telephone number.

SOURCES OF PAYMENT AND SECURITY FOR THE BONDS

General

The 2002 Bonds are, and any Additional Bonds issued under the Indenture will be, direct and general obligations of the Corporation for which its full faith and credit are pledged, subject to agreements made or to be made with the holders of other obligations of the Corporation pledging particular revenues and assets not pledged to the Bonds and to the exclusion of moneys in the Corporation's Housing Development Fund. All Bonds issued under the Indenture will be secured on a parity lien basis under the Indenture. See "Sources of Payment and Security for the Bonds — Additional Bonds."

The Bonds are secured by a pledge of (a) Program Obligations, (b) any Mortgage Loans acquired with Bond proceeds, including the title, hazard and primary insurance policies related thereto; the Mortgages securing such Mortgage Loans; and property held by the Corporation pursuant to foreclosure or deed in lieu of foreclosure of any such Mortgage Loan; (c) the Pledged Revenues and all amounts held in any Fund or Account under the Indenture (except the Rebate Fund) and, to the extent provided in the Indenture, as to amounts payable free and clear of any trust, lien or pledge created by this Indenture, and (d) all proceeds of the foregoing. See "Sources of Payment and Security for the Bonds — Program Obligations," "Program Obligations" and the definitions of Pledged Revenues and Program Obligations under "Summary of Certain Provisions of the Indenture — Certain Definitions."

Amounts on deposit in the Funds and Accounts under the Indenture may be applied only as provided in the Indenture. Amounts in the Revenue Fund, after providing for the payment of

(i) any amounts required to be deposited in the Rebate Fund, and (ii) interest due on the Bonds and Authorized Hedging Payments due to a counterparty during the related interest payment period, will be transferred to the Redemption Fund. Amounts in the Redemption Fund, *however*, after providing for the payment of (i) scheduled principal payments on the Bonds and Authorized Hedging Payments due to a counterparty during the related interest payment period; (ii) sinking fund installments; (iii) any amount needed to restore the Debt Service Reserve Account to the Debt Service Reserve Requirement and (iv) Program Expenses, may be withdrawn free and clear of the lien of the Indenture; *provided* that such withdrawal is indicated in the most recent Bond Coverage Certificate. See "Sources of Payment and Security for the Bonds — Bond Coverage Certificates" and "Summary of Certain Provisions of the Indenture — Revenue Fund" and " — Redemption Fund."

The Bonds are secured by a Debt Service Reserve Account, a Loan Loss Fund and a Special Reserve Account. See "Sources of Payment and Security for the Bonds — Debt Service Reserve Account," " — Loan Loss Fund" and " — Special Reserve Account."

Program Obligations

The Corporation currently holds a portfolio of warehoused mortgage loans with an aggregate principal balance as of April 30, 2002 of approximately \$117.2 million (the "Available Mortgage Loans"). For a description as of April 30, 2002 of the Available Mortgage Loans, see "Program Obligations — Available Mortgage Loans." The Corporation expects to purchase substantially all of the Available Mortgage Loans with proceeds attributable to the 2002 Bonds. However, no assurance is given as to what portion, if any, of the Available Mortgage Loans will be allocated to the 2002 Bonds.

Mortgage Loans are required by the General Indenture to be secured by first lien deeds of trust on single-family residences in the State and bear a fixed rate of interest for initial terms of not less than 15 years but not more than 30 years. The 2002 Series A/B Mortgage Loans are expected to consist of conventional Mortgage Loans; Mortgage Loans subject to a guarantee of the United States Department of Veterans Affairs (formerly the Veterans Administration; the "VA"), the United States Department of Housing and Urban Development ("HUD"), or Rural Development (formerly the Farmers Home Administration of the United States Department of Agriculture; "FmHA"); and Mortgage Loans insured by the Federal Housing Administration ("FHA"). The Mortgage Loans will be serviced by qualifying eligible servicing institutions, which generally are the originating institutions. See "Program Obligations."

Any Mortgage Loan with an original principal amount exceeding 80% of the value of the mortgaged property is required to be (i) insured by FHA, (ii) guaranteed by the VA, HUD, or FmHA, or (iii) insured under a private mortgage insurance policy at least until such time as the ratio of the outstanding loan balance to the original property value is equal to or less than 80%. See "Program Obligations — Primary Mortgage Insurance."

Debt Service Reserve Account

Upon delivery of the 2002 Bonds, a deposit is expected to be made to the credit of the Debt Service Reserve Account in the amount set forth under "Estimated Sources and Uses of Funds." The General Indenture requires the Debt Service Reserve Account to be maintained in an amount (the "Debt Service Reserve Requirement") at least equal to the sum of the Debt Service Reserve requirements established for each Series of Outstanding Bonds. The Debt Service Reserve requirement established for the 2002 Bonds is an amount equal to 2% of the sum of (a) the outstanding principal balance of 2002 Series A/B Mortgage Loans and (b) all other amounts on deposit in the 2002 Series Accounts of the Program Obligation Fund, or such greater amount as may be fixed by a further Authorizing Indenture. See "Summary of Certain Provisions of the Indenture — Revenue Fund."

If, on the third Business Day prior to any Debt Service Payment Date, the amount on deposit, or to be deposited on such Debt Service Payment Date, in the Interest Account, the Principal Account and the General Account is less than the amount required to pay the interest on, the principal of and the sinking fund installments on the Bonds due on such date, any deficiency will be satisfied with a transfer from the Debt Service Reserve Account to the applicable Series Subaccount. If the amount in the Debt Service Reserve Account is insufficient, the Corporation may advance funds, or available moneys from the Loan Loss Fund and the Special Reserve Account may be applied to cover any such insufficiency.

The Corporation covenants that it will maintain in the Debt Service Reserve Account an amount at least equal to the Debt Service Reserve Requirement.

At the election of the Corporation, any amounts in excess of the Debt Service Reserve Requirement that remain in the Debt Service Reserve Account on an Debt Service Payment Date shall either (i) be transferred to the related Series Account of the Revenue Fund or (ii) be withdrawn and paid over to the Corporation free and clear of the lien and pledge of the Indenture if the most recent Bond Coverage Certificate shows Bond Coverage after such withdrawal; *provided* that (a) all Debt Service on the Bonds then due shall have been paid on such Debt Service Payment Date and that all amounts then due from the Corporation or Trustee to the counterparties of any Hedging Instruments shall have been paid on such Debt Service Payment Date and (b) no such withdrawal may be made during any period when proceeds of any Series of Bonds are on deposit in the Program Obligation Fund and have not been either exchanged for Program Obligations or applied to the redemption of Bonds of such Series, nor for sixty days following any such period. Any amounts in excess of the Debt Service Reserve Requirement that remain in the Debt Service Reserve Account on or after the fifth day following an Debt Service Payment Date will be transferred by the Trustee upon the direction of the Corporation to the related Series Account of the Revenue Fund.

Amounts on deposit in the Debt Service Reserve Account are to be invested in Investment Securities. The amount on deposit in the Debt Service Reserve Account will be at least equal to the Debt Service Reserve Requirement on the date of issuance of the 2002 Bonds. See "Estimated

Sources and Uses of Funds" and "Summary of Certain Provisions of the Indenture — Revenue Fund."

Loan Loss Fund

The General Indenture permits, but does not require, the establishment of Loan Loss Coverage with respect to a Series of Bonds in the related Authorizing Indenture. The 2002 Series A/B Supplemental Indenture establishes Loan Loss Coverage with respect to 2002 Bonds in the form of a Series Loan Loss Requirement. The Indenture requires that the Loan Loss Fund be maintained at all times in an amount equal to the sum of the Series Loan Loss Requirements, if any, established with respect to each Series of Bonds in the related Authorizing Indentures (the "Loan Loss Requirement"). The Series Loan Loss Requirement with respect to the 2002 Bonds is a percentage of the 2002 Series A/B Mortgage Loans that are not covered by a mortgage pool insurance policy and that do not underlie Mortgage Certificates. (It is expected that no more than an insubstantial amount of the 2002 Series A/B Mortgage Loans, if any, will be covered by a mortgage pool insurance policy or will underlie Mortgage Certificates.) Such percentage is determined by the nature of the assets on deposit in the Loan Loss Fund, is based upon criteria established by the Rating Agencies, including criteria related to mortgage loan credit risk, and is permitted by the 2002 Series A/B Supplemental Indenture to be adjusted by the Corporation as necessary to maintain the then-existing Unenhanced Ratings assigned to the Bonds by the Rating Agencies.

The amount on deposit in the Loan Loss Fund will be at least equal to the Loan Loss Requirement on the date of issuance of the 2002 Bonds. While amounts on deposit in the Loan Loss Fund are pledged under the Indenture, earnings and payments received with respect to such amounts do not constitute Pledged Revenues under the Indenture. The General Indenture permits, but does not require, Loan Loss Coverage in addition to any primary mortgage insurance covering Mortgage Loans for subsequent Series of Bonds.

If, on the third Business Day prior to any Debt Service Payment Date, the amount on deposit, or to be deposited on such Debt Service Payment Date, in the Interest Account, the Principal Account and the General Account is less than the amount required to pay interest on, principal of and sinking fund installments on the Bonds due on such date, any such deficiency is required to be satisfied with a transfer from the Debt Service Reserve Account or, if insufficient, by a deposit of any other funds of the Corporation, including amounts in the Loan Loss Fund. The Corporation may, at any time, withdraw from the Loan Loss Fund an amount equal to Uncovered Loan Losses. The Corporation shall transfer all such withdrawn amounts to the applicable Series Account of the Redemption Fund to be used to redeem Bonds of the applicable Series at the earliest practicable redemption date. In addition, amounts in the Loan Loss Fund in excess of the sum of (i) the Loan Loss Requirement and (ii) current and expected Uncovered Loan Losses, may at any time be withdrawn and paid to the Corporation free and clear of the lien and pledge of the Indenture. See "Summary of Certain Provisions of the Indenture — Loan Loss Fund."

Special Reserve Account

The 2002 A/B Supplemental Indenture creates a Special Reserve Account within the Revenue Fund, into which the Corporation may deposit moneys from time to time. Upon the delivery of the 2002 Bonds, the Corporation will make a deposit into the Special Reserve Account. See "Estimated Sources and Uses of Funds." The 2002 A/B Supplemental Indenture permits the Corporation to withdraw, free and clear of the lien and pledge of the Indenture, amounts in the Special Reserve Account upon the delivery of a Bond Coverage Certificate demonstrating Bond Coverage (as defined under "Summary of Certain Provisions of the Indenture — Certain Definitions") exclusive of amounts in the Special Reserve Account and confirmation from the Rating Agencies that such withdrawal will not, in and of itself, adversely affect the Unenhanced Ratings on the Bonds.

If, on the third Business Day prior to any Debt Service Payment Date, the amount on deposit, or to be deposited on such Debt Service Payment Date, in the Interest Account, the Principal Account and the General Account is less than the amount required to pay interest on, principal of and sinking fund installments on the Bonds due on such date, any such deficiency is required to be satisfied with a transfer from the Debt Service Reserve Account or, if insufficient, by a deposit of any other funds of the Corporation, including amounts in the Special Reserve Account.

Bond Coverage Certificates

The Corporation is required to deliver to the Trustee a certificate showing Bond Coverage upon the occurrence of various events under the Indenture, including, but not limited to, (i) the delivery of a Series of Bonds, (ii) any selection of Bonds for special redemption on a basis requiring delivery of a Bond Coverage Certificate, or (iii) any release of moneys free and clear of the lien of the Indenture to the Corporation.

In addition, any such Bond Coverage Certificate delivered to the Trustee is required to conform to the requirements of the Indenture and any Supplemental Indenture, including any tax covenants contained therein. See "Summary of Certain Provisions of the Indenture — Tax Covenants."

The Indenture provides that the Corporation may in the future use a method of calculation of Bond Coverage other than the method specified in the Indenture if the new method will not adversely affect the Unenhanced Ratings then assigned to the Bonds by the Rating Agencies. No assurance can be given that the assumptions used in a Bond Coverage Certificate will in fact be realized.

Additional Bonds

Additional Bonds (including refunding Bonds) may be issued pursuant to the General Indenture upon compliance with the provisions thereof, which include the requirement that no Additional Bonds may be issued (i) without the delivery of a Bond Coverage Certificate to the Trustee and (ii) unless the Unenhanced Ratings then assigned by the Rating Agencies to the then Outstanding Bonds (including the 2002 Bonds) will not be reduced as a result of the issuance of such Additional Bonds. The 2002 Bonds and all other Bonds issued under the Indenture will rank on a parity with each other; therefore, the availability of money for repayment of the 2002 Bonds could be significantly affected by the issuance of Additional Bonds. See "Sources of Payment and Security for the Bonds — Bond Coverage Certificates" and "Summary of Certain Provisions of the Indenture — Issuance of Additional Bonds."

The Corporation is also permitted to issue bonds which are separately secured and/or which are also general obligations of the Corporation.

FINANCIAL SECURITY ASSURANCE INC.

The Insurer is a New York domiciled insurance company and a wholly owned subsidiary of Financial Security Assurance Holdings Ltd. ("Holdings"). Holdings is an indirect subsidiary of Dexia, S.A., a publicly held Belgian corporation and of the Bank. The Bank is a direct wholly-owned subsidiary of Dexia, S.A. For additional information, see Appendix G — "Certain Information Relating to the Bank." Dexia, S.A., through its bank subsidiaries, is primarily engaged in the business of public finance in France, Belgium and other European countries. No shareholder of Holdings or the Insurer is liable for the obligations of the Insurer.

At December 31, 2001, the Insurer's total policyholders' surplus and contingency reserves were approximately \$1,593,569,000 and its total unearned premium reserve was approximately \$810,898,000 in accordance with statutory accounting principles. At December 31, 2001, the Insurer's total shareholders' equity was approximately \$1,698,672,000 and its total net unearned premium reserve was approximately \$669,534,000 in accordance with generally accepted accounting principles.

The financial statements included as exhibits to the annual and quarterly reports filed by Holdings with the Securities and Exchange Commission are hereby incorporated herein by reference. Also incorporated herein by reference are any such financial statements so filed from the date of this Official Statement until the termination of the offering of the 2002 Bonds. Copies of materials incorporated by reference will be provided upon request to Financial Security Assurance Inc.: 350 Park Avenue, New York, New York 10022, Attention: Communications Department (telephone (212) 826-0100).

The Policy does not protect investors against changes in market value of the 2002 Bonds, which market value may be impaired as a result of changes in prevailing interest rates, changes

in applicable ratings or other causes. The Insurer makes no representation regarding the 2002 Bonds or the advisability of investing in the 2002 Bonds. The Insurer makes no representation regarding the Official Statement, nor has it participated in the preparation thereof, except that the Insurer has provided to the Issuer the information presented under this caption for inclusion in the Official Statement.

LIQUIDITY FACILITY

Initial Liquidity Facility

General

The Initial Liquidity Facility contains various provisions, covenants, and conditions, certain of which are summarized below. Various words or terms used in the following summary are defined in this Official Statement, the Initial Liquidity Facility, or the Indenture, and reference thereto is made for full understanding of their import. For further information regarding the Bank, the obligor under the Initial Liquidity Facility, see Appendix G — "Certain Information Relating to the Bank." See also "Summary of Certain Provisions of the Indenture" and Appendix F — "Certain Definitions with Respect to the 2002 Bonds."

During the term of the Initial Liquidity Facility, the Initial Liquidity Facility will provide liquidity for the purchase of 2002 Bonds which are delivered to the Tender Agent but not remarketed by the Remarketing Agent. In addition, the Initial Liquidity Facility will provide for the mandatory purchase of 2002 Bonds (i) upon certain changes in interest rate periods, (ii) upon the expiration (without extension) of the Initial Liquidity Facility, (iii) except as otherwise provided in the Indenture, upon the replacement of the Initial Liquidity Facility with an Alternate Liquidity Facility, Non-Conforming Liquidity Facility or Self Liquidity and (iv) at the direction of the Bank following the occurrence of certain "events of termination" under the Initial Liquidity Facility. The Initial Liquidity Facility will expire on May 16, 2012, prior to the final maturity of the 2002 Bonds, unless extended or terminated as described herein.

UNDER CERTAIN CIRCUMSTANCES DESCRIBED BELOW, THE OBLIGATION OF THE BANK TO PURCHASE 2002 BONDS TENDERED BY THE OWNERS THEREOF OR SUBJECT TO MANDATORY TENDER MAY BE TERMINATED OR SUSPENDED WITHOUT A PURCHASE BY THE BANK. IN SUCH EVENT, SUFFICIENT FUNDS MAY NOT BE AVAILABLE TO PURCHASE 2002 BONDS TENDERED BY THE OWNERS THEREOF OR SUBJECT TO MANDATORY PURCHASE. IN ADDITION, THE INITIAL LIQUIDITY FACILITY DOES NOT PROVIDE SECURITY FOR THE PAYMENT OF PRINCIPAL OF OR INTEREST OR PREMIUM, IF ANY, ON THE 2002 BONDS. THE INITIAL LIQUIDITY FACILITY PROVIDES FOR THE PURCHASE OF REGISTERED 2002 BONDS ONLY.

Purchase of Tendered 2002 Bonds by the Bank

The Bank has agreed to purchase during the Purchase Period, eligible 2002 Bonds which have been tendered for optional purchase or which are subject to mandatory purchase and which are not remarketed (which remarketing is permitted or required) as provided in the Indenture. See "The 2002 Bonds — Description of the 2002 Bonds." The Commitment Period begins on the date the Initial Liquidity Facility shall become effective and ends on the earliest of (a) May 16, 2012; (b) the date on which no 2002 Bonds are outstanding; (c) the date on which the Bank's commitment has been terminated in its entirety and the Bank is no longer obligated to purchase 2002 Bonds; (d) the conversion of the 2002 Bonds to Bonds bearing Interest at an Auction Rate, Fixed Interest Rates or an Indexed Rate under the Indenture; (e) the date on which the Corporation delivers an Alternate Liquidity Facility, Non-Conforming Liquidity Facility, or Self Liquidity to the Tender Agent in accordance with the terms of the Indenture; or (f) the occurrence of an Event of Termination (as further described below). The price to be paid by the Bank for such 2002 Bonds will be equal to the aggregate principal amount on such 2002 Bonds plus interest accrued thereon on the date of such purchase, without premium. Under certain circumstances as described below, the obligation of the Bank to purchase 2002 Bonds will be automatically suspended or terminated, without prior notice or demand, and the Tender Agent will be unable to require the purchase of 2002 Bonds under the Initial Liquidity Facility.

Events of Termination

The remedies upon the occurrence of an event of termination under the Initial Liquidity Facility differ significantly and depend upon the nature of the particular event of termination. See "Remedies Upon an Event of Termination" below. Each of the following is an "event of termination" under the Initial Liquidity Facility:

(a) Any principal or interest due on the 2002 Bonds is not paid when due and such principal or interest is not paid by the Insurer when, as, and in the amounts required to be paid pursuant to the terms of the Policy; or

(b) The Insurer shall in writing to the Tender Agent claim that the Policy with respect to the payment of principal or interest on the 2002 Bonds is not valid and binding on the Insurer, and repudiate the obligations of the Insurer under the Policy with respect to payment of principal or interest on the 2002 Bonds, or the Insurer shall initiate any legal proceedings to seek an adjudication that the Policy, with respect to the payment of principal or interest on the 2002 Bonds, is not valid and binding on the Insurer or any court or governmental authority with jurisdiction to rule on the validity of the Policy shall announce, find or rule that the Policy is not valid and binding on the Insurer; or

(c) The occurrence and continuance of one or more of the following events:
(a) the issuance, under Article 74 of the Insurance Law of New York or any successor provision thereto (or any other law under which the Insurer is at the time organized), of an order for relief, rehabilitation, reorganization, conservation, liquidation or dissolution

of the Insurer that is not dismissed within 90 days; (b) the commencement by the Insurer of a voluntary case or other proceeding seeking an order for relief, liquidation, rehabilitation, conservation, reorganization or dissolution with respect to itself or its debts under the laws of the state of incorporation or formation of the Insurer or any bankruptcy, insolvency or other similar law now or hereafter in effect including, without limitation, the appointment of a trustee, receiver, liquidator, custodian or other similar official for itself or any substantial part of its property; (c) the consent of the Insurer to any relief referred to in the preceding clause (b) in an involuntary case or other proceeding commenced against it; (d) the making by the Insurer of an assignment for the benefit of creditors; (e) the failure of the Insurer to generally pay its debts or claims as they become due; or (f) the initiation by the Insurer of any actions to authorize any of the foregoing; provided that any failure by the Insurer to make payment on any municipal bond insurance policy (i) that is being contested in good faith or (ii) with respect to which 30 days have not elapsed, shall not constitute a failure by the Insurer to generally pay its debts or claims as they become due; or

(d) Any default by the Insurer in making payment when, as and in the amounts required to be made pursuant to the express terms and provisions of any other bond insurance policy issued by the Insurer insuring publicly-rated bonds and such failure shall continue for 30 days unless the obligation of the Insurer to pay is being contested by the Insurer in good faith by appropriate proceedings; or

(e) Any material representation or warranty made by the Corporation under or in connection with the Initial Liquidity Facility shall prove to be untrue in any material respect on the date as of which it was made; or

(f) Non-payment of any commitment fees and certain other amounts payable under the Initial Liquidity Facility (together with interest thereon at the Default Rate) within 10 days after the Tender Agent, the Insurer and the Corporation have received written notice from the Bank that the same were not paid when due; or

(g) Non-payment of any other fees or amounts payable under the Initial Liquidity Facility (together with interest thereon at the Default Rate) within 20 days after written notice thereof to the Corporation, the Tender Agent and the Insurer by the Bank; or

(h) The breach by the Corporation of certain covenants under the Initial Liquidity Facility; or

(i) The breach by the Corporation of any terms or provisions of the Initial Liquidity Facility (other than as specified in (a) through (h) above) which is not remedied within 30 days after written notice thereof shall have been received by the Corporation and the Insurer by the Bank; or

(j) (i) The Corporation shall commence any case, proceeding or other action (A) under any existing or future law of any jurisdiction, domestic or foreign, relating to bankruptcy, insolvency, reorganization or relief of debtors, seeking to have an order for relief entered with respect to it, or seeking to adjudicate it a bankrupt or insolvent, or seeking reorganization, arrangement, adjustment, winding-up, liquidation, dissolution, composition or other relief with respect to it or its Debts, or (ii) seeking appointment of a receiver, trustee, custodian or other similar official for it or for all or any substantial part of its assets, or the Corporation shall make a general assignment for the benefit of its creditors; or (iii) there shall be commenced against the Corporation any case, proceeding or other action of a nature referred to in clause (A) above which (1) results in an order for such relief or in the appointment of a receiver or similar official or (2) remains undismissed, undischarged or unbonded for a period of 60 days; or (3) there shall be commenced against the Corporation any case, proceeding or other action seeking issuance of a warrant of attachment, execution, distraint or similar process against all or any substantial part of its assets, which results in the entry of an order for any such relief which shall not have been vacated, discharged, or stayed or bonded pending appeal within 60 days from the entry thereof; or (4) the Corporation shall take any action in furtherance of, or indicating its consent to, approval of, or acquiescence in, any of the acts set forth in clause (i), (ii) or (iii) above; or (iv) the Corporation shall generally not, or shall be unable to, or shall admit in writing its inability to, pay its debts; or

(k) Any material provision of the Initial Liquidity Facility, the Indenture, the 2002 Bonds or the Remarketing Agreement shall at any time for any reason cease to be valid and binding on the Corporation or shall be declared to be null and void, or the validity or enforceability thereof shall be contested by the Corporation or by any governmental authority having jurisdiction, or the Corporation shall deny that it has any further liability or obligation under any such document, or such document is cancelled or terminated without the Bank's prior written consent; or

(l) The Insurer shall fail to maintain a claims paying ability rating by Moody's Investors Service, Inc. ("Moody's") of Aa3 (or its equivalent) or higher or by Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("S&P") of AA- (or its equivalent) or higher or by Fitch, Inc. ("Fitch") of AA- (or its equivalent) or higher for a period of 30 consecutive days; or

(m) The occurrence of any "event of default" as defined in the Indenture, the 2002 Bonds, the Policy or the Remarketing Agreement (collectively, the "Related Documents") (which is not waived pursuant to the terms thereof) which is not otherwise described in the Initial Liquidity Facility, other than the failure of the Bank to provide funds for the purchase of Tendered Bonds when required by the terms and conditions of the Initial Liquidity Facility; or

(n) The Corporation shall have defaulted in the payment of principal or interest when due on any other bonds or similar securities issued by the Corporation or its Affiliates.

Remedies Upon an Event of Termination

If any Event of Termination occurs and is continuing, the Bank has the following remedies:

In the case of an Event of Termination specified in paragraphs (a), (c) or (d) of the preceding subcaption, the Available Commitment and Purchase Period and the obligation of the Bank to purchase 2002 Bonds shall immediately terminate without notice or demand, and thereafter the Bank shall be under no obligation to purchase 2002 Bonds. Promptly upon the Bank's obtaining knowledge of any such Event of Termination, the Bank shall give written notice of the same to the Tender Agent, the Corporation, the Remarketing Agent and the Insurer; provided that the Bank shall incur no liability or responsibility whatsoever by reason of its failure to give such notice and such failure shall in no manner affect the termination of the Bank's Available Commitment and of its obligation to purchase 2002 Bonds pursuant to the Initial Liquidity Facility.

In the case of an Event of Termination specified in paragraphs (f), (g), (h) (as it relates to amending the Initial Liquidity Facility), (j), (k), (l) or (n) of the preceding subcaption, the Bank may terminate the Available Commitment and Purchase Period by giving written notice to the Tender Agent, the Corporation, the Remarketing Agent and the Insurer, specifying the date on which the Available Commitment and Purchase Period shall terminate, which shall be not less than 30 days from the date of receipt of such notice by the Tender Agent, and as provided in the Supplemental Indenture. On and after such Purchase Termination Date, the Bank shall be under no further obligation to purchase 2002 Bonds under the Initial Liquidity Facility and the notice described in this paragraph shall give rise to a mandatory tender pursuant to the Supplemental Indenture.

In the case of an Event of Termination specified in paragraph (b) of the preceding subcaption, the Bank's obligations to purchase 2002 Bonds shall be immediately suspended without notice or demand and thereafter the Bank shall be under no obligation to purchase until the Available Commitment is reinstated as described in the Initial Liquidity Facility. Promptly upon the Bank's obtaining knowledge of any such Event of Termination, the Bank shall give written notice of the same to the Corporation, the Tender Agent, the Remarketing Agent and the Insurer; provided that the Bank shall incur no liability or responsibility whatsoever by reason of its failure to give such notice and such failure shall in no way affect the suspension of the Purchaser's obligations to purchase 2002 Bonds. If a court with jurisdiction to rule on the validity of the Policy shall thereafter enter a final, nonappealable judgment that the Policy is not valid and binding on the Insurer, then the Bank's obligation to purchase 2002 Bonds shall immediately terminate. If a court with jurisdiction to rule on the validity of the Policy shall find or rule that the Policy is valid and binding on the Insurer, the Bank's obligations to purchase 2002 Bonds shall be

automatically reinstated and the terms of the Initial Liquidity Facility will continue in full force and effect (unless otherwise terminated or suspended by its terms). Notwithstanding the foregoing, if, upon the earlier of May 16, 2012 or the date which is 3 years after the effective date of suspension of the Bank's obligations, litigation is still pending and a judgment regarding the validity of the Policy as the subject of such Event of Termination has not been obtained, then the Available Commitment and the obligation of the Bank to purchase 2002 Bonds shall at such time immediately terminate, and thereafter the Bank shall be under no obligation to purchase 2002 Bonds.

During the pendency of a Potential Event of Termination pursuant to paragraph (c) (with respect to an order described in clause (a) of paragraph (c)) or in paragraph (d) of the preceding subcaption, the Bank's obligations to purchase 2002 Bonds shall be immediately suspended without notice or demand and thereafter the Bank shall be under no obligation to purchase 2002 Bonds until the Available Commitment is reinstated as described hereafter. Promptly upon the Bank's obtaining knowledge of any such Potential Event of Termination, the Bank shall give written notice of the same to the Corporation, the Tender Agent, the Remarketing Agent and the Insurer of such suspension; provided, however, that the Bank shall incur no liability or responsibility whatsoever by reason of its failure to give such notice and such failure shall in no way affect the suspension of the Purchaser's obligations under the Initial Liquidity Facility. In the event such Potential Event of Termination is cured prior to becoming an Event of Termination, the Bank's obligations shall be automatically reinstated and the terms of the Initial Liquidity Facility will continue in full force and effect (unless it is otherwise terminated or suspended by its terms).

In addition to the rights and remedies set forth in the preceding paragraphs, in the case of any Event of Termination described under the subcaption above, upon the election of the Bank: (i) all amounts payable under the Initial Liquidity Facility (other than payments of principal and redemption price of and interest on the 2002 Bonds or payments of Excess Bond Interest (as defined in the Initial Liquidity Facility), if any) shall upon notice to the Corporation become immediately due and payable without presentment, demand, protest or further notice of any kind, all of which are hereby expressly waived by the Corporation; and (ii) the Bank shall have all the rights and remedies available to it under the Initial Liquidity Facility, the Related Documents, the Policy or otherwise pursuant to law or equity; provided, however, that the Bank shall not have the right to terminate its obligation to purchase 2002 Bonds or to declare any amount hereunder due and payable except as expressly provided, or to accelerate the maturity date of any 2002 Bonds except as provided in the Indenture. Without limiting the generality of the foregoing, the Bank agrees to purchase 2002 Bonds on the terms and conditions of the Initial Liquidity Facility notwithstanding the institution or pendency of any bankruptcy, insolvency or similar proceeding with respect to the Corporation. The Bank will not assert as a defense to its obligation to purchase 2002 Bonds under the Initial Liquidity Facility (A) the institution or pendency of a bankruptcy, insolvency or similar proceeding with respect to the Corporation, or (B) a determination by a court of competent jurisdiction in

a bankruptcy, insolvency or similar proceeding with respect to the Corporation that the Initial Liquidity Facility is not enforceable against the Corporation under applicable bankruptcy, insolvency or similar laws.

Extension, Reduction, Adjustment or Termination of the Initial Liquidity Facility

The Initial Liquidity Facility will expire on May 16, 2012 unless earlier terminated or, with the consent of the Bank in its sole and absolute discretion, extended for additional periods, in each case in accordance with the provisions of the Initial Liquidity Facility.

Upon (i) any redemption, defeasance or other payment of all or any portion of the principal amount of the 2002 Bonds or (ii) any purchase by the Bank of 2002 Bonds tendered or deemed tendered in accordance with the terms of the Indenture, the Bank's purchase commitment under the Initial Liquidity Facility with respect to principal of 2002 Bonds shall automatically be reduced by the principal amount of the 2002 Bonds so redeemed, defeased or otherwise paid or purchased, as the case may be. The Bank's commitment with respect to interest shall be equal to 203 days' interest on the principal amount of 2002 Bonds until December 1, 2002, after which the Bank's commitment with respect to interest shall be equal to 187 days' interest on the principal amount of 2002 Bonds (assuming an interest rate of 12% per annum). The commitment with respect to interest will be adjusted downward by an amount in proportion to the reduction of the commitment as to principal because of the redemption, defeasance or other payment of 2002 Bonds or the purchase by the Bank of 2002 Bonds tendered or deemed tendered in accordance with the terms of the Indenture.

The Indenture provides that the 2002 Bonds subject to purchase under the Initial Liquidity Facility shall be subject to mandatory purchase on the fifth day preceding the expiration of the Initial Liquidity Facility, except as otherwise provided in the Indenture. See "The 2002 Bonds — Description of the 2002 Bonds — Mandatory Tender."

Limitations of Liquidity Facility

The ability to obtain funds under the Initial Liquidity Facility in accordance with its terms may be limited by federal or state law. Bankruptcy, conservatorship, receivership and similar laws governing financial institutions or any issuer of the Initial Liquidity Facility may prevent or restrict payment under the Initial Liquidity Facility. To the extent the short-term rating on the 2002 Bonds depends on the rating of the provider of the Initial Liquidity Facility, the short-term ratings on the 2002 Bonds could be downgraded or withdrawn if the provider of the Initial Liquidity Facility were to be downgraded, placed on credit watch or have its ratings suspended or withdrawn or were to refuse to perform under the Initial Liquidity Facility.

The obligation of the Bank under the Initial Liquidity Facility to purchase unremarketed 2002 Bonds is subject to the conditions and limitations set forth therein, and is also subject to all rights and defenses available to contracting parties generally. The Initial Liquidity Facility is not a guaranty to pay the purchase price of 2002 Bonds tendered for purchase. The Initial Liquidity

Facility is a general contract, subject to certain conditions and limitations, and is not a letter of credit. Purchasers of the 2002 Bonds should consult their legal counsel for an explanation of the differences between a general contract and a letter of credit or guaranty. The following is included as a summary of selected differences and does not purport to be complete or definitive.

In general, a letter of credit is an independent, special contract by a bank to pay a third party such as a bond trustee holding the letter of credit for the benefit of owners of bonds. Banks are required by law to honor their letters of credit except in specified circumstances. If a dispute were to develop between a bank and its borrower, except in limited circumstances, the dispute should not jeopardize payment under the letter of credit because (a) the letter of credit would be independent of the disputed contract between the borrower and the bank and (b) the beneficiary of the letter of credit (typically, the bond trustee) would have direct rights under the letter of credit. Further, and although there are defenses to payment of letters of credit, such defenses are limited by law to specified circumstances.

In contrast, the Initial Liquidity Facility is a general contract only. No law expressly requires performance of the contract, although the nonbreaching party would be entitled to allowable damages if there were a breach of contract. Although the Tender Agent is authorized to draw funds in accordance with the Initial Liquidity Facility, the provider of the Initial Liquidity Facility has no independent obligation to the Tender Agent. If a dispute were to develop, the provider of the Initial Liquidity Facility will have all defenses allowed by law or in equity to its payment under or other performance of the Initial Liquidity Facility, including but not limited to disputes (whether valid or not) regarding the authority of either party to enter into or perform the Initial Liquidity Facility. More of such defenses are allowed by law regarding contracts than by laws regarding letters of credit.

The provider of the Initial Liquidity Facility or the Corporation may seek to have any future dispute resolved in court and appealed to final judgment before it performs under the Initial Liquidity Facility. Further, even if the Corporation were to prevail against the provider of the Initial Liquidity Facility, a court would not necessarily order the provider of the Initial Liquidity Facility to perform under the Initial Liquidity Facility; it could instead award damages for breach of contract to the Corporation. Any such award would not necessarily be in an amount sufficient to pay the purchase price of the 2002 Bonds.

Mandatory Tender Under The Indenture (with No Right to Retain)

Upon the occurrence of an Event of Termination as described in clauses (a), (b) (subject to the reinstatement of the Bank's obligation to purchase 2002 Bonds as described in "Initial Liquidity Facility — Remedies Upon an Event of Termination"), (c) and (d) under "Initial Liquidity Facility — Events of Termination" above, the Bank's obligation to purchase 2002 Bonds under the Initial Liquidity Facility will terminate immediately and without notice to Bondholders. In such event, there shall be no optional or mandatory tender of 2002 Bonds and no funds will be available pursuant to the Initial Liquidity Facility to purchase 2002 Bonds.

Upon the occurrence of an Event of Termination as described in clauses (f), (g), (h) (as it relates to amending the Initial Liquidity Facility), (j), (k), (l) or (n) under "Initial Liquidity Facility — Events of Termination" above, the Bank may give written notice to the Trustee that the Initial Liquidity Facility will terminate not sooner than 30 days following receipt by the Trustee of such notice. Upon receipt of such notice, the Trustee will give notice to the Holders of the 2002 Bonds that the 2002 Bonds will be subject to mandatory tender for purchase in accordance with the Indenture. See "The 2002 Bonds — Description of the 2002 Bonds — Mandatory Tender."

In the event that (a) the Corporation terminates a Liquidity Facility in accordance with its terms or (b) the Bank elects not to extend or renew a Liquidity Facility, the Trustee shall give notice to the Holders of the 2002 Bonds that such 2002 Bonds will be subject to mandatory tender for purchase in accordance with the Indenture.

Other events could give rise to a mandatory tender for purchase of 2002 Bonds under the Indenture. See "The 2002 Bonds — Description of the 2002 Bonds — Mandatory Tender" and "Liquidity Facility — Alternate Liquidity Facility."

Alternate Liquidity Facility

The Corporation may elect to replace any Liquidity Facility (including but not limited to the Initial Liquidity Facility) with an Alternate Liquidity Facility. The Corporation shall promptly notify the Trustee, the Remarketing Agent, and the Tender Agent of the Corporation's intention to deliver an Alternate Liquidity Facility at least 45 days prior to such delivery. The 2002 Bonds will be subject to mandatory tender in the event of the delivery of an Alternate Liquidity Facility. See "The 2002 Bonds — Description of the 2002 Bonds — Mandatory Tender."

Self Liquidity or Other Forms of Liquidity

The Corporation, with the prior written consent of the Insurer, may also elect to provide liquidity support for any series or all of the 2002 Bonds from its own funds or by delivering a liquidity facility which does not meet the requirements of an Alternate Liquidity Facility. See Appendix F — "Certain Definitions with Respect to the 2002 Bonds." If the Agency makes such an election, the affected 2002 Bonds will be subject to mandatory tender prior to the expiration of the Liquidity Facility then in effect. See "The 2002 Bonds — Description of the 2002 Bonds — Mandatory Tender."

ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of funds with respect to the 2002 Bonds, after providing moneys for certain refundings, replacements and redemptions described above and exclusive of accrued interest, are expected to be approximately as follows:

Sources

Principal Amount of 2002 Bonds	\$200,000,000
Corporation Funds	<u>18,843,354</u>
TOTAL	<u>\$218,843,354</u>

Uses

Purchase of Available Mortgage Loans	\$117,240,835
Deposit to 2002 Series Accounts of Program Obligation Fund	82,759,165
Deposit to Debt Service Reserve Account	4,000,000
Deposit to Loan Loss Fund	7,620,654
Deposit to Special Reserve Account	6,000,000
Deposit to Revenue Fund for Capitalized Interest	500,000
Payment of Costs of Issuance	250,000
Payment of Underwriting Fee	<u>472,700</u>
TOTAL	<u>\$218,843,354</u>

In addition, any amounts needed to satisfy the Loan Loss Requirement will be deposited by the Corporation from its own funds in the Loan Loss Fund. See "Sources of Payment and Security for the Bonds — Loan Loss Fund."

THE 2002 BONDS

General

The 2002 Bonds will be dated as set forth on the cover page. The 2002 Bonds will bear interest from such date at the Effective Rate determined by the Remarketing Agent or, with respect to Auction Bonds, by the Auction Agent. The 2002 Bonds will mature on the dates and in the amounts set forth on the inside cover page. The 2002 Bonds will bear interest at a Daily Rate, Weekly Rate, Monthly Rate, Quarterly Rate, Semiannual Rate, or Auction Rate, unless such 2002 Bonds are Converted, in which case such Converted 2002 Bonds will bear interest at Fixed Interest Rates or an Indexed Rate until their respective maturities or prior redemption. The 2002 Bonds initially will bear interest at a Weekly Rate. Interest on the 2002 Bonds will be payable on the dates set forth on the cover page.

During a Mode Period other than an Auction Mode Period or a Semiannual Mode Period, interest accrued on the 2002 Bonds will be computed on the basis of a 365-day year or 366-day year, as applicable, for the number of days actually elapsed. During an Auction Mode Period (other than a Semiannual Auction Mode Period), interest accrued on the 2002 Bonds will be computed on the basis of a 360-day year for the number of days actually elapsed and interest for each Semiannual Auction Mode Period will be computed on the basis of a 360-day year consisting of twelve 30-day months. During a Semiannual Mode Period, interest accrued on the 2002 Bonds will be computed on the basis of a 360-day year, consisting of twelve 30-day months.

The 2002 Bonds will be available in denominations of (i) during any Mode Period other than an Auction Mode Period or a Semiannual Mode Period, \$100,000 principal amount and integral multiples of \$5,000 in excess of \$100,000; (ii) during an Auction Mode Period, \$25,000 principal amount and integral multiples of \$5,000 in excess of \$25,000; and (iii) during a Semiannual Mode Period, \$5,000 principal amount and integral multiples thereof.

2002 Bonds bearing interest at an Auction Rate are herein referred to as "Auction Bonds." See "Auction Bonds" herein and Appendix D for a more detailed description of Auction Bonds, interest rate determination procedures and other relevant information relating thereto.

Any Holder of 2002 Bonds, other than Auction Bonds, has the option of tendering the Bonds to the Tender Agent in accordance with the provisions of the 2002 Series A/B Supplemental Indenture as described under "Description of the 2002 Bonds" below. Auction Bonds are not subject to tender at the option of the Holders thereof. Pursuant to the Initial Liquidity Facility, the Bank has the obligation to purchase, under certain conditions and from time to time, 2002 Bonds (other than Auction Bonds) tendered or deemed tendered to the Tender Agent, as described in the "Mode Chart for 2002 Bonds" appearing on page (i), which tendered 2002 Bonds are not remarketed.

Reference is hereby made to the "Mode Chart for 2002 Bonds" appearing on page (i) for a summary of certain provisions relating to the 2002 Bonds, with such provisions more fully described herein. For additional information with respect to the 2002 Bonds, see also "Description of the 2002 Bonds" below and Appendix F.

No transfer or exchange of any 2002 Bond will be required to be made during the five days preceding any date established by the Trustee for the selection of 2002 Bonds for redemption.

The 2002 Bonds are being issued only as fully registered bonds without coupons, in book-entry form only, registered in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the 2002 Bonds. See "Book Entry Only" below. U.S. Bank, N.A. is the Trustee.

Redemption

Optional Redemption

Prior to their Conversion, the 2002 Bonds are subject to redemption, on any Effective Rate Date, in whole or in part, of any maturity as directed by the Corporation, at the option of the Corporation, from any source of funds, at 100% of the principal amount thereof, plus accrued interest.

Selection of Bonds for Redemption; Purchase in Lieu of Redemption

The General Indenture provides that unless otherwise provided in an Authorizing Indenture, the Bonds of a Series shall be redeemed (i) on a pro rata basis (which is defined in the Indenture as a reasonably proportionate basis from among all then existing maturities of the Bonds of such Series, such basis to be determined as nearly as practicable by multiplying the total amount available by the ratio which the principal amount of the Bonds Outstanding in each maturity of such Series bears to the principal amount of all the Bonds of such Series then Outstanding) from all maturities of the Outstanding Bonds of such Series or (ii) on such other basis as shall be directed by the Corporation upon filing of a Bond Coverage Certificate demonstrating Bond Coverage after giving effect to such redemption. The General Indenture provides that if less than all the Bonds of a particular maturity of a Series are to be redeemed, the particular Bonds of such maturity of such Series to be redeemed will be selected by the Trustee by lot, using such method of selection as it deems proper in its discretion; *provided, however*, that the Trustee shall select for redemption first any Bank Bonds of such maturity, if any, and second the remaining 2002 Bonds of such maturity.

In lieu of redeeming Bonds, the Corporation may from time to time, prior to notice of redemption, purchase Bonds from moneys held for redemption of Bonds, provided that such purchase may not be at a price in excess of the principal amount thereof, plus accrued interest, except as otherwise provided in the Indenture. Following purchase, such Bonds will be canceled.

Notice of Redemption

Notice of the redemption, identifying the 2002 Bonds or portion thereof to be redeemed, will be given by the Trustee by mailing a copy of the redemption notice by first class mail (postage prepaid) not more than 60 days and not less than 30 days prior to the redemption date to the registered owner of each 2002 Bond to be redeemed in whole or in part at the address shown on the registration books maintained by the Trustee. Pursuant to the Indenture, neither failure to receive any redemption notice nor any defect in such redemption notice shall affect the sufficiency of the proceedings for such redemption and failure by the Trustee to deliver such notice of redemption of the Bonds at the times required in the Indenture shall not impair the ability of the Trustee and the Corporation to effect such redemption.

Description of the 2002 Bonds

See Appendix F for the definitions of certain capitalized terms with respect to the 2002 Bonds. Reference is also made to the "Mode Chart for 2002 Bonds" appearing on page (i) for a description of certain of the terms defined below.

Interest on the 2002 Bonds other than Auction Bonds Prior to Conversion

From the date of initial authentication and delivery of the 2002 Bonds to and including the day preceding the next Effective Rate Date, the 2002 Bonds will bear interest at the Weekly Rate determined in advance by the Remarketing Agent (except for the 2002 Bonds that are held by the Bank, which, in accordance with the Initial Liquidity Facility, will bear interest at the Bank Interest Rate). Thereafter, in each case, the 2002 Bonds (other than Auction Bonds) will bear interest, commencing on the Effective Rate Date based on the current Mode, at the rate determined by the Remarketing Agent for the new Effective Rate Period (except for the 2002 Bonds that are held by the Bank, which, in accordance with the Initial Liquidity Facility, will bear interest at the Bank Interest Rate). In no event shall the interest rate borne by such 2002 Bonds exceed the Maximum Rate.

From time to time, by notice to the Notice Parties and as required under the 2002 Series A/B Supplemental Indenture, the Corporation may designate a new Mode Period with respect to all or any portion of a Series of the 2002 Bonds. Change to a Daily Mode Period requires confirmation from the Rating Agencies that such change, in and of itself, will not adversely affect the then-existing Unenhanced Ratings on the Bonds. During each Mode Period, the Effective Rate will be that rate which, in the determination of the Remarketing Agent, would result as nearly as practicable in the market value of the 2002 Bonds (other than Auction Bonds) on the Effective Rate Date being 100% of the principal amount thereof, and which will not exceed the Maximum Rate.

The Remarketing Agent, in determining the Effective Rate, will take into account to the extent applicable (1) market interest rates for comparable securities held by tax-exempt or taxable (as applicable) open-end municipal bond funds or other institutional or private investors with substantial portfolios (a) with interest rate adjustment periods and demand purchase options substantially identical to the 2002 Bonds, (b) bearing interest at a variable rate intended to maintain par value, and (c) rated by a national credit rating agency in the same category as the 2002 Bonds; (2) other financial market rates and indices that may have a bearing on the Effective Rate (including, but not limited to, rates borne by commercial paper, Treasury Bills, commercial bank prime rates, certificate of deposit rates, federal fund rates, the London Interbank Offered Rate (LIBOR), indices maintained by *The Bond Buyer*, and other publicly available tax-exempt or taxable (as applicable) interest rate indices); (3) general financial market conditions; and (4) factors particular to the Corporation and the 2002 Bonds.

The determination by the Remarketing Agent of the Effective Rate to be borne by the 2002 Bonds (other than Auction Bonds and other than 2002 Bonds that are held by the Bank, which, in

accordance with the Initial Liquidity Facility, will bear interest at the Bank Interest Rate) shall be conclusive and binding on the Holders of such 2002 Bonds and the other Notice Parties except as provided in the Indenture. Failure by the Remarketing Agent or the Trustee to give any notice required under the Indenture, or any defect in such notice, will not affect the interest rate borne by the 2002 Bonds or the rights of the Holders thereof.

If for any reason the position of Remarketing Agent is vacant or the Remarketing Agent fails to act, the Variable Rate Tax-Exempt Bonds will automatically bear interest in a Weekly Mode Period with the interest rate reset on a weekly basis at the lesser of (i) the TBMA Index plus 0.25% or (ii) the Maximum Rate.

If for any reason the position of Remarketing Agent is vacant or the Remarketing Agent fails to act, the Variable Rate Taxable Bonds will automatically bear interest in a Weekly Mode Period with the interest rate reset on a weekly basis at the lesser of (i) Seven-Day LIBOR plus 1% or (ii) the Maximum Rate.

Optional Tender

Holders of the 2002 Bonds, other than Auction Bonds, may elect to tender such 2002 Bonds, which, if so tendered upon proper notice at the times and in the manner set forth in the "Mode Chart for 2002 Bonds" appearing on page (i), will be purchased on the next Effective Rate Date (or, in the case of 2002 Bonds in a Weekly Mode, on the purchase date specified in the Tender Notice) at a price equal to 100% of the principal amount thereof plus accrued interest. Such notice of optional tender for purchase of 2002 Bonds by the Holders thereof will be irrevocable once such notice is given to the Remarketing Agent while in a Daily, Weekly or Monthly Mode Period (in which event the Remarketing Agent shall promptly notify the Tender Agent of receipt of such notice), or the Tender Agent while in a Quarterly or Semiannual Mode Period, as directed in the 2002 Series A/B Supplemental Indenture and described in the "Mode Chart for 2002 Bonds" appearing on page (i).

Holders of the 2002 Bonds in an Auction Mode Period may not elect to tender their 2002 Bonds. The 2002 Bonds will be subject to mandatory tender for purchase as described below.

Corporation and Insurer Not Responsible For Bank's Failure to Purchase 2002 Bonds

Under the terms and provisions of the Remarketing Agreement and the Initial Liquidity Facility, the purchase price of 2002 Bonds bearing interest at a Weekly Rate in an amount equal to the principal amount thereof and accrued interest, if any, thereon will be payable from moneys furnished in connection with remarketing of the 2002 Bonds or from the Initial Liquidity Facility. **The Corporation and the Insurer are *not* responsible for any wrongful failure by the Bank to purchase 2002 Bonds tendered at the option of the Holder or subject to mandatory tender for purchase pursuant to the 2002 Series A/B Supplemental Indenture nor upon the occurrence of an Event of Termination under the Initial Liquidity Facility. Failure to purchase a 2002 Bond tendered at the option of the Holder or subject to mandatory tender**

for purchase as described above and in accordance with the 2002 Series A/B Supplemental Indenture does not constitute an Event of Default under the Indenture. This protection shall not apply to the Corporation if the Corporation fails to purchase 2002 Bonds covered by Self Liquidity, except to the extent provided thereunder.

Upon the occurrence of certain Events of Termination under the Initial Liquidity Facility, the Bank's obligation to purchase 2002 Bonds under the Initial Liquidity Facility will immediately terminate without notice or other action on the part of said Bank. See "Liquidity Facility — Initial Liquidity Facility" herein. The Corporation and the Insurer are *not* responsible for any failure by the Bank to purchase 2002 Bonds tendered at the option of the Holder or subject to mandatory tender for purchase pursuant to the 2002 Series A/B Supplemental Indenture upon the occurrence of any Event of Termination under the Initial Liquidity Facility. This protection shall not apply to the Corporation if the Corporation fails to purchase 2002 Bonds covered by Self Liquidity, except to the extent provided thereunder.

In the event of a failure by the Bank to purchase any Variable Rate Tax-Exempt Bonds tendered or deemed tendered for purchase by the Holders thereof resulting from an Event of Termination under the Initial Liquidity Facility, such Variable Rate Tax-Exempt Bonds will automatically bear interest in a Weekly Mode Period with the interest rate reset on a weekly basis at the lesser of (i) the TBMA Index plus 1.0% or (ii) the Maximum Rate. Bondholders will not have the right to tender their Variable Rate Tax-Exempt Bonds during such Weekly Mode Period and may be required to hold their Variable Rate Tax-Exempt Bonds to their respective maturities or prior redemption.

In the event of a failure by the Bank to purchase any Variable Rate Taxable Bonds tendered or deemed tendered for purchase by the Holders thereof resulting from an Event of Termination under the Initial Liquidity Facility, such Variable Rate Taxable Bonds will automatically bear interest in a Weekly Mode Period with the interest rate reset on a weekly basis at the lesser of (i) Seven-Day LIBOR plus 0.5% or (ii) the Maximum Rate. Bondholders will not have the right to tender their Variable Rate Taxable Bonds during such Weekly Mode Period and may be required to hold their Variable Rate Taxable Bonds to their respective maturities or prior redemption.

Mandatory Tender

The 2002 Bonds are subject to mandatory tender for purchase (with no right to retain) (i) on each related Mode Change Date, (ii) with respect to a related Liquidity Expiration Event, on a date not less than 5 days prior to the scheduled expiration of the related Liquidity Facility, (iii) on each related Change Date, (iv) on any related Conversion Date, and (v) on each date specified by the Corporation in connection with the delivery of a related Alternate Liquidity Facility (each a "Mandatory Tender Date"), at a purchase price equal to 100% of the principal amount thereof plus accrued interest. Upon any such event, the Trustee promptly shall deliver a notice of mandatory tender to related Holders stating the reason for the mandatory tender, the date of mandatory tender, and that all Holders of 2002 Bonds subject to such mandatory tender will be deemed to have tendered their 2002 Bonds upon such date.

On each date on which 2002 Bonds (other than Auction Bonds) are required to be purchased, the Remarketing Agent shall use its best efforts as described herein to sell such 2002 Bonds at an Effective Rate that results as nearly as practicable in the price being 100% of the principal amount thereof. In the event the Remarketing Agent is unable to remarket the 2002 Bonds so tendered, the Bank will purchase such Bonds in accordance with the Initial Liquidity Facility. See "Liquidity Facility — Initial Liquidity Facility."

This paragraph is applicable only if the book-entry system has been discontinued and replacement bonds have been issued or if DTC has exercised its option to surrender and exchange its 2002 Bond certificates. Any 2002 Bond not tendered and delivered to the Tender Agent on or prior to its Mandatory Tender Date ("Untendered Bonds"), for which there have been irrevocably deposited in trust with the Trustee the purchase price equal to the principal amount of such 2002 Bonds plus accrued interest shall be deemed to have been tendered and purchased on such Mandatory Tender Date. Holders of Untendered Bonds shall not be entitled to any payment (including any interest to accrue on or after the Mandatory Tender Date) other than the principal amount of such Untendered Bonds, plus accrued interest to the day preceding the Mandatory Tender Date, and said Holders shall no longer be entitled to the benefits of the Indenture, except for the purpose of payment of the purchase price. Bond certificates will be issued in place of Untendered Bonds pursuant to the Indenture and, after the issuance of the replacement 2002 Bond certificates, such Untendered Bonds will be deemed purchased, canceled, and no longer Outstanding under the Indenture.

Conversion to Fixed Interest Rates or an Indexed Rate

The 2002 Series A/B Supplemental Indenture provides that the Corporation has the option to Convert all or a portion of the 2002 Bonds on any Effective Rate Date to Fixed Interest Rates or an Indexed Rate, in accordance with the Indenture and as described herein. Prior and as a condition to the Conversion of any of the 2002 Bonds, the Trustee must deliver a notice to the Holders thereof specifying the Conversion Date, which Date shall be not less than 30 days following the receipt of such notice. No Fixed Interest Rates or Indexed Rate shall be established with respect to the 2002 Bonds unless, on or before the Rate Determination Date therefor, a Counsel's Opinion has been delivered to the Trustee to the effect that such Conversion to Fixed Interest Rates or an Indexed Rate, in and of itself, will not adversely affect the exclusion of interest on the 2002 Series A Bonds from gross income for federal income tax purposes. If less than all of the Auction Bonds of a Series are to be Converted, no such partial conversion shall cause the outstanding principal amount of such Auction Bonds to be less than \$10,000,000 without the approval of the Broker-Dealers and any remaining Auction Bonds shall be in integral multiples of \$25,000. Unless and until such conditions for Conversion are satisfied, the 2002 Bonds shall continue to bear interest at the Effective Rate. Upon any Conversion to Fixed Interest Rates or an Indexed Rate, the 2002 Bonds will be subject to mandatory tender for purchase.

Auction Bonds

The following contains certain information pertaining to Auction Procedures and certain other matters. It does not purport to be complete and is qualified in its entirety by reference to the Auction Procedures and related matters set forth in Appendix D.

Interest

Auction Bonds will bear interest for each Auction Period at the Auction Rate. The Auction Rate applicable to the Auction Bonds will equal the Auction Rate determined for each Auction Period in accordance with the Auction Procedures as described in Appendix D.

Each Seven Day Auction Mode Period generally begins on a Thursday and ends on the next Wednesday. Each Twenty-Eight Day Auction Mode Period and Thirty-Five Day Auction Mode Period generally begins on a Thursday and ends on the fourth or fifth Wednesday, respectively, thereafter. Each Semiannual Auction Mode Period generally begins on a June 1 or December 1 and ends on the following November 30 or May 31, respectively. The Auction Periods may change as provided in the 2002 Series A/B Supplemental Indenture. Interest for each Seven Day, Twenty-Eight Day, and Thirty-Five Day Auction Mode Period will be computed on the basis of a 360-day year for the number of days actually elapsed. Interest for each Semiannual Auction Period will be computed on the basis of a 360-day year consisting of twelve 30-day months.

Notwithstanding the foregoing provisions, (i) if the Auction Agent fails to determine the Auction Rate for any Auction Period (including the circumstance where there is no Auction Agent or Broker-Dealer), the Auction Rate for such Auction Period shall be the No Auction Rate determined for such Auction Period; (ii) if a failure to pay principal, interest, or premium on any Auction Bond when due occurs, the Auction Rate for the Auction Period during which such failure occurs and each Auction Period thereafter commencing prior to the date on which such failure ceases to be continuing shall be the Default Rate for such Auction Period; and (iii) in the event of a failed conversion to another Auction Rate or to Fixed Interest Rates or an Indexed Rate, the Auction Bonds will automatically convert to an Auction Period in a Seven Day Auction Mode and bear interest at the Maximum Rate for the next Auction Period.

Auction Agent

The Trustee will enter into the Auction Agreement with an Auction Agent, who, as Agent for the Corporation, shall perform the duties of Auction Agent. The Auction Agreement will provide, among other things, that the Auction Agent will determine the Auction Rate for each Auction in accordance with the Auction Procedures.

Auction Date

An Auction to determine the interest rate with respect to the Auction Bonds for the next succeeding Auction Period will be held on the Business Day next preceding such Auction Period.

Master Purchaser's Letters

As a condition to purchasing Auction Bonds, in any Auction or otherwise, each prospective purchaser of Auction Bonds is required to sign and deliver to a Broker-Dealer (who will deliver copies thereof to the Auction Agent) a letter (a "Master Purchaser's Letter") in the form included in Appendix E.

Each prospective purchaser of Auction Bonds should ask its Broker-Dealer whether such prospective purchaser should sign a Master Purchaser's Letter. If the Broker-Dealer submits Orders for such prospective purchaser listing the Broker-Dealer as the Existing Owner or the Potential Owner, a Master Purchaser's Letter signed by such prospective purchaser may not be required.

THE FORM OF THE MASTER PURCHASER'S LETTER IS INCLUDED IN THIS OFFICIAL STATEMENT AS APPENDIX E. EXECUTION BY A PROSPECTIVE PURCHASER OR ITS BROKER-DEALER OF A MASTER PURCHASER'S LETTER IS NOT A COMMITMENT TO PURCHASE AUCTION BONDS IN THE OFFERING BEING MADE HEREBY OR IN ANY AUCTION, BUT IS A CONDITION PRECEDENT TO PURCHASING AUCTION BONDS.

Orders by Existing Owners and Potential Owners

The procedure for submitting orders prior to the Submission Deadline on each Auction Date is described in Appendix D, as are the particulars with regard to the determination of the Auction Rate and the allocation of Auction Bonds.

Amendment of Auction Procedures

The provisions of the 2002 Series A/B Supplemental Indenture concerning the Auction Procedures, including without limitation the definitions of Default Rate, Maximum Rate (as it relates to Auction Bonds), Minimum Rate, Auction Index, Auction Multiple, and Auction Rate, may be amended by obtaining the consent of the Insurer and the beneficial owners of all Auction Bonds affected by such amendment. If on the first Auction Date occurring at least 20 days after the date on which the Auction Agent mailed notice to the registered owners of the Auction Bonds affected by such amendment, Sufficient Clearing Bids have been received or all of the Auction Bonds affected by such amendment are subject to Submitted Hold Orders, the proposed amendment shall be deemed to have been consented to by the beneficial owners of all Auction Bonds affected by such amendment.

Changes to the Auction Period and the Auction Date do not require the amendment of the Auction Procedures or any consents of the beneficial owners of the Auction Bonds.

Conversion of Auction Bonds

The Trustee at the request of the Corporation may direct that all or a portion of the Auction Bonds be converted to bear interest in a different Mode or at Fixed Interest Rates or an Indexed Rate; provided that the aggregate principal amount of any Auction Bonds not so converted is a multiple of \$25,000; and provided, further, that no such partial conversion shall cause the outstanding principal amount of any Auction Bonds of a Series to be less than \$10,000,000 without the approval of the Broker-Dealer. On the conversion date applicable to the Auction Bonds to be converted, the Auction Bonds to be converted shall be subject to mandatory tender at a purchase price equal to 100% of the principal amount thereof, plus accrued interest subject to and in accordance with the Bonds; provided, however, that in the event of a failed conversion, the Auction Bonds will not be subject to mandatory tender, will be returned to their owners, will automatically convert to an Auction Period in the Seven Day Auction Mode and will bear interest at the Maximum Rate for the next Auction Period.

Mandatory Tender for Purchase of Auction Bonds

On the conversion date for any Auction Bonds selected for conversion from one Auction Mode to another Auction Mode or from the Auction Mode Period to any other Mode Period or to Fixed Interest Rates or an Indexed Rate, all such Auction Bonds then Outstanding shall be subject to mandatory tender for purchase at a purchase price equal to the principal amount of such Auction Bonds plus accrued interest. Auction Bonds to be tendered for purchase are required to be delivered by the owners thereof to the Trustee (together with necessary assignments and endorsements) on or prior to the conversion date applicable to such Auction Bonds.

Any Auction Bonds, or portions thereof, that are not delivered as required by the Indenture (the "Untendered Auction Bonds"), for which moneys have been irrevocably deposited in trust with the Trustee, shall be deemed to have been delivered for purchase to the Trustee, and the owners of such Untendered Auction Bonds shall not be entitled to any benefits of the Bonds other than the payment of the purchase price, and interest shall cease to accrue on such Untendered Auction Bonds as of the conversion date.

Special Considerations for Purchasers of Auction Bonds

The ability of any holder of Auction Bonds to sell such Auction Bonds in any auction is directly contingent upon the Auction Agent's receipt of Sufficient Clearing Bids. If Sufficient Clearing Bids are not received, Submitted Orders will be accepted or rejected as summarized in Appendix D under the heading "Allocation of Auction Bonds." The obligation of the Bank to purchase 2002 Bonds under the Initial Liquidity Facility does not apply to Auction Bonds.

The Bond provisions concerning the Auction Procedures and related definitions may be amended by obtaining the consent of the Insurer and the beneficial owners of all Auction Bonds affected by such amendment. The consent of the beneficial owners affected by such amendment may be deemed to have been given under certain circumstances. See "Auction Bonds — Amendment of Auction Procedures" herein, and "Miscellaneous Provisions" in Appendix D.

The Auction Agent may resign from its duties as Auction Agent by giving at least 90 days' notice, or 30 days' notice if it has not been paid, to each Broker-Dealer, the Corporation, the Insurer and the Trustee. The Broker-Dealer Agreement will provide that the Broker-Dealer thereunder may resign upon five Business Days' notice or immediately, in certain circumstances, and will not require, as a condition to the effectiveness of such resignation, that a replacement Broker-Dealer be in place. For any Auction Period during which there is no duly appointed Auction Agent, or during which there is no duly appointed Broker-Dealer, it will not be possible to hold Auctions, with the result that the interest rate on the Auction Bonds will be the No Auction Rate.

The beneficial owner of any Auction Bonds may sell, transfer, or dispose of Auction Bonds only pursuant to a Bid or Sell order placed in an Auction or through a Broker-Dealer who advises the Auction Agent of such transfer.

The Broker-Dealer Agreements will provide that a Broker-Dealer may submit Orders in Auctions for its own account. If a Broker-Dealer submits an Order for its own account in any Auction, it might have an advantage over other Bidders in that it would have knowledge of Orders placed through it in that Auction; such Broker-Dealer, however, would not have knowledge of Orders submitted by other Broker-Dealers (if any) in that Auction. In the Broker-Dealer Agreements, the Broker-Dealers will agree to handle customer orders in accordance with their respective duties under applicable securities laws and rules.

Book Entry Only

General

The 2002 Bonds will be issued as fully-registered bonds in the name of Cede & Co., as nominee of DTC, as registered owner of the 2002 Bonds. Purchasers of such Bonds will not receive physical delivery of bond certificates. For purposes of this Official Statement, so long as all of the 2002 Bonds are immobilized in the custody of DTC, references to holders or owners of 2002 Bonds (*except* under "Tax Matters") mean DTC or its nominee.

The information in this section concerning DTC and the DTC book-entry system has been obtained from DTC, and neither the Corporation nor the Underwriter takes responsibility for the accuracy or completeness thereof.

DTC will act as securities depository for the 2002 Bonds. The 2002 Bonds will be issued as fully-registered securities in the name of Cede & Co., DTC's partnership nominee ("Cede"),

or such other name as may be requested by an authorized representative of DTC. One fully-registered 2002 Bond certificate will be issued for each maturity of each Series thereof set forth on the cover page in the aggregate principal amount of each 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 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has S&P's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission.

Purchases of 2002 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2002 Bonds on DTC's records. The ownership interest of each actual purchaser of each 2002 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 2002 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 2002 Bonds, except in the event that use of the book-entry system for the 2002 Bonds is discontinued.

To facilitate subsequent transfers, all 2002 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede, or such other name as may be requested by an authorized representative of DTC. The deposit of 2002 Bonds with DTC and their registration in the name of Cede or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2002 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2002 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 2002 Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the 2002 Bonds, such as redemptions, tenders, defaults and proposed amendments to the Indenture. For example, Beneficial Owners of 2002 Bonds may wish to ascertain that the nominee holding the 2002 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners.

Redemption notices shall be sent to DTC. If less than all of a maturity of a Series of the 2002 Bonds is being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede (nor such other DTC nominee) will consent or vote with respect to the 2002 Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Corporation as soon as possible after the record date. The Omnibus Proxy assigns Cede's consenting or voting rights to those Direct Participants to whose accounts the 2002 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal and purchase price of and interest on the 2002 Bonds will be made to Cede, or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the Corporation or the Trustee on a 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 Trustee, or the Corporation, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, purchase price and interest to Cede (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Trustee or the Corporation, 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. **NEITHER THE CORPORATION NOR THE TRUSTEE WILL**

HAVE ANY RESPONSIBILITY OR OBLIGATION TO SUCH PARTICIPANTS, TO THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO THE 2002 BONDS, OR TO ANY BENEFICIAL OWNER IN RESPECT OF THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DIRECT OR INDIRECT PARTICIPANT, THE PAYMENT BY DTC OR ANY DIRECT OR INDIRECT PARTICIPANT OF ANY AMOUNT IN RESPECT OF THE PRINCIPAL, PURCHASE PRICE OR REDEMPTION PRICE OF OR INTEREST ON THE 2002 BONDS, ANY NOTICE THAT IS PERMITTED OR REQUIRED TO BE GIVEN TO BONDHOLDERS UNDER THE INDENTURE, THE SELECTION BY DTC OR ANY DIRECT OR INDIRECT PARTICIPANT OF ANY PERSON TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OR PARTIAL TENDER AND PURCHASE OF THE 2002 BONDS OR ANY OTHER ACTION TAKEN BY DTC AS REGISTERED BONDOWNER.

DTC may discontinue providing its services as securities depository with respect to the 2002 Bonds at any time by giving reasonable notice to the Corporation or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, 2002 Bond certificates are required to be printed and delivered as described in the Indenture.

The Corporation may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, 2002 Bond certificates will be required to be printed and delivered as described in the Indenture.

If bond certificates are issued, the principal and interest due upon maturity or redemption of any of the 2002 Bonds will be payable at the office of the Trustee, as paying agent, upon presentation and surrender of such 2002 Bonds by the registered owner thereof on or after the date of maturity or redemption, as the case may be. Payment of the interest on each 2002 Bond (prior to the maturity or earlier redemption thereof) will be made by the Trustee to the registered owner of such 2002 Bond by check mailed by first class mail on the Debt Service Payment Date to such registered owner as of the 20th day of the second preceding month at the address appearing on the registration books relating to the 2002 Bonds.

If bond certificates are issued, the 2002 Bonds may be transferred and exchanged by the registered owner thereof or the registered owner's attorney duly authorized in writing, upon surrender thereof together with a written instrument of transfer satisfactory to the Trustee duly executed by the registered owner or the registered owner's duly authorized attorney at the office of the Trustee in Seattle, Washington. For every such exchange or transfer the Corporation or the Trustee may charge the transferee to reimburse it for any tax, fee or other governmental charge required to be paid with respect to such transfer or exchange. The Trustee is not obligated to make any such transfer or exchange during the 10 days next preceding the selection of any 2002 Bond for redemption, nor of any 2002 Bond so selected for redemption. If any 2002 Bond is mutilated, lost, stolen or destroyed, the Trustee may execute and deliver a new 2002 Bond or 2002 Bonds of the same series, maturity, interest rate and principal amount as the 2002 Bond or 2002 Bonds so mutilated, lost, stolen or destroyed, provided that such 2002 Bond is surrendered to the Trustee, or evidence of loss, destruction or theft, together with satisfactory indemnity, is provided

to the Trustee. The fees and expenses of the Corporation and the Trustee in connection with such replacement shall be paid by the owner.

ASSUMPTIONS REGARDING REVENUES, DEBT SERVICE REQUIREMENTS AND PROGRAM EXPENSES

The Corporation expects that the scheduled payments, together with prepayments received, if any, of principal of and interest on all Program Obligations and amounts held under the Indenture (except the Rebate Fund) and the earnings thereon will be sufficient to pay, when due, the debt service on the Bonds and the Program Expenses in connection with the Program.

In establishing the dates and amounts of the Sinking Fund Installments and maturities of the 2002 Bonds, the following assumptions, among others, were made by the Corporation:

- (1) no Additional Bonds will be issued;
- (2) 2002 Series A Bonds and 2002 Series B Bonds will bear interest at effective fixed rates of 4.41% and 4.65% per annum, respectively;
- (3) proceeds of the 2002 Bonds will be used on June 1, 2002 to purchase Available Mortgage Loans that as of April 30, 2002 bore interest at the rates and had outstanding principal balances and weighted average remaining terms as described under "Program Obligations — Available Mortgage Loans";
- (4) proceeds of the 2002 Bonds will be used to purchase approximately \$82.8 million principal amount of 2002 Series A/B Mortgage Loans on July 1, 2002, with terms of 30 years from origination and a weighted average rate of interest of approximately 5.25% per annum;
- (5) upon the issuance of the 2002 Bonds, the Corporation will with respect to such Bonds make deposits from its unrestricted general funds to the Debt Service Reserve Account and the Special Reserve Account and pay costs of issuance as reflected under "Estimated Sources and Uses of Funds";
- (6) scheduled principal of and interest on Mortgage Loans will be paid on the sixtieth (60th) day following the scheduled payment date therefor, and Mortgage Loans will not be prepaid or otherwise terminated prior to maturity;
- (7) losses on defaulted Mortgage Loans will not exceed any applicable insurance coverage or guarantees and recoveries upon disposition, including foreclosures or sales in lieu of foreclosures;
- (8) amounts in all Funds and Accounts under the Indenture will be invested at an annual rate of 1.75% for the first two years following delivery of the 2002 Bonds, and 2.5% thereafter,

except that amounts in the Loan Loss Fund were not considered in establishing the dates and amounts of the maturities of the 2002 Bonds;

(9) the Servicers will be paid a monthly servicing fee of one-twelfth of $\frac{3}{8}\%$ of the then outstanding aggregate principal balance of the Mortgage Loans; and other semiannual Program Expenses of the Corporation and the Trustee under the Program will be equal to $.055\%$ of the principal amount of then outstanding Program Obligations in the Program Obligation Fund; and

(10) the annual premium due on the Policy will be equal to $.0475\%$ of the amount of then Outstanding 2002 Bonds.

The Corporation believes it is reasonable to make such assumptions, but no representation is made that the assumptions reflect any particular set of historical circumstances, no assurance can be given that actual receipt of amounts under the Indenture will be sufficient to pay debt service on the Bonds (including the 2002 Bonds) when due and Program Expenses of the Corporation and the Trustee under the Program, and to the extent that actual experience differs from any of the assumptions, availability of such amounts may be significantly affected. The Corporation has a history of actively recycling Mortgage Loan prepayments and excess revenues into new qualifying mortgage loans when economically appropriate and also when economically appropriate of using such amounts to redeem bonds and refund such redeemed bonds and thereafter make new qualifying mortgage loans, and presently intends to continue to do both.

PROGRAM OBLIGATIONS

Available Mortgage Loans

The following table sets forth certain information as of April 30, 2002 regarding the Available Mortgage Loans. The Corporation generally intends to allocate most if not all of the Available Mortgage Loans to the 2002 Bonds. However, no assurance is given as to what portion, if any, of the Available Mortgage Loans will be allocated to the 2002 Bonds.

Coupon Interest Rate	Outstanding Principal Balance	Number of Available Mortgage Loans	Weighted Average Remaining Term (in months)
3.000%	\$ 128,608	1	355
3.125	100,847	1	349
3.750	88,995	1	356
4.000	157,811	2	356
4.125	642,925	8	331
4.250	217,615	2	354
4.375	491,254	6	348
4.500	1,059,155	15	350
4.625	1,978,770	18	353
4.750	682,694	7	354
4.875	2,209,362	26	336
5.000	5,669,411	61	345
5.125	3,362,977	35	353
5.250	3,083,386	35	348
5.375	5,601,741	60	354
5.500	6,980,960	70	353
5.625	3,696,970	38	348
5.675	88,270	1	353
5.750	6,743,556	63	351
5.875	11,127,108	107	353
6.000	7,862,982	69	343
6.125	8,969,626	81	344
6.250	12,272,188	104	352
6.375	17,931,132	158	354
6.500	13,277,814	120	350
6.625	2,759,573	25	354
6.750	<u>303,192</u>	<u>3</u>	344
TOTAL	<u>\$117,488,922</u>	<u>1,117</u>	

The following table sets forth certain information as of April 30, 2002 regarding the type of primary mortgage insurance coverage originally applicable to the Available Mortgage Loans. No representation is made as to the current status of primary mortgage insurance coverage or the current loan-to-value ratios of the Available Mortgage Loans. No representation is made as to the amount of private mortgage insurance coverage provided by carriers whose claims-paying ability is rated investment grade or better by Moody's, S&P or Fitch.

<u>Type</u>	<u>Number of Available Mortgage Loans</u>	<u>Outstanding Principal Balance</u>	<u>Percentage of Total Available Mortgage Loans by Outstanding Principal Balance</u>
Private Mortgage Insurance	143	\$11,831,922	10.07%
FHA Insurance	573	65,819,614	56.02
VA Guarantee	154	18,634,344	15.86
FMH Insurance	71	7,767,808	6.61
Uninsured [†]	<u>176</u>	<u>13,435,234</u>	<u>11.44</u>
TOTAL	<u>1,117</u>	<u>\$117,488,922</u>	<u>100.00%</u>

[†] Uninsured Mortgage Loans represent loans in which the original loan-to-value ratio was not in excess of 80% and insurance coverage was therefore not required.

The following table sets forth certain information as of April 30, 2002 regarding the type of dwellings securing Available Mortgage Loans.

<u>Property Type</u>	<u>Number of Available Mortgage Loans</u>	<u>Outstanding Principal Balance</u>	<u>Percentage of Total Available Mortgage Loans by Outstanding Principal Balance</u>
1-Unit Detached Dwellings	626	\$ 68,356,142	58.18%
Condominiums	429	40,371,818	34.36
2-4 Unit Dwellings	53	7,800,547	6.64
PUDs	<u>9</u>	<u>960,415</u>	<u>0.82</u>
TOTAL	<u>1,117</u>	<u>\$117,488,922</u>	<u>100.00%</u>

The following table sets forth certain information as of April 30, 2002 regarding the location of the mortgaged property securing Available Mortgage Loans.

<u>Property Location</u>	<u>Outstanding Principal Balance</u>	<u>Number of Available Mortgage Loans</u>	<u>Percentage of Total Available Mortgage Loans by Outstanding Principal Balance</u>
Anchorage	\$75,704,188	718	64.44%
Chugiak	640,611	5	0.55
Eagle River	3,016,299	21	2.57
Fairbanks	7,633,023	84	6.50
Juneau	1,392,716	16	1.19
Kenai	1,730,487	16	1.47
Ketchikan	273,797	5	0.23
Kodiak	1,647,230	16	1.40
North Pole	4,575,812	43	3.89
Palmer	5,882,440	51	5.01
Soldotna	578,721	6	0.49
Wasilla	11,556,008	106	9.84
Other	<u>2,857,590</u>	<u>30</u>	<u>2.43</u>
TOTAL	<u>\$117,488,922</u>	<u>1,117</u>	<u>100.00%</u>

Mortgage Servicing

Prior to purchasing any Mortgage Loan, the Corporation requires the originating institution (which generally thereafter acts as the servicer (the "Servicer")) to furnish to the Corporation the original mortgage note and copies of (i) the deed of trust, (ii) an assignment of the deed of trust, (iii) the mortgage insurance certificate, or guarantee, if applicable, and (iv) a title insurance policy in an amount equal to the unpaid principal due on the Mortgage Loan. The Corporation also requires generally that all taxes, assessments and water and sewage charges have been duly paid and that a hazard insurance policy exist in an amount equal to the unpaid principal due on the mortgage. The Servicer services the mortgage loan for a fee, which is a monthly charge at an annual rate of generally $\frac{3}{8}$ of 1% on the unpaid principal due on such mortgage loan. The Corporation has adopted standards for qualifying eligible servicing institutions and underwriting and servicing guidelines with respect to the recording of and collection of principal and interest on the Mortgage Loans and the rendering to the Corporation of an accounting of funds collected. The servicing of a Mortgage Loan includes the responsibility for foreclosure, but not the bearing of any expenses thereof. The Servicer is expected to encourage the curing of any default in scheduled mortgage payments, and is required to pay, from scheduled mortgage payments, taxes, assessments, levies and charges, and premiums for hazard insurance and mortgage insurance, as they may become due.

Regularly scheduled principal and interest payments on the Mortgage Loans are required to be deposited by the Servicer with a depository bank to be held in escrow for the Trustee. Such funds (net of applicable servicing fees) are remitted to the depository by the Servicer on the day following receipt when total collections of such Servicer equal or exceed \$2,500. Such funds are held in a custodial account and invested for the benefit of the Trustee pending their transfer once a month to the Trustee. Additional monthly payments on the Mortgage Loans, representing payments for such items as property taxes and mortgage insurance, are retained by the Servicer and applied as necessary.

The Corporation maintains detailed Mortgage Loan collection information on its internal data processing system. The Corporation's system generates the collection reports and consolidates actual collections by individual bond series.

The Corporation reviews individual Servicer reports to ascertain the extent of mortgagor payment delinquencies and Servicer processing delays in order to determine the appropriate corrective action, if any, to be taken by the Corporation or the Servicer. Under the Corporation's monitoring system, a Servicer is subject to enhanced review when its monthly reports for two consecutive months show delinquency rates more than 1.50 times the average delinquency rates experienced by the Servicer group as a whole.

Pledge of Mortgage Loans

The assignment to the Corporation of each deed of trust relating to a Mortgage Loan deposited in the Program Obligation Fund is required to recite the interest of the Trustee on behalf of the owners of the Bonds in the mortgaged property. Each assignment is required to be recorded with the appropriate real property recording office for the jurisdiction in which the mortgaged property is located. The Indenture pledges, to the Trustee and the owners of the Bonds, the Mortgage Loans, the related deeds of trust, the Pledged Revenues and any and all assets held in any Fund or Account (except the Rebate Fund) under the Indenture. Section 18.56.120 of the Act provides that such a pledge is valid and binding from the time the pledge is made and, further, that any assets or revenues so pledged are immediately subject to the lien of the pledge without physical delivery or any further act and without regard to whether any third party has notice of the lien of the pledge. Physical custody of each mortgage note is retained by the Corporation and the related deed of trust is retained by the originating lending institution. Notwithstanding the fact that the Trustee does not have physical possession of those instruments, and while Bond Counsel is unaware of any controlling judicial precedent, it is the opinion of Bond Counsel that the effect of (i) recording the assignment in the form described, (ii) execution and delivery of the Indenture and (iii) the statutory provisions referred to above afford the Trustee (on behalf of owners of the Bonds) a fully perfected security interest in the Mortgage Loans which have been so assigned.

Primary Mortgage Insurance

The following description of certain primary mortgage insurance and guarantees (relating to individual Mortgage Loans) is only a brief outline and does not purport to summarize or describe all of the provisions thereof.

Any Mortgage Loan with an original principal amount exceeding 80% of the value of the mortgaged property is required to be (i) insured by the FHA, (ii) guaranteed by the VA, HUD or the FmHA, or (iii) insured under a private mortgage insurance policy in an amount (a) equal to 30% of the Mortgage Loan if the original loan-to-value ratio is between 90.01% and 95.00%, (b) equal to 25% of the Mortgage Loan if the original loan-to-value ratio is between 85.01% and 90.00% or (c) equal to 12% of the Mortgage Loan if the original loan-to-value ratio is between 80.01% and 85.00%. The only Mortgage Loans which the Corporation purchases at a loan-to-value ratio exceeding 95% are Federally insured or guaranteed Mortgage Loans. FHA insurance coverage and the HUD guarantee equal 100% of the outstanding principal balance of all FHA-insured or HUD-guaranteed Mortgage Loans. For all VA-guaranteed Mortgage Loans, the VA guarantee plus the down payment must be at least 25% of the original Mortgage Loan amount. The FmHA guarantee covers the lesser of (a) any loss up to 90% of the original principal amount of the Mortgage Loan or (b) any loss in full up to 35% of the original principal amount of the Mortgage Loan plus 85% on any additional loss. The FHA insurance or VA, HUD or FmHA guarantee must be maintained for the entire period during which the Corporation owns an interest in the Mortgage Loan. A private mortgage insurance policy is required to be maintained in force and effect (a) for the period during which the Corporation owns an interest in the Mortgage Loan or (b) until the outstanding principal amount of the Mortgage Loan is reduced to 80% of the lesser

of the original appraised value of the mortgaged property or the original sale price of the mortgaged property. The cost of any such insurance or guarantee will be paid by the mortgagor.

In general, FHA, VA, HUD and FmHA regulations and private mortgage insurance contracts provide for the payment of insurance benefits to a mortgage lender upon the failure of a mortgagor to make any payment or to perform any obligation under the insured or guaranteed mortgage loan and the continuance of such failure for a stated period. In order to receive payment of insurance benefits, a mortgage lender, such as the Corporation, normally must acquire title to the property, either through foreclosure or conveyance in lieu of foreclosure, and convey such title to the insurer. Alternatively, where it is determined that the default was caused by circumstances beyond the control of the mortgagor, certain FHA regulations permit a mortgage lender to assign the mortgage to the FHA and receive insurance payments. In general, primary mortgage insurance benefits, as limited by the amount of coverage indicated above, are based upon the unpaid principal amount of the mortgage loan at the date of institution of foreclosure proceedings or the acquisition of the property after default, as the case may be, adjusted to reflect certain payments paid or received by the mortgage lender. Where property to be conveyed to an insurer has been damaged, it is generally required, as a condition to payment of an insurance claim, that such property be restored to its original condition (reasonable wear and tear excepted) by the mortgage lender prior to such conveyance or assignment.

Standard Homeowner Insurance Policies

The following is a brief description of standard homeowner insurance policies and reference must be made to the actual underlying policies for a complete and accurate description.

Each mortgagor is required to maintain for the mortgaged property a standard homeowner's 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 Mortgage Loan, whichever is less. The insurance policy is required to be written by an insurance company qualified to do business in the State and qualified to provide insurance on or in connection with mortgages purchased by the Federal Home Loan Mortgage Corporation ("FHLMC") or the Federal National Mortgage Association ("FNMA"). The mortgagor pays the cost of the standard homeowner insurance policy.

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 mud-slides), nuclear reactions, wet or dry rot, vermin, rodents, insects or domestic animals, theft, and, in certain cases, vandalism.

Alaska Foreclosure Law

The real estate security instrument customarily used in the State is the deed of trust. The parties to the deed of trust are the trustor (debtor), trustee and beneficiary (lender). Trustees are commonly title insurance companies. Both summary and judicial foreclosure proceedings are permitted. The deed of trust does not effect a conveyance of legal title, which remains in the trustor. The beneficiary acquires a security interest (lien) which may be enforced in accordance with the terms of the deed of trust and State statutes. Failure of the trustor to perform any of the covenants of the deed of trust generally constitutes an event of default entitling the beneficiary to declare a default and exercise its right of foreclosure.

Summary foreclosure may be used if provided for in the deed of trust. All deeds of trust securing Mortgage Loans transferred to a Series Account of the Program Obligation Fund contain provisions which permit summary foreclosure. Following a default by the trustor, upon request of the beneficiary and not less than three months before the sale, the trustee must record a notice of default in the recording district in which the property is located. Within 10 days after recording the notice of default, the trustee must mail a copy of the notice of default to the trustor, any successors in interest to the trustor, anyone in possession or occupying the property, and anyone who has an interest subsequent to the interest of the trustee in the deed of trust. If the default may be cured by the payment of money, the trustor may cure the default at any time prior to sale by payment of the sum in default without acceleration of the principal which would not then be due in the absence of default, plus actual costs and attorney's fees due to the default. If default has been cured under the same deed of trust after notice of default two or more times, the trustee may elect to refuse payment and continue the foreclosure proceeding to sale. Notice of the sale must be posted in three public places within five miles of where the sale is to be held, not less than thirty days before the day of sale and by publishing a copy of the notice four times, once a week for four successive weeks, in a newspaper of general circulation published nearest the place of sale. The sale must be made at public auction at a courthouse of the superior court in the judicial district where the property is located, unless the deed of trust provides for a different place. After the sale, an affidavit of mailing the notice of default and an affidavit of publication of the notice must be recorded in the recording district where the property is located. The foreclosure sale and conveyance transfers all the title and interest which the trustor had in the property sold at the time of the execution of the deed of trust plus all interest the trustor may have acquired before the sale and extinguishes all junior liens. There is no right of redemption unless otherwise provided by the deed of trust. A deficiency judgment is prohibited where summary foreclosure is utilized.

Judicial foreclosure is also permitted. A deficiency judgment is allowed where judicial foreclosure is utilized, but judicial foreclosure is much more time-consuming than summary foreclosure. The judgment debtor under a judicial foreclosure proceeding has the right to redeem the property within 12 months from the order of confirmation. If the judgment debtor redeems the property, the foreclosure proceeding is terminated. Otherwise, within 60 days after the order confirming the foreclosure sale, any subsequent lien creditor can redeem the property. There can be as many redemptions as there are subsequent lien creditors. Upon expiration of the redemption period, the purchaser or redeemer is entitled to a conveyance of the property.

THE CORPORATION

General

The Corporation was established in 1971 as a non-stock, public corporation and government instrumentality of the State. The Corporation currently functions as a major source of residential mortgage loan financing in the State. The Corporation's programs were originally established to take advantage of tax-exempt financing permitted under Federal income tax law. Mortgages which meet applicable Federal income tax requirements are financed by selling tax-exempt bonds. All other mortgages generally are financed through the issuance of taxable bonds or from internal funds. A substantial portion of the Corporation's mortgage purchase activities were funded in the taxable debt markets, including issuance of taxable bonds and the sale of securities in the Eurodollar market. Since 1972, the Corporation has acquired, by appropriation from the State and by purchase from approximately 48 independent originating lending institutions operating throughout the State, a portfolio of mortgage loans which, at December 31, 2001, aggregated 30,248 mortgages and loans (including mobile homes) having an unamortized principal balance of approximately \$3.3 billion. On July 1, 1992, the Corporation succeeded to the public housing functions of the Alaska State Housing Authority (the "Authority") and the rural housing and residential energy functions of the former Department of Community and Regional Affairs (the "Department") pursuant to legislation enacted in the State's 1992 legislative session. As a result, the rights and obligations created by bonds and notes that were previously issued by the Authority became rights and obligations of the Corporation.

The Corporation prepares and publishes quarterly a Statistical Abstract Report containing detailed information concerning characteristics of the Corporation's mortgage loan portfolios and bond issues, market characteristics of the Corporation's real estate owned ("REO") properties and a review of certain seller/servicer activity. In addition, the Corporation prepares monthly and publishes quarterly a Mortgage Loan and Bond Information report containing information concerning the outstanding bonds and notes of the Corporation, including mandatory and special redemptions and mortgage loan pool and prepayment statistics and rates. The Corporation presently intends to continue to provide such information, but is not legally obligated to do so. Certain financial and statistical information relating to the Corporation and its programs under this heading "The Corporation" was obtained from the audited financial statements of the Corporation dated June 30, 2001 and the unaudited financial statements of the Corporation dated December 31, 2001. Certain additional financial and statistical information relating to the Corporation and its programs under this heading "The Corporation" was obtained from the June 2001 and December 2001 Statistical Abstract Reports and the June 2001 and December 2001 Mortgage Loan and Bond Information Reports. Copies of such financial statements and the most recent versions of such reports may be obtained upon request from the Corporation. The Corporation's main office is located at 4300 Boniface Parkway, Anchorage, Alaska 99504, its web site is <http://www.ahfc.state.ak.us> (this reference to the Corporation's website is not intended to incorporate the materials contained thereon into this Official Statement) and its telephone number is (907) 338-6100.

Board of Directors, Staff and Organization

The Corporation is required by law to comply (except for the procurement provisions of the Alaska Executive Budget Act), and does comply, with the State budget process. The Corporation administratively operates within the State Department of Revenue. The Board of Directors of the Corporation is comprised of the Commissioner of Revenue, the Commissioner of Community and Economic Development and the Commissioner of Health and Social Services, as well as four members from the following sectors of the general public appointed by the Governor: one member with expertise or experience in finance or real estate; one member who is a rural resident of the State or who has expertise or experience with a regional housing authority; one member who has expertise or experience in residential energy efficient home-building or weatherization; and one member who has expertise or experience in the provision of senior or low-income housing. The powers of the Corporation are vested in and exercised by a majority of its Board of Directors then in office, who may delegate such powers and duties as appropriate and permitted under the Act. The Corporation's current members of its Board of Directors are as follows:

<u>Name</u>	<u>Location</u>
Ms. Jewel Jones Chair	Director, Health and Human Services Department Municipality of Anchorage Anchorage, Alaska
Mr. Robert Grove Vice-Chair	Operations Manager, University of Alaska-Fairbanks Geophysical Institute Ester, Alaska
Mr. Marty Shuravloff	Executive Director, Kodiak Island Housing Authority Kodiak, Alaska
Mr. Wilson Condon	Commissioner, Department of Revenue State of Alaska Juneau, Alaska
Mr. Jay Livey	Commissioner, Department of Health and Social Services, State of Alaska Juneau, Alaska
Ms. Deborah Sedwick	Commissioner, Department of Community and Economic Development, State of Alaska Anchorage, Alaska
Mr. Michael Cook	Certified Public Accountant Fairbanks, Alaska

The following sub-committees of the Board of Directors have been established: Audit Committee, Investment Advisory Committee, Housing Budget and Policy Committee, and the Personnel Committee.

The Corporation's staff consists of approximately 310 employees organized into 10 departments: Administrative Services, Mortgage Operations, Public Housing Division, Finance and Accounting, Planning and Program Development, Audit, Corporate Communications, Budget, Personnel, and Research and Rural Development Division. The principal officers and staff are as follows:

Daniel R. Fauske - Chief Executive Officer/Executive Director. Mr. Fauske joined the Corporation on March 1, 1995. Prior to joining the Corporation, Mr. Fauske worked for the North Slope Borough in Barrow, Alaska from 1985 until 1993. During this time, Mr. Fauske served as Budget Director, Chief Fiscal Officer, and Chief Administrative Officer. Most recently he served as Chief Fiscal Officer overseeing a \$1.2 billion capital improvement program for the North Slope Borough. Mr. Fauske holds a master's degree in business administration from Gonzaga University.

Judith DeSpain - Deputy Executive Director. Ms. DeSpain has been with the Corporation since February 1980, serving in all areas of administration. Ms. DeSpain is responsible for various program operations including loan servicing, mortgage operations, public housing operations, planning and program development and rural research and development.

Michael Buller - Chief Administrative Officer. Mr. Buller joined the Corporation in June of 1995. Mr. Buller is responsible for administrative services, personnel, audit, budget, and finance and accounting. He previously worked for the North Slope Borough from 1987 through 1993 as Budget Manager and Deputy Director of the Department of Administration & Finance. From August 1993 through June 1995, Mr. Buller was employed as Assistant City Manager for the City of Unalaska. Mr. Buller holds a master's degree in business administration from Gonzaga University.

Joseph M. Dubler - Chief Financial Officer/Finance Director. Mr. Dubler has been with the Corporation since 1989 and previously served as Senior Finance Officer, Finance Officer, Financial Reporting Officer and Financial Analyst II. Mr. Dubler was an auditor with a public accounting firm from 1986 through 1989. Mr. Dubler is a certified public accountant, certified cash manager, and a graduate of San Francisco State University with a bachelor of science, business administration degree.

Barbara Baker - Director, Planning and Program Development Department. This department is responsible for the Corporation's program planning, grant writing and fund development. In addition, this department administers the Low Income Housing Tax Credit Program and all grant programs other than the Supplemental Housing Grant Program. Ms. Baker worked at the Authority, prior to its merger with the Corporation, for four years as Director of Construction and Development. Ms. Baker has been in state government service since 1979, has held other

management positions and has served as an economist with the Alaska Department of Labor. Ms. Baker holds a bachelor of arts degree in urban and regional planning from Western Washington University.

Anthony C. Berdahl - Senior Finance Officer. Mr. Berdahl has been with the Corporation since 1989, previously serving the Corporation as an Accountant III and Financial Analyst II. Mr. Berdahl is a certified public accountant and holds a master's degree in accounting from the University of North Dakota.

Robert L. Brean - Director, Research and Rural Development Division. Mr. Brean served previously as Deputy Commissioner of the Department of Community and Regional Affairs. He was with the Department, with the exception of two years, since 1983. Born in the village of Tanacross, Alaska, he has served as President of the Village Corporation for 22 years. A shareholder of Doyon Inc., Mr. Brean holds a degree in cultural anthropology/sociology from Alaska Methodist University.

Nola Cedergreen - Administrative Services Director. In her present capacity, Ms. Cedergreen is responsible for risk management, procurement, record management, and management information systems. From December 1987 until July 1992, she managed Alaskan Home Properties, the Corporation's real estate owned division. Her previous experience includes 12 years of real estate sales and management, working for both private and institutional owners. Ms. Cedergreen holds a bachelor of arts degree in organizational management from Alaska Pacific University.

Peter E. Haines - Finance Officer. Mr. Haines has been with the Corporation since 1990 and previously served as Financial Analyst II. Mr. Haines is a certified public accountant, certified cash manager, and a graduate of Brigham Young University with a bachelor of science degree.

Paul M. Kapansky - Mortgage Operations Director. Mr. Kapansky joined the Corporation in July 1988 and served as Servicing Operations Director until July 1990; subsequently, he served as Mortgage Insurance Operations Director until August 1991 and as Mortgage Project Officer until November 1999. He had previously held a variety of positions with several Alaska financial institutions over a period of 18 years, including five years as a Vice President and seven years as a President. Mr. Kapansky holds a master's degree in business administration from the University of Alaska, Anchorage, and graduated with a bachelor of science degree in business administration from the University of Hartford.

Michael L. Strand - Financial Analyst II. Mr. Strand joined the Corporation in April 2001. He previously served for one year as Budget Analyst in Anchorage for Municipal Light and Power and for three years as Financial Analyst for VECO Alaska. Mr. Strand is a graduate of the University of Alaska, Anchorage, with a bachelor of arts degree in business administration.

Robert K. Tune - Internal Auditor. Mr. Tune has been with the Corporation since March 1993, serving as Assistant Auditor and now as the Internal Auditor. Mr. Tune was an Internal Review

Specialist and System Administrator/Asset Servicing Officer with the Federal Deposit Insurance Corporation from July 1990 to March 1993. Mr. Tune is a graduate of Lewis and Clark College, Portland, Oregon, with a bachelor of science degree in business administration.

Wesley J. Weir - Director, Public Housing Division. Mr. Weir assumed his current duties in April of 1995. He previously served for two years as Program Manager for the North Slope Borough with primary responsibility for planning and design of water/sewer systems, health facilities and housing. Prior to that time he was employed by the State of Alaska for sixteen years, holding a variety of positions with responsibilities that included planning, design administration, construction administration, and maintenance and operations of State facilities. Mr. Weir holds a master's degree from Alaska Pacific University.

Activities of the Corporation

General

General. The principal activity of the Corporation is the purchase of residential mortgage loans. The Corporation acquires mortgage loans after they have been originated and closed by direct lenders, which normally are financial institutions or mortgage companies with operations in the State. Under many of the Corporation's programs, the originating lender generally continues to service the mortgage loan on behalf of the Corporation. This activity has been supplemented by the merger with the Authority under which the Corporation assumed responsibility for the public housing functions of the Authority and its assumption of the rural housing and residential energy functions of the Department. See "The Corporation — General."

Public Housing Programs. The Corporation performs certain public housing functions in the State. The Public Housing Division of the Corporation (the "Division") operates 1,705 units of Low Rent and Section 8 New Construction/Additional Assistance housing to serve low-income families, disabled persons and seniors in 14 Alaskan communities. The Division also administers the rent subsidies for approximately 5,457 families located in private-sector housing through vouchers, certificates, and coupons issued pursuant to Section 8 of the National Housing Act. The Division's operating budget is funded primarily through contracts with the U.S. Department of Housing and Urban Development (HUD). The Division is engaged in a number of multifamily renovation and new construction projects throughout the State.

Lending

Loans to Sponsors Program. Under this program, the Corporation lends funds to a sponsor which in turn re-lends the monies to its borrowers (recipients) under terms and conditions approved by the Corporation. Eligible sponsors are non-profits, regional housing authorities, agencies of the State, or municipalities in the State. The sponsor's recipients are individuals or families whose income does not exceed 100% of the median income for the area. Loan funds may be used to provide housing loans or loans to improve the quality of housing. Seven loan

commitments totaling approximately \$34.0 million have been approved since the program's implementation in 1993.

Single Family Housing Programs. Of the Corporation's previous large subsidized mortgage loan programs, only a mortgage interest rate subsidy program for low-to-moderate income Alaskans remains. The interest rate subsidy is provided to such low-to-moderate income Alaskans on the first \$50,000 of their eligible mortgage loans.

Rural Housing Programs. The Mortgage Operations Department administers a broad array of programs, including a principal program that relates to the administration of a Housing Assistance Loan Fund (the "HALF"). The interest rate on the loans under this program is one percent below the rate established for the Corporation's taxable bond program. The HALF is used to acquire loans made in small communities throughout the state. Mortgage Loans purchased under this program had unamortized principal balances aggregating approximately \$544.4 million at December 31, 2001.

Mortgage Loan Restructuring Programs. The Corporation has accomplished several large mortgage restructuring programs since 1987. The most recent of these programs, the Streamlined Refinance Program, started in March 1998 and allows applicants to obtain new financing secured by property that is currently financed by the Corporation without income, credit, or appraisal qualifications. Although current owner-occupancy is not required, the original loan must have been made to an owner-occupant and may have been a first or second lien, conforming or nonconforming. These loans may be insured conventionally or through FHA or guaranteed by the VA. As of December 31, 2001, the Streamlined Refinance Program included mortgage loans with an aggregate outstanding principal balance of \$105.1 million and commitments totaling \$6.4 million.

Senior Housing Revolving Loan Program. The State established the Senior Housing Office and Senior Housing Revolving Loan Program within the Department in 1991. In July of 1992, the Senior Housing Office and Revolving Loan Program were transferred to the Corporation in connection with the merger between the Corporation and the Authority.

Affordable Homeownership Guaranteed Loan Program. The Affordable Homeownership Guaranteed Loan Program was designed to promote homeownership opportunities for low-to-moderate income borrowers by providing 5% interest rates. Loans under this program must be insured or guaranteed by FHA, FmHA (for loans in areas defined as small communities only) or the VA. The Corporation set aside \$11,500,000 for loans in small communities and \$103,500,000 for loans in other communities from funds related to the General Mortgage Revenue Bonds Program. The Corporation purchased 50 loans with an original principal balance of \$5,289,572 in small communities and 865 loans with an original principal balance of \$87,436,163 in the other communities. This program has been superseded by a further low interest rate loan program for low-to-moderate income borrowers as described below under "The Corporation — Activities of the Corporation — Bond Financed Programs — Interest Rate Reduction for Low Income Borrower Program."

Bond Financed Programs

Tax-Exempt First Time Homebuyer Program. The Corporation operates a Tax-Exempt First Time Homebuyer Program funded with the proceeds of Mortgage Revenue Bonds. Under this program, first mortgage loans which meet the requirements of the Code are purchased by the Corporation from qualifying originating lending institutions located throughout the State. Mortgage loans may be exchanged for mortgage-backed securities issued by GNMA, FNMA, and FHLMC. The mortgage loans and/or mortgage-backed securities are pledged to collateralize obligations of the Corporation. The Corporation purchased 871 mortgage loans under the Tax-Exempt First Time Homebuyer Program during the six months ended December 31, 2001, with an approximate original principal balance of \$94.5 million.

Taxable First Time Homebuyer Program. The Corporation began a Taxable First Time Homebuyer Program to address higher costs of housing in certain areas of the State. The program provides financing to first time homebuyers who do not meet the purchase price and income limits under the Tax-Exempt First Time Homebuyer Program. This program has been funded with a variety of sources, and since its inception in 1999, the program has generated approximately \$379.6 million in loan activity.

Multifamily, Special Needs, and Congregate Housing Program. During 1991, the Corporation implemented a program of financing multifamily housing. It was subsequently modified to include special-needs and congregate facilities. The Corporation has issued six series of bonds totaling \$213,080,000 in principal amount to finance loans under this program. The program is designed to provide traditional multifamily housing; transitional housing; and housing for the elderly, the developmentally disabled, and the homeless. A project may qualify for financing if it provides housing for persons of lower to moderate income or if it is located in a remote, under-developed or blighted area of the State and meets other requirements of the Corporation.

Veterans Mortgage Program. The Corporation operates a Veterans Mortgage Program under which first mortgage loans made to veterans meeting certain Federal requirements are purchased by the Corporation from qualifying originating lending institutions located throughout the State. Mortgage loans may be exchanged for mortgage-backed securities issued by GNMA, FNMA and FHLMC. The mortgage loans and/or mortgage-backed securities are pledged to collateralize tax-exempt obligations of the Corporation. Since 1983, the Corporation has issued \$2,102,500,000 principal amount of State-guaranteed Veterans Bonds, of which \$440,675,000 principal amount was outstanding as of December 31, 2001. In addition, the Corporation issued \$50,000,000 of its Collateralized Bonds, 2002 First Series (Veterans Mortgage Program) on April 4, 2002. The Corporation purchased 179 mortgage loans under the Veterans Mortgage Program during the six months ended December 31, 2001, with an approximate original principal balance of \$32.3 million.

Governmental Purpose Bonds. The Corporation has issued approximately \$973 million principal amount of Governmental Purpose Bonds primarily to finance certain capital expenditures

of the State for governmental purposes, with certain proceeds available for general corporate purposes.

State Capital Project Bonds. The Corporation has issued \$270,880,000 principal amount of State Capital Project Bonds. These bonds were issued pursuant to the 1998 Act and the 2000 Act (each defined below under "The Corporation — Legislative Activity/Transfers to the State — The 1998 Act" and "— The 2000 and 2001 Acts," respectively), which authorize the issuance of approximately \$300,000,000 in bonds to finance designated capital projects of State agencies and instrumentalities. The authorization to issue bonds under the 1998 Act and the 2000 Act expires July 1, 2006. As of December 31, 2001, \$143.7 million of bond proceeds had been disbursed for authorized projects.

State Building Lease Bonds. In 1999, the Corporation issued \$40,000,000 principal amount of bonds to finance the purchase of an office building in downtown Anchorage, Alaska. These bonds are primarily secured by an assignment of the payments on an Agreement of Lease between the Corporation and the State.

Refinancing Activity. The proceeds from bond and note issues, combined with contributions from unrestricted funds of the Corporation, provide funding for the Corporation's mortgage purchase and mortgage refinancing activities. Since 1986, implementation of refinancing programs by the Corporation has resulted in the prepayment of outstanding mortgage loans (including mortgage loans represented by mortgage certificates) with a corresponding redemption at par of substantial amounts of the Corporation's notes or bonds secured by such mortgage loans (or mortgage certificates).

Interest Rate Reduction for Low Income Borrower Program. Effective July 1, 2001, this program provides an interest rate reduction to borrowers whose income is below 80% of area median income as established by HUD. An interest rate reduction of 0.5% is available to borrowers whose income is at least 60% but less than 80% of area median income; and an interest rate reduction of 1% is available to borrowers whose income is less than 60% of area median income. The interest rate reduction applies only to the first \$180,000 of the loan. In general, this program is funded by means of zero percent interest rate participations in mortgage loans financed with proceeds of the Corporation's General Mortgage Revenue Bonds or with the Corporation's general unrestricted funds. Applicants generally must be first-time homebuyers, with some exceptions permitted based on the borrower's age and other factors. As of December 31, 2001, the Corporation, through this program, had purchased mortgage loans with an aggregate principal balance outstanding of \$567.1 million and had outstanding commitments totaling approximately \$9,173,834.

Financing Activity

The Corporation is authorized by the State Legislature to issue its own bonds, bond anticipation notes and other obligations in such principal amounts as the Corporation deems necessary to provide sufficient funds for carrying out its purpose.

Pursuant to State law, the maximum amount of bonds that the Corporation may issue during any fiscal year (the Corporation's fiscal years end on June 30) is \$1.5 billion. Bonds issued to refund outstanding bonds and to refinance outstanding obligations of the Corporation are not counted against such maximum annual limit.

The Corporation's mortgage lending activities have been financed through the issuance of bonds and notes. Prior to its merger with the Corporation, the Authority also issued bonds and notes. The following table summarizes the aggregate amount of Corporation bonds and notes that have been issued and that remain outstanding. Information regarding the Corporation's bonds and notes is provided quarterly in the Corporation's Mortgage Loan and Bond Information Report. See "The Corporation — General."

Summary of Corporation Bonds and Notes

(000s)

As of December 31, 2001

	Tax-Exempt Bonds	Taxable Bonds And Notes⁽¹⁾	Total
Amount Issued	\$9,218,504	\$4,136,090	\$13,354,599
Amount Outstanding	\$3,013,546	\$262,495	\$3,276,041

⁽¹⁾ Excluding \$103.4 million of Commercial Paper with maturities not in excess of 180 days.

During the year ended December 31, 2001, and the year ended December 31, 2000, the Corporation redeemed, exclusive of scheduled maturities and sinking fund payments, a total of \$243,100,000 and \$81,811,360, respectively, of debt, pursuant to provisions of the related agreements. These provisions include special optional and mandatory redemption features, including those that permit surplus revenues, resulting primarily from mortgage loan prepayments, to be used to retire the obligations at par.

In addition to the Corporation's loan activities financed with bond proceeds, a substantial portion of the Corporation's loan activities has been financed with loan prepayments and earnings derived from the permitted spread between borrowing and lending rates.

The Corporation entered into a Commercial Paper Notes agreement with a major domestic dealer permitting the issuance of up to \$150 million of short-term unsecured notes. As of December 31, 2001, \$103.4 million was outstanding under the Commercial Paper Notes Program. The Corporation's Commercial Paper Notes Program is rated "P-1" by Moody's, "A-1+ " by S&P, and "F1+ " by Fitch. The Corporation's Euro-Commercial Paper Program has no outstanding balance and, while still available, the Corporation does not intend to use the program to issue additional notes.

The Corporation negotiated a new Revolving Credit Agreement in the amount of \$150 million on August 10, 1999 with a major European bank under which the Corporation may borrow up to the principal amount of the facility for general corporate purposes. In addition, the Corporation may enter into reverse repurchase agreements, but as of December 31, 2001, there was no outstanding balance.

On December 3, 1997, the Corporation issued its \$33,000,000 Governmental Purpose Bonds (University of Alaska), 1997 Series A (the "1997 Self-Liquidity Bonds"). On August 2, 2001, the Corporation issued its \$370,170,000 Governmental Purpose Bonds, 2001 Series A, B, C and D (the "2001 Self-Liquidity Bonds"; together with the 1997 Self-Liquidity Bonds, the "Self-Liquidity Bonds"). All of the Self-Liquidity Bonds remain outstanding as of the date of this Official Statement. The Self-Liquidity Bonds are variable rate demand obligations on which the interest rate currently is being reset weekly. In connection with each such interest rate reset and under various other circumstances, such bonds may be tendered or deemed tendered by the holders thereof for purchase and remarketing. Pursuant to related tender agreements, the Corporation has the obligation to purchase any such bonds so tendered or deemed tendered that cannot be remarketed. The obligation of the Corporation to make such purchases is a general obligation of the Corporation and not secured by any particular funds or assets, including any assets that may be held under the related indentures. The Corporation may issue additional bonds for which it will provide liquidity support similar to that which it currently provides for the Self-Liquidity Bonds.

The following table details the total of \$581,895,000 of long-term debt issued by the Corporation during the year ending December 31, 2001 to continue its various ongoing lending programs.

<u>Title of Issue</u>	<u>Current Ratings: S&P/Moody's/ Fitch</u>	<u>Date Issued</u>	<u>Program/Project Funded</u>	<u>Tax Status</u>
\$74,535,000 State Capital Project Bonds 2001 Series A	AA-/Aa2/AA+	February 8, 2001	State Capital Projects	Tax-Exempt Non-AMT
\$370,170,000 Governmental Purpose Bonds \$76,580,000 2001 Series A \$93,590,000 2001 Series B \$100,000,000 2001 Series C \$100,000,000 2001 Series D	AAA/A-1+ /Aaa VMIG-1/AAA/ F-1+	August 2, 2001	Governmental Purpose	Non-AMT Tax-Exempt Tax-Exempt Taxable Taxable
\$137,190,000 Mortgage Revenue Bonds \$32,740,000 2001 Series A \$104,450,000 2001 Series B	AAA/Aaa/AAA	October 17, 2001	Tax-Exempt Mortgage Program	Tax-Exempt Non-AMT AMT

Recent Financial Results of Operations

Reference is made to the unaudited and audited financial statements of the Corporation, which show that the Corporation's net income for the six months ended December 31, 2001 was \$18.6 million, and net income for the fiscal years ended June 30, 2001 and 2000 was \$96.4 million and \$81.8 million, respectively. See "Financial Statements" and Appendix A — "Financial Statements of the Corporation."

The following is a summary of revenues, expenses and fund balances for each of the five fiscal years ended on or prior to June 30, 2001, which have been derived from the Corporation's audited financial statements, prepared on a combined fund basis.

Summary of Revenues, Expenses and Fund Balances
(000s)

	<u>Fiscal Year Ended June 30</u>				
	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
Revenues					
Interest	\$288,074	\$285,250	\$272,027	\$289,095	\$316,057
Rental and lease income	6,255	6,498	6,805	7,003	6,920
Settlement Income					7,200
Externally funded program revenues	33,187	31,656	32,285	34,091	43,508
Other	959	4,578	2,358	1,097	2,483
Expenses					
Interest	142,703	142,112	138,165	159,672	172,373
Mortgage Servicing Fees	8,234	8,245	8,723	9,844	11,335
Operations and administration	27,237	26,238	28,351	30,282	31,997
Financing costs - direct and amortized	6,403	5,584	4,517	4,515	4,311
Excess interest earnings to be rebated	6,232	1,090	5,530	(783)	1,736
Loan loss related items	(18,175)	4,129	7,375	8,110	8,627
Grants	26,276	21,577	17,419	18,538	21,203
Federally funded rental subsidies	14,137	13,818	13,780	13,633	17,958
Rental housing operating expenses	<u>7,245</u>	<u>9,273</u>	<u>9,765</u>	<u>9,954</u>	<u>10,275</u>
Net Income Before Extraordinary Items	108,183	95,916	79,850	77,521	96,353
Extraordinary items					
Gain (loss) on early extinguishment of debt	143				
HUD debt forgiveness*					
Change in Accounting				<u>4,281</u>	
Net Income	<u>\$108,326</u>	<u>\$95,916</u>	<u>\$79,850</u>	<u>\$81,802</u>	<u>\$96,353</u>
Retained Earnings					
Retained Earnings - Beginning of Period	\$880,461	\$994,201	\$1,090,117	\$1,169,967	\$1,251,769
Adjustments: Grant Expense	5,414				
Retained Earnings - Adjusted	885,875	994,201	1,090,117	1,169,967	1,251,769
Net Income	<u>108,326</u>	<u>95,916</u>	<u>79,850</u>	<u>81,802</u>	<u>96,353</u>
Retained Earnings - End of Period	<u>\$994,201</u>	<u>\$1,090,117</u>	<u>\$1,169,967</u>	<u>\$1,251,769</u>	<u>\$1,348,122</u>
Fund Equity					
Fund Equity - Beginning	\$1,752,202	\$1,814,393	\$1,821,455	\$1,788,035	\$1,752,355
Net Income	108,326	95,916	79,850	81,802	96,353
HUD Contributed Capital Transactions	13,141	7,252	3,244	8,088	
Removal of Capitalized Soft Costs				(23,548)	
State of Alaska	(59,115)	(96,106)	(116,514)	(102,022)	(75,031)
Other	<u>(161)</u>				
Fund Equity - End of Period	<u>\$1,814,393</u>	<u>\$1,821,455</u>	<u>\$1,788,035</u>	<u>\$1,752,355</u>	<u>\$1,773,677</u>

* Effect of change in HUD accounting requirements, see Footnote 22 to the Corporation's June 30, 2000 combined financial statements.

** Effect of change in accounting for grants to the State of Alaska, see Footnote 2 to the Corporation's June 30, 1998 audited financial statements.

Mortgage Loan Delinquency Experience of the Corporation

The following table summarizes the Corporation's delinquency experience at the dates indicated with respect to all mortgage loans (excluding mobile homes) held by the Corporation regardless of the program under which such loans were acquired.

Percent of Total Loans less Mobile Homes II⁽¹⁾ with Installments Past Due

<u>Date</u>	<u>Number of Loans less Mobile Homes II⁽¹⁾</u>	<u>Total Past Due</u>	<u>30 Days</u>	<u>60 days</u>	<u>90 Days or More</u>	<u>Number of Loans Foreclosed During Calendar Year or Portion Indicated</u>
December 31, 1983	36,892	3.38%	2.72%	0.31%	0.34%	6
December 31, 1984	45,566	4.42	2.81	0.66	0.95	120
December 31, 1985 ⁽²⁾	48,340	6.50	3.67	1.05	1.78	449
December 31, 1986 ⁽³⁾	45,524	13.65	5.98	2.10	5.57	1,285
December 31, 1987	43,336	14.73	4.51	1.92	8.30	2,779
December 31, 1988	39,176	13.13	4.43	1.72	6.98	3,313
December 31, 1989	39,863	8.07	3.52	1.00	3.55	2,622
December 31, 1990	40,071	5.11	3.06	0.58	1.46	1,254
December 31, 1991	39,546	4.41	3.11	0.48	0.82	422
December 31, 1992	37,332	4.12	2.73	0.66	0.73	465
December 31, 1993	30,196	3.90	2.77	0.59	0.54	187
December 31, 1994	29,688	3.49	2.52	0.50	0.48	99
December 31, 1995	28,807	3.38	2.48	0.53	0.38	84
December 31, 1996	26,765	3.69	2.70	0.63	0.36	77
December 31, 1997	26,163	3.30	2.39	0.54	0.38	57
December 31, 1998	26,329	3.11	2.24	0.56	0.12	37
December 31, 1999	26,915	2.97	2.00	0.60	0.37	25
December 31, 2000	29,163	3.38	2.38	0.65	0.35	31
December 31, 2001	29,924	3.49	2.48	0.56	0.45	34

⁽¹⁾ Mobile Homes II loans are not secured by real property.

⁽²⁾ As of November 1985, REOs were no longer included in delinquent loans. At December 31, 2001, the Corporation's REO portfolio, including Mobile Homes II, was nine properties carried at an aggregate value of \$637,212.

⁽³⁾ The information, as of December 31, 1986, reflects a cutoff for reporting delinquent loans as of the 25th day of the month. The cutoff date used to report delinquent loans for all other periods shown is as of the 30th day of the month; the earlier cutoff date tends to overstate the percentage of delinquencies.

The mortgage loan delinquencies and foreclosures since 1988 reflect an improvement in the State's economy and operational changes by the Corporation, including the implementation of home loan refinancing and loan workout plans, specifically the Corporation's Home Owners Assistance Program (the "HOAP Program") and Streamlined Refinance Program. Under the

HOAP Program, the Corporation refinanced approximately 8,125 mortgages, resulting in an average borrower savings of \$176 per month.

Legislative Activity/Transfers to the State

The following statements are made as contemplated by the provisions of the Private Securities Litigation Reform Act of 1995: If and when included in this Official Statement, the words "expects," "forecasts," "projects," "intends," "anticipates," "estimates," "assumes" and analogous expressions are intended to identify forward-looking statements and any such statements inherently are subject to a variety of risks and uncertainties that could cause actual results to differ materially from those that have been projected. Such risks and uncertainties include, among others, general economic and business conditions relating to the Corporation and the housing industry in general, changes in political, social and economic conditions, regulatory initiatives and compliance with governmental regulations, litigation and various other events, conditions and circumstances, many of which are beyond the control of the Corporation. These forward-looking statements speak only as of the date of this Official Statement. The Corporation disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any changes in the Corporation's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

The 1995 State Payment Plan

On April 23, 1994, the Corporation's Board of Directors approved a payment to the State's general fund of \$200,000,000.

SMIF Transfers

In 1997, as a result of the redemption of the remaining Insured Mortgage Bonds of the Corporation, there became available for release \$27,600,000 of excess amounts from the State Mortgage Insurance Fund (the "SMIF"). The Corporation's Board of Directors passed a resolution authorizing the transfer of this amount to the State's general fund in addition to the \$50,000,000 transferred for fiscal year 1998 under the Transfer Plan described below. The Corporation transferred \$20,000,000 of this amount to the State's general fund in cash; the remaining \$7,600,000 increased the Corporation's non-housing capital projects budget.

The Transfer Plan

The Corporation's Board of Directors approved a transfer plan (the "Transfer Plan") on April 27, 1995 and authorized an agreement between the Alaska Commissioner of Revenue and the Corporation that provided for the orderly transfer of \$270,000,000 to the State's general fund in a series of scheduled biannual installments over a five-year period beginning in fiscal year 1996. The payments scheduled for the first annual transfer for fiscal year 1996 were completed prior to December 31, 1995. Scheduled transfers were \$70,000,000 for fiscal year 1996 and \$50,000,000 each for the four subsequent fiscal years.

In addition to the transfers to the State's general fund described in the preceding paragraph, the Corporation also uses a portion of its unrestricted assets to fund certain capital projects identified by the State. The aggregate amount expected to be used for State general fund transfers and capital projects was addressed by the following legislative intent language included in the fiscal year 1996 capital appropriation bill, enacted in 1995:

"The legislature intends to ensure the prudent management of the Alaska Housing Finance Corporation (AHFC) to protect its excellent debt rating by the nation's financial community and to preserve it as a valuable asset of the state. To accomplish this goal, the sum of withdrawals for transfer to the general fund and for expenditures on corporate funded capital projects should not exceed the corporation's net income for the preceding fiscal year. AHFC projects that the following amounts will be available:

FY 1996	\$127,000,000
FY 1997	\$103,000,000
FY 1998	\$103,000,000
FY 1999	\$103,000,000
FY 2000	\$103,000,000."

Legislative Intent. In the legislative intent language included in the fiscal year 1996 capital appropriation bill, the projected amounts were based on the Corporation's financial operating plan and represent the total amount of anticipated State transfers and capital expenditures rather than projected "net income." Subsequent legislative intent language continues to refer to a maximum annual available amount not expected to exceed \$103,000,000 and states that the Corporation expects its "net income" to be not less than this amount during the term of the Transfer Plan. For purposes of determining compliance with the legislative intent language, and rationalizing the references to the Corporation projections included in such language, the Corporation considers certain adjustments to its published net income results. The adjustments include adding back the amount of grant expenditures, as these expenditures were considered in the year the \$103,000,000 was allocated and to include them again during the year they are ultimately recognized for financial reporting purposes would result in their being counted twice. Also, the Corporation recognizes that during certain years, the adjusted net income may be below the \$103,000,000, but that such a deficiency is acceptable provided there are prior years during the term of the Transfer Plan which had adjusted net income sufficiently above the allocation cap to cover the shortfall. This recognizes that the cap remains fixed at the \$103,000,000 level and is not adjusted upwards for years in which adjusted net income is higher. The schedule below compares the net income to the legislative allocation limits:

<u>Fiscal Year</u>	<u>Net Income</u> ⁽¹⁾	<u>Grant Expenditures</u>	(000s) <u>Adjusted Net Income</u>	<u>Legislative Appropriations</u>	<u>Excess (Deficiency)</u>	<u>Balance</u>
1996	\$117,480	\$27,244	\$144,724	\$127,000	\$17,724	\$17,724
1997 ⁽²⁾	108,326	26,276	134,602	101,048	33,554	51,278
1998	95,916	21,577	117,493	103,000	13,179	64,457
1999	79,850	17,419	97,269	103,000	(5,731)	58,726
2000	81,802	18,538	100,340	103,000	(3,298)	55,428
2001	96,353	21,203	117,556	103,000	14,556	69,984

(1) Net income for all years is based upon the Corporation's audited financial statements.

(2) Schedule does not include the excess in the State Mortgage Insurance Fund made available to the State during 1997 in the amount of \$27.6 million, of which \$20 million was transferred to the State and \$7.6 million was used to increase the capital appropriation limitation.

As shown by the chart above, since 1998, the Corporation's net income annually has been substantially less than the \$103,000,000 anticipated by the Transfer Plan.

The 1998 Act

Chapter 129 of the 1998 Session Laws of Alaska (the "1998 Act"), authorized the issuance of up to \$224,000,000 in bonds of the Corporation to finance \$199,634,509 of legislatively authorized state capital projects. The bonds are to be repaid from funds of the Corporation that were expected to be transferred to the State pursuant to the Transfer Plan. The Corporation views passage of the 1998 Act as a continuation to the year 2006 of the intent of the Legislature stated in its fiscal year 1996 capital appropriation bill, enacted in 1995 and described above, to appropriate \$103,000,000 annually.

The 1998 Act states that to protect the Corporation's debt ratings and preserve it as a valuable asset of the state, "...the sum of withdrawals for the repayment of bonds under sec. 2(c) of this Act, for transfer to the general fund, and for expenditures on corporate funded capital projects should not exceed the corporation's net income for the preceding fiscal year. The Alaska Housing Finance Corporation projects that \$103,000,000 will be available in each fiscal year beginning with 1999 through 2006, for a total amount during the seven-year period of \$721,000,000." See the paragraph above captioned "Legislative Intent."

The following table reflects the legislative allocation of the \$103,000,000 considered available for fiscal years 2002 and 2001.

Amounts Made Available by the Corporation

	<u>FY2002</u>	<u>FY2001</u>
Transfer Plan Total Available	\$103,000,000	\$103,000,000
Total	<u>\$103,000,000</u>	<u>\$103,000,000</u>
Appropriations Enacted for Corporation Transfers		
Housing Expenditures of Other Agencies	\$ 28,600,000	\$ 28,649,800
Debt Service on State Capital Project Bonds and University of Alaska Bonds	45,000,000	35,992,500
Other State Capital and Operating Expenditures	10,429,500	24,237,100
Housing Program Expenditures Appropriated to the Corporation	<u>18,970,500</u>	<u>14,120,600</u>
	<u>\$103,000,000</u>	<u>\$103,000,000</u>

In the annual review of the Corporation's fiscal year 2002 operating budget request, the State approved the full level of funding requested by the Corporation for personnel and contractual costs.

The 2000 and 2001 Acts

The 2000 Legislature adopted Chapter 130 of the 2000 Session Laws of Alaska (the "2000 Act"), which provides in part as follows:

"In connection with the authorization contained in sec. 10(b) of this Act, the legislature restates and reaffirms its intent as expressed in sec. 1, ch. 129, SLA 1998, that the sum of withdrawals for repayment of bonds under sec. 10(b) of this Act and for all other purposes described in sec. 1, ch. 129, SLA 1998, should not exceed the Alaska Housing Finance Corporation's net income for the preceding fiscal year, which the Alaska Housing Finance Corporation projects to be \$103,000,000 for each of the fiscal years beginning with 2000 through 2008, for a total during that nine-year period of \$927,000,000."

The Corporation views passage of the 2000 Act as a continuation to the year 2008 of the intent of the Legislature stated in its fiscal year 1996 appropriation bill, enacted in 1995 and described above, to appropriate \$103,000,000 annually.

The 2000 Act extends to the year 2008 the Legislature's intent to continue annual transfers of funds from the Corporation to the State's general fund (see "The Corporation — Legislative Activity/Transfers to the State — State Capital Project Bonding) and (i) authorizes the Corporation

to issue Corporation general obligation debt for certain state capital projects, (ii) authorizes the Corporation (or a subsidiary of the Corporation) to purchase 40% of the State of Alaska's right to receive proceeds derived from the settlement of *State of Alaska v. Philip Morris, Incorporated et al.* (the "Tobacco Settlement Proceeds"), and (iii) authorizes the Corporation (or a subsidiary of the Corporation) to issue bonds secured by the Tobacco Settlement Proceeds to finance \$93 million of school construction projects.

Chapter 96 of the 2001 Session Laws of Alaska (the "2001 Act") authorizes the Corporation (or a subsidiary of the Corporation) to purchase an additional 40% of the Tobacco Settlement Proceeds and authorizes the Corporation (or a subsidiary of the Corporation) to issue bonds secured by the Tobacco Settlement Proceeds to finance \$110 million of state construction projects. See "The Corporation — Legislative Activity/Transfers to the State — Establishment of Subsidiary."

State Capital Project Bonding

The 1998 Act, authorizing the issuance of up to \$224,400,000 in bonds of the Corporation to finance projects of the State and municipalities, provides in part as follows:

"The legislature intends to ensure the prudent management of the Alaska Housing Finance Corporation to protect its excellent debt rating by the nation's financial community and to preserve it as a valuable asset of the state. To accomplish this goal, the sum of withdrawals for the repayment of bonds under sec. 2(c) of this Act, for transfer to the general fund, and for expenditures on corporate funded capital projects should not exceed the corporation's net income for the preceding fiscal year. The Alaska Housing Finance Corporation projects that \$103,000,000 will be available in each fiscal year beginning with 1999 through 2006, for a total amount during the seven-year period of \$721,000,000."

The 2000 Act, authorizing the issuance of Bonds in sufficient amounts to fund the construction of various State capital projects, extended the term of the Transfer Plan to 2008, for a total amount during the nine year period ending in 2008 of \$927,000,000.

Capital Appropriations

The Corporation also uses its resources to fund certain capital projects identified by the State. See the paragraph above captioned "Legislative Intent" under "Legislative Activity/Transfers to the State — The Transfer Plan."

Policy discussions among the Corporation, the Governor, and the Legislature over the use of the annual transfers from the Corporation have been based on two primary criteria. First, the Corporation's total allocations to the State could not exceed the total amount made available by

the Corporation as determined by its Board of Directors. Second, an adequate level of funding needed to be appropriated to the Corporation's housing programs and public housing facilities, including adequate maintenance of those physical structures owned by the Corporation.

With the additional amounts made available from the SMIF and a transfer to fiscal year 1998 of \$2,550,000, which had been transferred to the State for fiscal year 1997 but which had not been appropriated in fiscal year 1997, the Legislature increased the amount transferred to the State treasury and used available funds for non-housing related capital expenditures as shown in the table above under "Legislative Activity/Transfers to the State — The Transfer Plan" reflecting legislative allocation of the \$103,000,000 considered available for fiscal years 2000 and 2001. Such table also reflects the legislative allocation of the \$103,000,000 considered available for fiscal year 1998. The \$24,019,900 indicated as available for further appropriation represents the difference between the \$31,876,000 which was originally assumed to be needed for debt service and the \$7,856,100 determined to be the actual debt service requirement in fiscal year 1998 for the Corporation's State Capital Project Bonds, 1999 Series A. This amount was subsequently transferred to the State.

The presence in the 1998 Act of the legislative intent language set forth above under "State Capital Project Bonding" is an unusual occurrence in Alaska. Intent language is discouraged and when included is frequently line-item vetoed by the Governor.

Bond proceeds for State capital expenditures are allocated to agencies or municipalities, and in the 1998 Act totaled \$199,634,509, subject to legislative appropriation. Such an appropriation bill was adopted contemporaneously with the 1998 Act. The larger projects allocated under the 1998 Act included deferred maintenance at the University of Alaska, Fairbanks, new schools, school maintenance projects, and harbors and armories.

The Corporation has issued \$196,345,000 principal amount of State Capital Project Bonds pursuant to the 1998 Act, and \$74,535,000 principal amount of State Capital Project Bonds pursuant to the 2000 Act, and has completed its issuance authority under those Acts.

Corporation Budget Legislation

The Corporation Fiscal Year 2002 operating budget was approved by the Legislature at approximately the amount submitted during the 2001 legislative session. Also, the Corporation submitted a capital budget request of \$37.3 million for the renovation and maintenance of the Corporation's public housing facilities for housing programs for low-income families, special needs, senior citizens, and rural communities. Of this amount, \$33.4 million was approved, with federal and other non-Corporation funding of \$14.4 million to be received.

The Corporation's Board of Directors approved and submitted to the governor in January 2002 a capital budget including a \$50 million cash transfer to the State and \$46.3 million of capital projects, totaling the Corporation's net income for fiscal year 2001 of \$96.3 million. The amount

is subject to modification or approval by legislative action, but is in compliance with the Transfer Plan.

There can be no assurance that the Legislature or the Governor of the State will not seek and/or enact larger dividends or other transfers of Corporation assets by legislative enactment or other means in the future.

Legislative Reviews

A report by Legislative Budget and Audit ("LB&A"), dated February 9, 1995 (the "1995 Report"), included a review of the Corporation's internally prepared financial operating plan which compared projected financial requirements with anticipated financial resources (the "Financial Plan"). The Transfer Plan described above was based upon the results of the Financial Plan.

The 1995 Report claimed that, after considering the \$200,000,000 fiscal year 1995 transfer, a total of \$445,000,000 could become excess to the Corporation during its next two fiscal years. The 1995 Report suggested that \$295,000,000 could be transferred to the State during fiscal year 1996 and an additional \$150,000,000 in fiscal year 1997. The 1995 Report was considerate of the potential impact additional transfers might have on the ratings of the Corporation's bonds and its ability to access capital markets. While observing that the Corporation's resources are sufficient to accommodate the removal of \$445,000,000, the following comment was included in the 1995 Report:

"We recommend the potential cumulative effect of bond ratings and investor confidences be considered before transferring additional assets from AHFC for general fund purposes."

On June 14, 1999, the Legislative Budget and Audit Committee (the "Committee") approved a report by LB&A made available during the previous Legislative Session, which included an update of the 1995 Report (the "1999 Report"). The 1999 Report, dated February 23, 2000, contained the following conclusion:

"We analyzed Alaska Housing Finance Corporation's (AHFC or corporation) financial statements and cash flow projections on the unrestricted general account, including critical assumptions. Based on this analysis, we determined there are no excess available assets beyond the annual \$103 million commitment to the State through FY 06. Further, it appears there may be insufficient unrestricted cash to make available the \$103 million in the final year of the eight-year series transfer agreement. We also determined that additional cash and investments totaling \$8 million could be moved into the unrestricted general account from the Home Ownership Fund. Once in the unrestricted general account, these funds would

be available for withdrawal. We reviewed AHFC's collateralization policy and found that changes had occurred since 1995."

The Committee also requested that LB&A perform an audit of the Corporation related to the operation of its Small Community Loan Program, which provides loans to residents in rural Alaska. It is expected that the audit will consider the economic need for the interest rate reduction provided under that program and whether the rural lending activity could be financed through other conventional programs of the Corporation. If a determination is made that the rural loans could or should be accommodated through the Corporation's other programs, the audit results could include a suggestion regarding the future collections of the HALF. As required under existing statutes, the rural loans are held in a separate trust account, the HALF. Collections of revenue and principal on loans held in the HALF are required to be redeposited into the HALF.

Aggregate State Transfers

The following reflects the aggregate transfers which the Corporation has made to the State through June 30, 2001, or which, in the case of the University of Alaska deferred maintenance funding for other than student housing, were appropriated and incorporated in agreements where actual payments will be made as requested:

<u>Transfer Type</u>	<u>Pre-FY98</u>	<u>FY98</u>	<u>FY99</u>	<u>FY00</u>	<u>FY01</u>	<u>Total</u>
State debt repaid early	\$ 29,841,000					\$ 29,841,000
State asset purchases	252,260,000					252,260,000
Dividend payments	114,324,000					114,324,000
State equity transfers	328,865,000	\$ 91,057,000	\$42,993,000	\$32,000,000	\$15,007,000	509,922,000
Debt service on State Capital Project Bonds and University of Alaska Bonds			8,857,000	19,000,000	36,534,000	64,391,000
Other Agency Housing Expenditures	<u>43,259,000</u>	<u>17,242,000</u>	<u>36,265,000</u>	<u>30,167,000</u>	<u>23,490,000</u>	<u>150,423,000</u>
Total	<u>\$768,549,000</u>	<u>\$108,299,000</u>	<u>\$88,115,000</u>	<u>\$81,167,000</u>	<u>\$75,031,000</u>	<u>\$1,121,161,000</u>

Establishment of Subsidiary

The Northern Tobacco Securitization Corporation ("NTSC") is a nonprofit corporation organized as a subsidiary of the Corporation. The NTSC was established pursuant to the 2000 Act. As a subsidiary of the Corporation, NTSC is a government instrumentality of, but separate and apart from, the State.

The Tobacco Settlement Asset-Backed Bonds, Series 2000 (the "Series 2000 Tobacco Bonds") were issued on October 26, 2000 in an amount of \$116,050,000 pursuant to an Indenture (the "Tobacco General Indenture") and a Series 2000 Supplemental Indenture, each dated as of October 1, 2000, and each between NTSC and U.S. Bank, N.A., Seattle, Washington, as indenture trustee. The Tobacco General Indenture does not permit NTSC to issue any additional series of bonds secured by a pledge of the 2000 Pledged Receipts (defined below), other than those which may be issued for refunding purposes. The State will apply the proceeds of the sale of the 2000 Pledged Receipts to finance the capital costs of school construction.

The Series 2000 Tobacco Bonds were issued to finance NTSC's purchase of the 2000 Pledged Receipts, consisting of 40% of all amounts required to be paid to the State beginning January 10, 2002 under the Master Settlement Agreement (the "MSA") entered into by participating cigarette manufacturers, 46 states and six other U.S. jurisdictions in November 1998 in settlement of certain smoking-related litigation. Under applicable State law, the claim of NTSC to the 2000 Pledged Receipts is on a parity with the claim of the State to ownership of the remaining percentage of all amounts required to be paid to the State beginning January 10, 2002 under the MSA.

The Tobacco Settlement Asset-Backed Bonds, Series 2001 (the "Series 2001 Tobacco Bonds") were issued on August 15, 2001 in an amount of \$126,790,000 pursuant to the Tobacco General Indenture and a Series 2001 Supplemental Indenture, dated as of August 1, 2001, between NTSC and U.S. Bank, N.A., Seattle Washington, as indenture trustee. The Tobacco General Indenture does not permit NTSC to issue any additional series of bonds secured by a pledge of the 2001 Pledged Receipts (defined below), other than those which may be issued for refunding purposes. The State will apply the proceeds of the sale of the 2001 Pledged Receipts to finance the capital costs of school construction.

The Series 2001 Tobacco Bonds were issued to finance NTSC's purchase of the 2001 Pledged Receipts, consisting of 40% of all amounts required to be paid to the State beginning January 10, 2002 under the MSA. Under applicable State law, the claim of NTSC to the 2001 Pledged Receipts is on a parity with the claim of the State to ownership of the remaining percentage of all amounts required to be paid to the State beginning January 10, 2002 under the MSA.

On October 11, 2000, a complaint was filed in the Superior Court for the State of Alaska, Third Judicial District (*Myers v. State of Alaska, Alaska Housing Finance Corporation and Northern Tobacco Settlement Corporation*), seeking a declaratory judgment determining that the sale of the 2000 Pledged Receipts by the State to the Corporation or to NTSC is a dedication of State funds for a special purpose, in violation of Section 7, Article IX, of the Alaska Constitution. On October 24, 2000, Superior Court Judge Hensley ruled that such sale of the 2000 Pledged Receipts did not violate the Alaska Constitution. Plaintiff thereafter appealed to the Alaska Supreme Court; oral argument took place on July 11, 2001.

The Attorney General and Bond Counsel have rendered with respect to the Series 2000 Tobacco Bonds and the Series 2001 Tobacco Bonds their opinions that, while it is not possible to predict the outcome of any litigation with certainty, including this litigation, they believe the claims made in the complaint are without merit in that the aforementioned sales are constitutional in all respects under the Alaska Constitution and, accordingly, that the State and NTSC will prevail in a court of final jurisdiction with respect to the claims raised in the complaint.

Neither the credit, nor the revenues, nor the taxing power of the State or the credit or revenues of the Corporation shall be, or shall be deemed to be, pledged to the payment of any of the Series 2000 Tobacco Bonds or the Series 2001 Tobacco Bonds. NTSC has no taxing power.

Litigation

There are no threatened or pending cases in which the Corporation is or may be a defendant which the Corporation feels have merit and which it feels could give rise to materially negative economic consequences.

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

The following is a summary of certain provisions of the Indenture. The summary does not purport to be comprehensive or definitive and is qualified in its entirety by reference to the Indenture. For a description of certain provisions of the Indenture relating to the 2002 Bonds, see "The 2002 Bonds" and "Sources of Payment and Security for the Bonds."

Certain Definitions (Section 102)

"Authorized Hedging Payments" means payments that are (i) designated as such in the related Authorizing Indenture with respect to specified provisions of the Indenture and (ii) due to the counterparty of a Hedging Instrument from the Corporation or the Trustee.

"Authorizing Indenture" means, with respect to any Bond or Series of Bonds, the Supplemental Indenture pursuant to which such Bond or Series of Bonds is issued.

"Bond Coverage" means a condition which will be deemed to exist as of any date of certification if either the test set forth in paragraph (A) below or the test set forth in paragraph (B) below is met as of such date:

(A) The Corporation delivers to the Trustee a Certificate certifying that the schedules attached thereto show Parity and receipt and application of amounts which are in any Fund (except the Rebate Fund, the Bond Purchase Fund, and the Loan Loss Fund) sufficient and available to provide timely payment of the principal of and interest on the Bonds on each Debt Service Payment Date and Program Expenses, up to the amount permitted to be paid out of the Operating Account pursuant to the Indenture, from (and including) the first interest payment date that is or that follows the date of certification to the maturity of the Bonds. In each case the Certificate must show sufficient funds under each of the following sets of assumptions and, in the case of each such schedule, assuming any timing of redemption of Bonds which each such schedule shows (provided Bonds are redeemed thereunder from amounts in the General Account and the Principal Account in accordance with the provisions of the Indenture):

(1) assuming receipt of Scheduled Payments (but no prepayments not theretofore received) on any Mortgage Loan or mortgage loans represented by Mortgage Certificates;

(2) assuming prepayment of 100% of the principal of, and payment of 100% of accrued interest on, all the Mortgage Loans and mortgage loans represented by all the Mortgage Certificates on the day after the date of certification; and

(3) assuming receipt of Scheduled Payments to, and such 100% prepayment on, the day after the first Debt Service Payment Date on the Bonds following the date of certification.

(B) The Corporation delivers to the Trustee a Bond Coverage Certificate certifying as to another calculation (including, without limitation, any definition or component thereof) that is of Rating Quality.

Any Certificate delivered to the Trustee pursuant to this definition must conform to the requirements of the Indenture and either (A) or (B) of this definition. When the Corporation delivers a Bond Coverage Certificate under (A) of this definition, the schedules attached to the Certificate will be based upon the Investment Assumptions and the Mortgage Payment Assumptions in addition to the assumptions required elsewhere in this definition, and will provide a detailed calculation of all data relevant thereto, setting forth in detail each of the items required to be set forth in such Certificate. The Trustee will review each such Certificate as to its conformity to the requirements of this definition, but as to the actual calculations and conformity to the assumptions required in this definition the Trustee will have no responsibility to verify the same and will be fully protected in relying on such Certificate. For purposes of this definition as applied to Bonds bearing interest at a variable rate, any assumptions made in the calculation of interest in connection with the issuance of such Bonds will be as set forth in the related Authorizing Indenture, and any assumptions made in the calculation of interest in connection with the other matters arising under the Indenture will be as set forth in the related Authorizing Indenture or as set forth in an Authorized Officer's Certificate consistent with the related Authorizing Indenture.

"Code" means the United States Internal Revenue Code of 1986, as amended, and the regulations promulgated thereunder or applicable thereto.

"Costs of Issuance" means, with respect to a Series of Bonds, any items of expense directly or indirectly payable or reimbursable by the Corporation and related to the authorization, sale and issuance of such Bonds, including but not limited to printing costs; costs of preparation and reproduction of documents; filing and recording fees; initial fees and charges (including legal fees and charges) of the Trustee and of any fiduciary, including, but not limited to, paying agents and providers of letters of credit and other forms of credit or liquidity enhancement in connection with such Bonds; legal fees and charges; fees and disbursements of consultants and professionals; costs of credit ratings; fees and charges for preparation, execution, transportation and safekeeping of such Bonds; and any other cost, charge or fee in connection with the issuance of such Bonds.

"Debt Service Payment" means any scheduled payment of principal of or interest on the Bonds, together with payment of the Redemption Price of and accrued interest on the Bonds in the event that the Bonds are redeemed pursuant to the Indenture.

"Debt Service Payment Date" means any date on which any Debt Service Payment is due, including the date (if any) of the redemption of any Bonds.

"General Account" means the General Account of the Redemption Fund.

"Hedging Instrument" means any interest rate, currency or cash-flow swap agreement, interest rate cap, floor or option agreement, forward payment conversion agreement, put, call or other agreement or instrument to hedge payment, interest rate, spread or similar exposure; which in each case is designated by the Corporation as a Hedging Instrument under the Indenture. Each Hedging Instrument must meet the requirements of the Indenture therefor described below under "Power to Issue Bonds and pledge Revenues and Other Property; Hedging Instruments."

"Insurance Policy" means (i) a mortgage policy of title insurance, issued by a title insurance company qualified to do business in the State and acceptable to the Corporation, insuring the Corporation that the Mortgage on the premises is a valid and enforceable first mortgage, subject only to Permitted Encumbrances, (ii) a standard homeowner's form of fire insurance with extended coverage policy, (iii) if the loan-to-value ratio of the mortgaged property exceeds eighty percent, but does not exceed ninety percent, private mortgage insurance covering twenty percent of the Mortgage or, if the loan-to-value ratio exceeds ninety percent, private mortgage insurance covering twenty-five percent of the Mortgage or, in either of such events, alternatively, Federal mortgage insurance or guaranty; and (iv) in the case of a Streamlined Mortgage Loan, private mortgage insurance to the extent required by the Corporation at the time such Streamlined Mortgage Loan was refinanced.

"Interest Account" means the Interest Account of the Revenue Fund.

"Investment Agreement" means a guaranteed investment contract which may be entered into between the Corporation or the Trustee and any corporation (including the Trustee and its affiliates) having (as of the date of execution of the Investment Agreement) outstanding unsecured obligations that are rated at least (i) "Aa2/P-1" by Moody's and in the highest rating category by S&P and Fitch (if rated by Fitch) for the Debt Service Reserve Account, the Revenue Fund and the Redemption Fund (and the Accounts therein) and (ii) "Aa2/P-1" by Moody's, "AA-/A-1+ " by S&P and "AA-/F1+ " by Fitch (if rated by Fitch) for the Program Obligation Fund, or if such corporation lacks the applicable ratings, having long-term debt securities rated in the highest rating category by the Rating Agencies; provided, however, that, in lieu of the foregoing, any guaranteed investment contract will be of Rating Quality.

"Investment Assumptions" means an annual rate of 2.5%; provided, however, that if, at the date of any Bond Coverage Certificate to be delivered investment earnings assumptions used by the Rating Agencies are higher than the assumed annual rate set forth in this definition (as

evidenced in writing from each Rating Agency) or if actual investment earnings may be calculated for any period (including any period commencing in the future in the case of amounts which when received will be invested under an Investment Agreement) by reason of the existence of a rate assured by an Investment Agreement, then "Investment Assumptions" will mean the earnings at the earning assumptions used by the Rating Agencies or the earnings on the Investment Agreement as the case may be; provided, however, that "Investment Assumptions" may be modified by Supplemental Indenture if such modification will not adversely affect the Unenhanced Ratings then assigned to any Bonds by the Rating Agencies.

"Investment Securities" means any of the following investments bearing interest or issued at a discount:

(1) direct obligations of, and obligations fully guaranteed as to full and timely payment of interest and principal by, the United States of America, or any agency or instrumentality of the United States of America the obligations of which are backed by the full faith and credit of the United States of America;

(2) instruments evidencing direct ownership interests in direct obligations, or specified portions (such as principal or interest) of such obligations, of the United States of America which obligations are held by a custodian in safe keeping on behalf of the holders of such receipts, if such instruments have terms, conditions and/or credit quality such that the Unenhanced Ratings on the Bonds will not be adversely affected;

(3) demand and time deposits in, certificates of deposit of, and banker's acceptances issued by the Trustee, its affiliates or any other bank or trust company organized under the laws of the United States of America or any state thereof and subject to supervision and examination by federal and state banking authorities, or any foreign bank with a branch or agency licensed under the laws of the United States of America or any state thereof or under the laws of a country the Moody's sovereign rating for bank deposits in respect of which is "Aaa", so long as at the time of such investment (a) the unsecured debt obligations of such bank or trust company (or, in the case of the principal bank in a bank holding company system, the unsecured debt obligations of such bank holding company) have credit ratings from S&P, Moody's and Fitch (if rated by Fitch) at least equal to the ratings of the Bonds which were in effect at the time of issuance thereof or (b) the investment matures in six months or less and such bank or trust company (or, in the case of the principal bank in a bank holding company system, such bank holding company) has outstanding commercial paper rated "A-1+" by S&P, "P-1" by Moody's and "F1+" by Fitch (if rated by Fitch);

(4) repurchase obligations held by the Trustee or a third party acting as agent for the Trustee with a maturity date not in excess of 30 days with respect to (a) any security described in paragraph (1) or (b) any other security issued or guaranteed by an agency or instrumentality of the United States of America, in either case entered into with any other bank or trust company (acting as principal) described in clause (b) of paragraph (3) above;

(5) securities (other than securities of the types described in the other paragraphs under this definition of Investment Securities) which at the time of such investment have ratings from S&P, Moody's and Fitch (if rated by Fitch) at least equal to the highest ratings categories of the Rating Agencies for obligations similar to the Bonds which were in effect at the time of issuance thereof and which evidence a debt of any corporation organized under the laws of the United States of America or any state thereof excluding federal securities that were purchased at a price in excess of par; provided, however, that such securities issued by any particular corporation will not be Investment Securities to the extent that investment therein will cause the then outstanding principal amount of securities issued by such corporation and held under the Indenture to exceed 10% of the aggregate outstanding principal balances and amounts of all Program Obligations and Investment Securities held under the Indenture;

(6) securities (a) which at the time of such investment have ratings from S&P, Moody's and Fitch (if rated by Fitch) at least equal to the highest ratings available from such Rating Agencies for obligations similar to the Bonds; (b) which evidence a debt of any state or municipal government of the United States or any agency, instrumentality, or public corporation thereof authorized to issue bonds on behalf thereof or any nonprofit corporation described in Revenue Ruling 63-20; and (c) the interest on which is exempt from federal income taxation to the same extent that interest on the Bonds (other than Bonds issued as federally taxable bonds) is exempt from federal income taxation and is treated (or not treated) as a preference item to be included in calculating the alternative minimum tax imposed under the Code;

(7) money market funds that invest exclusively in securities described in paragraph (6) of this definition and have a rating of "Aaa" by Moody's, "AAAm" or "AAAm-G" by S&P and "AAA" by Fitch (if rated by Fitch);

(8) commercial paper with a maturity date not in excess of 270 days rated "A-1+ " by S&P, "P-1" by Moody's and "F-1+ " by Fitch (if rated by Fitch) at the time of such investment;

(9) an Investment Agreement;

(10) money market funds (other than those described in paragraph (7) of this definition), rated "AAAm" or "AAAm-G" by S&P, "Aaa" by Moody's and "AAA" by Fitch (if rated by Fitch), secured by obligations with maturities of one year or less the payment of principal and interest on which is guaranteed by the full faith and credit of the United States of America; and

(11) any other investment of Rating Quality.

None of the above-described investments may have a S&P 'r' highlighter affixed to its ratings. Each investment (other than an Investment Agreement) must have a predetermined fixed dollar amount of principal due at maturity that cannot vary or change. Interest may be either fixed or variable. Variable rate interest must be tied to a single interest rate index plus a single fixed spread, if any, and move proportionately with that index.

"Liquidity Provider" means any person, firm or entity designated in a Supplemental Indenture as providing a Liquidity Facility.

"Loan Loss Coverage" means the coverage, if any, of loss from Mortgage Loan defaults provided in an Authorizing Indenture which supplements any primary mortgage insurance.

"Mortgage Certificate" means a FNMA MBS, a GNMA Certificate (which may be in book-entry form, and if held in book-entry form with PTC, such Certificate is held in a limited-purpose account), or a FHLMC Certificate, in each case registered in the name of the Trustee, as Trustee under the Indenture.

"Mortgage Loan" means an interest-bearing mortgage loan evidenced by a note, bond or other instrument which will:

(1) be for the purchase of an owner-occupied, one-, two-, three-, or four-family residence located in the State, a one-family condominium unit, or a dwelling unit located in a building containing more than two units;

(2) be secured by a Mortgage constituting a first lien, subject only to Permitted Encumbrances, on the residential housing and the premises on which the same is located or on a leasehold interest therein having a remaining term, at the time such mortgage loan is acquired, sufficient in the opinion of the Corporation to provide adequate security for such mortgage loan;

(3) bear a fixed rate of interest for an initial term of not less than 15 years, but not more than 30 years; and

(4) be subject to an Insurance Policy.

"Mortgage Payment Assumptions" means and includes the following assumptions to be used by the Corporation in preparing each Bond Coverage Certificate: (1) payment lags from the first day of the month in which the Program Obligations are funded to the receipt date of (a) 50 days for each GNMA I Certificate and each Gold FHLMC PC held in the Program Obligation Fund, (b) 60 days for each GNMA II Certificate held in the Program Obligation Fund, (c) 60 days for each FNMA MBS held in the Program Obligation Fund, (d) 90 days for each Mortgage Loan which has not been converted to a Mortgage Certificate held in the Program Obligation Fund, and (e) with respect to other mortgage instruments as described in the definition of Program Obligations, the payment date set forth in the applicable Authorizing Indenture; (2) payment when due of applicable servicing and guarantee fees to GNMA, FNMA, and FHLMC; (3) use of money in the Program Obligation Fund prior to the completion of acquisition of Program Obligations to acquire Mortgage Loans that have not been converted to Mortgage Certificates; and (4) use of the money described in clause (3) hereof in the manner described in clause (3) hereof either on the last day of the acquisition period (if application of such money to such purpose prior to such last day would result in the receipt of funds during such period in excess of the amount required to provide

timely payment of the principal of and interest on the Bonds during such period) or, otherwise, on the date of calculation.

"Mortgage Principal" means all payments (including prepayments) of principal called for by any Program Obligation and paid to the Corporation from any source, including both timely and delinquent payments.

"Outstanding," when used with reference to Bonds, means, as of any date, all Bonds theretofore or thereupon being authenticated and delivered under the Indenture except:

- (1) any Bonds canceled by the Trustee at or prior to such date;
- (2) Bonds for the transfer or exchange of or in lieu of or in substitution for which other Bonds have been authenticated and delivered pursuant to the Indenture; and
- (3) Bonds deemed to have been paid as described under "Summary of Certain Provisions of the Indenture—Defeasance."

"Parity" means, in each case at all times from and after the date of calculation through the final maturity date of the Bonds, (i) for the purpose of withdrawing money from the Indenture for payment to the Corporation free and clear of the lien and pledge of the Indenture, an amount then held in Funds and Accounts under the Indenture (except the Loan Loss Fund, the Rebate Fund, and the Bond Purchase Fund) at least equal to 103% of Bonds then Outstanding; and (ii) for all other purposes, an amount then held in Funds and Accounts under the Indenture (except the Loan Loss Fund, the Rebate Fund, and the Bond Purchase Fund) at least equal to 100% of Bonds then Outstanding.

"Pledged Revenues" means (i) all payments of principal of and interest on Program Obligations (other than Program Obligations in the Loan Loss Fund) immediately upon receipt thereof by the Corporation or any Depository or the Trustee (including payments representing prepayments of Mortgage Loans and any payments received from FNMA pursuant to its guarantee of the FNMA MBSs and from GNMA pursuant to its guarantee of the GNMA Certificates and from FHLMC pursuant to its guarantee of the FHLMC Certificates) and all other net proceeds of such Program Obligations, (ii) all amounts so designated by any Supplemental Indenture and required by such Supplemental Indenture to be deposited in the Revenue Fund; (iii) amounts received by the Corporation or the Trustee under any Hedging Instrument; and (iv) income or interest earned and gain realized in excess of losses suffered by a Fund other than the Loan Loss Fund, the Rebate Fund, and the Bond Purchase Fund as a result of the investment thereof; but Pledged Revenues do not include amounts derived from any Liquidity Facility.

"Principal Account" means the Principal Account of the Redemption Fund."

"Program" means the part of the program of the Corporation relating to the Bonds.

"Program Expenses" means all the Corporation's expenses in carrying out and administering the Program and include, without limiting the generality of the foregoing, salaries; supplies; utilities; mailing; labor; materials; office rent; maintenance; furnishings; equipment; machinery and apparatus; insurance premiums; legal, accounting, management, consulting, and banking services expenses; bond insurance premiums; the fees and expenses of the Trustee and Depositories, including counsel thereto; and payments for pension, retirement, health and hospitalization, and life and disability insurance benefits, all to the extent properly allocable to the Program.

"Program Obligations" means (a) Mortgage Loans (or participations therein) and Mortgage Certificates (or participations therein) and (b) if the Rating Agencies have previously informed the Corporation and the Trustee in writing that there would be no adverse effect on the Unenhanced Ratings then assigned by them to the Bonds, other mortgage instruments (or participations therein) deposited in the Program Obligation Fund or identified or described by the Corporation either in the Authorizing Indenture authorizing the issuance of a Series of Bonds or otherwise in writing to the Trustee.

"Rating Agencies" means Moody's, S&P and Fitch.

"Rating Quality" means having terms, conditions and/or a credit quality such that the item stated to be of Rating Quality will not adversely affect the then-current Unenhanced Rating assigned by the Rating Agencies to the Bonds.

"Restricted Mortgage Principal" means Mortgage Principal that is required by the Code (in the amounts specified in the Authorizing Indenture for a Series or the corresponding Tax Certificate) to be used to redeem or retire Bonds of a Series.

"Secured Obligations" means (i) the obligation of the Corporation to pay the principal of, and the interest and premium, if any, on, all Bonds according to their tenor, and the performance and observance of all the Corporation's covenants and conditions in the Bonds and the Indenture; and (ii) the payment and performance of all obligations of the Corporation pursuant to any Hedging Instrument entered into with respect to all or any portion of the Bonds and specified as such in any Authorizing Indenture, but *only* to the extent provided for in the Indenture and any Supplemental Indenture; but "Secured Obligations" does not include any obligation of the Corporation to purchase Bonds tendered prior to their maturity date or redemption date or to reimburse any Liquidity Provider for amounts drawn on or made available pursuant to a Liquidity Facility for the payment of any such purchase obligation.

"Streamlined Mortgage Loan" means a Mortgage Loan of the Corporation modified to require lower mortgage payments pursuant to action of the Corporation in December 1991.

"Tax Certificate" means the certificate, if any, relating to the criteria for tax-exemption of interest on the Bonds delivered by the Corporation at the delivery of a Series of Bonds (other than

Bonds the interest on which is intended not to be excluded from gross income for Federal income tax purposes).

"Uncovered Loan Losses" shall mean, at any time of calculation, losses with respect to defaulted Mortgage Loans held in the Program Obligation Fund, to the extent that such losses (i) are not covered by any mortgage insurance or guarantee, (ii) are not recovered upon foreclosure or sale in lieu of foreclosure, and (iii) have not been covered by a transfer of amounts from the Loan Loss Fund to the Redemption Fund pursuant to the Indenture.

"Unenhanced Rating" means with respect to any particular Bonds, the long-term credit rating assigned to such Bonds by each Rating Agency for such Bonds without regard to any bond insurance or other form of credit enhancement that may then exist with respect to such Bonds.

Indenture to Constitute a Contract (Section 203)

In consideration of the purchase and acceptance of the Secured Obligations by those who hold the same from time to time, the provisions of the Indenture will be a part of the contract of the Corporation with the holders of Secured Obligations and will be deemed to be and will constitute a contract among the Corporation, the Trustee and the holders from time to time of the Secured Obligations. The pledge effected by the Indenture and the provisions, covenants and agreements set forth in the Indenture to be performed by or on behalf of the Corporation will be for the equal benefit, protection and security of the holders of any and all of such Secured Obligations, each of which will be of equal rank without preference, priority or distinction over any other thereof except as expressly provided in the Indenture.

Issuance of Additional Bonds (Sections 205, 206 and 207)

The Indenture authorizes additional Bonds (including refunding Bonds) of a Series to be issued from time to time, subject to the terms, conditions and limitations set forth therein. The Bonds of a Series are to be executed by the Corporation and delivered to the Trustee for authentication and delivery only upon receipt by the Trustee of:

- (i) a Counsel's Opinion to the effect, among other things, that the Bonds of such Series have been duly and validly authorized and issued in accordance with the Constitution and statutes of the State, including the Act as amended to the date of such opinion, and in accordance with the Indenture;
- (ii) a copy of the Authorizing Indenture;
- (iii) the amount of the proceeds of such Series and amounts from other sources to be deposited in any Fund or Account held by the Trustee pursuant to the Indenture;

(iv) except in the case of refunding Bonds, a certificate of an authorized officer stating that the Corporation is not in default in the performance of any of the covenants, conditions, agreements or provisions contained in the Indenture;

(v) a Bond Coverage Certificate;

(vi) a certificate of an authorized officer of the Corporation that the then-current ratings of the Outstanding Bonds will not be reduced by the issuance of the additional Bonds;

(vii) a written order as to the authentication and delivery of such Bonds signed by an Authorized Officer; and

(viii) such further requirements as set forth in the Indenture and any Supplemental Indenture.

One or more Series of refunding Bonds may be issued pursuant to the Indenture to refund any Outstanding Bonds. Refunding Bonds may be issued only upon receipt by the Trustee of irrevocable instructions to the Trustee to give any required notices with respect to the refunded Bonds, and upon receipt by the Trustee of either (i) moneys sufficient to effect payment of the Bonds to be refunded or (ii) direct obligations of, or obligations insured or guaranteed by, the United States of America or agencies or instrumentalities thereof which will provide moneys sufficient to provide for such payment.

Funds and Accounts (Section 501)

The Indenture establishes and creates the following trust funds and accounts:

- Program Obligation Fund
- Revenue Fund
 - Interest Account
 - Debt Service Reserve Account
 - Bond Proceeds Account
 - Restricted Mortgage Principal Account
- Redemption Fund
 - Principal Account
 - Operating Account
 - General Account
- Rebate Fund
- Bond Purchase Fund
- Loan Loss Fund

The Trustee will establish for each Series separate accounts in the Revenue Fund, the Redemption Fund, the Program Obligation Fund and the Rebate Fund and separate subaccounts

in the Interest Account, the Restricted Mortgage Principal Account, the Principal Account, the Operating Account and the General Account.

Program Obligation Fund (Section 502)

All Pledged Revenues relating to Program Obligations (including prepayments) and other investments in a Series Account of the Program Obligation Fund will be transferred to the applicable Series Account or Restricted Mortgage Principal Account of the Revenue Fund.

The Trustee will disburse amounts held in each Series Account in the Program Obligation Fund (i) to acquire Program Obligations, (ii) to purchase Investment Securities, (iii) to transfer to the Interest Account or the Principal Account either as directed in the most recently delivered Bond Coverage Certificate or at the written direction of the Corporation to the extent necessary to prevent a default in the payment of principal of or interest on the Bonds or to pay the redemption price of the Bonds or (iv) as otherwise specified in the Authorizing Indenture or the redemption of Bonds.

The Trustee will disburse funds in the Program Obligation Fund against delivery of Program Obligations only if the conditions of the Indenture are met, including that (i) the Corporation certifies the existence of Bond Coverage giving effect to such disbursement as provided in the definition of Bond Coverage, (ii) the Corporation certifies that no Event of Default under the Indenture exists or will exist after giving effect to such disbursement, (iii) the Corporation gives irrevocable instructions to register any Mortgage Certificates in the name of the Trustee and assigns to the Trustee all of the Corporation's rights, title and interest in any Mortgage Loans, and (iv) with respect to a proposed delivery of Mortgage Loans, the Corporation certifies compliance with any requirement with respect to Loan Loss Coverage and the Debt Service Reserve Requirement in accordance with the Indenture and the applicable Authorizing Indenture.

Revenue Fund (Section 503)

Immediately upon receipt of any Pledged Revenues (*provided* that amounts received in respect of any Hedging Instrument will be credited as specified in a Supplemental Indenture or an Authorized Officer's Certificate), the Trustee will deposit such Pledged Revenues in the applicable Series Account of the Revenue Fund, except that Restricted Mortgage Principal shall be deposited in the applicable Series Subaccount of the Restricted Mortgage Principal Account. The Trustee will apply such Pledged Revenues, together with any excesses in the Debt Service Reserve Account or Loan Loss Fund transferred to the Revenue Fund as described in the last paragraph under this heading, as follows:

- (1) From each Series Subaccount of the Restricted Mortgage Principal Account:

First, the Trustee shall transfer to the related Series Subaccount of the Principal Account the amount needed, together with amounts on deposit therein, to pay principal

(including any Sinking Fund Installments) coming due on the Bonds of the related Series on or before the next Debt Service Payment Date and shall apply such amount to such purpose on such Debt Service Payment Date; and

Second, after satisfying the foregoing, the Trustee shall transfer to the related Series Subaccount of the General Account any amount then remaining in such Series Subaccount of the Restricted Mortgage Principal Account to be used to redeem Bonds of the related Series and shall apply such amount to such purpose on the earliest practicable redemption date.

(2) From each Series Account of the Revenue Fund:

First, to the applicable Series Account of the Rebate Fund to the extent so directed in writing by the Corporation but only as necessary to comply with the documents referred to in the Indenture and shall apply such amounts to such purpose; and

Second, (i) to the applicable Series Subaccount of the Interest Account the amount required, together with other amounts on deposit therein, to pay the interest on the Bonds of the related Series on the next interest payment date; the Trustee will apply funds in a Series Subaccount of the Interest Account to the payment of interest on the applicable Series of Bonds on the applicable interest payment date; and (ii) to the counterparty of any Hedging Instrument, Authorized Hedging Payments due under such Hedging Instrument during the related current Interest Payment Period. After making the transfers set forth in the immediately previous sentence the Trustee may transfer to the Interest Account the amount required, together with other amounts on deposit therein, to pay interest coming due on Bonds of other Series to the extent that amounts under the Indenture would be otherwise insufficient therefor absent a transfer of funds from the Debt Service Reserve Account or the Loan Loss Fund or other money made available by the Corporation.

After satisfaction in full of the deposits required by the preceding paragraphs, the Trustee will transfer the remaining Pledged Revenues in a Series Account of the Revenue Fund to the applicable Series Account of the Redemption Fund, to be applied as described below under "Summary of Certain Provisions of the Indenture—Redemption Fund."

If at noon on the third Business Day prior to the Debt Service Payment Date the amount on deposit, or to be deposited on such Debt Service Payment Date, in the Interest Account, the Principal Account and the General Account is less than the amount required to pay any Debt Service Payments on the Bonds on such Debt Service Payment Date, any deficiency in each such Account will be immediately satisfied with a transfer from the Debt Service Reserve Account to the applicable Account or, if insufficient, by a deposit to the applicable Account of any other funds of the Corporation available therefor, including the Loan Loss Fund. On any Debt Service Payment Date, funds on deposit in the Debt Service Reserve Account in excess of the Debt Service Reserve Requirement may be withdrawn and paid over to the Corporation free and clear of the lien and pledge of the Indenture if the Corporation has filed with the Trustee a Bond Coverage

Certificate demonstrating Bond Coverage after giving effect to such withdrawal; provided, that all Debt Service Payments on the Bonds then due have been paid on such Debt Service Payment Date, and that all amounts then due from the Corporation or the Trustee to the counterparties under any Hedging Instruments have been paid on such Debt Service Payment Date; and provided, further, that no such withdrawal may be made (i) while proceeds of any Series are on deposit in the Program Obligation Fund and have not been either exchanged for Program Obligations or applied to the redemption of Bonds of such Series or (ii) for sixty days following any period described in (i); and provided, further, that no such funds derived from the proceeds of tax-exempt Bonds may be so released without a Counsel's Opinion to the effect that such release will not adversely affect the tax-exemption of interest on the tax-exempt Bonds from which such funds were derived. Any amounts remaining in the Debt Service Reserve Account five days after each following Debt Service Payment Date in excess of the Debt Service Reserve Requirement will be transferred by the Trustee to the Account or Accounts of the Revenue Fund for the related Series of Bonds. On future Debt Service Payment Dates, the Trustee will, at the direction of the Corporation, transfer any amounts in the Debt Service Reserve Account that are in excess of the Debt Service Reserve Requirement to the Series Account or Accounts of the Revenue Fund for the related Series of Bonds.

The Supplemental Indenture creates subaccounts within the Bond Proceeds Account for the purpose of holding proceeds of 2002 Bonds or amounts deposited by the Corporation in connection with the issuance of 2002 Bonds, as provided in such Supplemental Indenture. The Trustee will pay the amounts in such subaccount of the Bond Proceeds Account to or upon the order of the Corporation from time to time, as provided in such Supplemental Indenture.

Redemption Fund (Section 504)

On any day the Trustee receives funds for deposit in a Series Account of the Redemption Fund, the Trustee will deposit and apply such funds as follows:

First, (i) in each period ending on a principal payment date for the applicable Series of Bonds, to deposit in the related Series Subaccount of the Principal Account the amount necessary, together with other amounts in such Subaccount, to pay principal of the applicable Series of Bonds (and, after so providing for the payment of principal of such related Series, to pay principal coming due on Bonds of other Series to the extent that amounts under the Indenture would be otherwise insufficient therefor absent a transfer of funds from the Debt Service Reserve Account or the Loan Loss Fund) due on such principal payment date; the Trustee shall apply funds in a Series Subaccount of the Principal Account to payment of principal of the related Series of Bonds on the applicable principal payment date; and (ii) to the counterparty of any Hedging Instrument, Authorized Hedging Payments due under such Hedging Instrument during the related current Interest Payment Period;

Second, in each period ending on a Sinking Fund Installment Date for a Series of Bonds, to deposit in the related Series Subaccount of the Principal Account the amount necessary to satisfy the Sinking Fund Installment on the Bonds of such Series (and, after so providing for the payment

of principal of such related Series, to pay Sinking Fund Installments coming due on Bonds of other Series to the extent that amounts under the Indenture would be otherwise insufficient therefor absent a transfer of funds from the Debt Service Reserve Account or the Loan Loss Fund) on such Sinking Fund Installment Date;

Third, to the Debt Service Reserve Account, the amount required, if any, to increase the balance to the Debt Service Reserve Requirement;

Fourth, to the related Subaccount of the Operating Account the amount required to pay or reimburse the Corporation for the payment of Program Expenses allocable to the then current semi-annual interest period for the related Series of Bonds, but in no event may such deposits in any semi-annual interest period exceed .055% of the outstanding principal balance of the Program Obligations held in the related Series Account of the Program Obligation Fund; and

Fifth, after satisfaction in full of the deposits required by the four preceding paragraphs, remaining amounts to the applicable Series Subaccount of the General Account for application to the special redemption of Bonds of the related Series on a *pro rata* basis; provided that upon the filing of a Bond Coverage Certificate, the Corporation may direct the Trustee: (i) to deposit all or a portion of such amount in the applicable Series Account of the Program Obligation Fund, but only if any amounts initially deposited in such Series Account of the Program Obligation Fund have been exchanged for Program Obligations or applied to redeem Bonds of the applicable Series (provided that for such a transfer a Bond Coverage Certificate need be filed only if the Rating Agencies require it); (ii) to deposit all or a portion of such amount in the related Series Subaccount of the General Account for application to the special redemption of Bonds of the related Series on other than a *pro rata* basis; (iii) to deposit all or a portion of such amount in another Series Subaccount of the General Account for application to special redemption of the one or more Series of Bonds relating to such Subaccount; or (iv) to transfer all or a portion of such moneys to the Corporation free and clear of the lien and pledge of the Indenture, but only if any amounts initially deposited in the related Series Account of the Program Obligation Fund have been exchanged for Program Obligations.

Notwithstanding the foregoing, if amounts in any Series Subaccount of the Interest Account or the Principal Account are not adequate to pay interest or principal (including Sinking Fund Installments) due with respect to the applicable Series of Bonds or any Authorized Hedging Payments required to be made by the Corporation or the Trustee to a counterparty under a related Hedging Instrument, amounts will be withdrawn from one or more Series Accounts of the Revenue Fund or the Redemption Fund to pay such interest or principal or required payments. Such transfers will be made in accordance with the directions of the Corporation or if no such direction is given from any Series Account of the Revenue Fund or the Redemption Fund. All such transfers will be made before any transfers of Pledged Revenues to the Operating Account or the General Account.

Rebate Fund (Section 505)

The Trustee will establish and create a Rebate Fund (and a separate account therein for each Series of Bonds), if necessary pursuant to the terms and conditions of any arbitrage or other tax-related certificate prepared in connection with the issuance of a Series of Bonds or any instructions or memorandum attached thereto or a Counsel's Opinion. Amounts in the Rebate Fund are not pledged by the Indenture as security for the payment of Secured Obligations.

Bond Purchase Fund (Section 506)

An Authorizing Indenture may create one or more accounts within the Bond Purchase Fund for the purpose of holding amounts to be used to purchase related Bonds tendered by Bondholders pursuant to the terms of such Authorizing Indenture. Such accounts will be held in trust by the Trustee or Paying Agent designated by such Authorizing Indenture for the purposes specified by such Authorizing Indenture. Amounts in the Bond Purchase Fund are not pledged by the Indenture as security for the payment of Secured Obligations; and the term "Secured Obligations" does not include any obligation of the Corporation to purchase Bonds tendered prior to their maturity date or redemption date or to reimburse any Liquidity Provider for amounts drawn on or made available pursuant to a Liquidity Facility for the payment of any such purchase obligation.

Loan Loss Fund (Section 507)

The Trustee and the Corporation shall make deposits into, and withdrawals and disbursements from the Loan Loss Fund in accordance with the Indenture. The Corporation shall maintain at all times an amount in the Loan Loss Fund equal to the Loan Loss Requirement. The Loan Loss Fund may be funded with any combination of cash or investments described in paragraphs 1, 2 and 11 of the definition of Investment Securities, *provided* that, from and after the delivery to the Trustee of a Bond Coverage Certificate demonstrating clause (i) of the definition of Parity, the Loan Loss Fund may also be funded with Mortgage Loans and Mortgage Certificates. No Mortgage Loans shall be purchased within or otherwise credited to the Program Obligation Fund unless upon such crediting the amount on deposit in the Loan Loss Fund shall be at least equal to the Loan Loss Requirement.

The Corporation may, at any time, withdraw from the Loan Loss Fund an amount equal to Uncovered Loan Losses. The Corporation shall transfer all such amounts so withdrawn to the applicable Series Account of the Redemption Fund to be used to redeem Bonds of the related Series at the earliest practicable redemption date.

Amounts in the Loan Loss Fund in excess of the sum of (i) the Loan Loss Requirement and (ii) current and expected Uncovered Loan Losses, may at any time be withdrawn and paid to the Corporation free and clear of the lien and pledge of the Indenture.

If, at noon, Alaska time, on the fifteenth Business Day preceding any Debt Service Payment Date, the amount on deposit, or to be deposited on such Debt Service Payment Date, in

the Interest Account, the Principal Account, the General Account and the Debt Service Reserve Account shall be less than the amount required to pay any Debt Service Payment on the Bonds on such Debt Service Payment Date, the Trustee shall so notify the Corporation. If, at noon, Alaska time, on the tenth Business Day, preceding any Debt Service Payment Date, the amount on deposit, or to be deposited on such Debt Service Payment Date, in the Interest Account and the Principal Account shall be less than the amount required to pay any Debt Service Payment on the Bonds on such Debt Service Payment Date, the Trustee shall, to the extent necessary, sell Investment Securities, Mortgage Loans or Mortgage Certificates on deposit in the Loan Loss Fund such that an amount in cash equal to the deficiency described in this paragraph is on deposit in the Loan Loss Fund.

If, at noon, Alaska time, on the third Business Day preceding any Debt Service Payment Date, the amount on deposit, or to be deposited on such Debt Service Payment Date, in the Interest Account, the Principal Account and the General Account shall be less than the amount required to pay any Debt Service Payment on the Bonds on such Debt Service Payment Date, any such deficiency in each such Account shall be immediately satisfied with a transfer from the Debt Service Reserve Account to the applicable account or, to the extent insufficient, by a transfer to the applicable account of any other funds of the Corporation available therefor, including amounts available in the Loan Loss Fund.

Investments (Sections 513 and 515)

All amounts held under the Indenture by the Trustee are required to be continuously and fully invested for the benefit of the Corporation and the owners of the Bonds in accordance with the Indenture. All amounts deposited with the Trustee are required to be credited to the particular funds and accounts established under the Indenture.

The Corporation is required to furnish the Trustee with written investment instructions. In the absence of such instructions, the Trustee is required to invest in those Investment Securities described in clause (10) of the definition of Investment Securities so that the moneys in said Funds and Accounts will mature as nearly as practicable with times at which moneys are needed for payment of principal or interest on the Bonds. Except as otherwise provided in the Indenture, the income or interest earned and gains realized in excess of losses suffered by a Fund, other than the Loan Loss Fund, the Bond Purchase Fund and the Rebate Fund, due to the investment thereof will be deposited as Pledged Revenues in the Revenue Fund, unless otherwise directed by the Corporation. The Trustee is required to advise the Corporation on a monthly basis of the details of all deposits and Investment Securities held for the credit of each Fund in its custody under the provisions of the Indenture as of the end of the preceding month. The Trustee may act as principal or agent in the acquisition or disposition of any Investment Securities. The Trustee may purchase Investment Securities from (i) any lawful seller, including itself, (ii) other funds of the Corporation, and (iii) other funds established by resolution, indenture or agreement of the Corporation (including resolutions providing for issuance of obligations); provided, however, that the Trustee is not permitted to purchase Investment Securities at an above-market price or a below-market yield. The Trustee may, at its sole discretion, commingle any of the Funds and Accounts

established pursuant to the Indenture into a separate fund or funds for investment purposes only; provided, however, that all Funds and Accounts held by the Trustee under the Indenture will be accounted for separately notwithstanding such commingling. The Corporation may not direct the Trustee to purchase any Investment Securities (other than an Investment Agreement) maturing on a date later than the earlier of six months following the date of purchase or the next Debt Service Payment Date, with the exception of investments made in the Loan Loss Fund, unless the Corporation has delivered a Bond Coverage Certificate to the Trustee. In computing the amount in any Fund, obligations purchased as an investment of moneys therein will be valued at par if purchased at their par value or at amortized value if purchased at other than their par value. The Trustee will sell at market price, or present for redemption, any obligation so purchased as an investment whenever it is requested in writing by an authorized officer of the Corporation to do so or whenever it is necessary in order to provide moneys to meet any payment or transfer from any fund held by it. The Trustee will not be liable for any loss resulting from the acquisition or disposition of any Investment Securities, except for any such loss resulting from its own negligence or willful misconduct.

Investment Agreements (Section 514)

If the Corporation so directs the Trustee in writing, the Corporation and the Trustee will execute and deliver, as of the date of delivery of a Series of Bonds, or at such other time determined by the Corporation, one or more Investment Agreements and the Trustee will deposit on such date (i) amounts in the Debt Service Reserve Account under an Investment Agreement providing for investment of such amounts and permitting withdrawals on or before Debt Service Payment Dates and (ii) amounts in the Program Obligation Fund and amounts in the Interest Account under an Investment Agreement providing for investment of such amounts and permitting withdrawals as necessary under the terms of the Indenture and the Authorizing Indenture. After the date of issuance and delivery of the Bonds, moneys deposited from time to time in the Revenue Fund (other than moneys transferred from the Redemption Fund to the Debt Service Reserve Account to bring the balance therein to the Debt Service Reserve Requirement), the Redemption Fund and the Program Obligation Fund and available for temporary investment will be deposited by the Trustee under an Investment Agreement providing for investment of such amounts and permitting withdrawals as necessary under the terms of the Indenture and the Authorizing Indenture.

No Limitation on Additional Collateral Contributions (Section 516)

The Corporation may from time to time contribute, and the Trustee will accept and deposit, in any Fund or Account, moneys and/or Investment Securities and/or Program Obligations.

Payment of Bonds (Section 701)

The Corporation covenants to duly and punctually pay or cause to be paid the principal or redemption price, if any, of and the interest on every Bond at the dates and places and in the manner stated in the Bonds and in the Indenture according to the true intent and meaning thereof

and to duly and punctually pay or cause to be paid all sinking fund installments becoming payable with respect to the Bonds.

Power to Issue Bonds and Pledge Revenues and Other Property; Hedging Instruments
(Section 705)

The Corporation is duly authorized by law to enter into, execute and deliver the Indenture. The Bonds and the provisions of the Indenture are and will be the valid and legally enforceable obligations of the Corporation in accordance with their terms. The Corporation will at all times, to the extent permitted by law, defend, preserve and protect the pledge of the Program Obligations, Pledged Revenues and other assets, including rights therein, pledged under the Indenture and all the rights of the owners of the Bonds under the Indenture against all claims and demands of all persons whomsoever.

No Hedging Instrument may be entered into by the Corporation with respect to all or any portion of the Bonds unless it complies with the following terms, conditions, provisions and limitations and any additional terms, conditions, provisions and limitations specified by the related Supplemental Indenture with respect to such Hedging Instrument and the related Bonds:

(i) The counterparty (or guarantor of the counterparty) of each Hedging Instrument shall have a rating at the time of execution of the Hedging Instrument of its long-term debt obligations of at least "A-" or higher if rated by S&P or Fitch and "A3" or higher if rated by Moody's; and

(ii) No Hedging Instrument may be entered into by the Corporation if the entry into such Hedging Instrument would cause any Unenhanced Rating on any Bonds to be reduced or withdrawn.

Tax Covenants (Section 706)

The Corporation covenants to:

(i) not knowingly take or cause any action to be taken which would cause the interest on the Tax-Exempt Bonds to become taxable for federal income tax purposes;

(ii) at all times do and perform all acts and things necessary or desirable in order to assure that interest paid on the Tax-Exempt Bonds will, for the purposes of federal income taxation, be excludable from gross income and exempt from such taxation; and

(iii) not permit at any time or times any proceeds of any Bonds, Pledged Revenues or any other funds of the Corporation to be used, directly or indirectly, in a manner which would result in the exclusion of any Tax-Exempt Bond from the treatment afforded by subsection (a) of Section 103 of the Code.

The covenants described in clauses (i), (ii) and (iii) above will not apply to any Series of Bonds the interest on which is determined by the Corporation not to be exempt from taxation under Section 103 of the Code, provided, that no such Series of Bonds may be issued unless a Counsel's Opinion is filed with the Trustee stating that the issuance of such Series will not cause the interest on a Tax-Exempt Bond previously issued to be subject to taxation under the Code.

Accounts and Reports (Section 707)

The Corporation covenants that it will keep, or cause to be kept, proper books and records in which complete and accurate entries will be made of all its transactions relating to the program for which the Bonds are issued and any fund or account established under the Indenture and any Supplemental Indenture thereto. Such books and records will at all reasonable times be subject to the inspection by the Trustee and the owners or Beneficial Owners of an aggregate of not less than 5% in principal amount of Bonds then Outstanding or their representatives duly authorized in writing.

The Corporation also covenants to file with the Trustee within 120 days of the close of its fiscal year, financial statements of the Corporation for such year, setting forth in reasonable detail (a) a statement of revenues and expenses in accordance with the categories or classifications established by the Corporation for its program purposes; (b) a balance sheet of the program showing its assets and liabilities at the end of such fiscal year; and (c) a statement of changes in financial position for the Program for such fiscal year. The financial statements will be accompanied by an accountant's certificate to the effect that the financial statements present fairly the Corporation's financial position at the end of the fiscal year, the results of its operations and cash flows for the period examined, in conformity with generally accepted accounting principles. The Trustee has no responsibility to review such financial statements.

Sale of Program Obligations (Section 709)

Neither the Corporation nor the Trustee shall sell or assign any Program Obligation held in the Program Obligation Fund, except (i) to realize the benefits of any mortgage or hazard insurance with respect to a Mortgage Loan or for the purpose of complying with any federal tax requirement; (ii) if the Bonds of any Series have been declared due and payable; (iii) in connection with any optional redemption of a Series of Bonds in whole or in part as described in a Supplemental Indenture (any such redemption in part requires the filing of a Bond Coverage Certificate); and (iv) in connection with a special redemption of a Series of Bonds when the principal amount of such Series of Bonds is 15% (or such other percentage or amount as may be provided in an Authorizing Indenture) or less of the initial principal amount thereof; provided that in the case of either type of redemption, only the Program Obligations in the related Series Account may be sold or assigned.

Supplemental Indentures (Sections 801, 802 and 803)

Supplemental Indentures Effective Upon Filing With Trustee. The Corporation may file with the Trustee one or more supplemental indentures (each a "Supplemental Indenture") from time to time, without the consent of the Trustee and any owner of Bonds, in order to:

- (i) provide limitations and restrictions in addition to the limitations and restrictions contained in the Indenture on the issuance of evidences of indebtedness,
- (ii) add to the covenants, agreements, limitations and restrictions observed by the Corporation in the Indenture other covenants, agreements, limitations and restrictions to be observed by the Corporation which are not contrary to or inconsistent with the Indenture and which are not materially adverse to the interests of any Liquidity Provider,
- (iii) authorize a Series of additional Bonds and in connection therewith, specify and determine the matters and things referred to in the Indenture, and also any matters and things relative to such Series of additional Bonds which are not contrary to or inconsistent with the Indenture as theretofore in effect, or to amend, modify or rescind any such authorization, specification or determination at any time prior to the first authentication and delivery of such Series of Bonds,
- (iv) surrender any right, power or privilege reserved to or conferred upon the Corporation by the terms of the Indenture, but only if the surrender of such right, power or privilege is not contrary to or inconsistent with the covenants and agreements of the Corporation contained in the Indenture,
- (v) confirm, as further assurance, any pledge under, and the subjection to any lien or pledge created or to be created by, the Indenture,
- (vi) modify any of the provisions of the Indenture in any respect whatsoever, provided that (1) such modification does not materially adversely affect any owner of Bonds or (2) such modification is, and is expressed to be, effective only after all Bonds Outstanding at the date of adoption of such Supplemental Indenture cease to be Outstanding, or (3) such modification is, and is expressed to be, applicable only to Bonds issued on or after the date of the adoption of such Supplemental Indenture, or
- (vii) to make any other change in the Indenture, including any change otherwise requiring the consent of Bondholders, if such change affects only Bonds which are subject to mandatory or optional tender for purchase and if (i) with respect to Bonds subject to mandatory tender, such change is effective as of a date for such mandatory tender, and (ii) with respect to Bonds subject to tender at the option of the holders thereof, notice of such change is given to such holders at least thirty (30) days before the effective date thereof.

Supplemental Indentures Effective Upon Consent of Trustee. For any one or more of the following purposes and at any time or from time to time, the Corporation and the Trustee may enter into a Supplemental Indenture which, upon a finding recited therein by the Corporation and the Trustee (which may be based in reliance upon a Counsel's Opinion) that there is no material adverse effect on the owners of any Bonds, will be fully effective in accordance with its terms:

- (i) cure any ambiguity, supply any omission, cure or correct any defect or inconsistent portion in the Indenture,
- (ii) insert such provisions clarifying matters or questions arising under the Indenture as are necessary or desirable and are not contrary to or inconsistent with the Indenture as theretofore in effect, or
- (iii) provide for additional duties of the Trustee.

Supplemental Indentures Effective Upon Consent of Owners of Bonds. Any modification or amendment of any provision of the Indenture or of the rights and obligations of the Corporation and of the owners of any Bonds may be made by a Supplemental Indenture, with the written consent given as provided in the Indenture of the holders of at least two-thirds in principal amount of the Outstanding Bonds. No such modification or amendment may permit a change in the terms of redemption or maturity of the principal of any Outstanding Bond or of any installment of interest rate thereon or a reduction in the principal amount or the redemption price thereof or in the rate of interest thereon without the consent of the holder of such Bond.

Events of Default (Section 1002)

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

- (a) the Corporation defaults in the payment of the principal or redemption price of any Bond when and as the same has become due, whether at maturity or upon call for redemption or otherwise;
- (b) payment of any installment of interest on any Bond has not been made after the same has become due; and
- (c) the Corporation fails to comply with the provisions of the Indenture or any Supplemental Indenture or defaults in the performance or observance of any of the covenants, agreements or conditions contained therein, other than payment of the Trustee's fees, and such failure, refusal or default continues for a period of 45 days after written notice thereof by the Trustee or the holders of not less than 25% in principal amount of the Outstanding Bonds.

Remedies (Section 1003)

Upon the happening and continuance of any Event of Default specified in clauses (a) or (b) above, the Trustee is required to proceed, or upon the happening and continuance of any Event of Default specified in clause (c) above, the Trustee may proceed, and upon the written request of any Liquidity Provider or the holders of not less than 25% in principal amount of all Bonds Outstanding (but subject to the right of a holder of a majority in principal amount of the Bonds then Outstanding as described under "Bondholders' Direction of Proceedings" to overrule such holders) is required to proceed, in its own name, subject to the terms of the Indenture, to protect and enforce its rights and the rights of the owners of all Bonds, by such of the following remedies as the Trustee, being advised by counsel, deems most effectual to protect and enforce such rights: (a) by mandamus or other suit, action or proceeding at law or in equity, to enforce all rights of said owners, including the right to require the Corporation to receive and collect revenues and assets adequate to carry out the covenants and agreements as to, and pledge of, such revenues and assets, and to require the Corporation to carry out any other covenant or agreement with holders and to perform its duties under the Act; (b) by bringing suit upon the Bonds; (c) by action or suit in equity, to require the Corporation to account as if it were the trustee of an express trust for the owners of the Bonds; (d) by action or suit in equity, to enjoin any acts or things which may be unlawful or in violation of the rights of the owners of the Bonds; (e) by declaring all Bonds immediately due and payable, and if all defaults are made good, then, with the written consent of each Liquidity Provider and the holders of not less than 25% in principal amount of the Outstanding Bonds, by annulling such declaration and its consequences; or (f) in the event the Bonds are declared due and payable by selling Program Obligations for the benefit of the owners of the Bonds.

Priority of Payments after Default (Section 1004)

In the event that upon the happening and continuance of any Event of Default, the funds held by the Trustee are insufficient for the payment of principal or redemption price, if any, and interest then due on the Bonds, such funds (other than funds held for the payment or redemption of particular Bonds which have theretofore become due at maturity or by call for redemption) and any other moneys received or collected by the Trustee, acting pursuant to the Act and the Indenture, after making provision for the payment of any expenses necessary in the opinion of the Trustee to protect the interest of the owners of the Bonds and for the payment of fees, charges and expenses and liabilities incurred by the Trustee, including those of its attorneys, in the performance of its duties under the Indenture, will be applied as follows unless the principal of all the Bonds is declared due and payable:

First, to the payment to the persons entitled thereto of all installments of interest then due in the order of the maturity of such installments, and, if the amount available shall not be sufficient to pay in full any installment, then to the payment thereof ratably, according to the amounts due on such installment, to the persons entitled thereto, without any discrimination or preference; and

Second, to the payment to the persons entitled thereto of the unpaid principal or redemption price of the Bonds which have become due, whether at maturity or by call for redemption, in the order of their due dates and, if the amount available is not sufficient to pay in full all the Bonds due on any date, then to the payment thereof ratably, according to the amounts of principal or redemption price, if any, due on such date, to the persons entitled thereto, without any discrimination or preference.

Consistent with the foregoing, if the principal of Bonds is declared due and payable, available moneys will be applied to the payment of the principal and interest then due and unpaid upon the Bonds without preference or priority of principal over interest or of interest over any other installment of interest, or of any Bond over any other Bond, ratably among all Bonds, according to the amounts due respectively for principal and interest, 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.

Whenever moneys are to be applied by the Trustee pursuant to the above-described provisions, such moneys are required to be applied by the Trustee at such times, and from time to time, as the Trustee in its sole discretion determines, and the Trustee will incur no liability whatsoever to the Corporation, to any owner of Bonds or to any other person (including any Beneficial Owners) for any delay in applying any such moneys, so long as the Trustee acts with reasonable diligence, having due regard for the circumstances, and ultimately applies the same in accordance with such provisions of the Indenture as may be applicable at the time of application by the Trustee.

Bondholders' Direction of Proceedings (Section 1006)

Anything in the Indenture to the contrary notwithstanding, the holders of a majority in principal amount of the Bonds then Outstanding have the right, by an instrument or concurrent instruments in writing executed and delivered to the Trustee, to direct the method of conducting all remedial proceedings to be taken by the Trustee under the Indenture, provided that such direction may not be otherwise than in accordance with law or the provisions of the Indenture.

Limitation on Rights of Bondholders (Section 1007)

No holder of any Bond has any right to institute any suit, action, mandamus or other proceeding in equity or at law under the Indenture, or for the protection or enforcement of any right under the Indenture or any right under the law, unless such holder has given to the Trustee written notice of the Event of Default or breach of duty on account of which suit, action or proceeding is to be taken, unless a Liquidity Provider or the holders of not less than 25% in principal amount of the Bonds then Outstanding have made written request upon the Trustee after the right to exercise such powers or right of action, as the case may be, has occurred, and have afforded the Trustee sixty days either to proceed to exercise the power granted by the Indenture or granted under the law or to institute such action, suit or proceeding, in its name and unless, also, there has been offered to the Trustee reasonable security and indemnity against the costs,

expenses and liabilities to be incurred therein or thereby, and the Trustee has refused or neglected to comply with such request within sixty days; and such notification, request and offer of indemnity are declared in every such case, at the option of the Trustee, to be conditions precedent to the execution of the powers under the Indenture or for any other remedy under the Indenture or under law. No one or more holders of the Bonds will have any right in any manner whatsoever by his or their action to affect, disturb or prejudice the security of the Indenture, or to enforce any right under the Indenture or under law with respect to the Bonds or the Indenture, except in the manner provided in the Indenture, and that all proceedings at law or in equity will be instituted, had and maintained in the manner provided in the Indenture and for the benefit of all holders of Outstanding Bonds. Nothing contained in the Indenture will affect or impair the right of any holder to enforce the payment of the principal or redemption price, if any, of and interest on the Bonds, or the obligation of the Corporation to pay the principal or redemption price, if any, of and interest on each Bond issued under the Indenture to the holder thereof at the time and place specified in said Bond.

Notwithstanding anything to the contrary contained in the Indenture, each holder of any Bond by his acceptance thereof will be deemed to have agreed that any court in its discretion may require, in any suit for the enforcement of any right or remedy under the Indenture, or in any suit against the Trustee for any action taken or omitted by it as Trustee, the filing by any party litigant in such suit of an undertaking to pay the reasonable costs of such suit, and that such court may in its discretion assess reasonable costs, including reasonable attorneys' fees against any party litigant in any such suit, having due regard to the merits and good faith of the claims or defenses made by such party litigant; but the provisions described in this paragraph will not apply to any suit instituted by the Trustee, to any suit instituted by any holder of Bonds, or group of holders of Bonds, holding at least 25% in principal amount of the Bonds then Outstanding, or to any suit instituted by any holder for the enforcement of the payment of the principal or redemption price of or interest on any Bond on or after the respective due date thereof expressed in such Bond.

Trustee (Sections 1104, 1107 and 1108)

Except during the existence of an Event of Default, the Corporation may remove the Trustee at any time for such cause as is determined in the sole discretion of the Corporation. The removal of the Trustee will not take effect until its successor has accepted its appointment. Any successor to the Trustee is required to be a trust company, savings bank or commercial bank having capital and surplus aggregating at least \$50,000,000. The Corporation is required to pay to the Trustee from time to time, from available moneys in the Operating Account, reasonable compensation for all services rendered under the Indenture and also all reasonable expenses, charges, counsel fees and other disbursements, including those of their attorneys, agents and employees, incurred in the performance of their powers and duties under the Indenture, and the Trustee will have a first lien upon Pledged Revenues to secure the payment of all sums due the Trustee.

Defeasance (Section 1201)

If the Corporation pays or causes to be paid to the holders of the Bonds the principal and interest and redemption price, if any, to become due thereon, at the times and in the manner stipulated therein and in the Indenture, then the pledge of any revenues and assets thereby pledged and all other rights granted thereby will be discharged and satisfied.

Bonds or interest installments for the payment or redemption of which moneys have been set aside and held in trust (through deposit by the Corporation of funds for such payment or redemption or otherwise) at the maturity or redemption date thereof will be deemed to have been paid within the meaning and with the effect expressed in the preceding paragraph. All Outstanding Bonds will prior to the maturity or redemption date thereof be deemed to have been paid within the meaning and with the effect so expressed if (a) in case any of said Bonds are to be redeemed on any date prior to their maturity, the Corporation has given to the Trustee in form satisfactory to it irrevocable instructions to provide notice of redemption of such Bonds and (b) there has been deposited with the Trustee either moneys in an amount which will be sufficient, or direct obligations of or obligations guaranteed by the United States of America the principal of and the interest on which when due will provide moneys which, together with the moneys, if any, deposited with the Trustee at the same time, will be sufficient, to pay when due the principal or redemption price, if applicable, and interest due and to become due on said Bonds on and prior to the redemption date or maturity date thereof, as the case may be. In connection with any such deposit relating to Bonds the interest on which is excludable from gross income for federal income tax purposes, there must also be delivered to the Trustee an opinion of counsel that the deposit of moneys does not adversely affect the exclusion of interest on any Bond from gross income for federal income tax purposes. Neither the obligations nor the moneys so deposited with the Trustee nor principal or interest payments on any such obligations may be withdrawn or used for any purpose other than, and will be held in trust for, the payment of the principal or redemption price, if applicable, and interest on said Bonds, but any cash received from such principal or interest payments on such obligations deposited with the Trustee, if not then needed for such purpose, will, to the extent practicable, be reinvested in obligations maturing at times and in amounts sufficient to pay when due the principal or redemption price, if applicable, and interest to become due on said Bonds on and prior to such redemption date or maturity date thereof, as the case may be, and interest earned from such reinvestments will be paid over to the Corporation, as received by the Trustee, free and clear of any trust, lien or pledge.

Liquidity Providers (Section 1203)

Any Authorizing Indenture may provide, with respect to any consent, approval, direction or request to be given by any required percentage of Holders of Bonds (i) that the Liquidity Provider for such Bonds may give any such consent, approval, direction or request, and the same will be deemed to have been given by the Holders of the required percentage of such Bonds, or (ii) that any Bonds purchased with the proceeds of advances made by a Liquidity Provider will be deemed to be held by such Liquidity Provider, which will be considered the Holder of such Bonds for all purposes of determining whether Holders of a sufficient percentage of Bonds have given

any such consent, approval, direction or request; and specifically the Holders of such Series will not be entitled to request action by the Trustee as described above under "Remedies" if such Liquidity Provider does not request such action.

Legal Holidays (Section 1207)

In any case where the scheduled date of payment of the principal or Redemption Price of or interest on the Bonds is not a Business Day, such payment may be made on the next succeeding Business Day with the same force and effect as if made on such scheduled date, and if so made no interest will accrue for the period after such scheduled date.

Governing Law (Section 1208)

The Indenture will be governed by and construed in accordance with the laws of the State.

TAX MATTERS

Opinions of Bond Counsel and Special Tax Counsel

In the opinions of Bond Counsel and Special Tax Counsel, to be delivered on the date of issuance of the 2002 Bonds, assuming compliance with certain covenants which are designed to meet the requirements of the Code, under existing laws, regulations, rulings and judicial decisions, (i) interest on the 2002 Series A Bonds is excluded from gross income for Federal income tax purposes; (ii) interest on the 2002 Series A Bonds is a specific preference item for purposes of the alternative minimum tax provisions imposed on individuals and corporations by the Code; and (iii) interest on the 2002 Series B Bonds is not excluded from gross income for Federal income tax purposes.

In the opinion of Bond Counsel, interest on the 2002 Bonds is free from taxation by the State under existing law (*except* that no opinion is expressed as to such exemption from State estate and inheritance taxes and taxes of transfers by or in anticipation of death).

2002 Series A Bonds

General

The requirements of applicable Federal tax law must be satisfied with respect to the 2002 Series A Bonds in order that interest on such bonds not be included in gross income for Federal income tax purposes retroactive to the date of issuance thereof. The Code provides that interest on obligations of a governmental unit such as the Corporation issued to finance, or to refund bonds issued to finance, single family residences (such as the 2002 Series A Bonds) is not included in gross income for Federal income tax purposes only if certain requirements are met with respect to the terms, amount and purpose of the obligations and the use of the funds generated by the

issuance of the obligations, the nature of the residences and the mortgages, and the eligibility of the borrowers executing the mortgages.

Loan Eligibility Requirements Imposed by the Code

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

Residence Requirement. The Code requires that each of the premises financed with proceeds of qualified mortgage bonds be a one-to-four-family residence, one unit of which can reasonably be expected to become the principal residence of the mortgagor within a reasonable time after the financing is provided. In the case of a two-to-four-family residence (other than two-family residences in targeted areas having borrowers whose family income does not exceed 140% of applicable family median income), the residence must have been occupied as a residence at least five years before the mortgage is executed. Certain documents adopted by the Corporation that establish procedures to be followed in connection with the financing of Mortgage Loans with amounts attributable to the 2002 Series A Bonds in order to assure that interest paid on the 2002 Series A Bonds not be included in gross income for Federal income tax purposes under the Code (the "Program Documents") require each mortgagor to submit an affidavit stating such person's intention to occupy the premises as his principal residence within 60 days after closing of the Mortgage Loan. In the case of a two-to-four-family residence (other than two-family residences in targeted areas having borrowers whose family income does not exceed 140% of applicable family median income), the mortgagor is required by the Program Documents to certify that the residence was first occupied as a residence at least five years before the Mortgage Loan was executed.

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

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

mortgage requirement by requiring each mortgagor and the seller of the residence to certify, subject to such exceptions, that no refinancing of a prior mortgage loan is being effected.

Purchase Price Limitation. The Code requires that the purchase price of the residence financed with the lendable proceeds of qualified mortgage bonds may not exceed 90% of the average area purchase price applicable to such residence or 110% of the applicable average area purchase price in the case of residences located in targeted areas. The Corporation will verify compliance with the purchase price limitations by requiring each mortgagor and seller of a residence to make certifications regarding the purchase price of such residence.

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

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

The Corporation will verify compliance with the requirements described under this caption "Tax Matters — 2002 Series A Bonds — Loan Eligibility Requirements Imposed by the Code — Income Limitation" by requiring each borrower to certify the amount of family income. Family income includes income of all individuals executing both the note and mortgage and occupying the dwelling as their principal residence.

Requirements as to Assumptions. The Code provides that a mortgage loan may be assumed only if each of the then applicable residence requirement, first-time homebuyer requirement, purchase price limitation, and income limitation is met with respect to such assumption. The Mortgage Loans will contain a "due on sale" clause, and the Corporation will not permit the assumption of a Mortgage Loan unless (i) it has determined that these requirements have been met and has obtained the appropriate certifications or (ii) it purchases the Mortgage Loan out from the lien of the Indenture and finances it from other sources.

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

Other Requirements Imposed by the Code

General. The Code provides that gross income for Federal income tax purposes does not include interest on a mortgage revenue bond if it is a qualified mortgage bond. A qualified mortgage bond is a part of an issue of a state or political subdivision all the proceeds of which (net of amounts applied to any costs of issuance thereof and to fund a reasonably required reserve) are used to finance, or to refund bonds issued to finance, owner-occupied residences and that meets certain (i) general requirements, (ii) arbitrage restrictions on the use and investment of proceeds of the issue, and (iii) loan eligibility requirements set forth in the Code and as more fully described above under "Tax Matters — 2002 Series A Bonds — Loan Eligibility Requirements Imposed by the Code."

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

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

The Code requires that the effective interest rate on mortgage loans financed with the lendable proceeds of qualified mortgage bonds may not exceed the yield on the issue by more than

1.125% and that certain investment earnings on non-mortgage investments, calculated based upon the extent such investment earnings exceed the amount that would have been earned on such investments if the investments were invested at a yield equal to the yield on the 2002 Series A Bonds, be rebated to the United States. The Corporation has covenanted to comply with these requirements and has established procedures to determine the amount of excess earnings, if any, that must be rebated to the United States.

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

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

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

Compliance. The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for Federal income tax purposes of interest on obligations such as the 2002 Series A Bonds. The arbitrage certificate of the Corporation, which will be delivered concurrently with the delivery of the 2002 Series A Bonds, will contain provisions and procedures relating to compliance with the requirements of the Code, and the Corporation has included provisions in the Program Documents that establish procedures, including receipt of certain affidavits and warranties from Mortgage Lenders and mortgagors, in order to assure compliance with the loan eligibility requirements and other requirements that must be satisfied subsequent to the date of issuance of the 2002 Series A Bonds. The Corporation also has covenanted in the Indenture to do and perform all acts and things permitted by law and necessary or desirable to assure that interest paid on the 2002 Series A Bonds shall not be included in gross income for Federal income tax purposes and, for such purpose, to adopt and maintain appropriate procedures. Failure to comply with these covenants may result in interest on the 2002 Series A Bonds being included in gross income for Federal income tax purposes from the date of issuance of the 2002 Series A Bonds. The opinions of Bond Counsel and Special Tax Counsel assume the Corporation is in compliance with these covenants. Bond Counsel and Special Tax Counsel are not aware of any reason why the Corporation can not or will not be in compliance with such covenants. *However*, Bond Counsel and Special Tax Counsel have not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the 2002 Series A Bonds may affect the tax status of interest on the 2002 Series A Bonds.

Certain Additional Federal Tax Consequences

The following is a brief discussion of certain Federal income tax matters with respect to the 2002 Series A Bonds under existing statutes. It does not purport to deal with all aspects of Federal taxation that may be relevant to a particular owner of 2002 Series A Bonds. Prospective investors, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the Federal tax consequences of owning and disposing of the 2002 Series A Bonds.

Although Bond Counsel and Special Tax Counsel will each render an opinion that interest on the 2002 Series A Bonds will be excluded from gross income for Federal income tax purposes, the accrual or receipt of interest on the 2002 Series A Bonds may otherwise affect the Federal income tax liability of the recipient. The extent of these other tax consequences will depend upon the recipient's particular tax status or other items of income or deduction. Bond Counsel and Special Tax Counsel express no opinion regarding any such consequences. Purchasers of the 2002 Series A Bonds, particularly purchasers that are corporations (including S corporations and foreign corporations operating branches in the United States), property or casualty insurance companies, banks, thrifts or other financial institutions or recipients of Social Security or Railroad Retirement benefits, taxpayers otherwise entitled to claim the earned income credit and taxpayers who may be deemed to have incurred (or continued) indebtedness to purchase or carry tax-exempt obligations, are advised to consult their tax advisors as to the tax consequences of purchasing, holding or selling the 2002 Series A Bonds.

From time to time, there are legislative proposals in Congress that, if enacted, could alter or amend the Federal tax matters referred to above or adversely affect the market value of the 2002 Series A Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether, if enacted, it would apply to bonds issued prior to enactment. Each purchaser of the 2002 Series A Bonds should consult his or her own tax advisor regarding any pending or proposed Federal tax legislation. Bond Counsel and Special Tax Counsel express no opinion regarding any pending or proposed Federal tax legislation.

2002 Series B Bonds

General

The following is a summary of certain anticipated federal income tax consequences of the purchase, ownership and disposition of the 2002 Series B Bonds. The summary is based upon the provisions of the Code, the regulations promulgated thereunder and the judicial and administrative rulings and decisions now in effect, all of which are subject to change or possible differing interpretations. The summary does not purport to address all aspects of federal income taxation that may affect particular investors in light of their individual circumstances or certain types of investors subject to special treatment under the federal income tax laws. Potential purchasers of the 2002 Series B Bonds should consult their own tax advisors in determining the federal, state or local tax consequences to them of the purchase, holding and disposition of the 2002 Series B Bonds.

Although there are not any regulations, published rulings or judicial decisions involving the characterization for federal income tax purposes of securities with terms substantially the same as the 2002 Series B Bonds, Bond Counsel and Special Tax Counsel have advised the Corporation that the 2002 Series B Bonds will be treated for federal income tax purposes as evidence of indebtedness of the Corporation and not as an ownership interest in the trust estate securing the 2002 Series B Bonds or as an equity interest in the Corporation or any other party, or in a separate association taxable as a corporation. Interest on the 2002 Series B Bonds is includable in gross income for federal income tax purposes under Section 61 of the Code, and not excludable from gross income under Section 103 of the Code. Interest on the 2002 Series B Bonds will be fully subject to federal income taxation. In general, interest paid on the 2002 Series B Bonds and recovery of accrued market discount, if any, will be treated as ordinary income to a Bondholder, and principal payments will be treated as a return of capital. The Code contains special federal income tax rules for "real estate mortgage investment conduits." The Corporation does not intend to treat the arrangement by which the trust estate secures the Series 2002 Series B Bonds as a "real estate mortgage investment conduit."

The 2002 Series B Bonds will not (a) represent interest in "qualifying real property loans," within the meaning of Section 593(d) of the Code, (b) constitute "loans...secured by an interest in real property," within the meaning of Section 7701(a)(19)(C)(v) of the Code, (c) constitute "real estate assets" within the meaning of Section 856(c)(5)(B) of the Code, or (d) constitute "Governmental securities," within the meaning of Section 851(b)(3)(A)(i) of the Code. Interest

on the 2002 Series B Bonds will not be considered "interest on obligations secured by mortgages on real property or on interest in real property," within the meaning of Section 856(c)(3)(B) of the Code.

Sale or Redemption of 2002 Series B Bonds

A Bondowner's tax basis for a 2002 Series B Bond is the price such owner pays for the 2002 Series B Bond plus amounts of any original issue discount included in income, reduced on account of any payments received (other than "qualified periodic interest" payments) and any amortized premium. Gain or loss recognized on a sale, exchange or redemption of a 2002 Series B Bond, measured by the difference between the amount realized and the 2002 Series B Bond's basis as so adjusted, will generally give rise to capital gain or loss if the 2002 Series B Bond is held as a capital asset.

Backup Withholding

A Bondowner may, under certain circumstances, be subject to "backup withholding" at the rate of 30% with respect to interest or original issue discount on the 2002 Series B Bonds. This withholding generally applies if the owner of a 2002 Series B Bond (a) fails to furnish the Trustee or other payor with its taxpayer identification number; (b) furnishes the Trustee or other payor an incorrect taxpayer identification number; (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 Trustee or other payor with a certified statement, signed under penalty of perjury, that the taxpayer identification number provided is its correct number and that the holder is not subject to backup withholding. Backup withholding will not apply, however, with respect to certain payments made to Bondowners, including payments to certain exempt recipients (such as certain exempt organizations) and to certain Nonresidents (as defined below). Owners of the 2002 Series B Bonds should consult their tax advisors as to their qualification for exemption from backup withholding and the procedure for obtaining the exemption.

The amount of "reportable payments" for each calendar year and the amount of tax withheld, if any, with respect to payments on the 2002 Series B Bonds will be reported to the Bondowners and to the Internal Revenue Service.

Foreign Bondowners

Under the Code, interest and original issue discount income with respect to the 2002 Series B Bonds held by nonresident alien individuals, foreign corporations or other non-United States persons ("Nonresidents") generally will not be subject to the 30% United States withholding tax if the Trustee (or other person who would otherwise be required to withhold tax from such payments) is provided with an appropriate statement that the beneficial owner of the 2002 Series B Bonds is a Nonresident. The withholding tax may be reduced or eliminated by an applicable tax treaty, if any. Notwithstanding the foregoing, if any such payments are effectively connected with a United States trade or business conducted by a Nonresident Bondowner, they will be subject

to regular United States income tax, but will ordinarily be exempt from United States withholding tax.

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 requirement 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, in consultation with their advisors, should carefully consider the impact of ERISA and the Code on an investment in any 2002 Series B Bonds.

In all events, all investors should consult their own tax advisors in determining the federal, state, local and other tax consequences to them of the purchase, ownership and disposition of the 2002 Series B Bonds.

RATINGS

S&P has assigned the 2002 Bonds a rating of "AAA/A-1+ ", Moody's has assigned the 2002 Bonds a rating of "Aaa/VMIG-1" and Fitch has assigned the 2002 Bonds a rating of "AAA/F1+ ". The assignment of such respective ratings by S&P, Moody's and Fitch to the 2002 Bonds is conditioned upon the delivery of the Policy by the Insurer substantially in the form set forth as Exhibit H hereto and upon the delivery of the Initial Liquidity Facility, reflecting the Bank's obligation to purchase 2002 Bonds as described above, at the time of delivery of the 2002 Bonds. Such ratings on the 2002 Bonds will expire on the termination of the Policy. Lehman Brothers' obligation to purchase the 2002 Bonds is conditioned on the assignment by S&P, Moody's and Fitch of the respective aforementioned ratings to the 2002 Bonds. Each rating reflects only the view of the applicable rating agency at the time such rating was issued and an explanation of the significance of such rating may be obtained from the rating agency. There is no assurance that any such rating will continue for any given period of time or that any such ratings will not be revised downward or withdrawn entirely by the applicable rating agency if, in its judgment, circumstances so warrant. Any downward revision or withdrawal of any such rating can be expected to have an adverse effect on the market price of the 2002 Bonds.

FINANCIAL STATEMENTS

The unaudited financial statements of the Corporation as of and for the six months ended December 31, 2001, included in Appendix A to this Official Statement, appear without review or audit by an independent accountant.

Copies of the Corporation's annual combined financial statements as of and for the years ended June 30, 2001 and 2000 and the Corporation's current annual report will be mailed to any Beneficial Owner who shall have filed his name and address with the Corporation for such purpose.

INDEPENDENT AUDITORS

The combined financial statements of Corporation as of and for the year ended June 30, 2001, included in Appendix A to this Official Statement, have been audited by KPMG LLP, independent auditors, as stated in their report appearing herein. The combined financial statements as of and for the year ended June 30, 2000 were audited by other auditors whose report has not been included herein.

LITIGATION

There is no controversy or litigation of any material nature now pending or threatened to restrain or enjoin the issuance, sale, execution or delivery of the 2002 Bonds, or in any way contesting or affecting the validity of the 2002 Bonds or any proceedings of the Corporation taken with respect to the issuance or sale thereof, or the pledge or application of any moneys or security provided for the payment of the 2002 Bonds or the existence or powers of the Corporation.

LEGAL MATTERS

All legal matters incident to the authorization, sale and delivery of the 2002 Bonds and certain Federal and state tax matters are subject to the approval of Wohlforth, Vassar, Johnson & Brecht, P.C., Anchorage, Alaska, Bond Counsel. Certain Federal tax matters will be passed upon for the Corporation by Kutak Rock LLP, Special Tax Counsel. Certain legal matters will be passed on for the Underwriters by their counsel, Hawkins, Delafield & Wood, New York, New York.

STATE NOT LIABLE ON BONDS

The Bonds do not constitute a debt, liability or obligation of the State or of any political subdivision thereof or a pledge of the faith and credit of the State or of any political subdivision thereof, but are payable solely from the revenue or assets of the Corporation.

LEGALITY FOR INVESTMENT

Subject to any applicable federal requirements or limitations, the 2002 Bonds are eligible for investment by all public officers and public bodies of the State and its political subdivisions, and, to the extent controlled by State law, all 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, in the 2002 Bonds.

UNDERWRITING

The 2002 Bonds are being purchased by Lehman Brothers at the aggregate initial offering prices set forth on the inside cover page. Lehman Brothers will be paid a fee of \$472,699.86 with respect to the 2002 Bonds. The Bond Purchase Agreement with respect to the 2002 Bonds provides that Lehman Brothers will purchase all of such Bonds, if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in such Bond Purchase Agreement, the receipt of certain legal opinions, and certain other conditions. The initial public offering prices and yields of the 2002 Bonds may be changed from time to time by Lehman Brothers. The Bond Purchase Agreement provides that Lehman Brothers may offer and sell the 2002 Bonds to certain dealers (including dealers depositing such Bonds into unit investment trusts, certain of which may be sponsored or managed by Lehman Brothers) and others at prices lower or yields higher than the public offering prices and yields of the 2002 Bonds set forth on the inside cover page.

FINANCIAL ADVISOR

Arimax Financial Advisors, Inc. has acted as financial advisor in connection with the issuance of the 2002 Bonds.

ADDITIONAL INFORMATION

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 Corporation and the owner of any 2002 Bonds.

APPENDIX A

FINANCIAL STATEMENTS OF THE CORPORATION

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a component unit of the State of Alaska

**Unaudited Quarterly
Combined Financial Statements**

December 31, 2001

**With comparative numbers
June 30, 2001 and 2000**



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This is an unaudited quarterly publication of the Alaska Housing Finance Corporation. For comments please contact the Alaska Housing Finance Corporation's Accounting Department:

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EXHIBIT A

COMBINED BALANCE SHEETS
(in thousands)

ASSETS	<u>DECEMBER 31</u>	<u>JUNE 30</u>	
	2001	2001	2000
Cash	\$13,107	\$13,642	\$8,520
Investments	1,556,957	1,457,510	1,786,242
Mortgage loans and mortgage-backed securities, net	3,246,369	3,114,821	2,673,689
Mobile home loans, net	3,501	4,250	6,149
Notes receivable	30,969	31,085	32,124
Accrued interest receivable	24,122	24,395	25,180
Net investment in direct financing lease	38,433	39,150	40,528
Unamortized bond issuance costs	27,704	26,263	25,097
Due from other funds	186,133	150,332	96,982
Real estate and mobile homes owned	549	472	652
Property and equipment at cost, net	96,687	95,619	90,264
Other assets	28,841	23,631	22,378
	\$5,253,372	\$4,981,170	\$4,807,805
LIABILITIES AND FUND EQUITY			
<i>Liabilities:</i>			
Bonds and notes, net of discounts	\$3,151,425	\$2,898,024	\$2,699,419
Commercial paper	103,153	110,426	126,680
Securities sold under agreements to repurchase	-	-	87,497
Accrued interest payable	16,739	16,426	15,376
Due to other funds	186,133	150,332	96,982
Accrued expenses and other liabilities	27,908	32,285	29,496
<i>Total liabilities</i>	3,485,358	3,207,493	3,055,450
Commitments and Contingencies (Notes 8, 11, 12, 14, 15, 17, 18, 20 and 22)			
<i>Fund equity:</i>			
Contributed capital	377,191	425,555	500,586
Retained earnings	1,390,823	1,348,122	1,251,769
<i>Total fund equity</i>	1,768,014	1,773,677	1,752,355
	\$5,253,372	\$4,981,170	\$4,807,805

See accompanying notes to combined financial statements.

Exhibit B

COMBINED STATEMENTS OF REVENUES AND EXPENSES
(in thousands)

REVENUES	SIX MONTHS ENDED	YEARS ENDED	
	DECEMBER 31	2001	2000
Interest and Investment Income:			
Mortgages and loans	\$109,332	\$204,084	\$180,656
Investments	38,431	108,303	111,936
Net change in the fair value of investments	1,613	3,524	(3,562)
Insured real estate owned	49	146	65
	149,425	316,057	289,095
Rental and lease income	3,454	6,920	7,003
Other income	813	2,483	1,097
Settlement income	-	7,200	-
Externally funded program revenues	22,774	43,508	34,091
TOTAL REVENUES	176,466	376,168	331,286
EXPENSES			
Interest	88,599	172,373	159,672
Mortgage service fees	6,079	11,335	9,844
Operations and administration	15,186	31,997	30,282
Trustee fees, insurance and financing costs	2,282	6,047	3,732
Provision for loan losses	(2,056)	8,124	8,017
Write down and expenses associated with real estate and mobile homes owned	382	503	93
Grants and subsidies	18,461	39,161	32,171
Rental housing operating expenses	4,832	10,275	9,954
TOTAL EXPENSES	133,765	279,815	253,765
Net income before cumulative effect of accounting change	42,701	96,353	77,521
Cumulative effect of accounting change	-	-	4,281
NET INCOME	\$42,701	\$96,353	\$81,802

See accompanying notes to combined financial statements.

COMBINED STATEMENTS OF CASH FLOWS
(in thousands)

OPERATING ACTIVITIES	SIX MONTHS ENDED <u>DECEMBER 31</u>	YEARS ENDED <u>JUNE 30</u>	
	2001	2001	2000
Net income before cumulative effect of accounting change	\$42,701	\$96,353	\$77,521
Removal of non-operating activity:			
Investment interest income	(36,428)	(101,849)	(107,214)
Net change in fair value of investments	(1,615)	(3,524)	3,562
Interest on bonds and other debt	87,513	170,320	157,214
Net operating income	92,171	161,300	131,083
Adjustments to reconcile net operating income to net cash used by operating activities:			
Depreciation expense	2,268	5,455	5,684
Net amortization of discounts and bond issuance costs	2,548	3,415	3,801
Acquisition of loans and notes receivable	(352,021)	(760,087)	(631,628)
Loan principal repayments and reduction in real estate and mobile homes owned	223,263	314,105	265,520
Increase in mortgage and notes interest receivable	(335)	(1,997)	(1,163)
Increase (decrease) in other liabilities and assets	(11,946)	1,856	(30,903)
Increase (decrease) in allowance for loan losses, net of charge offs	(2,031)	8,115	7,681
Net expenses for (recovery of) real estate and mobile homes owned	29	(147)	(1,008)
Receipt of federal HAP subsidies	12,808	16,338	13,874
Payment of federal HAP subsidies	(10,459)	(16,690)	(13,897)
NET CASH USED BY OPERATING ACTIVITIES	(43,705)	(268,337)	(250,956)
NONCAPITAL FINANCING ACTIVITIES			
Net proceeds from issuance of commercial paper and securities sold under agreements to repurchase	295,751	756,086	1,574,928
Net principal retirement of commercial paper and securities sold under agreements to repurchase	(302,704)	(859,678)	(1,644,653)
Interest payments on commercial paper and securities sold under agreements to repurchase	(1,745)	(8,530)	(14,609)
Net proceeds from sale of mortgage bonds	507,452	295,042	881,082
Bond issuance costs paid	(2,843)	(2,097)	(6,575)
Principal payments on mortgage bonds	(256,294)	(100,620)	(428,315)
Interest payments on mortgage bonds	(84,655)	(159,140)	(137,651)
Contributed capital repaid to State of Alaska	(48,363)	(75,031)	(102,022)
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	106,599	(153,968)	122,185

EXHIBIT C (CONTINUED)

COMBINED STATEMENTS OF CASH FLOWS
(in thousands)

CAPITAL FINANCING ACTIVITIES	SIX MONTHS ENDED <u>DECEMBER 31</u>	YEARS ENDED <u>JUNE 30</u>	
	2001	2001	2000
Capital asset purchases	(3,336)	(10,810)	(11,621)
Direct financing lease payments	1,775	3,550	1,000
Principal payments on capital bonds and notes	(12)	(23)	(23)
Interest payments on capital bonds and notes	(2)	(5)	(5)
Contributed capital - federally funded	-	-	2,846
NET CASH USED BY CAPITAL FINANCING ACTIVITIES	(1,575)	(7,288)	(7,803)
INVESTING ACTIVITIES			
Purchases of investments	(3,990,426)	(7,017,107)	(8,874,566)
Maturities of investments	3,892,594	7,349,388	8,903,494
Interest received from investments	35,978	102,434	105,307
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	(61,854)	434,715	134,235
Increase (decrease) in cash	(535)	5,122	(2,339)
Cash at beginning of year	13,642	8,520	10,859
CASH AT END OF PERIOD	\$13,107	\$13,642	\$8,520

Noncash Investing, Capital and Financing Activities

The Corporation had noncash activities as follows (in thousands):

Activity	December 31, 2001	June 30, 2001	June 30, 2000
Interfund asset transfers	\$243,483	\$131,815	\$340,313
Amortization of Investment in Direct Financing Lease	-	-	1,095
Removal of capitalized soft costs	-	-	23,548
HUD debt reclassified	-	-	5,242

See accompanying notes to combined financial statements.

EXHIBIT D

COMBINED STATEMENTS OF CHANGES IN EQUITY
(in thousands)

	Total Equity	State Capital Contributions	Federal Capital Contributions	Retained Earnings
Balance, June 30, 1999	1,788,035	520,188	97,880	1,169,967
HUD debt reclassified	5,242	-	5,242	-
HUD modernization & development	2,846	-	2,846	-
Removal of capitalized soft costs	(23,548)	-	(23,548)	-
Returned to State of Alaska	(102,022)	(102,022)	-	-
Net income	81,802	-	-	81,802
Balance, June 30, 2000	\$1,752,355	\$418,166	\$82,420	\$1,251,769
Returned to State of Alaska	(75,031)	(75,031)	-	-
Net income	96,353	-	-	96,353
Balance, June 30, 2001	\$1,773,677	\$343,135	\$82,420	\$1,348,122
Returned to State of Alaska	(48,364)	(48,364)	-	-
Net income	42,701	-	-	42,701
Balance, December 31, 2001	\$1,768,014	\$294,771	\$82,420	\$1,390,823

See accompanying notes to combined financial statements.

NOTES TO COMBINED FINANCIAL STATEMENTS

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NOTES TO COMBINED FINANCIAL STATEMENTS

FOR THE PERIOD ENDED DECEMBER 31, 2001

1 AUTHORIZING LEGISLATION AND FUNDS

The Alaska Housing Finance Corporation (Corporation), a public corporation and government instrumentality of the State of Alaska, was created in 1971, and substantially modified in 1992, by acts of the State of Alaska Legislature (Legislature) to assist in the financing, development and sale of dwelling units, operate the State's public housing, offer various home loan programs emphasizing housing for low-and moderate-income and rural residents, and administer energy efficiency and weatherization programs within Alaska.

Generally, the Corporation accomplishes its mortgage-related objectives by functioning as a secondary market for qualified real estate and mobile home loans originated by financial institutions. The Corporation is authorized, as approved by the Legislature, to issue its own bonds, bond anticipation notes and other obligations in such principal amounts as, in the opinion of the Corporation, will be necessary to provide sufficient funds for carrying out its purpose. Certain bonds issued to finance residences for qualified veterans are unconditionally guaranteed by the State of Alaska. No other obligations constitute a debt of the State.

The non-mortgage related programs of the Corporation are funded through various grant and program agreements with the federal government's departments of Housing and Urban Development (HUD), Energy (DOE), and Health and Human Services (HHS), as well as capital and operating subsidies from the Corporation's own funds.

During the second quarter of fiscal year 2001, Northern Tobacco Securitization Corporation (NTSC) was incorporated in the State of Alaska in pursuant to House Bill No. 281 of the Alaska Legislature. As a subsidiary of the Corporation, NTSC is a government instrumentality of, but separate and apart from, the State of Alaska. There is no financial accountability between NTSC & the Corporation. Neither the Corporation nor the State is liable for any debt issued by NTSC. NTSC is not a component unit of the Corporation and thus not included in the Corporation's financial statements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Accounting

The financial activities of the Corporation, which are restricted by the Corporation's bond resolutions, requirements from the Legislature, HUD, DOE, and HHS program agreements, are recorded in various special purpose funds and accounts as specified in such instruments or necessitated by appropriation requirements. In general, financial activities and resulting account balances which are not so restricted are recorded in the General Account of the Revolving Fund. The Corporation's funds are considered to be proprietary funds for financial reporting purposes with revenues recognized when earned and expenses when incurred. The Corporation applies all Governmental Accounting Standards Board's (GASB) Statements and interpretations.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Unrestricted Activities

The General Account of the Revolving Fund consists entirely of the Corporation's unrestricted assets, liabilities, equity and results of operations.

Investments

All investments are stated at fair value, except for nonparticipating investment agreements, which are stated at cost. The Corporation does not participate in any external investment pools.

Loans

Mortgage loans are carried at their unpaid principal balances net of allowance for estimated loan losses. Under previous agreements, the Corporation exchanged mortgages for mortgage-backed securities (MBSs) with Federal National Mortgage Association (FNMA), and Federal Home Loan Mortgage Corporation (FHLMC) and issued mortgage certificates guaranteed by the Government National Mortgage Association (GNMA). MBSs received in exchange for mortgages and those issued by the Corporation under its MBS program are carried at the unpaid principal balance of the underlying mortgage loans, net of related allowances.

NOTES TO COMBINED FINANCIAL STATEMENTS

Real Estate and Mobile Homes Owned

Real estate and mobile homes owned consist principally of properties acquired through foreclosure or repossession and are carried at the lower of cost or estimated net realizable value.

Accrued Interest Receivable on Loans and Properties

Interest is accrued based upon the principal amount outstanding. Accrual of interest income is discontinued on loans when, in the opinion of management, collection of such interest becomes doubtful. When payment of interest is provided for pursuant to the terms of loan insurance or guarantees, accrual of interest on delinquent loans and real estate owned is continued.

Allowances for Estimated Loan Losses

The Corporation provides for possible losses on loans anticipated to be foreclosed upon. A potential loss is recorded when the net realizable value, or fair value, of the related collateral or security interest is estimated to be less than the Corporation's investment in the property less anticipated recoveries from private mortgage insurance, private credit insurance, and various other loan guarantees. In providing for losses, through a charge to operations, consideration is given to the costs of holding real estate, including interest costs. The loan portfolio, property holding periods and property holding costs are reviewed periodically. While management uses the best information available to make evaluations, future adjustments to the allowances may be necessary if there are significant changes in economic conditions or property disposal programs.

Amortization and Depreciation

Discount and issuance expenses on debt are deferred and amortized using the interest method over the life of the related bond issue, ranging from 30 to 40 years.

Depreciation and amortization of buildings, equipment, leasehold improvements and intangible assets are computed on a straight-line basis over the estimated useful lives of the related assets. Estimated useful lives range from 3 to 40 years. The capitalization floor is \$5,000.

Bonds and Notes

The Corporation issues bonds and notes to provide capital for its mortgage programs, and other uses consistent with its mission. The bonds and notes are recorded at cost plus accreted interest and premiums, less discounts and deferred debt refunding expenses. Discounts and premiums are amortized using the effective interest method. Deferred debt refunding expenses are amortized over the shorter of the remaining life of the old debt, or the remaining life of the new debt.

Interest Rate Swap

The Corporation's Fiscal Policies allow, with certain restrictions, the Corporation to enter into certain derivative financial instruments called interest rate swap agreements, or swaps. The Corporation enters into these swaps with various counter-parties to achieve a lower overall cost of funds for certain of its fixed rate bond issuances. These agreements can be negotiated whereby the Corporation pays the counter-party a fixed interest rate in exchange for a variable interest rate payment from the counter-party, or vice-versa. The particulars of each swap are negotiated to achieve the financing objectives of the Corporation. Other than the net interest expense resulting from these agreements, no amounts are recorded in the Corporation's financial statements.

Income Taxes

The Corporation is exempt from federal and state income taxes.

Reclassifications

Certain prior-year balances have been reclassified to conform to the current period presentation.

Accounting Change

Prior to fiscal year 2001, the Corporation had adopted the provision under GASB Statement No. 20 *Accounting and Financial Reporting for Proprietary Funds and other Governmental Entities that use Proprietary Fund Accounting* to follow all applicable FASB statements and interpretations issued after November 30, 1989, except for those that conflict with, or contradict GASB pronouncements. As permitted by Statement 20, the Corporation has determined that the preferred method of accounting is to follow GASB and elected not to adopt any FASB Statements issued after November 30, 1989 unless the GASB specifically adopts the FASB pronouncement. The change took place in fiscal year 2001 retroactively to the original election date.

With respect to proprietary activities, the differences in theory and practice in accounting and financial reporting between public business types and the private sector has been shrinking due to new GASB pronouncements, i.e. new

NOTES TO COMBINED FINANCIAL STATEMENTS

basic financial statements required by GASB Statement No. 34. The Corporation has determined that the impact of the change on the combined financial statements and related disclosures is not significant.

GASB Statement No. 33

In December 1998, the Government Accounting Standards Board (GASB) issued Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. Statement 33 established accounting and financial reporting standards to guide state and local governments' decisions about how and when (in which fiscal year) to report the results of nonexchange transactions involving cash and other financial and capital resources. The Corporation adopted Statement 33 for the year ended June 30, 2001. This resulted in a minor change of \$3.7 million being moved from Contributed Capital to Externally Funded Revenues for HUD reimbursements for modernization and development expenditures on public housing facilities in the current year.

GASB Statement No. 34

In June 1999, the GASB issued Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis*. The Statement establishes new financial reporting requirements (new reporting model) for state and local governments. The Corporation is required to adopt Statement 34 for the year ending June 30, 2002. The adoption of Statement 34 will require the Corporation to make several changes to the presentation of its basic financial statements and footnotes in addition to requiring the presentation of a new section called Management's Discussion and Analysis (MD & A). The new reporting model will help clarify and enhance information available in the financial statements for the citizenry, oversight bodies, investors and creditors.

GASB Statements No. 37 & 38

In June 2001, the GASB issued Statement No. 37 *Basic Financial Statements-and Management's Discussion and Analysis: Omnibus, an amendment of GASB statements No. 21 and No. 34*, and Statement No. 38, *Certain Financial Statement Note Disclosures*. Statement 37 modifies the requirements of Statement 34 which includes changing the minimum level of detail required for business-type activities in the statement of activities from segments to different identifiable activities. Statement 38 modifies or rescinds disclosure requirements that were effective before 1995, while establishing others. The Corporation is required to adopt Statements 37 & 38 for the year ended June 30, 2002.

3 CASH

Cash consists of demand deposits, time deposits and uninvested trust account balances. For purposes of the statement of cash flows the Corporation considers all highly liquid investment instruments purchased with a maturity of three months or less to be cash. A summary of the Corporation's cash follows (in thousands):

	December 31, 2001	June 30, 2001	June 30, 2000
Restricted	\$4,172	\$10,107	\$2,108
Unrestricted	4,763	3,535	6,412
Carrying amount	\$8,935	\$13,642	\$8,520
Bank balance	\$14,039	\$15,356	\$9,443

4 INVESTMENTS

Custodial Credit Risk

The Corporation assumes levels of custodial credit risk for its cash, deposits with financial institutions, bank investment agreements and investments. Cash and bank investment agreements are categorized as: 1) insured by federal depository insurance or collateralized by securities held by third parties in the Corporation's name; 2) uninvested in trust and other accounts collateralized with securities held by bank trust departments, but not in the Corporation's name; and 3) uninsured and un-collateralized. Investments are categorized as: 1) insured, registered, or held by the Corporation or its agent in the Corporation's name; 2) uninsured and unregistered, held by the counter party's trust department or agent in the Corporation's name; and 3) uninsured and unregistered investments that are held by a counter party, or by its trust department or agent, but not in the Corporation's name.

NOTES TO COMBINED FINANCIAL STATEMENTS

The bank balance of the Corporation's cash, bank investment agreements, and investments is categorized below (in thousands):

	Category 1	Category 2	Category 3	Dec 31, 2001	June 30, 2001	June 30, 2000
Cash	\$14,039	-	-	\$14,039	\$15,356	\$9,443
Bank investment agreements	\$-	\$149,089	\$89,105	\$238,194	\$219,267	\$288,867
U.S. Treasury securities	29,210	28,122	-	57,332	32,262	80,408
Securities of U.S. Government agencies and Corporations	240,134	56,536	-	296,670	337,068	347,206
Asset-backed securities	36,012	13,829	-	49,841	62,567	95,657
Certificates of Deposit	15,000	-	-	15,000	15,000	15,110
Commercial paper & medium term notes	169,129	446,728	-	615,857	479,292	410,388
Subtotal	489,485	545,215	-	1,034,700	926,189	948,769
	\$489,485	\$694,304	\$89,105	1,272,894	1,145,456	1,237,636
Investment agreements				184,568	235,897	350,886
Collateral for reverse repurchase agreements				-	-	87,497
Money market funds				99,495	76,157	110,223
Total investments				\$1,556,957	\$1,457,510	\$1,786,242

Investment Policies

Investments of trusted funds are made under terms of the indenture or agreement which applies to each pool of funds. Permitted investments may differ with each bond issue or other agreement. The Corporation's fiscal policies govern unrestricted funds and securities. The following are eligible for investment thereunder; however, individual indenture or agreement restrictions may not permit all of the following investments in any one pool of funds:

- Obligations of the United States or any agency or instrumentality thereof;
- Debt obligations, including unsecured certificates of deposit, notes, time deposits, and bankers' acceptances of, and deposits with, any bank the short-term obligations of which have been rated at least "A-1" by S&P or "P-1" by Moody's;
- Deposits in and investments of a commercial bank or credit union which are fully insured by the FDIC or NCUA or that provide for the pledge of collateral maintained at a minimum level of 105%;
- Debt obligations, other than those that do not have a fixed par value or terms that do not promise a fixed dollar amount at maturity or call date, rated at least "AA" by S&P or "Aa" by Moody's;
- Repurchase Agreements (repos) with a corporation or other entity which has long-term debt ratings of at least "A" by S&P or "A" by Moody's or short-term ratings of at least "A-1" by S&P or "P-1" by Moody's and where the collateral is maintained at a minimum level of 102%;
- Money market funds which are rated at least "AAm" or "AAm-G" by S&P or "Aa" by Moody's;
- Investment agreements or guaranteed investment contracts with financial institutions having outstanding unsecured long-term obligations rated, or a claims paying or investment agreement rating, at least "AA" by S&P or "Aa" by Moody's;
- Floating rate notes issued by entities having outstanding unsecured long-term obligations rated "AA" by S&P or "Aa" by Moody's, and with interest rates subject to adjustment no less frequently than every 90 days, and a maximum maturity of three years or less;
- Adjustable rate funds, provided they are rated "AAA" credit and "aaa" volatility by S&P and "Aaa" by Moody's;
- International Bank for Reconstruction & Development debt obligations rated "AAA" by S&P or "Aaa" by Moody's.

NOTES TO COMBINED FINANCIAL STATEMENTS

Investment Term

The fair value of debt security investments by contractual maturity is shown below (in thousands). Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	December 31, 2001	June 30, 2001	June 30, 2000
Due in one year or less	\$1,288,236	\$1,216,458	\$1,425,804
Due after one year through five years	268,721	241,052	327,079
Due after five years through ten years	-	-	1,303
Due after ten years	-	-	32,056
	<u>\$1,556,957</u>	<u>\$1,457,510</u>	<u>\$1,786,242</u>

Realized Gains and Losses

The calculation of realized gains is independent of the calculation of the net increase in the fair value of investments. Realized gains and losses on investments that had been held in more than one fiscal year and sold in the current period may have been recognized as an increase or decrease in the fair value of investments reported in the prior year. The net increase in the fair value of investments included in the table below takes into account all changes in fair value (including purchases and sales) that occurred during the period. A summary of the gains and losses follows (in thousands):

	December 31, 2001	June 30, 2001	June 30, 2000
Net increase (decrease) in Fair Value	\$1,613	\$3,524	(\$3,562)
Ending unrealized gains	\$9,130	\$8,768	\$7,187
Net realized gains (losses)	<u>\$1,251</u>	<u>\$1,943</u>	<u>(\$1,077)</u>

5 MORTGAGE LOANS AND MORTGAGE-BACKED SECURITIES

A summary of mortgage loans and mortgage-backed securities follows (in thousands):

	December 31, 2001	June 30, 2001	June 30, 2000
<u>Mortgage Loans:</u>			
Pool insured	\$41,984	\$48,512	\$58,593
Federally insured or guaranteed	1,447,209	1,377,677	1,134,777
Other	1,771,607	1,689,312	1,444,411
<u>Mortgage-backed Securities issued by the Corporation:</u>			
FNMA	16,041	20,674	30,122
GNMA	60,766	69,534	85,352
FHLMC	7,812	10,013	12,556
	<u>3,345,420</u>	<u>3,215,722</u>	<u>2,765,811</u>
<u>Less:</u>			
Allowance for loan losses	(99,051)	(100,901)	(92,122)
Net Mortgage loans and mortgage-backed securities	<u>\$3,246,369</u>	<u>\$3,114,821</u>	<u>\$2,673,689</u>

NOTES TO COMBINED FINANCIAL STATEMENTS

Other supplemental loan information is summarized in the following table (in thousands):

	December 31, 2001	June 30, 2001	June 30, 2000
<u>Delinquencies and Foreclosures:</u>			
Loans delinquent 30 days or more	\$95,456	\$100,047	\$85,143
Foreclosures during period	1,159	3,347	3,103
Loans in foreclosure process	8,010	5,078	7,157
<u>Mortgage-related commitments:</u>			
To purchase mortgage loans	125,087	235,889	105,500
To repurchase loans upon foreclosure	86,084	80,342	99,158

6 MOBILE HOME LOANS

A summary of mobile home loans follows (in thousands):

	December 31, 2001	June 30, 2001	June 30, 2000
Mobile home loans	\$4,214	\$5,160	\$7,626
Less reserve for mobile home loan losses	(713)	(910)	(1,477)
Net mobile home loans	<u>\$3,501</u>	<u>\$4,250</u>	<u>\$6,149</u>

7 NOTES RECEIVABLE

A summary of notes receivable follows (in thousands):

	December 31, 2001	June 30, 2001	June 30, 2000
University of Alaska loans	\$30,434	\$30,958	\$31,989
Others (net of reserve)	535	127	135
Total Notes Receivable	<u>\$30,969</u>	<u>\$31,085</u>	<u>\$32,124</u>

During 1997, under an act of the 19th Alaska State Legislative, the Corporation entered into an agreement with the University of Alaska to loan the University a total of \$33,000,000 for acquisition or construction of student housing facilities. The loan consists of a \$30,000,000 assisted portion at a rate of 1.826% per annum, and a \$3,000,000 unassisted portion at a rate of 6% per annum. The payments by the University began on August 1, 1999 and are scheduled thereafter February 1 and August 1 of each year through February 1, 2024, unless earlier repaid.

8 INSURANCE AGREEMENTS

The Corporation has obtained private mortgage insurance, credit insurance or guarantees on certain mortgages and loans. The agreements protect the Corporation to varying degrees against losses arising from the disposition of the related collateral obtained through foreclosure or repossession, as well as the costs of obtaining title to, maintenance and liquidation of the collateral. The Corporation is exposed to losses on disposition in the event the insurers or guarantors are unable or refuse to meet their obligations under these agreements.

9 INSURANCE PROGRAM FUNDS

The Corporation has three insurance funds for the purpose of insuring itself against losses which might occur as a result of mortgages purchased under the Rural Housing and various other programs. The insurance funds are held in trust by a commercial banking institution and are administered by the management of the Corporation. They are included in the General Account of the Revolving Fund in the accompanying financial statements.

10 DIRECT FINANCING LEASE

In July, 1997, the Corporation purchased an office building in downtown Anchorage with its general account assets for approximately \$26 million. The building will be part of the Corporation's State Lease Building Program (the "Program") and has been leased to the State of Alaska for occupancy by its Departments and Agencies located in Anchorage. The State has the option to purchase the building at the end of the lease for \$1. In December 1999 the Corporation issued the State Building Lease Bonds, 1999 series in the amount of \$40,000,000 to finance the

NOTES TO COMBINED FINANCIAL STATEMENTS

purchase. The lease of the building to the State has been recorded as a direct financing lease. The following table lists the components of the net investment in direct financing lease and shows the future minimum payments under the lease for the next five years and thereafter (in thousands):

	Period Ending December 31	Future Minimum Payments Due
2002		\$3,549
2003		3,549
2004		3,549
2005		3,549
2006		3,549
Thereafter		40,820
Gross Payments Due		58,565
Less: Unearned Revenue		(20,132)
Net investment in direct financing lease		<u>\$38,433</u>

11 PROPERTY AND EQUIPMENT

A summary of balances follows (in thousands):

	December 31, 2001	June 30, 2001	June 30, 2000
Buildings	\$125,500	\$116,553	\$119,521
Construction in Process	34,153	39,939	28,200
Land	13,142	13,112	12,493
Computers & Equipment	2,752	2,747	2,540
Vehicles	1,598	1,458	1,422
	<u>177,145</u>	<u>173,809</u>	<u>164,176</u>
<u>Less: Accumulated depreciation</u>	<u>(80,458)</u>	<u>(78,190)</u>	<u>(73,912)</u>
	<u>\$96,687</u>	<u>\$95,619</u>	<u>\$90,264</u>

The Corporation is obligated under contracts and other commitments to purchase and/or modernize certain fixed assets. The total commitment, including amounts to be funded by third parties, is shown below.

	December 31, 2001	June 30, 2001	June 30, 2000
Commitments	<u>\$2,692</u>	<u>\$676</u>	<u>\$4,356</u>

12 BONDS AND NOTES PAYABLE

With the exception of the Veterans Mortgage Program Bonds, the Corporation's obligations are not a debt of the State and the State is not directly liable thereon. The Veterans Mortgage Program Bonds are backed by the full faith and credit of the State. All of the bonds and notes are secured, as described in the applicable agreements, by the revenues, monies, investments, mortgage loans and other assets in the funds and accounts established by the respective security agreements. A substantial portion of the assets of the Corporation is pledged to the outstanding obligations of the Corporation. Bonds and notes outstanding are as follows (in thousands):

	Original Amount	December 31, 2001	June 30, 2001	June 30, 2000
FIRST-TIME HOME BUYER BONDS:				
<i>Collateralized Home Mortgage Bonds (CHMB):</i>				
• Tax-Exempt:				
• CHMB 1988 Series A, 7.4% to 7.5%, due 2003-2015	\$85,000	\$-	\$2,940	\$5,890
• CHMB 1989 Series B, 7.55% to 7.65%, due 2002-2024	148,000	-	8,575	10,215
• CHMB 1990 Series A, 5.7% to 7.05%, due 2002-2025	152,000	17,230	19,760	24,075

NOTES TO COMBINED FINANCIAL STATEMENTS

	Original Amount	December 31, 2001	June 30, 2001	June 30, 2000
Mortgage Revenue Bonds:				
• 1996 Series A, 4.40% to 6.5%, due 2002-2027	159,871	78,870	80,521	97,771
• 1997 Series A, 4.15% to 6%, due 2002-2037	160,000	136,655	150,720	152,600
• 1998 Series A, 3.95% to 5.4%, due 2002-2035	70,000	62,435	65,975	66,405
• 1999 Series A1 & 2, 4.5% to 6.25%, due 2002-2035	200,000	198,695	200,000	200,000
• 2000 Series A, 5.9% to 6.0% due 2036-2040	58,315	58,315	58,315	-
• 2000 Series B, 5.45% due 2015	3,795	3,795	3,795	-
• 2000 Series C, 4.7% to 6%, due 2002-2032	68,785	68,785	68,785	-
• 2001 Series A, 2.5% to 5.3%, due 2002-2031	32,740	32,740	-	-
• 2001 Series B, 4.15% to 5.45%, due 2002-2041	104,450	104,450	-	-
• Taxable:				
• 2000 Series D, 7.0% to 7.32%, due 2003-2020	25,740	25,740	25,740	-
TOTAL FIRST-TIME HOMEBUYER BONDS	<u>1,268,696</u>	<u>787,710</u>	<u>685,126</u>	<u>556,956</u>
Accreted interest		6,017	5,276	3,859
Unamortized discount		(1,113)	(1,247)	(556)
NET FIRST-TIME HOMEBUYER BONDS		<u>792,614</u>	<u>689,155</u>	<u>560,259</u>
VETERANS MORTGAGE PROGRAM BONDS				
Collateralized State Guaranteed Bonds:				
• Collateralized Bonds 1989 First Series, 6.5% to 7.45%, due 2002-2031	45,000	160	780	1,525
• Collateralized Bonds 1990 First Series, 6.875% to 7.50%, due 2003-2033	35,000	85	865	1,310
• Collateralized Bonds 1991 First Series, 6.75% to 7.30%, due 2004-2033	45,000	3,165	3,955	4,630
• Collateralized Bonds 1991 Second Series, 6.5% to 7.10%, due 2004-2034	60,000	7,280	9,025	11,775
• Collateralized Bonds 1992 First Series, 6.25% to 6.75%, due 2005-2034	45,000	14,045	17,025	19,395
• Collateralized Bonds 1993 First Series, 4.50% to 5.875%, due 2002-2035	65,000	19,045	24,300	28,320
• Collateralized Bonds 1994 First Series, 5.30% to 6.80%, due 2002-2036	130,000	83,275	88,695	89,350
• Collateralized Bonds 1995 First Series, 4.60% to 6.55%, due 2002-2037	30,000	15,070	15,130	18,815
• Collateralized Bonds 1997 First Series, 5.5%, due 2002-2039	100,000	73,190	83,065	91,370
• Collateralized Bonds 1998 First and Second Series, 4.0% to 5.5%, due 2002-2040	60,000	52,565	55,025	58,660
• Collateralized Bonds 1999 First Series, 4.3% to 6.25%, due 2002-2039	110,000	103,325	107,635	110,000
• Collateralized Bonds 2000 First Series, 4.75% to 6.45%, due 2002-2039	70,000	69,470	69,470	70,000
TOTAL VETERANS MORTGAGE PROGRAM BONDS	<u>795,000</u>	<u>440,675</u>	<u>474,970</u>	<u>505,150</u>
Unamortized discount		(1,687)	(1,797)	(2,008)
NET VETERANS MORTGAGE PROGRAM BONDS		<u>438,988</u>	<u>473,173</u>	<u>503,142</u>

NOTES TO COMBINED FINANCIAL STATEMENTS

	Original Amount	December 31, 2001	June 30, 2001	June 30, 2000
OTHER BONDS AND NOTES:				
<i>Housing Development Bonds:</i>				
• 1991 Series A, 6.2% to 7%, due 2002-2021	5,755	4,875	4,985	5,090
• 1992 Series A, 6.15% to 7%, due 2002-2022	9,370	7,770	7,770	8,000
• 1993 Series A, 4.25% to 5.625%, due 2002-2023	8,325	7,055	7,240	7,415
• 1993 Series B, 4.25% to 5.625%, due 2002-2023	4,890	4,215	4,310	4,405
• 1993 Series C, 4.35% to 5.7%, due 2002-2023	1,200	1,045	1,070	1,090
• 1993 Series D, 5.6% to 7.1%, due 2002-2023	4,675	4,155	4,235	4,310
• 1993 Series E, 5.6% to 7.1%, due 2002-2023	12,255	9,745	9,930	10,320
• 1997 Series A, 4.15% to 5.7%, due 2002-2029	6,510	6,150	6,245	6,335
• 1997 Series B, 4.25% to 5.8%, due 2002-2029	17,000	16,080	16,325	16,560
• 1997 Series C, 6.8% to 7.55%, due 2002-2029	23,895	22,980	23,235	23,470
• 1999 Series A, 4.1% to 6.3%, due 2002-2029	1,675	1,625	1,650	1,675
• 1999 Series B, 4.20% to 6.37%, due 2002-2029	5,080	4,945	5,015	5,080
• 1999 Series C, 4.10% to 6.20%, due 2002-2029	50,000	48,590	49,310	50,000
• 2000 Series A, Floating rate 1.75% at Dec 31, 2001, due 2002-2030	20,745	20,485	20,745	-
• 2000 Series B, Floating rate 1.7% at Dec 31, 2001, due 2002-2030	41,705	41,705	41,705	-
<i>General Mortgage Revenue Bonds:</i>				
1997 Series A, 4.15% to 6.1%, due 2002-2037	434,911	426,236	428,541	430,751
1999 Series A, 4.25% to 6.05%, due 2002-2049	302,700	301,200	301,200	302,700
<i>General Housing Purpose Bonds:</i>				
1992 Series A, 5.3% to 6.6%, due 2002-2023	200,000	42,415	46,100	49,590
1994 Series A, 4.00% to 5.4%, due 2002-2023	143,815	139,735	140,340	140,925
<i>Government Purpose Bonds:</i>				
1995 Series A, 4.5% to 5.875%, due 2001-2030	335,000	159,610	320,730	325,040
• 1997 Series A, Floating Rate, 1.8 % at Dec 31, 2001, due 2027	33,000	33,000	33,000	33,000
• 2001 Series A, Floating Rate, 1.75 % at Dec 31, 2001, due 2030	76,580	76,080	-	-
• 2001 Series B, Floating Rate, 1.67 % at Dec 31, 2001, due 2030	93,590	92,970	-	-
• 2001 Series C, Floating Rate, 2.12 % at Dec 31, 2001, due 2032	100,000	99,890	-	-
• 2001 Series D, Floating Rate, 2.15 % at Dec 31, 2001, due 2032	100,000	99,885	-	-

NOTES TO COMBINED FINANCIAL STATEMENTS

	Original Amount	December 31, 2001	June 30, 2001	June 30, 2000
State Capital Project Bonds:				
1999 Series A, 3.4% to 5.0%, due 2002-2005	92,365	56,420	62,725	74,905
1999 Series B, 4.0% to 5.5%, due 2002-2005	103,980	81,355	90,225	103,980
2001 Series A, 3.2% to 5.25%, due 2002-2007	74,535	74,245	74,535	-
State Building Lease Bonds:				
1999 Series, 4.25% to 5.8%, due 2002-2017	40,000	36,630	37,410	38,925
TOTAL OTHER BONDS AND NOTES	<u>2,343,556</u>	1,921,091	1,738,576	1,643,566
Accreted interest		3,411	3,001	2,217
Unamortized deferred debt refunding expense		(3,842)	(4,639)	(6,235)
Unamortized discount/premium		(2,476)	(2,894)	(5,205)
NET OTHER BONDS AND NOTES		<u>1,918,184</u>	<u>1,734,044</u>	<u>1,634,343</u>
OTHER PROGRAMS:				
Home Ownership Notes:				
• Mutual Help HUD Note, 5.625% to 8.000%	996	996	996	996
• Wrangell Project HUD Note, 1.00%-3.00%, due 2007	1,141	644	656	679
TOTAL OTHER PROGRAMS	<u>2,137</u>	<u>1,640</u>	<u>1,652</u>	<u>1,675</u>
	<u>\$4,409,389</u>	<u>\$3,151,425</u>	<u>\$2,898,024</u>	<u>\$2,699,419</u>

Sinking Fund Payments

The minimum annual principal payments, including sinking-fund principal payments, related to all mortgage bonds and notes in the preceding schedule for the five years subsequent to December 31, 2001, and thereafter, are as follows (in thousands):

	Period Ending December 31	Amount
2002		\$70,299
2003		79,860
2004		84,071
2005		98,722
2006		66,513
Thereafter		<u>2,751,651</u>
		<u>\$3,151,116</u>

Redemption Provisions

The bonds and notes are generally subject to certain early-redemption provisions, both mandatory and at the option of the Corporation. The Corporation redeems debt, pursuant to the provisions of the related agreements which permit surplus revenues, resulting primarily from mortgage loan prepayments, to be used to retire the obligations at par. The accelerated amortization of related discounts and costs of issuance resulting from these surplus revenue redemptions is included in interest expense and financing costs.

In addition to surplus revenue redemptions, the Corporation refunds debt pursuant to redemption provisions in the related agreements. On September 28, 1999, the Corporation issued \$302,700,000 of General Mortgage Revenue Bonds, 1999 Series A to refund a total of \$300,000,000 outstanding General Mortgage Revenue Bonds, 1991 Series A and Series C. The net proceeds were used to redeem all outstanding bonds of the GMRB 1991 Series A & C. A summary of redemptions and refunding follows:

NOTES TO COMBINED FINANCIAL STATEMENTS

Principal Redemptions

	December 31, 2001	June 30, 2001	June 30, 2000	Accounting Gain/(Loss) *	Economic Gain/(Loss)**
Surplus Revenue Redemptions	\$49,260	\$48,695	\$94,860	\$-	\$-
Special Redemptions	171,515				
Refunding:					
General Mortgage Revenue Bonds—1991 Series A & C			300,000	(2,557)	1,234
Total Redemptions	\$220,775	\$48,695	\$394,860	\$(2,557)	\$1,234

* The accounting loss is measured as the difference between the reacquisition price and the net carrying amount of the old debt including its cost of issuance. The loss has been deferred and will be amortized over the remaining life of the old debt and included in interest expense.

**The economic gain is calculated as the difference between the present value of the debt service requirements of the new debt and the present value of the debt service requirements of the refunded debt, discounted at the effective interest rate of 6.048%.

Defeased Debt

From time to time, the Corporation effects an advanced refunding where bonds are issued, the proceeds of which are used to defease outstanding debt of the Corporation. The result is an in-substance defeasance whereby the Corporation purchases securities which are deposited into an irrevocable trust with an escrow agent to provide all future debt service payments on the refunded bonds. A summary of the defeased debt follows (in thousands):

	December 31, 2001	June 30, 2001	June 30, 2000
General Housing Revenue Bonds, 1992 Series A	\$120,980	\$120,980	\$120,980
	\$120,980	\$120,980	\$120,980

Conduit Debt

From time to time, the Corporation has issued debt to provide financial assistance to private-sector entities for the acquisition or construction of facilities deemed to be in the public interest. The bonds are secured by the properties financed and are payable solely from rents and payments received on the underlying mortgage loans. Neither the Corporation nor the State are obligated in any manner for repayment of the bonds. Accordingly, the bonds and any related assets are not reported as assets or liabilities in the accompanying financial statements. A summary of the conduit bonds outstanding follows (in thousands):

	December 31, 2001	June 30, 2001	June 30, 2000
Alaska Vocational Technical Center:			
• Certificates of participation	\$-	\$-	\$675
Mortgage Revenue Refunding Bonds:			
• Chinook Apartments	2,110	2,110	2,155
• Coho Park Apartments	2,360	2,360	2,460
	\$4,470	\$4,470	\$5,290

Interest Rate Swap

In August, 2001, the Corporation entered into interest rate swap agreements (the "Agreements") with two counter-parties related to the \$170,170,000 Governmental Purpose Bonds, 2001 Series A and B. The purpose of the interest rate swap agreements is to reduce the Corporation's overall cost of borrowing long-term capital. Under the Agreements, the Corporation pays a fixed rate of interest equal to 4.14% of the notional amount of the swap in exchange for a variable rate payment from the counter-parties. The variable rate payment approximates the variable rate the Corporation pays to the variable rate bondholders of the 2001 Series A and B bonds. The notional amount amortizes over a time-period that approximates the payments the Corporation would experience with a fixed-rate,

NOTES TO COMBINED FINANCIAL STATEMENTS

level debt service schedule. The Corporation has the right to terminate the agreement at any time with 30 days notice and the payment of a termination fee. There are several additional risks the Corporation assumed in connection with the Agreements, including counter-party risk, basis risk, and tax risk.

Reclassification of HUD Notes

To provide for the development and modernization of low-rent housing units, the Corporation issued Low Rent Project Notes and FFB Notes upon request of HUD. The notes are payable by HUD and secured through its annual contribution contract payments. These notes do not constitute a debt of AHFC and accordingly, at July 1, 1999, the balance of such debt in the amount of \$5,250,000 was reclassified from bonds and notes payable to contributed capital.

13 COMMERCIAL PAPER

The Corporation has been issuing Euro Commercial Paper (ECP) since 1986. No individual issue may exceed nine months in duration. The maximum aggregate outstanding principal balance authorized by the Board of Directors is \$150,000,000. On March 1, 1999, the Corporation adopted a domestic commercial paper program and has been issuing domestic commercial paper since. The ECP program is currently inactive. A summary of commercial paper, which represents an unsecured general obligation of the Corporation, follows (in thousands):

	December 31, 2001	June 30, 2001	June 30, 2000
Maturity amount	\$103,400	\$110,800	\$127,500
Less: Discounts	(247)	(374)	(820)
Balance outstanding	<u>\$103,153</u>	<u>\$110,426</u>	<u>\$126,680</u>
<i>Yields issued during period:</i>			
Lowest	1.9600%	3.8500%	6.1500%
Highest	2.6000%	4.7300%	6.7200%

14 SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

The Corporation borrows funds for general corporate purposes utilizing reverse repurchase agreements. Such agreements involve the transfer of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. The Corporation invests proceeds from securities sold under agreements to repurchase in investments maturing on or before the maturity date of the related agreement to repurchase. The fair value of the securities underlying reverse repurchase agreements normally exceeds the proceeds received, providing respective dealers a margin against a decline in market value of the securities. If the dealers default on their obligations to return these securities to the Corporation, or provide securities or cash of equal value, the Corporation would suffer an economic loss equal to the difference between the par value plus accrued interest of the underlying securities and the agreement obligation, including accrued interest. A summary of securities sold under agreements to repurchase follows (in thousands):

	December 31, 2001	June 30, 2001	June 30, 2000
Maturity amount	\$-	\$-	\$88,298
Less: Discounts	-	-	(801)
	<u>\$-</u>	<u>\$-</u>	<u>\$87,497</u>

15 UNUSED LETTERS OF CREDIT AND OTHER CREDIT ARRANGEMENTS

For certain bond issues, the Corporation has entered into credit arrangements with various financial institutions to provide funds necessary to satisfy debt service or unpaid bond principal obligations. Varying commitment fees are required, generally ¼ to ½ of 1% per annum of the aggregate liability or commitment amount.

The Corporation had unused letters of credit and similar credit enhancement agreements in connection with amounts required for debt service or unpaid bond principal for certain bond issues as follows (in thousands):

NOTES TO COMBINED FINANCIAL STATEMENTS

	December 31, 2001	June 30, 2001	June 30, 2000
Liquidity facility	\$368,825	\$ -	\$ -
Bond insurance	1,648,841	1,463,626	1,222,517
	<u>\$2,017,666</u>	<u>\$1,463,626</u>	<u>\$1,222,517</u>

On July 26, 2001, the Corporation entered a liquidity facility swap agreement with a counter-party for up to \$370,000,000 relating to the Government Purpose Bonds 2001 Series A-D. The Corporation has an option to renew the agreement annually. The amount is reflected in the table above.

The Corporation also has reestablished in August 1999 a \$150,000,000 Credit Agreement that is not related to a specific bond issue. At December 31, 2001 no draw downs had been made on the Credit Agreement.

Government Purpose Bonds, 1995 Series A are insured by surety bonds. The agreement unconditionally and irrevocably guarantees scheduled payments of principal and interest on the bonds.

Certain letter-of-credit agreements contain covenants restricting the amendment of terms and redemption of bonds or notes, and setting the minimum combined fund equity of the Corporation and minimum debt-service reserve-fund balances.

16 YIELD RESTRICTION AND ARBITRAGE REBATE

Most mortgages purchased with the proceeds of tax-exempt bonds issued by the Corporation are subject to interest-rate yield restrictions of 1.125% to 1.500% over the yield of the bonds. These restrictions are in effect over the lives of the bonds. Most of the non-mortgage investments made under the Corporation's tax-exempt bond programs are subject to rebate provisions or restricted as to yields. The rebate provisions require that a calculation be performed every five years and upon full retirement of the bonds to determine the amount, if any, of excess yield earned and owed the Internal Revenue Service. Following is a summary of excess earnings recorded and paid (in thousands):

	December 31, 2001	June 30, 2001	June 30, 2000
Arbitrage Expense	\$737	\$1,736	\$(783)
Arbitrage Paid	\$93	\$-	\$4,559

17 STATE AUTHORIZATIONS AND COMMITMENTS

The Corporation uses its assets to fund certain housing and non-housing capital projects identified by the State. The aggregate amount expected to be funded by the Corporation was expressed by the following language of legislative intent included in the fiscal year 1996 capital appropriation bill, enacted in 1995:

“The Legislature intends to ensure the prudent management of the Alaska Housing Finance Corporation to protect its excellent debt rating by the nation's financial community and to preserve its valuable assets of the State. To accomplish its goal, the sum of withdrawals for transfer to the general fund and for expenditure on corporate funded capital projects should not exceed the Corporation's net income for the preceding fiscal year.”

The projected amounts stated in the legislative intent language were based on the Corporation's financial operating plan and represent the total amount of anticipated State transfers and capital expenditures rather than projected “net income”.

A summary of State Authorizations follows (in thousands):

NOTES TO COMBINED FINANCIAL STATEMENTS

	Total State Authorizations	Disbursements To-Date	Total Remaining Commitments
FY 1995*	\$22,500	\$22,275	\$225
FY 1996*	128,033	125,598	2,435
FY 1997	100,448	96,837	3,611
FY 1998	132,014	118,586	13,428
FY 1999	103,000	92,338	10,662
FY 2000*	105,168	82,941	22,227
FY 2001*	103,107	62,835	40,272
FY 2002	103,000	29,401	73,599
Total	\$797,270	\$630,811	\$166,459

* with re-appropriations

State Capital Projects Bonding

The 1998 Legislature adopted legislation authorizing approximately \$224 million in capital project bonds of the Corporation to finance projects of the State and municipalities. The legislation states the intention that the sum of withdrawals for repayment of bonds, for transfer to the State's general fund, and for corporate funded capital projects should not exceed the Corporation's net income for the preceding year. The bond proceeds are allocated to agencies and municipalities subject to specific legislative appropriation.

The 2000 Legislature adopted legislation authorizing the issuance of Bonds in sufficient amounts to fund the construction of various State capital projects, and extended the Transfer Plan to 2008. The Corporation views passage of the 1998 and 2000 legislation as a continuation of the plan of the legislature, stated in its legislative intent in 1995, to authorize \$103 million annually to the year 2008.

As of December 31, 2001, the Corporation has issued \$196,345,000 principal amount of State Capital Project Bonds pursuant to the 1998 Act, and \$74,535,000 principal amount of State Capital Project Bonds pursuant to the 2000 Act, and has completed its issuance authority under the Acts.

Transfers to the State of Alaska

Since the inception of the Corporation, the State has contributed a total of \$1,069,523,000 to the Corporation. Beginning in fiscal year 1986, the Corporation began a series of plans to transfer funds to or on behalf of the State. Following is a summary of the different types of transfers (in thousands):

	December 31, 2001	June 30, 2001	June 30, 2000	Cumulative Prior Fiscal Years	Total Transfers to State
State Debt Repayment	\$-	\$-	\$ -	\$29,800	\$29,800
Asset Purchases	-	-	-	252,300	252,300
Dividends	-	-	-	114,300	114,300
Direct Cash Transfers	6,000	15,007	32,000	421,020	474,027
Non-Housing Capital Projects	11,423	23,490	29,767	99,293	163,973
State Capital Project Bond Fund	30,941	36,534	40,255	34,905	142,635
Total	\$48,364	\$75,031	\$102,022	\$951,618	\$1,177,035

NOTES TO COMBINED FINANCIAL STATEMENTS

18 GRANTS AND SUBSIDIES

The Corporation paid grants to third parties for the following programs (in thousands):

Program	December 31, 2001	June 30, 2001	June 30, 2000
<i>General Account of the Revolving Fund:</i>			
• Homeless Assistance Program	\$138	\$830	\$468
• Housing Preservation Matching Grant	-	40	152
• Craftsman Home Program	11	7	-
• Senior Citizens Housing	479	114	883
• Supplemental Housing	324	8,746	5,454
• Supportive Housing Grant Match	214	763	631
	<u>1,166</u>	<u>10,500</u>	<u>7,588</u>
<i>Energy Programs:</i>			
• Alaska Community Development Corp.	-	-	343
• Enhanced Weatherization	192	715	432
• Rural Community Action Program	-	-	650
• Low-Income Weatherization Assistance	2,172	4,580	3,764
• Others	423	355	443
	<u>2,787</u>	<u>5,550</u>	<u>5,632</u>
<i>Section 8 Vouchers and Contract Administration</i>	<u>11,762</u>	<u>17,958</u>	<u>13,633</u>
<i>Other Housing Assistance Programs:</i>			
• HOME Program	2,190	4,036	4,467
• Drug Elimination Program	186	538	181
• Housing Opportunities for Persons with AIDS	281	225	225
• Shelter Plus Care Program	42	107	143
• Others	47	247	402
	<u>2,746</u>	<u>5,153</u>	<u>5,318</u>
Total Grant Expenses	<u>\$18,461</u>	<u>\$39,161</u>	<u>\$32,171</u>
<i>General Account of the Revolving Fund:</i>			
• DHSS Grants	\$-	\$6	\$321
• Benefit Special Needs Housing	462	-	-
• Others	335	87	426
• Village Safe Water Grants Program—FY 99 Appro.	3,392	10,643	17,095
• University of Alaska—FY 99 Appro.	368	651	1,158
• Municipal Matching Grants—FY 99 Appro.	4,897	8,623	6,259
• FY 98 Legislative Appropriations	276	1,133	2,975
• FY 99 Legislative Appropriations—Others	384	619	1,435
• FY 00 Legislative Appropriation	749	561	98
• FY 01 Legislative Appropriation	560	1,167	-
Total Contributed Capital Grants	<u>\$11,423</u>	<u>\$23,490</u>	<u>\$29,767</u>
Total Grants	<u>\$29,884</u>	<u>\$62,651</u>	<u>\$61,938</u>

In addition to grant payments made, the Corporation has advanced grant funds of \$12,740,000 and committed to third parties a sum of \$12,383,000 in grant awards at December 31, 2001.

NOTES TO COMBINED FINANCIAL STATEMENTS

19 OTHER PROGRAMS

Other programs include energy conservation and public-housing activities funded from a combination of corporate receipts and external sources.

Energy Conservation Programs

The Petroleum Violation Escrow Program (PVE) includes the activities funded from the State of Alaska's share of settlement proceeds received as a result of various lawsuits between the federal government and oil producers. The Corporation holds these funds in trust, to be used for qualifying energy conservation activities under the U.S. Department of Energy's oversight.

Cash-basis PVE trust-account activity follows (in thousands):

	December 31, 2001	June 30, 2001	June 30, 2000
Beginning account balance	\$1,732	\$1,881	\$3,417
Receipts from U.S. Department of Energy	-	100	77
Interest earned	28	106	163
Program expenses paid	(233)	(355)	(1,776)
Ending account balance	<u>\$1,527</u>	<u>\$1,732</u>	<u>\$1,881</u>
Amount due to Corporation for unreimbursed program expenses	<u>\$116</u>	<u>\$74</u>	<u>\$125</u>

The Corporation pays expenses incurred by various programs funded by the PVE. Allowable program expenses incurred follow (in thousands):

PVE Settlement Name	December 31, 2001	June 30, 2001	June 30, 2000
Stripper	<u>\$274</u>	<u>\$304</u>	<u>\$1,588</u>

The Supplemental Housing and Senior Housing Programs are funded entirely by corporate funds.

The weatherization programs include the following programs and are funded by a combination of DOE grants, PVE funds, and corporate funds:

- Low-Income Weatherization Program
- Residential Energy Rehab Program (Enhanced Weatherization)

Other energy programs include the following programs and are funded by a combination of DOE grants, PVE funds, HHS grants, and corporate funds:

- State Energy Conservation Program
- Low-Income Home Energy Assistance Program (LIHEAP)
- Weatherization Assistance for Low-Income Persons (AKWarm Enhancement)
- Mental Health
- Adult Education
- Alaska Native Health Board Grant
- Association of Alaska Housing Authorities Grant

The following projects are or have been funded within the Petroleum Violation Escrow Program:

- Low-Income Weatherization Enhancement
- Energy Rated Homes of Alaska
- Business Energy Assistance
- Home Energy Rebates
- Home Energy Loan Program
- Warm Homes for Alaskans

NOTES TO COMBINED FINANCIAL STATEMENTS

- Alaska Craftsman Home Program

Housing Assistance Programs

Low Rent includes the following programs for various low-income housing facilities administered by the Corporation under contract with HUD:

- Modernization/Comprehensive Grant
- Low Rent Management

Home Ownership includes the following programs administered by the Corporation and funded by HUD:

- Mutual Help
- Turnkey III

Section 8 includes the following programs for tenant-based rental assistance administered by the Corporation under contract with HUD:

- Section 8 Vouchers
- Section 8 Moderate Rehabilitation
- Section 8 New Construction
- Section 8 Contract Administration

Section 8 New Construction consists of low-income housing facilities at various locations owned by the Corporation, for which the Corporation receives tenant-based rental assistance under contract with HUD.

A summarized balance sheet and statement of revenues, expenses and retained earnings for the Section 8 New programs as of and for year ended December 31, 2001 follow (dollars in thousands):

	Chugach View	Golden Towers	Ptarmigan Park	Sunset View	Glacier View	Alpine Terrace	Total
Total assets	\$6,005	\$16,704	\$980	\$1,049	\$733	\$585	\$26,056
Total liabilities	2,395	182	(164)	329	1,676	1,313	905
Total fund equity	8,400	16,886	816	720	(943)	(728)	25,151
Total revenues	623	779	134	148	185	198	2,067
Total expenses	854	328	243	170	411	213	2,219
Net income (loss)	(231)	451	(109)	(22)	(226)	(15)	(152)
Beginning retained earnings	2,404	4,114	126	(622)	(640)	(1,392)	3,990
Transfers	392	-	-	-	-	-	392
Ending retained earnings	2,565	4,565	17	(644)	(866)	(1,407)	4,230

Wrangell consists of the Wrangell 221(d)(3) housing facility owned by the Corporation for which the Corporation receives tenant-based rental assistance under contract with HUD.

Other Housing Assistance Programs include the following HUD, state and privately funded activities:

- HOME Investment Partnerships Program (HOME)
- Supplemental Assistance for Facilities to Assist the Homeless (SAFAH)
- Gateway Literacy Program
- Drug Elimination Grant
- Shelter Plus Care Program
- Housing Opportunities for Persons with AIDS (HOPWA)
- HOME Technical Assistance
- Youth Sports Program
- Family Self Sufficiency Program (FSS)
- Family Investment Center Grant
- Special Needs Assistance
- Supportive Housing Technical Assistance

NOTES TO COMBINED FINANCIAL STATEMENTS

- Service Coordinator for Public Housing Agencies Grant

20 PENSION PLAN

As of December 31, 2001, all regular employees of the Corporation who work more than fifteen hours per week participate in the Alaska Public Employees' Retirement System (PERS). PERS is an agent multiple-employer, statewide defined benefit plan, administered by the State of Alaska. Benefits and contributions provisions are established by Chapter 35 of Alaska Statute Title 39, and may be amended only by state legislature. A publicly available financial report that includes financial statements and required supplementary information is issued annually by PERS. That report may be obtained by writing to State of Alaska, Department of Administration, Division of Retirement and Benefits, P.O. Box 110203, Juneau, Alaska 99811-0202.

Plan Description

Employees hired prior to July 1, 1986 with five or more years of credited service are entitled to annual pension benefits beginning at normal retirement age 55 or early retirement age 50. For employees hired after June 30, 1986, the normal and early retirement ages are 60 and 55, respectively. The normal pension benefit is equal to 2% of the member's three-year highest average monthly compensation for the first ten years of service, 2¼% for the second ten years of service and 2½% for all remaining years of service. All service earned prior to July 1, 1986 will be calculated using the 2% multiplier. Employees with 30 or more years of credited service may retire at any age and receive a normal benefit. The system also provides death and disability benefits and major medical benefits.

Funding Policy

Under State law, covered employees are required to contribute 6¾% of their annual covered salary and the Corporation is required to contribute an actuarially determined rate; the current rate is 6.76% of annual covered payroll.

Annual Pension Cost

The Corporation's annual pension and postretirement health cost shown below was equal to the required and actual contribution. The actuarial required contribution was computed as part of an actuarial valuation as of June 30, 1999. Significant actuarial assumptions used in the valuation include: (a) a rate of return on the investment of present and future assets of 8.25% per year compounded annually and (b) projected salary increases of 5.5% a year for the first five years of employment and 4.5% per year thereafter, with distinction made between amounts for inflation (4.0%), merit (1.0%), and productivity (0.5%). The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the fair value of investments over a five year period. The contribution rate for normal cost is determined using the projected unit credit actuarial funding method. The excess of assets over the actuarial accrued liability is amortized over a rolling 25 years which is an open amortization period. The percentage of pay method is used for amortization purposes.

Three-Year Trend Information for PERS

Year ended	Annual pension and postretirement health cost (APC)	Percentage of APC contributed	Net pension obligation
June 30, 2001	\$1,040,000	100.00%	-
June 30, 2000	830,000	100.00%	-
June 30, 1999	1,010,000	100.00%	-

NOTES TO COMBINED FINANCIAL STATEMENTS

Required Supplementary Information—Schedule of Funding Progress for PERS (in thousands)

Actuarial valuation date	Actuarial value of assets (a)	Actuarial accrued liability (AAL) (b)	Excess of Assets over AAL (a)-(b)	Funded ratio (a)/(b)	Covered payroll (c)	Excess as a percentage of Covered payroll ((a)-(b))/(c)
Pension:						
June 30, 1999	30,462	19,060	11,402	160%	12,789	89%
June 30, 1998	28,986	26,335	2,651	110%	12,329	22%
June 30, 1997	27,323	23,413	3,910	117%	11,928	33%
Postretirement Health:						
June 30, 1999	12,349	7,727	4,622	160%	12,789	36%
June 30, 1998	10,763	9,779	984	110%	12,329	8%
June 30, 1997	10,184	8,726	1,458	117%	11,928	12%

21 CUMULATIVE EFFECT OF ACCOUNTING CHANGE

Prior to fiscal year 2000, the Corporation capitalized all costs associated with the actual purchase or improvements in the form of construction and modernization of public housing buildings in accordance with Generally Accepted Accounting Principles (GAAP). New information from HUD explaining the type of costs associated with modernization and development of buildings has led to a change in industry practice of capitalizing hard costs and expending soft costs. The modernization and development costs such as management improvements, administrative, other costs defined as “Soft Costs” do not provide additional service potential and will not be allocated over the life of the building but expended as incurred. In the fourth quarter of fiscal year 2000, the Corporation removed all “soft costs” that had been capitalized over the prior periods and the corresponding accumulated depreciation. The net effect of the accounting change is shown as cumulative effect of prior year’s amount in the Statement of Revenues and Expenses.

	Prior Years	FY 2000	Total
Total Soft Costs removed	\$(26,120)	\$(2,067)	\$(28,187)
Total Accumulated Depreciation removed	6,853	708	7,561
Total Net Fixed Assets removed	(19,267)	(1,359)	(20,626)
Decrease of Contributed Capital	(23,548)	(1,225)	(24,773)
Cumulative Effect on Net Income	4,281	-	4,281

22 OTHER COMMITMENTS AND CONTINGENCIES

Medical Self Insurance

During the Fiscal Year ended June 30, 1998, the Corporation began a program of self-insurance for employee medical benefits. Costs are billed directly to the Corporation by an Administrative Services Provider that processes all of the claims from the employees and their dependents. The Corporation has purchased a stop-loss policy that limits its liability to \$50,000 per employee and their dependents. The Corporation has provided for an estimate of the Incurred But Not Reported (IBNR) liability in the amount of \$1,179,000, \$1,076,000 and \$713,000 as of December 31, June 30, 2001 and 2000 respectively.

Litigation

The Corporation, in the normal course of its activities, is involved in various claims and pending litigation, the outcome of which is not presently determinable. In the opinion of management, the disposition of these matters is not presently expected to have a material adverse effect on the Corporation’s financial statements.

NOTES TO COMBINED FINANCIAL STATEMENTS

Legal Settlement

In July 2001, the Corporation, a member of the Alaska Entities and the State of Alaska, entered into a Settlement Agreement with Bank of America Corporation and Bank of America, N.A. regarding the Bank's purported failure to escheat unclaimed funds to the State of Alaska and the Bank's alleged breaches of contractual, fiduciary, statutory, and common law obligations that the Bank purportedly had in its capacity as Corporate Trust Agent relating to the administration and management of Alaska Debt Instruments. The settlement was not finalized until October 24, 2001. The Corporation recognized \$7.2 millions of the settlement income in fiscal year 2001 based on an estimated amount. The final settlement amount was \$7.09 millions.

Contingent Liabilities

The Corporation participates in several federally assisted programs. These programs are subject to program compliance audits and adjustment by the grantor agencies or their representatives. Any disallowed claims, including amounts already collected, would become a liability of the General Account of the Revolving Fund. In management's opinion, disallowance, if any, will be immaterial.

Subsequent Event

The Corporation continues to issue and redeem commercial paper under the domestic Commercial Paper Program, in the normal course of activities after December 31, 2001.



a component unit of the State of Alaska

Combined Financial Statements

June 30, 2001 and 2000

(With Independent Auditors' Report Thereon)



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This is a quarterly publication of the Alaska Housing Finance Corporation. For comments please contact the Alaska Housing Finance Corporation's Accounting Department:

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Anchorage, AK 99501-2258

Independent Auditors' Report

The Board of Directors
Alaska Housing Finance Corporation:

We have audited the accompanying combined balance sheet of Alaska Housing Finance Corporation as of June 30, 2001, and the related statements of revenues and expenses, cash flows, and changes in equity for the year then ended. These financial statements are the responsibility of Alaska Housing Finance Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit. The accompanying combined financial statements of Alaska Housing Finance Corporation as of June 30, 2000, were audited by other auditors whose report thereon dated September 15, 2000, expressed an unqualified opinion on those statements.

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

In our opinion, the 2001 financial statements referred to above present fairly, in all material respects, the financial position of Alaska Housing Finance Corporation as of June 30, 2001, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

September 14, 2001



KPMG LLP, KPMG LLP, a U.S. limited liability partnership, is
a member of KPMG International, a Swiss entity.

EXHIBIT A

COMBINED BALANCE SHEETS
(in thousands)

ASSETS	<u>JUNE 30</u>	
	2001	2000
Cash	\$13,642	\$8,520
Investments	1,457,510	1,786,242
Mortgage loans and mortgage-backed securities, net	3,114,821	2,673,689
Mobile home loans, net	4,250	6,149
Notes receivable	31,085	32,124
Accrued interest receivable	24,395	25,180
Net investment in direct financing lease	39,150	40,528
Unamortized bond issuance costs	26,263	25,097
Due from other funds	150,332	96,982
Real estate and mobile homes owned	472	652
Property and equipment at cost, net	95,619	90,264
Other assets	23,631	22,378
	<u>\$4,981,170</u>	<u>\$4,807,805</u>
LIABILITIES AND FUND EQUITY		
<i>Liabilities:</i>		
Bonds and notes, net of discounts	\$2,898,024	\$2,699,419
Commercial paper	110,426	126,680
Securities sold under agreements to repurchase	-	87,497
Accrued interest payable	16,426	15,376
Due to other funds	150,332	96,982
Accrued expenses and other liabilities	32,285	29,496
<i>Total liabilities</i>	<u>3,207,493</u>	<u>3,055,450</u>
Commitments and Contingencies (Notes 8, 11, 12, 14, 15, 17, 18, 20 and 22)		
<i>Fund equity:</i>		
Contributed capital	425,555	500,586
Retained earnings	1,348,122	1,251,769
<i>Total fund equity</i>	<u>1,773,677</u>	<u>1,752,355</u>
	<u>\$4,981,170</u>	<u>\$4,807,805</u>

See accompanying notes to combined financial statements.

Exhibit B

COMBINED STATEMENTS OF REVENUES AND EXPENSES
(in thousands)

	YEARS ENDED	
	<u>JUNE 30</u>	
REVENUES	2001	2000
<i>Interest and Investment Income:</i>		
Mortgages and loans	\$204,084	\$180,656
Investments	108,303	111,936
Net change in the fair value of investments	3,524	(3,562)
Insured real estate owned	146	65
	<hr/>	<hr/>
	316,057	289,095
Rental and lease income	6,920	7,003
Other income	2,483	1,097
Settlement income	7,200	-
Externally funded program revenues	43,508	34,091
	<hr/>	<hr/>
TOTAL REVENUES	376,168	331,286
<hr/>		
EXPENSES		
Interest	172,373	159,672
Mortgage service fees	11,335	9,844
Operations and administration	31,997	30,282
Trustee fees, insurance and financing costs	6,047	3,732
Provision for loan losses	8,124	8,017
Write down and expenses associated with real estate and mobile homes owned	503	93
Grants and subsidies	39,161	32,171
Rental housing operating expenses	10,275	9,954
	<hr/>	<hr/>
TOTAL EXPENSES	279,815	253,765
<hr/>		
Net income before cumulative effect of accounting change	96,353	77,521
Cumulative effect of accounting change	-	4,281
	<hr/>	<hr/>
NET INCOME	\$96,353	\$81,802

See accompanying notes to combined financial statements.

COMBINED STATEMENTS OF CASH FLOWS
(in thousands)

	YEARS ENDED	
	JUNE 30	
OPERATING ACTIVITIES	2001	2000
Net income before cumulative effect of accounting change	\$96,353	\$77,521
Removal of non-operating activity:		
Investment interest income	(101,849)	(107,214)
Net change in fair value of investments	(3,524)	3,562
Interest on bonds and other debt	170,320	157,214
Net operating income	161,300	131,083
Adjustments to reconcile net operating income to net cash used by operating activities:		
Depreciation expense	5,455	5,684
Net amortization of discounts and bond issuance costs	3,415	3,801
Acquisition of loans and notes receivable	(760,087)	(631,628)
Loan principal repayments and reduction in real estate and mobile homes owned	314,105	265,520
Increase in mortgage and notes interest receivable	(1,997)	(1,163)
Increase (decrease) in other liabilities and assets	1,856	(30,903)
Increase in allowance for loan losses, net of charge offs	8,115	7,681
Net expenses for (recovery of) real estate and mobile homes owned	(147)	(1,008)
Receipt of federal rent subsidies	16,338	13,874
Payment of federal rent subsidies	(16,690)	(13,897)
NET CASH USED BY OPERATING ACTIVITIES	(268,337)	(250,956)
NONCAPITAL FINANCING ACTIVITIES		
Net proceeds from issuance of commercial paper and securities sold under agreements to repurchase	756,086	1,574,928
Net principal retirement of commercial paper and securities sold under agreements to repurchase	(859,678)	(1,644,653)
Interest payments on commercial paper and securities sold under agreements to repurchase	(8,530)	(14,609)
Net proceeds from sale of mortgage bonds	295,042	881,082
Bond issuance costs paid	(2,097)	(6,575)
Principal payments on mortgage bonds	(100,620)	(428,315)
Interest payments on mortgage bonds	(159,140)	(137,651)
Contributed capital repaid to State of Alaska	(75,031)	(102,022)
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	(153,968)	122,185

EXHIBIT C (CONTINUED)

COMBINED STATEMENTS OF CASH FLOWS
(in thousands)

	YEARS ENDED	
	2001	2000
CAPITAL FINANCING ACTIVITIES		
Capital asset purchases	(10,810)	(11,621)
Direct financing lease payments	3,550	1,000
Principal payments on capital bonds and notes	(23)	(23)
Interest payments on capital bonds and notes	(5)	(5)
Contributed capital - federally funded	-	2,846
NET CASH USED BY CAPITAL FINANCING ACTIVITIES	(7,288)	(7,803)
INVESTING ACTIVITIES		
Purchases of investments	(7,017,107)	(8,874,566)
Maturities of investments	7,349,388	8,903,494
Interest received from investments	102,434	105,307
NET CASH PROVIDED BY INVESTING ACTIVITIES	434,715	134,235
Increase (decrease) in cash	5,122	(2,339)
Cash at beginning of year	8,520	10,859
CASH AT END OF PERIOD	\$13,642	\$8,520

Noncash Investing, Capital and Financing Activities

The Corporation had noncash activities as follows (in thousands):

Activity	June 30, 2001	June 30, 2000
Interfund asset transfers	\$131,815	\$340,313
Amortization of Investment in Direct Financing Lease	-	1,095
Removal of capitalized soft costs	-	23,548
HUD debt reclassified	-	5,242

See accompanying notes to combined financial statements.

EXHIBIT D

COMBINED STATEMENTS OF CHANGES IN EQUITY
(in thousands)

	Total Equity	State Capital Contributions	Federal Capital Contributions	Retained Earnings
Balance, June 30, 1999	1,788,035	520,188	97,880	1,169,967
HUD debt reclassified	5,242	-	5,242	-
HUD modernization & development	2,846	-	2,846	-
Removal of capitalized soft costs	(23,548)	-	(23,548)	-
Returned to State of Alaska	(102,022)	(102,022)	-	-
Net income	81,802	-	-	81,802
Balance, June 30, 2000	\$1,752,355	\$418,166	\$82,420	\$1,251,769
Returned to State of Alaska	(75,031)	(75,031)	-	-
Net income	96,353	-	-	96,353
Balance, June 30, 2001	\$1,773,677	\$343,135	\$82,420	\$1,348,122

See accompanying notes to combined financial statements.

NOTES TO COMBINED FINANCIAL STATEMENTS

FOOTNOTE INDEX

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NOTES TO COMBINED FINANCIAL STATEMENTS

FOR YEARS ENDED JUNE 30, 2001 AND 2000

1 AUTHORIZING LEGISLATION AND FUNDS

The Alaska Housing Finance Corporation (Corporation), a public corporation and government instrumentality of the State of Alaska, was created in 1971, and substantially modified in 1992, by acts of the State of Alaska Legislature (Legislature) to assist in the financing, development and sale of dwelling units, operate the State's public housing, offer various home loan programs emphasizing housing for low-and moderate-income and rural residents, and administer energy efficiency and weatherization programs within Alaska.

Generally, the Corporation accomplishes its mortgage-related objectives by functioning as a secondary market for qualified real estate and mobile home loans originated by financial institutions. The Corporation is authorized, as approved by the Legislature, to issue its own bonds, bond anticipation notes and other obligations in such principal amounts as, in the opinion of the Corporation, will be necessary to provide sufficient funds for carrying out its purpose. Certain bonds issued to finance residences for qualified veterans are unconditionally guaranteed by the State of Alaska. No other obligations constitute a debt of the State.

The non-mortgage related programs of the Corporation are funded through various grant and program agreements with the federal government's departments of Housing and Urban Development (HUD), Energy (DOE), and Health and Human Services (HHS), as well as capital and operating subsidies from the Corporation's own funds.

During the second quarter of fiscal year 2001, Northern Tobacco Securitization Corporation (NTSC) was incorporated in the State of Alaska in pursuant to House Bill No. 281 of the Alaska Legislature. As a subsidiary of the Corporation, NTSC is a government instrumentality of, but separate and apart from, the State of Alaska. There is no financial accountability between NTSC & the Corporation. Neither the Corporation nor the State is liable for any debt issued by NTSC. NTSC is not a component unit of the Corporation and thus not included in the Corporation's financial statements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Accounting

The financial activities of the Corporation, which are restricted by the Corporation's bond resolutions, requirements from the Legislature, HUD, DOE, and HHS program agreements, are recorded in various special purpose funds and accounts as specified in such instruments or necessitated by appropriation requirements. In general, financial activities and resulting account balances which are not so restricted are recorded in the General Account of the Revolving Fund. The Corporation's funds are considered to be proprietary funds for financial reporting purposes with revenues recognized when earned and expenses when incurred. The Corporation applies all Governmental Accounting Standards Board's (GASB) Statements and interpretations.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Unrestricted Activities

The General Account of the Revolving Fund consists entirely of the Corporation's unrestricted assets, liabilities, equity and results of operations.

Investments

All investments are stated at fair value, except for nonparticipating investment agreements, which are stated at cost. The Corporation does not participate in any external investment pools.

Loans

Mortgage loans are carried at their unpaid principal balances net of allowance for estimated loan losses. Under previous agreements, the Corporation exchanged mortgages for mortgage-backed securities (MBSs) with Federal National Mortgage Association (FNMA), and Federal Home Loan Mortgage Corporation (FHLMC) and issued mortgage certificates guaranteed by the Government National Mortgage Association (GNMA). MBSs received in exchange for mortgages and those issued by the Corporation under its MBS program are carried at the unpaid principal balance of the underlying mortgage loans, net of related allowances.

NOTES TO COMBINED FINANCIAL STATEMENTS

Real Estate and Mobile Homes Owned

Real estate and mobile homes owned consist principally of properties acquired through foreclosure or repossession and are carried at the lower of cost or estimated net realizable value.

Accrued Interest Receivable on Loans and Properties

Interest is accrued based upon the principal amount outstanding. Accrual of interest income is discontinued on loans when, in the opinion of management, collection of such interest becomes doubtful. When payment of interest is provided for pursuant to the terms of loan insurance or guarantees, accrual of interest on delinquent loans and real estate owned is continued.

Allowances for Estimated Loan Losses

The Corporation provides for possible losses on loans anticipated to be foreclosed upon. A potential loss is recorded when the net realizable value, or fair value, of the related collateral or security interest is estimated to be less than the Corporation's investment in the property less anticipated recoveries from private mortgage insurance, private credit insurance, and various other loan guarantees. In providing for losses, through a charge to operations, consideration is given to the costs of holding real estate, including interest costs. The loan portfolio, property holding periods and property holding costs are reviewed periodically. While management uses the best information available to make evaluations, future adjustments to the allowances may be necessary if there are significant changes in economic conditions or property disposal programs.

Amortization and Depreciation

Discount and issuance expenses on debt are deferred and amortized using the interest method over the life of the related bond issue, ranging from 30 to 40 years.

Depreciation and amortization of buildings, equipment, leasehold improvements and intangible assets are computed on a straight-line basis over the estimated useful lives of the related assets. Estimated useful lives range from 3 to 40 years. The capitalization floor is \$5,000.

Bonds and Notes

The Corporation issues bonds and notes to provide capital for its mortgage programs, and other uses consistent with its mission. The bonds and notes are recorded at cost plus accreted interest and premiums, less discounts and deferred debt refunding expenses. Discounts and premiums are amortized using the effective interest method. Deferred debt refunding expenses are amortized over the shorter of the remaining life of the old debt, or the remaining life of the new debt.

Income Taxes

The Corporation is exempt from federal and state income taxes.

Reclassifications

Certain prior-year balances have been reclassified to conform to the current period presentation.

Accounting Change

Prior to fiscal year 2001, the Corporation had adopted the provision under GASB Statement No. 20 *Accounting and Financial Reporting for Proprietary Funds and other Governmental Entities that use Proprietary Fund Accounting* to follow all applicable FASB statements and interpretations issued after November 30, 1989, except for those that conflict with, or contradict GASB pronouncements. As permitted by Statement 20, the Corporation has determined that the preferred method of accounting is to follow GASB and elected not to adopt any FASB Statements issued after November 30, 1989 unless the GASB specifically adopts the FASB pronouncement. The change took place in fiscal year 2001 retroactively to the original election date.

With respect to proprietary activities, the differences in theory and practice in accounting and financial reporting between public business types and the private sector has been shrinking due to new GASB pronouncements, i.e. new basic financial statements required by GASB Statement No. 34. The Corporation has determined that the impact of the change on the combined financial statements and related disclosures is not significant.

GASB Statement No. 33

In December 1998, the Government Accounting Standards Board (GASB) issued Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. Statement 33 established accounting and financial reporting standards to guide state and local governments' decisions about how and when (in which fiscal year) to report the results of nonexchange transactions involving cash and other financial and capital resources. The Corporation adopted Statement 33 for the year ended June 30, 2001. This resulted in a minor change of \$3.7 million being moved from Contributed Capital to Externally Funded Revenues for HUD reimbursements for modernization and development expenditures on public housing facilities in the current year.

NOTES TO COMBINED FINANCIAL STATEMENTS

GASB Statement No. 34

In June 1999, the GASB issued Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis*. The Statement establishes new financial reporting requirements (new reporting model) for state and local governments. The Corporation is required to adopt Statement 34 for the year ending June 30, 2002. The adoption of Statement 34 will require the Corporation to make several changes to the presentation of its basic financial statements and footnotes in addition to requiring the presentation of a new section called Management's Discussion and Analysis (MD &A). The new reporting model will help clarify and enhance information available in the financial statements for the citizenry, oversight bodies, investors and creditors.

GASB Statements No. 37 & 38

In June 2001, the GASB issued Statement No. 37 *Basic Financial Statements-and Management's Discussion and Analysis: Omnibus, an amendment of GASB statements No. 21 and No. 34*, and Statement No. 38, *Certain Financial Statement Note Disclosures*. Statement 37 modifies the requirements of Statement 34 which includes changing the minimum level of detail required for business-type activities in the statement of activities from segments to different identifiable activities. Statement 38 modifies or rescinds disclosure requirements that were effective before 1995, while establishing others. The Corporation is required to adopt Statements 37 & 38 for the year ended June 30, 2002.

3 CASH

Cash consists of demand deposits, time deposits and uninvested trust account balances. For purposes of the statement of cash flows the Corporation considers all highly liquid investment instruments purchased with a maturity of three months or less to be cash. A summary of the Corporation's cash follows (in thousands):

	June 30, 2001	June 30, 2000
Restricted	\$10,107	\$2,108
Unrestricted	3,535	6,412
Carrying amount	\$13,642	\$8,520
Bank balance	\$15,356	\$9,443

4 INVESTMENTS

Custodial Credit Risk

The Corporation assumes levels of custodial credit risk for its cash, deposits with financial institutions, bank investment agreements and investments. Cash and bank investment agreements are categorized as: 1) insured by federal depository insurance or collateralized by securities held by third parties in the Corporation's name; 2) uninvested in trust and other accounts collateralized with securities held by bank trust departments, but not in the Corporation's name; and 3) uninsured and un-collateralized. Investments are categorized as: 1) insured, registered, or held by the Corporation or its agent in the Corporation's name; 2) uninsured and unregistered, held by the counter party's trust department or agent in the Corporation's name; and 3) uninsured and unregistered investments that are held by a counter party, or by its trust department or agent, but not in the Corporation's name.

NOTES TO COMBINED FINANCIAL STATEMENTS

The bank balance of the Corporation's cash, bank investment agreements, and investments is categorized below (in thousands):

	Category 1	Category 2	Category 3	June 30, 2001	June 30, 2000
Cash	\$15,356	-	-	\$15,356	\$9,443
Bank investment agreements	\$-	\$127,217	\$92,050	\$219,267	\$288,867
U.S. Treasury securities	13,591	18,671	-	32,262	80,408
Securities of U.S. Government agencies and Corporations	250,850	86,218	-	337,068	347,206
Asset-backed securities	47,998	14,569	-	62,567	95,657
Certificates of Deposit	15,000	-	-	15,000	15,110
Commercial paper & medium term notes	148,900	330,392	-	479,292	410,388
Subtotal	476,339	449,850	-	926,189	948,769
	\$476,339	\$577,067	\$92,050	1,145,456	1,237,636
Investment agreements				235,897	350,886
Collateral for reverse repurchase agreements				-	87,497
Money market funds				76,157	110,223
Total investments				\$1,457,510	\$1,786,242

Investment Policies

Investments of trusted funds are made under terms of the indenture or agreement which applies to each pool of funds. Permitted investments may differ with each bond issue or other agreement. The Corporation's fiscal policies govern unrestricted funds and securities. The following are eligible for investment thereunder; however, individual indenture or agreement restrictions may not permit all of the following investments in any one pool of funds:

- Obligations of the United States or any agency or instrumentality thereof;
- Debt obligations, including unsecured certificates of deposit, notes, time deposits, and bankers' acceptances of, and deposits with, any bank the short-term obligations of which have been rated at least "A-1" by S&P or "P-1" by Moody's;
- Deposits in and investments of a commercial bank or credit union which are fully insured by the FDIC or NCUA or that provide for the pledge of collateral maintained at a minimum level of 105%;
- Debt obligations, other than those that do not have a fixed par value or terms that do not promise a fixed dollar amount at maturity or call date, rated at least "AA" by S&P or "Aa" by Moody's;
- Repurchase Agreements (repos) with a corporation or other entity which has long-term debt ratings of at least "A" by S&P or "A" by Moody's or short-term ratings of at least "A-1" by S&P or "P-1" by Moody's and where the collateral is maintained at a minimum level of 102%;
- Money market funds which are rated at least "AAm" or "AAM-G" by S&P or "Aa" by Moody's;
- Investment agreements or guaranteed investment contracts with financial institutions having outstanding unsecured long-term obligations rated, or a claims paying or investment agreement rating, at least "AA" by S&P or "Aa" by Moody's;
- Floating rate notes issued by entities having outstanding unsecured long-term obligations rated "AA" by S&P or "Aa" by Moody's, and with interest rates subject to adjustment no less frequently than every 90 days, and a maximum maturity of three years or less;
- Adjustable rate funds, provided they are rated "AAA" credit and "aaa" volatility by S&P and "Aaa" by Moody's;
- International Bank for Reconstruction & Development debt obligations rated "AAA" by S&P or "Aaa" by Moody's.

NOTES TO COMBINED FINANCIAL STATEMENTS

Investment Term

The fair value of debt security investments by contractual maturity is shown below (in thousands). Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	June 30, 2001	June 30, 2000
Due in one year or less	\$1,216,458	\$1,425,804
Due after one year through five years	241,052	327,079
Due after five years through ten years	-	1,303
Due after ten years	-	32,056
	<u>\$1,457,510</u>	<u>\$1,786,242</u>

Realized Gains and Losses

The calculation of realized gains is independent of the calculation of the net increase in the fair value of investments. Realized gains and losses on investments that had been held in more than one fiscal year and sold in the current period may have been recognized as an increase or decrease in the fair value of investments reported in the prior year. The net increase in the fair value of investments included in the table below takes into account all changes in fair value (including purchases and sales) that occurred during the period. A summary of the gains and losses follows (in thousands):

	Year Ended	
	June 30, 2001	June 30, 2000
Net increase (decrease) in Fair Value	\$3,524	(\$3,562)
Ending unrealized gains	\$8,768	\$7,187
Net realized gains (losses)	<u>\$1,943</u>	<u>(\$1,077)</u>

5 MORTGAGE LOANS AND MORTGAGE-BACKED SECURITIES

A summary of mortgage loans and mortgage-backed securities follows (in thousands):

	June 30, 2001	June 30, 2000
<u>Mortgage Loans:</u>		
Pool insured	\$48,512	\$58,593
Federally insured or guaranteed	1,377,677	1,134,777
Other	1,689,312	1,444,411
<u>Mortgage-backed Securities issued by the Corporation:</u>		
FNMA	20,674	30,122
GNMA	69,534	85,352
FHLMC	10,013	12,556
	<u>3,215,722</u>	<u>2,765,811</u>
<u>Less:</u>		
Allowance for loan losses	(100,901)	(92,122)
Net Mortgage loans and mortgage-backed securities	<u>\$3,114,821</u>	<u>\$2,673,689</u>

NOTES TO COMBINED FINANCIAL STATEMENTS

Other supplemental loan information is summarized in the following table (in thousands):

	June 30, 2001	June 30, 2000
<u>Delinquencies and Foreclosures:</u>		
Loans delinquent 30 days or more	\$100,047	\$85,143
Foreclosures during period	3,347	3,103
Loans in foreclosure process	5,078	7,157
<u>Mortgage-related commitments:</u>		
To purchase mortgage loans	235,889	105,500
To repurchase loans upon foreclosure	80,342	99,158

6 MOBILE HOME LOANS

A summary of mobile home loans follows (in thousands):

	June 30, 2001	June 30, 2000
Mobile home loans	\$5,160	\$7,626
Less reserve for mobile home loan losses	(910)	(1,477)
Net mobile home loans	<u>\$4,250</u>	<u>\$6,149</u>

7 NOTES RECEIVABLE

A summary of notes receivable follows (in thousands):

	June 30, 2001	June 30, 2000
University of Alaska loans	\$30,958	\$31,989
Others (net of reserve)	127	135
Total Notes Receivable	<u>\$31,085</u>	<u>\$32,124</u>

During 1997, under an act of the 19th Alaska State Legislative, the Corporation entered into an agreement with the University of Alaska to loan the University a total of \$33,000,000 for acquisition or construction of student housing facilities. The loan consists of a \$30,000,000 assisted portion at a rate of 1.826% per annum, and a \$3,000,000 unassisted portion at a rate of 6% per annum. The payments by the University began on August 1, 1999 and are scheduled thereafter February 1 and August 1 of each year through February 1, 2024, unless earlier repaid.

8 INSURANCE AGREEMENTS

The Corporation has obtained private mortgage insurance, credit insurance or guarantees on certain mortgages and loans. The agreements protect the Corporation to varying degrees against losses arising from the disposition of the related collateral obtained through foreclosure or repossession, as well as the costs of obtaining title to, maintenance and liquidation of the collateral. The Corporation is exposed to losses on disposition in the event the insurers or guarantors are unable or refuse to meet their obligations under these agreements.

9 INSURANCE PROGRAM FUNDS

The Corporation has three insurance funds for the purpose of insuring itself against losses which might occur as a result of mortgages purchased under the Rural Housing and various other programs. The insurance funds are held in trust by a commercial banking institution and are administered by the management of the Corporation. They are included in the General Account of the Revolving Fund in the accompanying financial statements.

10 DIRECT FINANCING LEASE

In July, 1997, the Corporation purchased an office building in downtown Anchorage with its general account assets for approximately \$26 million. The building will be part of the Corporation's State Lease Building Program (the "Program") and has been leased to the State of Alaska for occupancy by its Departments and Agencies located in Anchorage. The State has the option to purchase the building at the end of the lease for \$1. In December 1999 the Corporation issued the State Building Lease Bonds, 1999 series in the amount of \$40,000,000 to finance the

NOTES TO COMBINED FINANCIAL STATEMENTS

purchase. The lease of the building to the State has been recorded as a direct financing lease. The following table lists the components of the net investment in direct financing lease and shows the future minimum payments under the lease for the next five years and thereafter (in thousands):

Period Ending June 30	Future Minimum Payments Due
2002	\$3,549
2003	3,549
2004	3,549
2005	3,549
2006	3,549
Thereafter	42,595
Gross Payments Due	60,340
Less: Unearned Revenue	(21,190)
Net investment in direct financing lease	\$39,150

11 PROPERTY AND EQUIPMENT

A summary of balances follows (in thousands):

	June 30, 2001	June 30, 2000
Buildings	\$116,553	\$119,521
Construction in Process	39,939	28,200
Land	13,112	12,493
Computers & Equipment	2,747	2,540
Vehicles	1,458	1,422
	173,809	164,176
<u>Less: Accumulated depreciation</u>	(78,190)	(73,912)
	\$95,619	\$90,264

The Corporation is obligated under contracts and other commitments to purchase and/or modernize certain fixed assets. The total commitment, including amounts to be funded by third parties, is shown below.

	June 30, 2001	June 30, 2000
Commitments	\$676	\$4,356

12 BONDS AND NOTES PAYABLE

With the exception of the Veterans Mortgage Program Bonds, the Corporation's obligations are not a debt of the State and the State is not directly liable thereon. The Veterans Mortgage Program Bonds are backed by the full faith and credit of the State. All of the bonds and notes are secured, as described in the applicable agreements, by the revenues, monies, investments, mortgage loans and other assets in the funds and accounts established by the respective security agreements. A substantial portion of the assets of the Corporation is pledged to the outstanding obligations of the Corporation. Bonds and notes outstanding are as follows (in thousands):

	Original Amount	June 30, 2001	June 30, 2000
FIRST-TIME HOME BUYER BONDS:			
<i>Collateralized Home Mortgage Bonds (CHMB):</i>			
• Tax-Exempt:			
• CHMB 1988 Series A, 7.4% to 7.5%, due 2003-2015	\$85,000	\$2,940	\$5,890
• CHMB 1989 Series B, 7.55% to 7.65%, due 2001-2024	148,000	8,575	10,215
• CHMB 1990 Series A, 5.7% to 7.05%, due 2001-2025	152,000	19,760	24,075

NOTES TO COMBINED FINANCIAL STATEMENTS

	Original Amount	June 30, 2001	June 30, 2000
Mortgage Revenue Bonds:			
• 1996 Series A, 4.40% to 6.5%, due 2001-2027	159,871	80,521	97,771
• 1997 Series A, 4.15% to 6%, due 2001-2037	160,000	150,720	152,600
• 1998 Series A, 3.95% to 5.4%, due 2001-2035	70,000	65,975	66,405
• 1999 Series A1 & 2, 4.5% to 6.25%, due 2001-2035	200,000	200,000	200,000
• 2000 Series A, 5.9% to 6.0% due 2036-2040	58,315	58,315	-
• 2000 Series B, 5.45% due 2015	3,795	3,795	-
• 2000 Series C, 4.7% to 6%, due 2002-2032	68,785	68,785	-
• Taxable:			
• 2000 Series D, 7.0% to 7.32%, due 2003-2020	25,740	25,740	-
TOTAL FIRST-TIME HOMEBUYER BONDS	<u>1,131,506</u>	685,126	556,956
Accreted interest		5,276	3,859
Unamortized discount		(1,247)	(556)
NET FIRST-TIME HOMEBUYER BONDS		<u>689,155</u>	<u>560,259</u>
VETERANS MORTGAGE PROGRAM BONDS			
Collateralized State Guaranteed Bonds:			
• Collateralized Bonds 1989 First Series, 6.5% to 7.45%, due 2002-2031	45,000	780	1,525
• Collateralized Bonds 1990 First Series, 6.875% to 7.50%, due 2003-2033	35,000	865	1,310
• Collateralized Bonds 1991 First Series, 6.75% to 7.30%, due 2004-2033	45,000	3,955	4,630
• Collateralized Bonds 1991 Second Series, 6.5% to 7.10%, due 2004-2034	60,000	9,025	11,775
• Collateralized Bonds 1992 First Series, 6.25% to 6.75%, due 2005-2034	45,000	17,025	19,395
• Collateralized Bonds 1993 First Series, 4.50% to 5.875%, due 2000-2035	65,000	24,300	28,320
• Collateralized Bonds 1994 First Series, 5.30% to 6.80%, due 2001-2036	130,000	88,695	89,350
• Collateralized Bonds 1995 First Series, 4.60% to 6.55%, due 2001-2037	30,000	15,130	18,815
• Collateralized Bonds 1997 First Series, 5.5%, due 2001-2039	100,000	83,065	91,370
• Collateralized Bonds 1998 First and Second Series, 4.0% to 5.5%, due 2001-2040	60,000	55,025	58,660
• Collateralized Bonds 1999 First Series, 4.3% to 6.25%, due 2001-2039	110,000	107,635	110,000
• Collateralized Bonds 2000 First Series, 4.75% to 6.45%, due 2001-2039	70,000	69,470	70,000
TOTAL VETERANS MORTGAGE PROGRAM BONDS	<u>795,000</u>	474,970	505,150
Unamortized discount		(1,797)	(2,008)
NET VETERANS MORTGAGE PROGRAM BONDS		<u>473,173</u>	<u>503,142</u>
OTHER BONDS AND NOTES:			

NOTES TO COMBINED FINANCIAL STATEMENTS

	Original Amount	June 30, 2001	June 30, 2000
<i>Housing Development Bonds:</i>			
• 1991 Series A, 6.2% to 7%, due 2001-2021	5,755	4,985	5,090
• 1992 Series A, 6.15% to 7%, due 2001-2022	9,370	7,770	8,000
• 1993 Series A, 4.25% to 5.625%, due 2001-2023	8,325	7,240	7,415
• 1993 Series B, 4.25% to 5.625%, due 2001-2023	4,890	4,310	4,405
• 1993 Series C, 4.35% to 5.7%, due 2001-2023	1,200	1,070	1,090
• 1993 Series D, 5.6% to 7.1%, due 2001-2023	4,675	4,235	4,310
• 1993 Series E, 5.6% to 7.1%, due 2001-2023	12,255	9,930	10,320
• 1997 Series A, 4.15% to 5.7%, due 2001-2029	6,510	6,245	6,335
• 1997 Series B, 4.25% to 5.8%, due 2001-2029	17,000	16,325	16,560
• 1997 Series C, 6.8% to 7.55%, due 2001-2029	23,895	23,235	23,470
• 1999 Series A, 4.1% to 6.3%, due 2001-2029	1,675	1,650	1,675
• 1999 Series B, 4.20% to 6.37%, due 2001-2029	5,080	5,015	5,080
• 1999 Series C, 4.10% to 6.20%, due 2001-2029	50,000	49,310	50,000
• 2000 Series A, Floating rate 2.85% at June 30, 2001, due 2001-2030	20,745	20,745	-
• 2000 Series B, Floating rate 2.75% at June 30, 2001, due 2001-2030	41,705	41,705	-
<i>General Mortgage Revenue Bonds:</i>			
• 1997 Series A, 4.15% to 6.1%, due 2001-2037	434,911	428,541	430,751
• 1999 Series A, 4.25% to 6.05%, due 2001-2049	302,700	301,200	302,700
<i>General Housing Purpose Bonds:</i>			
• 1992 Series A, 5.3% to 6.6%, due 2001-2023	200,000	46,100	49,590
• 1994 Series A, 4.00% to 5.4%, due 2001-2023	143,815	140,340	140,925
<i>Government Purpose Bonds:</i>			
• 1995 Series A, 4.5% to 5.875%, due 2001-2030	335,000	320,730	325,040
• 1997 Series A, Floating Rate, 2.85 % at June 30, 2001, due 2027	33,000	33,000	33,000
<i>State Capital Project Bonds:</i>			
• 1999 Series A, 3.4% to 5.0%, due 2001-2005	92,365	62,725	74,905
• 1999 Series B, 4.0% to 5.5%, due 2001-2005	103,980	90,225	103,980
• 2001 Series A, 3.2% to 5.25%, due 2001-2007	74,535	74,535	-
<i>State Building Lease Bonds:</i>			

NOTES TO COMBINED FINANCIAL STATEMENTS

	Original Amount	June 30, 2001	June 30, 2000
• 1999 Series, 4.25% to 5.8%, due 2001-2017	40,000	37,410	38,925
TOTAL OTHER BONDS AND NOTES	<u>1,973,386</u>	1,738,576	1,643,566
Accreted interest		3,001	2,217
Unamortized deferred debt refunding expense		(4,639)	(6,235)
Unamortized discount/premium		(2,894)	(5,205)
NET OTHER BONDS AND NOTES		<u>1,734,044</u>	<u>1,634,343</u>
OTHER PROGRAMS:			
<i>Home Ownership Notes:</i>			
• Mutual Help HUD Note, 5.625% to 8.000%	996	996	996
• Wrangell Project HUD Note, 1.00%-3.00%, due 2007	1,141	656	679
TOTAL OTHER PROGRAMS	<u>2,137</u>	<u>1,652</u>	<u>1,675</u>
	<u>\$3,902,029</u>	<u>\$2,898,024</u>	<u>\$2,699,419</u>

Sinking Fund Payments

The minimum annual principal payments, including sinking-fund principal payments, related to all mortgage bonds and notes in the preceding schedule for the five years subsequent to June 30, 2001, and thereafter, are as follows (in thousands):

Year Ending June 30,	Amount
2002	\$62,519
2003	74,135
2004	79,171
2005	83,401
2006	88,122
Thereafter	<u>2,512,976</u>
	<u>\$2,900,324</u>

Redemption Provisions

The bonds and notes are generally subject to certain early-redemption provisions, both mandatory and at the option of the Corporation. The Corporation redeems debt, pursuant to the provisions of the related agreements which permit surplus revenues, resulting primarily from mortgage loan prepayments, to be used to retire the obligations at par. The accelerated amortization of related discounts and costs of issuance resulting from these surplus revenue redemptions is included in interest expense and financing costs.

In addition to surplus revenue redemptions, the Corporation refunds debt pursuant to redemption provisions in the related agreements. On September 28, 1999, the Corporation issued \$302,700,000 of General Mortgage Revenue Bonds, 1999 Series A to refund a total of \$300,000,000 outstanding General Mortgage Revenue Bonds, 1991 Series A and Series C. The net proceeds were used to redeem all outstanding bonds of the GMRB 1991 Series A & C. A summary of redemptions and refunding follows:

	Principal Redemptions			
	June 30, 2001	June 30, 2000	Accounting Gain/(Loss) *	Economic Gain/(Loss)**
Surplus Revenue Redemptions Refunding:	\$48,695	\$94,860	\$-	\$-
General Mortgage Revenue Bonds—1991 Series A & C	-	300,000	(2,557)	1,234
Total Redemptions	<u>\$48,695</u>	<u>\$394,860</u>	<u>\$(2,557)</u>	<u>\$1,234</u>

* The accounting loss is measured as the difference between the reacquisition price and the net carrying amount of the old debt including its cost of issuance. The loss has been deferred and will be amortized over the remaining life of the old debt and included in interest expense.

NOTES TO COMBINED FINANCIAL STATEMENTS

**The economic gain is calculated as the difference between the present value of the debt service requirements of the new debt and the present value of the debt service requirements of the refunded debt, discounted at the effective interest rate of 6.048%.

Defeased Debt

From time to time, the Corporation effects an advanced refunding where bonds are issued, the proceeds of which are used to defease outstanding debt of the Corporation. The result is an in-substance defeasance whereby the Corporation purchases securities which are deposited into an irrevocable trust with an escrow agent to provide all future debt service payments on the refunded bonds. A summary of the defeased debt follows (in thousands):

	June 30, 2001	June 30, 2000
General Housing Revenue Bonds, 1992 Series A	\$120,980	\$120,980
	\$120,980	\$120,980

Conduit Debt

From time to time, the Corporation has issued debt to provide financial assistance to private-sector entities for the acquisition or construction of facilities deemed to be in the public interest. The bonds are secured by the properties financed and are payable solely from rents and payments received on the underlying mortgage loans. Neither the Corporation nor the State are obligated in any manner for repayment of the bonds. Accordingly, the bonds and any related assets are not reported as assets or liabilities in the accompanying financial statements. A summary of the conduit bonds outstanding follows (in thousands):

	June 30, 2001	June 30, 2000
<i>Alaska Vocational Technical Center:</i>		
• Certificates of participation	\$-	\$675
<i>Mortgage Revenue Refunding Bonds:</i>		
• Chinook Apartments	2,110	2,155
• Coho Park Apartments	2,360	2,460
	\$4,470	\$5,290

Reclassification of HUD Notes

To provide for the development and modernization of low-rent housing units, the Corporation issued Low Rent Project Notes and FFB Notes upon request of HUD. The notes are payable by HUD and secured through its annual contribution contract payments. These notes do not constitute a debt of AHFC and accordingly, at July 1, 1999, the balance of such debt in the amount of \$5,250,000 was reclassified from bonds and notes payable to contributed capital.

13 COMMERCIAL PAPER

The Corporation has been issuing Euro Commercial Paper (ECP) since 1986. No individual issue may exceed nine months in duration. The maximum aggregate outstanding principal balance authorized by the Board of Directors is \$150,000,000. On March 1, 1999, the Corporation adopted a domestic commercial paper program and has been issuing domestic commercial paper since. The ECP program is currently inactive. A summary of commercial paper, which represents an unsecured general obligation of the Corporation, follows (in thousands):

	June 30, 2001	June 30, 2000
Maturity amount	\$110,800	\$127,500
Less: Discounts	(374)	(820)
Balance outstanding	\$110,426	\$126,680
<i>Yields issued during period:</i>		
Lowest	3.8500%	6.1500%
Highest	4.7300%	6.7200%

NOTES TO COMBINED FINANCIAL STATEMENTS

14 SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

The Corporation borrows funds for general corporate purposes utilizing reverse repurchase agreements. Such agreements involve the transfer of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. The Corporation invests proceeds from securities sold under agreements to repurchase in investments maturing on or before the maturity date of the related agreement to repurchase. The fair value of the securities underlying reverse repurchase agreements normally exceeds the proceeds received, providing respective dealers a margin against a decline in market value of the securities. If the dealers default on their obligations to return these securities to the Corporation, or provide securities or cash of equal value, the Corporation would suffer an economic loss equal to the difference between the par value plus accrued interest of the underlying securities and the agreement obligation, including accrued interest. A summary of securities sold under agreements to repurchase follows (in thousands):

	June 30, 2001	June 30, 2000
Maturity amount	\$-	\$88,298
Less: Discounts	-	(801)
	<u>\$-</u>	<u>\$87,497</u>

15 UNUSED LETTERS OF CREDIT AND OTHER CREDIT ARRANGEMENTS

For certain bond issues, the Corporation has entered into credit arrangements with various financial institutions to provide funds necessary to satisfy debt service or unpaid bond principal obligations. Varying commitment fees are required, generally $\frac{1}{4}$ to $\frac{1}{2}$ of 1% per annum of the aggregate liability or commitment amount.

The Corporation had unused letters of credit and similar credit enhancement agreements in connection with amounts required for debt service or unpaid bond principal for certain bond issues as follows (in thousands):

	June 30, 2001	June 30, 2000
Liquidity facility	\$ -	\$ -
Bond insurance	1,463,626	1,222,517
	<u>\$1,463,626</u>	<u>\$1,222,517</u>

The Corporation also has reestablished in August 1999 a \$150,000,000 Credit Agreement that is not related to a specific bond issue. At June 30, 2001 and 2000, no draw downs had been made on the Credit Agreement.

Government Purpose Bonds, 1995 Series A are insured by surety bonds. The agreement unconditionally and irrevocably guarantees scheduled payments of principal and interest on the bonds.

Certain letter-of-credit agreements contain covenants restricting the amendment of terms and redemption of bonds or notes, and setting the minimum combined fund equity of the Corporation and minimum debt-service reserve-fund balances.

16 YIELD RESTRICTION AND ARBITRAGE REBATE

Most mortgages purchased with the proceeds of tax-exempt bonds issued by the Corporation are subject to interest-rate yield restrictions of 1.125% to 1.500% over the yield of the bonds. These restrictions are in effect over the lives of the bonds. Most of the non-mortgage investments made under the Corporation's tax-exempt bond programs are subject to rebate provisions or restricted as to yields. The rebate provisions require that a calculation be performed every five years and upon full retirement of the bonds to determine the amount, if any, of excess yield earned and owed the Internal Revenue Service. Following is a summary of excess earnings recorded and paid (in thousands):

	Year Ended	
	June 30, 2001	June 30, 2000
Arbitrage Expense	\$1,736	\$(783)
Arbitrage Paid	\$-	\$4,559

NOTES TO COMBINED FINANCIAL STATEMENTS

17 STATE AUTHORIZATIONS AND COMMITMENTS

The Corporation uses its assets to fund certain housing and non-housing capital projects identified by the State. The aggregate amount expected to be funded by the Corporation was expressed by the following language of legislative intent included in the fiscal year 1996 capital appropriation bill, enacted in 1995:

“The Legislature intends to ensure the prudent management of the Alaska Housing Finance Corporation to protect its excellent debt rating by the nation’s financial community and to preserve its valuable assets of the State. To accomplish its goal, the sum of withdrawals for transfer to the general fund and for expenditure on corporate funded capital projects should not exceed the Corporation’s net income for the preceding fiscal year.”

The projected amounts stated in the legislative intent language were based on the Corporation’s financial operating plan and represent the total amount of anticipated State transfers and capital expenditures rather than projected “net income”.

A summary of State Authorizations follows (in thousands):

	Year Ended June 30, 2001		
	Total State Authorizations	Disbursements To- Date	Total Remaining Commitments
FY 1995*	\$22,500	\$22,274	\$226
FY 1996*	128,033	124,755	3,278
FY 1997	100,448	96,018	4,430
FY 1998	132,014	119,594	12,420
FY 1999	103,000	91,133	11,867
FY 2000*	105,168	76,830	28,338
FY 2001*	103,107	56,200	46,907
Total	\$694,270	\$586,804	\$107,466

* with re-appropriations

State Capital Projects Bonding

The 1998 Legislature adopted legislation authorizing approximately \$224 million in capital project bonds of the Corporation to finance projects of the State and municipalities. The legislation states the intention that the sum of withdrawals for repayment of bonds, for transfer to the State’s general fund, and for corporate funded capital projects should not exceed the Corporation’s net income for the preceding year. The bond proceeds are allocated to agencies and municipalities subject to specific legislative appropriation.

The 2000 Legislature adopted legislation authorizing the issuance of Bonds in sufficient amounts to fund the construction of various State capital projects, and extended the Transfer Plan to 2008. The Corporation views passage of the 1998 and 2000 legislation as a continuation of the plan of the legislature, stated in its legislative intent in 1995, to authorize \$103 million annually to the year 2008.

As of June 30, 2001, the Corporation has issued \$196,345,000 principal amount of State Capital Project Bonds pursuant to the 1998 Act, and \$74,535,000 principal amount of State Capital Project Bonds pursuant to the 2000 Act, and has completed its issuance authority under the Acts.

NOTES TO COMBINED FINANCIAL STATEMENTS

Transfers to the State of Alaska

Since the inception of the Corporation, the State has contributed a total of \$1,069,523,000 to the Corporation. Beginning in fiscal year 1986, the Corporation began a series of plans to transfer funds to or on behalf of the State. Following is a summary of the different types of transfers (in thousands):

	June 30, 2001	June 30, 2000	Cumulative Prior Fiscal Years	Total Transfers to State
State Debt Repayment	\$-	\$ -	\$29,800	\$29,800
Asset Purchases	-	-	252,300	252,300
Dividends	-	-	114,300	114,300
Direct Cash Transfers	15,007	32,000	421,020	468,027
Non-Housing Capital Projects	23,490	29,767	99,293	152,550
State Capital Project Bond Fund	36,534	40,255	34,905	111,694
Total	<u>\$75,031</u>	<u>\$102,022</u>	<u>\$951,618</u>	<u>\$1,128,671</u>

NOTES TO COMBINED FINANCIAL STATEMENTS

18 GRANTS AND SUBSIDIES

The Corporation paid grants to third parties for the following programs (in thousands):

Program	Year Ended	
	June 30, 2001	June 30, 2000
<i>General Account of the Revolving Fund:</i>		
• Homeless Assistance Program	\$830	\$468
• Housing Preservation Matching Grant	40	152
• Craftsman Home Program	7	-
• Senior Citizens Housing	114	883
• Supplemental Housing	8,746	5,454
• Supportive Housing Grant Match	763	631
	<u>10,500</u>	<u>7,588</u>
<i>Energy Programs:</i>		
• Alaska Building Science Network	35	107
• Municipality of Anchorage	-	118
• Alaska Community Development Corp.	-	343
• Enhanced Weatherization	715	432
• Rural Community Action Program	-	650
• Tanana Chief's Conference	-	180
• Low-Income Weatherization Assistance	4,580	3,764
• Others	220	38
	<u>5,550</u>	<u>5,632</u>
<i>Section 8 Certificates and Vouchers</i>	<u>17,958</u>	<u>13,633</u>
<i>Other Housing Assistance Programs:</i>		
• HOME Program	4,036	4,467
• Drug Elimination Program	538	181
• Housing Opportunities for Persons with AIDS	225	225
• SAFAH	-	179
• Shelter Plus Care Program	107	143
• Others	247	223
	<u>5,153</u>	<u>5,318</u>
Total Grant Expenses	<u>\$39,161</u>	<u>\$32,171</u>
<i>General Account of the Revolving Fund:</i>		
• Village Safe Water Grants Program—FY 99 Appro.	\$10,643	\$17,095
• Pioneer Home Renovation	-	166
• University of Alaska—FY 99 Appro.	651	1,158
• DHSS Grants	6	321
• Municipal Matching Grants—FY 99 Appro.	8,623	6,259
• Others	87	260
• FY 98 Legislative Appropriations	1,133	2,975
• FY 99 Legislative Appropriations—Others	619	1,435
• FY 00 Legislative Appropriation	561	98
• FY 01 Legislative Appropriation	1,167	-
Total Contributed Capital Grants	<u>\$23,490</u>	<u>\$29,767</u>
Total Grants	<u>\$62,651</u>	<u>\$61,938</u>

In addition to grant payments made, the Corporation has advanced grant funds of \$8,813,000 and committed to third parties a sum of \$13,487,000 in grant awards at June 30, 2001.

NOTES TO COMBINED FINANCIAL STATEMENTS

19 OTHER PROGRAMS

Other programs include energy conservation and public-housing activities funded from a combination of corporate receipts and external sources.

Energy Conservation Programs

The Petroleum Violation Escrow Program (PVE) includes the activities funded from the State of Alaska's share of settlement proceeds received as a result of various lawsuits between the federal government and oil producers. The Corporation holds these funds in trust, to be used for qualifying energy conservation activities under the U.S. Department of Energy's oversight.

Cash-basis PVE trust-account activity follows (in thousands):

	Year Ended	
	June 30, 2001	June 30, 2000
Beginning account balance	\$1,881	\$3,417
Receipts from U.S. Department of Energy	100	77
Interest earned	106	163
Program expenses paid	(355)	(1,776)
Ending account balance	<u>\$1,732</u>	<u>\$1,881</u>
Amount due to Corporation for unreimbursed program expenses	<u>\$74</u>	<u>\$125</u>

The Corporation pays expenses incurred by various programs funded by the PVE. Allowable program expenses incurred follow (in thousands):

PVE Settlement Name	Year Ended	
	June 30, 2001	June 30, 2000
Stripper	<u>\$304</u>	<u>\$1,588</u>

The Supplemental Housing and Senior Housing Programs are funded entirely by corporate funds.

The weatherization programs include the following programs and are funded by a combination of DOE grants, PVE funds, and corporate funds:

- Low-Income Weatherization Program
- Residential Energy Rehab Program (Enhanced Weatherization)

Other energy programs include the following programs and are funded by a combination of DOE grants, PVE funds, HHS grants, and corporate funds:

- State Energy Conservation Program
- Low-Income Home Energy Assistance Program (LIHEAP)
- Weatherization Assistance for Low-Income Persons (AKWarm Enhancement)
- Mental Health
- Adult Education
- Alaska Native Health Board Grant
- Association of Alaska Housing Authorities Grant

The following projects are or have been funded within the Petroleum Violation Escrow Program:

- Low-Income Weatherization Enhancement
- Energy Rated Homes of Alaska
- Business Energy Assistance
- Home Energy Rebates
- Home Energy Loan Program

NOTES TO COMBINED FINANCIAL STATEMENTS

- Warm Homes for Alaskans
- Alaska Craftsman Home Program

Housing Assistance Programs

Low Rent includes the following programs for various low-income housing facilities administered by the Corporation under contract with HUD:

- Modernization/Comprehensive Grant
- Low Rent Management

Home Ownership includes the following programs administered by the Corporation and funded by HUD:

- Mutual Help
- Turnkey III

Section 8 includes the following programs for tenant-based rental assistance administered by the Corporation under contract with HUD:

- Section 8 Certificates
- Section 8 Vouchers
- Section 8 Moderate Rehabilitation
- Section 8 New Construction
- Section 8 Contract Administration

Section 8 New Construction consists of low-income housing facilities at various locations owned by the Corporation, for which the Corporation receives tenant-based rental assistance under contract with HUD.

A summarized balance sheet and statement of revenues, expenses and retained earnings for the Section 8 New programs as of and for year ended June 30, 2001 follow (dollars in thousands):

	Chugach View	Golden Towers	Ptarmigan Park	Sunset View	Glacier View	Alpine Terrace	Total
Total assets	\$5,449	\$16,321	\$998	\$1,101	\$845	\$586	\$25,300
Total liabilities	(2,523)	(94)	74	397	1,588	1,294	736
Total fund equity	7,981	16,415	925	702	(747)	(712)	24,564
Total revenues	1,645	1,827	291	312	377	388	4,840
Total expenses	1,594	1,575	352	339	505	649	5,014
Net income (loss)	51	252	(61)	(27)	(128)	(261)	(174)
Beginning retained earnings	2,017	3,862	187	(595)	(512)	(1,131)	3,828
Transfers	336	-	-	-	-	-	336
Ending retained earnings	2,404	4,114	126	(622)	(640)	(1,392)	3,990

Wrangell consists of the Wrangell 221(d)(3) housing facility owned by the Corporation for which the Corporation receives tenant-based rental assistance under contract with HUD.

Other Housing Assistance Programs include the following HUD, state and privately funded activities:

- HOME Investment Partnerships Program (HOME)
- Supplemental Assistance for Facilities to Assist the Homeless (SAFAH)
- Gateway Literacy Program
- Drug Elimination Grant
- Shelter Plus Care Program
- Housing Opportunities for Persons with AIDS (HOPWA)
- HOME Technical Assistance
- Youth Sports Program
- Family Self Sufficiency Program (FSS)
- Family Investment Center Grant

NOTES TO COMBINED FINANCIAL STATEMENTS

- Special Needs Assistance
- Supportive Housing Technical Assistance
- Service Coordinator for Public Housing Agencies Grant

20 PENSION PLAN

As of June 30, 2001, all regular employees of the Corporation who work more than fifteen hours per week participate in the Alaska Public Employees' Retirement System (PERS). PERS is an agent multiple-employer, statewide defined benefit plan, administered by the State of Alaska. Benefits and contributions provisions are established by Chapter 35 of Alaska Statute Title 39, and may amended only by state legislature. A publicly available financial report that includes financial statements and required supplementary information is issued annually by PERS. That report may be obtained by writing to State of Alaska, Department of Administration, Division of Retirement and Benefits, P.O. Box 110203, Juneau, Alaska 99811-0202.

Plan Description

Employees hired prior to July 1, 1986 with five or more years of credited service are entitled to annual pension benefits beginning at normal retirement age 55 or early retirement age 50. For employees hired after June 30, 1986, the normal and early retirement ages are 60 and 55, respectively. The normal pension benefit is equal to 2% of the member's three-year highest average monthly compensation for the first ten years of service, 2¼% for the second ten years of service and 2½% for all remaining years of service. All service earned prior to July 1, 1986 will be calculated using the 2% multiplier. Employees with 30 or more years of credited service may retire at any age and receive a normal benefit. The system also provides death and disability benefits and major medical benefits.

Funding Policy

Under State law, covered employees are required to contribute 6¾% of their annual covered salary and the Corporation is required to contribute an actuarially determined rate; the current rate is 7.48% of annual covered payroll.

Annual Pension Cost

The Corporation's annual pension and postretirement health cost shown below was equal to the required and actual contribution. The actuarial required contribution was computed as part of an actuarial valuation as of June 30, 1999. Significant actuarial assumptions used in the valuation include: (a) a rate of return on the investment of present and future assets of 8.25% per year compounded annually and (b) projected salary increases of 5.5% a year for the first five years of employment and 4.5% per year thereafter, with distinction made between amounts for inflation (4.0%), merit (1.0%), and productivity (0.5%). The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the fair value of investments over a five year period. The contribution rate for normal cost is determined using the projected unit credit actuarial funding method. The excess of assets over the actuarial accrued liability is amortized over a rolling 25 years which is an open amortization period. The percentage of pay method is used for amortization purposes.

Three-Year Trend Information for PERS

Year ended	Annual pension and postretirement health cost (APC)	Percentage of APC contributed	Net pension obligation
June 30, 2001	\$1,040,000	100.00%	-
June 30, 2000	830,000	100.00%	-
June 30, 1999	1,010,000	100.00%	-

NOTES TO COMBINED FINANCIAL STATEMENTS

Required Supplementary Information--Schedule of Funding Progress for PERS (in thousands)

Actuarial valuation date	Actuarial value of assets (a)	Actuarial accrued liability (AAL) (b)	Excess of Assets over AAL (a)-(b)	Funded ratio (a)/(b)	Covered payroll (c)	Excess as a percentage of Covered payroll ((a)-(b))/(c)
Pension:						
June 30, 1999	30,462	19,060	11,402	160%	12,789	89%
June 30, 1998	28,986	26,335	2,651	110%	12,329	22%
June 30, 1997	27,323	23,413	3,910	117%	11,928	33%
Postretirement Health:						
June 30, 1999	12,349	7,727	4,622	160%	12,789	36%
June 30, 1998	10,763	9,779	984	110%	12,329	8%
June 30, 1997	10,184	8,726	1,458	117%	11,928	12%

21 CUMULATIVE EFFECT OF ACCOUNTING CHANGE

Prior to fiscal year 2000, the Corporation capitalized all costs associated with the actual purchase or improvements in the form of construction and modernization of public housing buildings in accordance with Generally Accepted Accounting Principles (GAAP). New information from HUD explaining the type of costs associated with modernization and development of buildings has led to a change in industry practice of capitalizing hard costs and expending soft costs. The modernization and development costs such as management improvements, administrative, other costs defined as "Soft Costs" do not provide additional service potential and will not be allocated over the life of the building but expended as incurred. In the fourth quarter of fiscal year 2000, the Corporation removed all "soft costs" that had been capitalized over the prior periods and the corresponding accumulated depreciation. The net effect of the accounting change is shown as cumulative effect of prior year's amount in the Statement of Revenues and Expenses.

	Prior Years	FY 2000	Total
Total Soft Costs removed	\$(26,120)	\$(2,067)	\$(28,187)
Total Accumulated Depreciation removed	6,853	708	7,561
Total Net Fixed Assets removed	(19,267)	(1,359)	(20,626)
Decrease of Contributed Capital	(23,548)	(1,225)	(24,773)
Cumulative Effect on Net Income	4,281	-	4,281

22 OTHER COMMITMENTS AND CONTINGENCIES

Medical Self Insurance

During the Fiscal Year ended June 30, 1998, the Corporation began a program of self-insurance for employee medical benefits. Costs are billed directly to the Corporation by an Administrative Services Provider that processes all of the claims from the employees and their dependents. The Corporation has purchased a stop-loss policy that limits its liability to \$50,000 per employee per year. The Corporation has provided for an estimate of the Incurred But Not Reported (IBNR) liability in the amount of \$1,076,000 and \$713,000 as of June 30, 2001, and 2000 respectively.

Litigation

The Corporation, in the normal course of its activities, is involved in various claims and pending litigation, the outcome of which is not presently determinable. In the opinion of management, the disposition of these matters is not presently expected to have a material adverse effect on the Corporation's financial statements.

NOTES TO COMBINED FINANCIAL STATEMENTS

Legal Settlement

In July 2001, the Corporation, a member of the Alaska Entities and the State of Alaska, entered into a Settlement Agreement with Bank of America Corporation and Bank of America, N.A. regarding the Bank's purported failure to escheat unclaimed funds to the State of Alaska and the Bank's alleged breaches of contractual, fiduciary, statutory, and common law obligations that the Bank purportedly had in its capacity as Corporate Trust Agent relating to the administration and management of Alaska Debt Instruments. The settlement amount has not been finalized but the estimated amount owed by the Bank to the Corporation will be approximately \$7.2 millions depending upon the final allocation of the settlement amount by the State to the various Alaska Entities. Accordingly, the Corporation recognized \$7.2 millions of the settlement income in fiscal year 2001.

Contingent Liabilities

The Corporation participates in several federally assisted programs. These programs are subject to program compliance audits and adjustment by the grantor agencies or their representatives. Any disallowed claims, including amounts already collected, would become a liability of the General Account of the Revolving Fund. In management's opinion, disallowance, if any, will be immaterial.

Subsequent Event

The Corporation, on August 2, 2001, in the normal course of activities, issued \$370,170,000 in Governmental Purpose Bonds 2001 Series A, B, C and D. The 2001 Series A & B Bonds mature on December 1, 2030 and the Series C & D Bonds mature on December 1, 2032. The bonds initially will bear interest at a weekly rate however, the Corporation has the option to convert all or a portion of the 2001 Bonds on any Effective Rate Date to fixed interest rate. On August 2, 2001 the Corporation entered into an interest rate swap agreements relating to the Series A and B bonds. Under these agreements, the Corporation pays a fixed rate of 4.14% to the counter party in Series A and B and the swap counter party pays the variable rate received by the bondholders.

The Corporation continues to issue and redeem commercial paper under the domestic Commercial Paper Program, in the normal course of activities after June 30, 2001

23 HUD ACTUAL DEVELOPMENT COST CERTIFICATE

As required by HUD, we present the following certificates as part of our financial reporting package. This certifies the total amount of financial assistance provided by HUD under the Comprehensive Grant Program (CGP) Project AK06P001706-97. These funds were expended during the fiscal years ended June 30, 1998, 1999, 2000 and 2001. Funds received were used to effect major rehabilitation of existing public housing and for construction of new public housing facilities.

NOTES TO COMBINED FINANCIAL STATEMENTS

**Actual Modernization
Cost Certificate**

U.S. Department of Housing
and Urban Development
Office of Public and Indian Housing

OMB Approval No. 2577-0044 (exp. 12/31/99)
OMB Approval No. 2577-0157 (exp. 12/31/99)

Comprehensive Improvement Assistance Program (CIAP)
Comprehensive Grant Program (CGP)

ORIGINAL

Public reporting burden for this collection of information is estimated to average 2 hours per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden, to the Reports Management Officer, Paperwork Reduction Project (2577-0044 and 0157), Office of Information Technology, U.S. Department of Housing and Urban Development, Washington, D.C. 20410-3600. This agency may not conduct or sponsor, and a person is not required to respond to, a collection of information unless that collection displays a valid OMB control number.

Do not send this form to the above address.

This collection of information requires that each Housing Authority (HA) submit information to enable HUD to initiate the fiscal closeout process. The information will be used by HUD to determine whether the modernization grant is ready to be audited and closed out. The information is essential for audit verification and fiscal close out. Responses to the collection are required by regulation. The information requested does not lend itself to confidentiality.

HA Name:	Modernization Project Number:
ALASKA HOUSING FINANCE CORPORATION	AK06P001706

The HA hereby certifies to the Department of Housing and Urban Development as follows:

1. That the total amount of Modernization Cost (herein called the "Actual Modernization Cost") of the Modernization Grant, is as shown below:

A. Original Funds Approved	\$	2,830,448.00
B. Funds Disbursed	\$	2,830,448.00
C. Funds Expended (Actual Modernization Cost)	\$	2,830,448.00
D. Amount to be Recaptured (A-C)	\$	0.00
E. Excess of Funds Disbursed (B-C)	\$	0.00

- 2. That all modernization work in connection with the Modernization Grant has been completed;
- 3. That the entire Actual Modernization Cost or liabilities therefor incurred by the HA have been fully paid;
- 4. That there are no undischarged mechanics', laborers', contractors', or material-men's liens against such modernization work on file in any public office where the same should be filed in order to be valid against such modernization work; and
- 5. That the time in which such liens could be filed has expired.

I hereby certify that all the information stated herein, as well as any information provided in the accompaniment herewith, is true and accurate.

Warning: HUD will prosecute false claims and statements. Conviction may result in criminal and/or civil penalties. (18 U.S.C. 1001, 1010, 1012; 31 U.S.C. 3729, 3802)

Signature of Executive Director & Date:

X

Daniel R. Dausle

For HUD Use Only

The Cost Certificate is approved for audit:

Approved for Audit (Director, Office of Public Housing / ONAP Administrator)

X *Richard J. Ballinger*

Date: 1/18/01

The audited costs agree with the costs shown above:

Verified: (Designated HUD Official)

X

Approved: (Director, Office of Public Housing / ONAP Administrator)

Date:

Date:

X

form HUD-53001 (10/96)
ref Handbooks 7485.1 & 3

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FORM OF OPINION OF BOND COUNSEL

Alaska Housing Finance Corporation
4300 Boniface Parkway
Anchorage, Alaska 99504

Ladies and Gentlemen:

We have examined the Constitution and laws of the State of Alaska (the "State") and a record of proceedings relating to the issuance of \$170,000,000 aggregate principal amount of Home Mortgage Revenue Bonds, 2002 Series A (the "2002 Series A Bonds") and \$30,000,000 aggregate principal amount of Home Mortgage Revenue Bonds, 2002 Series B (the "2002 Series B Bonds"; together with the 2002 Series A Bonds, the "2002 Bonds") of the Alaska Housing Finance Corporation (the "Corporation"), a public corporation and government instrumentality of the State created by and existing under Alaska Statutes 18.56, as amended (the "Act").

In such examinations, we have assumed the genuineness of all signatures, the authenticity of all documents submitted to us as originals and the conformity with originals of all documents submitted to us as copies thereof.

The 2002 Bonds are authorized and issued pursuant to the Act and a resolution of the Corporation adopted April 17, 2002, and are issued pursuant to the Indenture authorized by said resolution by and between the Corporation and U.S. Bank, N.A., as trustee (the "Trustee"), dated as of May 1, 2002, and the 2002 Series A/B Supplemental Indenture, by and between the Corporation and the Trustee, dated as of May 1, 2002, executed pursuant to said Indenture (together, the "Indenture").

The 2002 Bonds mature and are subject to redemption as provided in the Indenture.

Capitalized terms used herein and not defined herein are used as defined in the Indenture.

Applicable Federal tax law establishes certain requirements that must be met subsequent to the issuance of the 2002 Series A Bonds in order for interest on the 2002 Series A Bonds not to be included in gross income for Federal income tax purposes, under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"). The Corporation has covenanted that it will comply with such requirements and that it will do all things necessary to ensure that interest on the 2002 Series A Bonds will be, and remain, not included in gross income for Federal income tax purposes, under Section 103 of the Code. We have examined the program documentation

adopted by the Corporation, which, in our opinion, establishes procedures and covenants under which, if followed, such requirements can be met. In rendering this opinion, we have assumed compliance with, and enforcement of, the provisions of such program procedures and covenants.

As to any facts material to our opinion, we have relied upon various statements and representations of officers and other representatives of the Corporation including without limitation those contained in the Indenture, the Corporation's Certificate as to matters affecting the tax-exempt status of the 2002 Series A Bonds, the Corporation's Regulations and Program Materials and the certified proceedings and other certifications of public officials and certifications by officers of the Corporation furnished to us (which are material to the opinion expressed below) without undertaking to verify the same by independent investigation.

Subject to the foregoing, we are of the opinion that:

1. Under the Constitution and laws of the State of Alaska (the "State"), the Corporation has been duly created, organized, and validly exists as a public corporation and government instrumentality in good standing under the laws of the State, performing an essential public function with full corporate power and authority under the Act, among other things, to enter into, and to perform its obligations under the terms and conditions of, the Indenture.

2. The Indenture has been duly authorized, executed and delivered, is in full force and effect, and is valid and binding upon the Corporation and enforceable in accordance with its terms (subject, as to enforcement of remedies, to applicable bankruptcy, reorganization, insolvency, moratorium, or other laws affecting creditors' rights generally from time to time in effect).

3. The 2002 Bonds have been duly and validly authorized, sold and issued by the Corporation in accordance with the Indenture and Constitution and laws of the State, including the Act and, pursuant to the Act, are issued by a public corporation and government instrumentality of the State for an essential public and governmental purpose.

4. Subject to agreements heretofore or hereafter made with the holders of any notes or other bonds of the Corporation pledging any particular revenues or assets not pledged under the Indenture and the exclusion by the Act of a pledge of funds in the Housing Development Fund (as described in the Act), the 2002 Bonds are valid and legally binding general obligations of the Corporation for the payment of which, in accordance with their terms, the full faith and credit of the Corporation have been legally and validly pledged, are enforceable in accordance with their terms and the terms of the Indenture and are entitled to the equal benefit, protection, and security of the provisions, covenants, and agreements of the Indenture.

5. The 2002 Bonds are secured by a pledge in the manner and to the extent set forth in the Indenture. The Indenture creates a valid pledge of a lien on all funds established by the Indenture and moneys and securities therein which the Indenture purports to create, to the extent and on the terms provided therein.

6. Under existing laws, regulations, rulings and judicial decisions, interest on the 2002 Series A Bonds is excluded from gross income for Federal income tax purposes.

7. Interest on the 2002 Series A Bonds is a specific preference item for purposes of the alternative minimum tax provisions imposed on individuals and corporations by the Code. We express no opinion regarding any other consequences affecting the Federal income tax liability of a recipient of interest on the 2002 Series A Bonds.

8. Interest on the 2002 Series B Bonds is not excluded from gross income for Federal income tax purposes.

9. Under existing laws, interest on the 2002 Bonds is free from taxation of every kind by the State, and by municipalities and all other political subdivisions of the State (except that no opinion is expressed as to such exemption from State estate and inheritance taxes and taxes of transfers by or in anticipation of death).

10. Certain requirements and procedures contained or referred to in the Indenture and other relevant documents may be changed and certain actions may be taken, upon the advice or with the opinion of counsel. Except to the extent of our concurrence therewith, we express no opinion as to any 2002 Bond, or the interest thereon, if any change occurs or action is taken upon the advice or approval of other counsel.

Very truly yours,

WOHLFORTH, VASSAR,
JOHNSON & BRECHT, P.C.

By: _____

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FORM OF OPINION OF SPECIAL TAX COUNSEL

Alaska Housing Finance Corporation
4300 Boniface Parkway
Anchorage, AK 99504

Ladies and Gentlemen:

We have acted as Special Tax Counsel in connection with the issuance and sale of \$200,000,000 aggregate principal amount of Alaska Housing Finance Corporation Home Mortgage Revenue Bonds, 2002 Series A and 2002 Series B. The Bonds will be issued pursuant to the Indenture by and between the Alaska Housing Finance Corporation (the "Corporation") and U.S. Bank, N.A., as trustee (the "Trustee"), dated as of May 1, 2002 (the "Indenture"), and the 2002 Series A/B Supplemental Indenture, by and between the Corporation and the Trustee, dated as of May 1, 2002, authorizing the issuance of the Bonds (the "Supplemental Indenture"). Capitalized terms not otherwise defined herein are used as defined in the Indenture and the Supplemental Indenture.

In connection with the issuance of the Bonds, we have examined the Indenture and the Supplemental Indenture, the Arbitrage Certificate of the Corporation and such other opinions, documents, certificates and letters as we deem relevant and necessary in rendering this opinion.

From such examination, we are of the opinion that, assuming compliance by the Corporation with certain restrictions, conditions and requirements contained in the Indenture, the Supplemental Indenture and the Arbitrage Certificate designed to meet the requirements of the Internal Revenue Code of 1986, as amended (the "Code"), under existing laws, regulations, rulings and judicial decisions, interest on the 2002 Series A Bonds is excluded from gross income for Federal income tax purposes.

We are further of the opinion that interest on the 2002 Series A Bonds is a specific preference item for purposes of the alternative minimum tax provisions imposed on individuals and corporations by the Code.

Interest on the 2002 Series B Bonds is not excluded from gross income for Federal income tax purposes.

We express no opinion regarding any other consequences affecting the Federal income tax liability of a recipient of interest on the Bonds.

The opinions expressed herein are rendered in reliance upon the opinion of Wohlforth, Vassar, Johnson & Brecht, P.C., Bond Counsel, as to the validity of the Bonds under the Constitution and laws of the State of Alaska.

Very truly yours,

/s/ Kutak Rock LLP

AUCTION PROCEDURES

The Auction Procedures are set forth in the 2002 Series A/B Supplemental Indenture and are summarized below. All of the terms used in this Appendix D are defined in the forepart of this Official Statement. See "The 2002 Bonds — Description of the 2002 Bonds."

Initial Rate

Auction Bonds shall bear interest at their respective Auction Rates. The rate of interest on Auction Bonds for each Auction Period, to but not including the Conversion Date, shall be the Auction Rate for such Bonds. While Auction Bonds are in an Auction Period of seven days, 28 days or 35 days, interest shall be computed on the basis of actual days in an Interest Period over 360. While Auction Bonds are in an Auction Period of six months, interest shall be computed on the basis of a 360-day year consisting of twelve 30-day months.

Orders by Existing Owners and Potential Owners

(a) Prior to the Submission Deadline on each Auction Date:

(i) each Existing Owner may submit to a Broker-Dealer, in writing or by such other method as shall be reasonably acceptable to such Broker-Dealer, information as to:

(A) the principal amount of Auction Bonds, if any, held by such Existing Owner which such Existing Owner desires to continue to hold for the next succeeding Auction Period without regard to the rate determined by the Auction Procedures for such Auction Period,

(B) the principal amount of Auction Bonds, if any, held by such Existing Owner which such Existing Owner desires to continue to hold for the next succeeding Auction Period if the rate determined by the Auction Procedures for such Auction Period shall not be less than the rate per annum then specified by such Existing Owner (and which such Existing Owner desires to sell on the next succeeding Debt Service Payment Date if the rate determined by the Auction Procedures shall be less than the rate per annum then specified by such Existing Owner), and/or

(C) the principal amount of Auction Bonds, if any, held by such Existing Owner which such Existing Owner offers to sell on the next succeeding Debt Service Payment Date without regard to the rate determined by the Auction Procedures for the next succeeding Auction Period; and

(ii) for the purposes of implementing the Auctions and thereby to achieve the lowest possible interest rate on the Auction Bonds, the Broker-Dealers shall contact Potential Owners, including Persons that are Existing Owners, by telephone or otherwise, to determine the principal amount of Auction Bonds, if any, which each such Potential Owner offers to purchase if the rate determined by the Auction Procedures for the next succeeding Auction Period is not less than the rate per annum then specified by such Potential Owner.

For the purposes hereof, an Order containing the information referred to in clause (i)(A) of this subsection (a) is herein referred to as a "Hold Order", an Order containing the information referred to in clause (i)(B) or (ii) of this subsection (a) is herein referred to as a "Bid", and an Order containing the information referred to in clause (i)(C) of this subsection (a) is herein referred to as a "Sell Order."

(b) (i) A Bid by an Existing Owner shall constitute an irrevocable offer to sell:

(A) the principal amount of Outstanding Auction Bonds specified in such Bid if the rate determined by the Auction Procedures on such Auction Date shall be less than the rate specified therein; or

(B) such principal amount or a lesser principal amount of Auction Bonds to be determined as set forth in subsection (a)(v) under the caption "*Allocation of Auction Bonds*" if the rate determined by the Auction Procedures on such Auction Date shall be equal to such specified rate; or

(C) a lesser principal amount of Auction Bonds to be determined as set forth in subsection (b)(iv) under the caption "*Allocation of Auction Bonds*" if such specified rate shall be higher than the Maximum Rate and Sufficient Clearing Bids do not exist.

(ii) A Sell Order by an Existing Owner shall constitute an irrevocable offer to sell:

(A) the principal amount of Auction Bonds specified in such Sell Order, or

(B) such principal amount or a lesser principal amount of Auction Bonds as set forth in subsection (b)(iv) under the caption "*Allocation of Auction Bonds*" if Sufficient Clearing Bids do not exist.

(iii) A Bid by a Potential Owner shall constitute an irrevocable offer to purchase:

(A) the principal amount of Auction Bonds specified in such Bid if the rate determined by the Auction Procedures on such Auction Date shall be higher than the rate specified therein; or

(B) such principal amount or a lesser principal amount of Auction Bonds as set forth in subsection (a)(vi) under the caption "*Allocation of Auction Bonds*" if the rate determined by the Auction Procedures on such Auction Date shall be equal to such specified rate.

(c) Anything contained herein to the contrary notwithstanding:

(i) for purposes of any Auction, any Order which specifies Auction Bonds to be held, purchased or sold in a principal amount which is not \$25,000 or an integral multiple of \$5,000 in excess thereof shall be rounded down to the nearest \$25,000 or integral multiple of \$5,000 in excess thereof, and the Auction Agent shall conduct the Auction Procedures as if such Order had been submitted in such lower amount;

(ii) for purposes of any Auction, any portion of an Order from an Existing Owner which relates to an Auction Bond which has been called for redemption or which has been scheduled for Conversion on or prior to the interest payment date next succeeding such Auction shall be invalid with respect to such portion and the Auction Agent shall conduct the Auction Procedures as if such portion of such Order had not been submitted;

(iii) for purposes of any Auction, no portion of an Auction Bond which has been called for redemption or which has been scheduled for Conversion on or prior to the interest payment date next succeeding such Auction shall be included in the calculation of Available Auction Bonds;

(iv) the Auction Procedures shall be suspended during the period commencing on the date of the Auction Agent's receipt of notice from the Trustee of the occurrence of an Event of Default consisting of a failure to pay principal, interest or premium on any Bond when due, and a failure by the Insurer to pay under the Policy, but shall resume two Business Days after the Auction Agent receives notice from the Trustee that such Event of Default has been waived or cured, with the next Auction to occur on the next regularly scheduled Auction Date occurring after such receipt; and

(v) notwithstanding the foregoing provisions, (i) if the Auction Agent shall have failed to determine the Auction Rate for any Auction Period (including the circumstance where there is no Auction Agent or Broker-Dealer), the Auction Rate for such Auction Period shall be the No Auction Rate determined in accordance with the Supplemental Indenture for such Auction Period; (ii) if a

failure to pay principal, interest or premium on any Auction Bond when due shall have occurred and the Insurer shall have failed to pay under the Policy, the Auction Rate for the Auction Period during which such failure shall have occurred and each Auction Period thereafter, commencing prior to the date on which such failure shall ceased to be continuing, shall be the Default Rate in accordance with the Supplemental Indenture for such Auction Period; and (iii) in the event of a failed conversion to another Auction Rate or Conversion, the related Auction Bonds will automatically convert to an Auction Period in a Seven Day Auction Mode Period and bear interest at the Maximum Rate for the next Auction Period.

Submission of Orders by Broker-Dealers to Auction Agent

(a) Each Broker-Dealer shall submit to the Auction Agent in writing or by such other method as shall be reasonably acceptable to the Auction Agent, prior to the Submission Deadline on each Auction Date, all Orders obtained by such Broker-Dealer and specifying with respect to each Order:

(i) the name of the Bidder placing such Order;

(ii) the aggregate principal amount of Auction Bonds that are the subject of such Order;

(iii) to the extent that such Bidder is an Existing Owner:

(A) the principal amount of Auction Bonds, if any, subject to any Hold Order placed by such Existing Owner;

(B) the principal amount of Auction Bonds, if any, subject to any Bid placed by such Existing Owner and the rate specified in such Bid; and

(C) the principal amount of Auction Bonds, if any, subject to any Sell Order placed by such Existing Owner; and

(iv) to the extent such Bidder is a Potential Owner, the rate specified in such Bid. The Auction Agent shall be entitled to rely upon the terms of any order submitted to it by a Broker-Dealer.

If any rate specified in any Bid contains more than three figures to the right of the decimal point, the Auction Agent shall round such rate up to the next highest one thousandth of one percent (0.001%).

(b) If an Order or Orders covering all of the Auction Bonds held by an Existing Owner is not submitted to the Auction Agent prior to the Submission Deadline, the Auction Agent shall deem a Hold Order to have been submitted on behalf of such Existing Owner

covering the principal amount of Auction Bonds held by such Existing Owner and not subject to Orders submitted to the Auction Agent.

(c) If one or more Orders covering in the aggregate more than the principal amount of Auction Bonds held by any Existing Owner are submitted to the Auction Agent, such Orders shall be considered valid as follows and in the following order of priority:

(i) all Hold Orders shall be considered valid, but only up to and including in the aggregate the principal amount of Auction Bonds held by such Existing Owner;

(ii) (A) any Bid of an Existing Owner shall be considered valid as a Bid of an Existing Owner up to and including the excess of the principal amount of Auction Bonds held by such Existing Owner over the principal amount of Auction Bonds subject to Hold Orders referred to in paragraph (i) above;

(B) subject to clause (A), if more than one Bid with the same rate is submitted on behalf of such Existing Owner and the principal amount of Auction Bonds subject to such Bids is greater than such excess of the principal amount of Auction Bonds held by such Existing Owner over the principal amount of Auction Bonds subject to Hold Orders referred to in paragraph (i) above, such Bids shall be considered valid up to the amount of such excess;

(C) subject to clause (A), if more than one Bid with different rates is submitted on behalf of such Existing Owner, such Bids shall be considered valid in the ascending order of their respective rates up to the amount of the excess of the principal amount of Auction Bonds held by such Existing Owner over the principal amount of Auction Bonds held by such Existing Owner subject to Hold Orders referred to in paragraph (i) above; and

(D) the principal amount, if any, of such Auction Bonds subject to Bids not considered to be Bids of an Existing Owner under this paragraph (ii) shall be treated as the subject of a Bid by a Potential Owner; and

(iii) all Sell Orders shall be considered Sell Orders, but only up to and including a principal amount of Auction Bonds equal to the excess of the principal amount of Auction Bonds held by such Existing Owner over the sum of the principal amount of the Auction Bonds considered to be subject to Hold Orders pursuant to paragraph (i) above and the principal amount of Auction Bonds considered to be subject to Bids of such Existing Owner pursuant to paragraph (ii) above.

(d) If more than one Bid is submitted on behalf of any Potential Owner, each Bid shall be considered a separate Bid with the rate and the principal amount of Auction Bonds specified therein.

(e) Any Bid submitted by an Existing Owner or a Potential Owner specifying a rate lower than the Minimum Rate shall be treated as a Bid specifying the Minimum Rate.

(f) Neither the Corporation, the Trustee nor the Auction Agent shall be responsible for the failure of any Broker-Dealer to submit an Order to the Auction Agent on behalf of any Existing Owner or Potential Owner.

Determination of Auction Rate

(a) Not later than 9:30 A.M. New York City time on each Auction Date the Auction Agent shall advise the Broker-Dealers and the Trustee by telephone of the Minimum Rate, the Maximum Rate and the Auction Index.

(b) Promptly after the Submission Deadline on each Auction Date, the Auction Agent shall assemble all valid Orders submitted or deemed submitted to it by the Broker-Dealers (each such Order as submitted or deemed submitted by a Broker-Dealer being hereinafter referred to as a "Submitted Hold Order," a "Submitted Bid" or a "Submitted Sell Order," as the case may be, or as a "Submitted Order" and collectively as "Submitted Orders") and shall on behalf of the Corporation, determine: (i) the Available Auction Bonds; (ii) whether there are Sufficient Clearing Bids; and (iii) the Auction Rate.

(c) Promptly after the Auction Agent has made the determinations pursuant to subsection (b) above the Auction Agent shall advise the Trustee by telephone (promptly confirmed in writing), or telecopy transmission of the Auction Rate for the next succeeding Auction Period.

Allocation of Auction Bonds

(a) In the event that Sufficient Clearing Bids exist, subject to the further provisions of subsections (c) and (d) below, Submitted Orders shall be accepted or rejected as follows in the following order of priority:

(i) the Submitted Hold Order of each Existing Owner shall be accepted, thus requiring each such Existing Owner to continue to hold the Auction Bonds that are the subject of such Submitted Hold Order;

(ii) the Submitted Sell Order of each Existing Owner shall be accepted and the Submitted Bid of each Existing Owner specifying any rate that is higher than the Winning Bid Rate shall be rejected, thus requiring each such Existing

Owner to sell the Auction Bonds that are the subject of such Submitted Sell Order or Submitted Bid;

(iii) the Submitted Bid of each Existing Owner specifying any rate that is lower than the Winning Bid Rate shall be accepted, thus entitling each such Existing Owner to continue to hold the Auction Bonds that are the subject of such Submitted Bid;

(iv) the Submitted Bid of each Potential Owner specifying any rate that is lower than the Winning Bid Rate shall be accepted, thus requiring each such Potential Owner to purchase the Auction Bonds that are the subject of such Submitted Bid;

(v) the Submitted Bid of each Existing Owner specifying a rate that is equal to the Winning Bid Rate shall be accepted, thus requiring each such Existing Owner to continue to hold the Auction Bonds that are the subject of such Submitted Bid, but only up to and including the principal amount of Auction Bonds obtained by multiplying (A) the aggregate principal amount of Auction Bonds which are not the subject of Submitted Hold Orders described in paragraph (i) above or of Submitted Bids described in paragraphs (iii) or (iv) above by (B) a fraction the numerator of which shall be the principal amount of Auction Bonds held by such Existing Owner subject to such Submitted Bid and the denominator of which shall be the aggregate principal amount of Auction Bonds subject to such Submitted Bids made by all such Existing Owners that specified a rate equal to the Winning Bid Rate, and the remainder, if any, of such Submitted Bid shall be rejected, thus requiring each such Existing Owner to sell any excess amount of Auction Bonds;

(vi) the Submitted Bid of each Potential Owner specifying a rate that is equal to the Winning Bid Rate shall be accepted, thus requiring each such Potential Owner to purchase the Auction Bonds that are the subject of such Submitted Bid, but only in an amount equal to the principal amount of Auction Bonds obtained by multiplying (A) the aggregate principal amount of Auction Bonds which are not the subject of Submitted Hold Orders described in paragraph (i) above or Submitted Bids described in paragraphs (iii), (iv) or (v) above by (B) a fraction the numerator of which shall be the principal amount of Auction Bonds subject to such Submitted Bid and the denominator of which shall be the sum of the aggregate principal amount of Auction Bonds subject to such Submitted Bids made by all such Potential Owners that specified a rate equal to the Winning Bid Rate, and the remainder of such Submitted Bid shall be rejected; and

(vii) the Submitted Bid of each Potential Owner specifying any rate that is higher than the Winning Bid Rate shall be rejected.

(b) If Sufficient Clearing Bids have not been made (other than because all of the Auction Bonds are subject to Submitted Hold Orders), subject to the further provisions of subsections (c) and (d) below, Submitted Orders shall be accepted or rejected as follows and in the following order of priority:

(i) the Submitted Hold Order of each Existing Owner shall be accepted, thus requiring each such Existing Owner to continue to hold the Auction Bonds that are the subject of such Submitted Hold Order;

(ii) the Submitted Bid of each Existing Owner specifying any rate that is not higher than the Maximum Rate shall be accepted, thus requiring each such Existing Owner to continue to hold the Auction Bonds that are the subject of such Submitted Bid;

(iii) the Submitted Bid of each Potential Owner specifying any rate that is not higher than the Maximum Rate shall be accepted, thus requiring each such Potential Owner to purchase the Auction Bonds that are the subject of such Submitted Bid;

(iv) the Submitted Sell Orders of each Existing Owner shall be accepted as Submitted Sell Orders and the Submitted Bids of each Existing Owner specifying any rate that is higher than the Maximum Rate shall be deemed to be and shall be accepted as Submitted Sell Orders, in both cases only up to and including the principal amount of related Auction Bonds obtained by multiplying (A) the aggregate principal amount of Auction Bonds subject to Submitted Bids described in paragraph (iii) of this subsection (b) by (B) a fraction the numerator of which shall be the principal amount of related Auction Bonds held by such Existing Owner subject to such Submitted Sell Order or such Submitted Bid deemed to be a Submitted Sell Order and the denominator of which shall be the principal amount of Auction Bonds subject to all such Submitted Sell Orders and such Submitted Bids deemed to be Submitted Sell Orders, and the remainder of each such Submitted Sell Order or Submitted Bid shall be deemed to be and shall be accepted as a Hold Order and each such Existing Owner shall be required to continue to hold such excess amount of Auction Bonds; and

(v) the Submitted Bid of each Potential Owner specifying any rate that is higher than the Maximum Rate shall be rejected.

(c) If, as a result of the procedures described in subsection (a) or (b) above, any Existing Owner or Potential Owner would be required to purchase or sell an aggregate principal amount of Auction Bonds which is not \$25,000 or an integral multiple of \$5,000 in excess thereof on any Auction Date, the Auction Agent shall by lot, in such manner as it shall determine in its sole discretion, round up or down the principal amount of Auction Bonds to be purchased or sold by any Existing Owner or Potential Owner on such Auction

Date so that the aggregate principal amount of Auction Bonds purchased or sold by each Existing Owner or Potential Owner on such Auction Date shall be \$25,000 or an integral multiple of \$5,000 in excess thereof, even if such allocation results in one or more of such Existing Owners or Potential Owners not purchasing or selling any Auction Bonds on such Auction Date.

(d) If, as a result of the procedures described in subsection (a) above, any Potential Owner would be required to purchase less than \$25,000 in principal amount of Auction Bonds on any Auction Date, the Auction Agent shall by lot, in such manner as it shall determine in its sole discretion, allocate Auction Bonds for purchase among Potential Owners so that the principal amount of Auction Bonds purchased on such Auction Date by any Potential Owner shall be an integral multiple of \$25,000, even if such allocation results in one or more of such Potential Owners not purchasing Auction Bonds on such Auction Date.

(e) The Corporation may establish a different Auction Mode Period or Periods for any portion of the 2002 Bonds of any Series. Any such change in Auction Period for 2002 Bonds of a Series will require a change in the related Auction Date, and may require a change in interest payment dates for the related Auction Bonds. Such a change in Auction Period may be made on any existing Auction Date with respect to the 2002 Bonds to which the change in Auction Period is to apply on which Sufficient Clearing Bids have been received or all the Auction Bonds of a Series are subject to Submitted Hold Orders and upon not less than twenty (20) days prior written notice to the Bondowners.

Notice of Auction Rate

(a) On each Auction Date, the Auction Agent shall notify by telephone or other telecommunication device or in writing each Broker-Dealer that participated in the Auction held on such Auction Date of the following:

(i) the Auction Rate determined on such Auction Date for the succeeding Auction Period;

(ii) whether Sufficient Clearing Bids existed for the determination of the Winning Bid Rate;

(iii) if such Broker-Dealer submitted a Bid or a Sell Order on behalf of an Existing Owner, whether such Bid or Sell Order was accepted or rejected, in whole or in part, and the principal amount of Auction Bonds, if any, to be sold by such Existing Owner;

(iv) if such Broker-Dealer submitted a Bid on behalf of a Potential Owner, whether such Bid was accepted or rejected, in whole or in part, and the

principal amount of Auction Bonds, if any, to be purchased by such Potential Owner;

(v) if the aggregate principal amount of Auction Bonds to be sold by all Existing Owners on whose behalf such Broker-Dealer submitted Bids or Sell Orders is different from the aggregate principal amount of Auction Bonds to be purchased by all Potential Owners on whose behalf such Broker-Dealer submitted a Bid; the name or names of one or more Broker-Dealers (and the Agent Member, if any, of each such other Broker-Dealer) and the principal amount of Auction Bonds to be (A) purchased from one or more Existing Owners on whose behalf such other Broker-Dealers submitted Bids or Sell Orders or (B) sold to one or more Potential Owners on whose behalf such Broker-Dealers submitted Bids; and

(vi) the immediately succeeding Auction Date.

(b) On each Auction Date, each Broker-Dealer that submitted an Order on behalf of any Existing Owner or Potential Owner shall: (i) advise each Existing Owner and Potential Owner on whose behalf such Broker-Dealer submitted an Order as to: (A) the Auction Rate determined on such Auction Date; (B) whether any Bid or Sell Order submitted on behalf of each such Owner was accepted or rejected; and (C) the immediately succeeding Auction Date; (ii) instruct each Potential Owner on whose behalf such Broker-Dealer submitted a Bid that was accepted, in whole or in part, to instruct such Potential Owner's Agent Member to pay to such Broker-Dealer (or its Agent Member) through the Securities Depository the amount necessary to purchase the principal amount of Auction Bonds to be purchased pursuant to such Bid against receipt of such Auction Bonds; and (iii) instruct each Existing Owner on whose behalf such Broker-Dealer submitted a Sell Order that was accepted or a Bid that was rejected, in whole or in part, to instruct such Existing Owner's Agent Member to deliver to such Broker-Dealer (or its Agent Member) through the Securities Depository the principal amount of Auction Bonds to be sold pursuant to such Bid or Sell Order against payment therefor.

Auction Index

Variable Rate Tax-Exempt Bonds. The Auction Index, in the case of the Variable Rate Tax-Exempt Bonds, on any Auction Date with respect to Auction Bonds in a Twenty-Eight Day Auction Mode or a Thirty-Five Day Auction Mode will be the greater of the 30-Day After-Tax Equivalent Rate or the BMA Municipal Swap Index, as last published in *The Bond Buyer*, or if the BMA Municipal Swap Index is no longer published, an index agreed to by all Broker-Dealers and consented to by the Corporation. The Auction Index on any Auction Date with respect to Auction Bonds in a Seven Day Auction Mode will be the BMA Municipal Swap Index, as last published in *The Bond Buyer*, or if the BMA Municipal Swap Index is no longer published, an index agreed to by all Broker-Dealers and consented to by the Corporation. The Auction Index on any Auction Date with respect to Auction Bonds in a Semiannual Mode will be seventy percent (70%) of the Six-Month Treasury Bill Rate, as last published in *The Bond Buyer*, or if the Six-

Month Treasury Bill Rate is no longer published, an index agreed to by all Broker-Dealers and consented to by the Corporation.

As used herein, "30-Day After-Tax Equivalent Rate," on any date of determination, means the interest rate per annum equal to the 30-Day "AA" Composite Commercial Paper Rate on such date times (1.00 minus the Statutory Corporate Tax Rate on such date).

For the purposes of the definition of 30-Day After-Tax Equivalent Rate:

(i) "Statutory Corporate Tax Rate," on any date of determination, means the highest tax rate bracket (expressed as a decimal) now or hereafter applicable in each taxable year on the taxable income of every corporation as set forth in Section 11 of the Code or any successor section without regard to any minimum additional tax provision or provisions regarding changes in rates during a taxable year. The Statutory Corporate Tax Rate is currently 35 percent; and

(ii) "30-Day "AA" Composite Commercial Paper Rate," on any date of determination, means (A) the interest equivalent of the 30-day rate on commercial paper placed on behalf of issuers whose corporate bonds are rated AA by S&P, or the equivalent of such rating by S&P, as made available on a discount basis or otherwise by the Federal Reserve Bank of New York for the Business Day immediately preceding such date of determination, or (B) if the Federal Reserve Bank of New York does not make available any such rate, then the arithmetic average of such rates, as quoted on a discount basis or otherwise, by Goldman, Sachs & Co., Lehman Commercial Paper Inc., and Merrill Lynch, Pierce, Fenner & Smith Incorporated or, in lieu of any thereof, their respective affiliates or successors which are commercial paper dealers (the "Commercial Paper Dealers"), to the Auction Agent for the close of business on the Business Day immediately preceding such date of determination.

For purposes of the definition of 30-Day "AA" Composite Commercial Paper Rate, the "interest equivalent" means the equivalent yield on a 360-day basis of a discount-basis security to an interest-bearing security. If any Commercial Paper Dealer does not quote a commercial paper rate required to determine the 30-day "AA" Composite Commercial Paper Rate, the 30-Day "AA" Composite Commercial Paper Rate shall be determined on the basis of the quotation or quotations furnished by the remaining Commercial Paper Dealer or Commercial Paper Dealers and any substitute commercial paper dealer not included within the definition of Commercial Paper Dealer above, which may be CS First Boston Corporation or Morgan Stanley & Co. or their respective affiliates or successors which are commercial paper dealers (a "Substitute Commercial Paper Dealer") selected by the Trustee (who shall be under no liability for such selection) to provide such, commercial paper rate or rates not being supplied by any Commercial Paper Dealer or Commercial Paper Dealers, as the case may be, or if the Trustee does not select any such Substitute Commercial Paper Dealer or Substitute Commercial Paper Dealers, by the remaining Commercial Paper Dealer or Commercial Paper Dealers.

If a substitute index referred to in the first paragraph cannot be agreed upon, the Trustee (with the consent of the Corporation and all Broker-Dealers) may appoint an index agent, which shall be a nationally recognized municipal securities evaluation service, to determine the applicable Auction Index based on the arithmetic average of the interest rates per annum on variable rate demand obligations or similar obligations quoted to such index agent at the time of the determination of the Auction Index by at least five members of the National Association of Securities Dealers, Inc. (the "NASD"), each of which must be actively engaged in the remarketing of such obligations and will be acting as a remarketing agent or in a similar capacity in respect of each issue of obligations the interest rate on which is so quoted to the index agent. For purposes of the foregoing, (i) each issue of such obligations shall be rated by either Moody's or S&P in its highest short-term rating category (without regard to pluses and minuses), (ii) the owners of such obligations shall have the right to demand the purchase thereof upon seven days' notice, (iii) the interest rate on such obligations shall be redetermined weekly, (iv) the interest on such obligations shall generally become effective on Wednesday of each calendar week, (v) the interest on such obligations shall be excluded from gross income for purposes of federal income taxation and shall not constitute an item of tax preference subject to the federal alternative minimum tax (unless interest on the Auction shall be such an item), and (vi) if there shall be more than one such interest rate quoted to the index agent by any such member of the NASD, the highest of such quoted interest rates shall be used in the determination of the Auction Index.

If for any reason on any Auction Date the number of members of the NASD which shall have quoted interest rates to the index agent, as described in the immediately preceding paragraph, is less than five, the Auction Index will be the arithmetic average of (i) the interest rate which has been so quoted, if any, and (ii) the interest rates per annum on variable rate demand obligations or similar obligations having the terms and characteristics set forth in clauses (i), (ii), and (v) of the immediately preceding paragraph quoted to the index agent at the time of determination of the Auction Index by members of the NASD as the interest rate which, if borne by such obligations, would be the minimum interest rate necessary in order of such members, acting as principal in the ordinary course of its business, to be willing to buy such obligations at par on such Auction Date. Such members of the NASD shall be (i) not fewer in number than the difference between five and the number of members of the NASD which shall have quoted interest rates provided as described in the immediately preceding paragraph and (ii) actively engaged in the remarketing of variable rate demand obligations or similar obligations.

Variable Rate Taxable Bonds. The Auction Index, in the case of the Variable Rate Taxable Bonds, on any Auction Date will be as of any date of determination the interest rate per annum equal to (i) while the Auction Period for Auction Bonds is 28 days, the greater of the 30-Day "AA" Composite Commercial Paper Rate or the One-Month LIBOR Rate on such date, or (ii) while the Auction Period for Auction Bonds is six months, the greater of the 180-Day "AA" Composite Commercial Paper Rate or the Six-Month LIBOR Rate on such date. "AA" *Composite Commercial Paper Rate*, on any date of determination, means (A) the interest equivalent of the 30-day rate or the 180-day rate, as the case may be, on commercial paper placed on behalf of issuers whose corporate bonds are rated "AA" by S&P, or the equivalent of such rating by S&P, as made available on a discount basis or otherwise by the Federal Reserve Bank for the Business

Day immediately preceding such date of determination, or (B) if the Federal Reserve Bank does not make available any such rate, then the arithmetic average of such rates, as quoted on a discount basis or otherwise, by Goldman, Sachs & Co., Lehman Commercial Paper Inc., and Merrill Lynch, Pierce, Fenner & Smith Incorporated or, in lieu of any thereof, their respective affiliates or successors which are commercial paper dealers (the "Commercial Paper Dealers"), to the Auction Agent for the close of business on the Business Day immediately preceding such date of determination. *One-Month LIBOR Rate* or *Six-Month LIBOR Rate* means the rate of interest per annum equal to the rate per annum at which United States dollar deposits having a maturity of one month or six months, respectively, are offered to prime banks in the London interbank market which appear on the Telerate Service LIBOR Page as of approximately 11:00 A.M. London time, on the Business Day immediately preceding the Auction Date. If at least two such quotations appear, One-Month LIBOR or Six-Month LIBOR, respectively, will be determined at approximately 11:00 A.M., London time, on such calculation date on the basis of the rate at which deposits in United States dollars having a maturity of one month or six months, respectively, are offered to prime banks in the London interbank market by four major banks in the London interbank market selected by the Auction Agent and in a principal amount of not less than U.S. \$1,000,000 and that is representative for a single transaction in such market at such time. The Auction Agent will request the principal London office of each of such banks to provide a quotation of its rate. If at least two quotations are provided, One-Month LIBOR or Six-Month LIBOR, respectively, will be the arithmetic mean (rounded upwards, if necessary, to the nearest one-hundredth of one percent) of the rates quoted at approximately 11:00 A.M., New York City time on the Business Day immediately preceding the Auction Date by three major banks in New York, New York selected by the Auction Agent for loans in United States dollars to leading European banks having a maturity of one month or six months, respectively, and in a principal amount equal to an amount of not less than U.S. \$1,000,000 and that is representative for a single transaction in such market at such time; provided, however, that if the banks selected as aforesaid are not quoting as mentioned in this sentence. One-Month LIBOR or Six-Month LIBOR, respectively, will be One-Month LIBOR or Six-Month LIBOR, respectively, in effect for the immediately preceding Auction Period.

For purposes of the definition of "AA" Composite Commercial Paper Rate, the "interest equivalent" means the equivalent yield on a 360-day basis of a discount-basis security to an interest-bearing security. If any Commercial Paper Dealer does not quote a commercial paper rate required to determine the "AA" Composite Commercial Paper Rate, the "AA" Composite Commercial Paper Rate shall be determined on the basis of the quotation or quotations furnished by the remaining Commercial Paper Dealer or Commercial Paper Dealers and any substitute commercial paper dealer not included within the definition of Commercial Paper Dealers above, which may be CS First Boston Corporation or Morgan Stanley & Co. or their respective affiliates or successors which are commercial paper dealers (a "Substitute Commercial Paper Dealer") selected by the Payment Agent (who shall be under no liability for such selection) to provide such commercial paper rate or rates not being supplied by any Commercial Paper Dealer or Commercial Paper Dealers or Substitute Commercial Paper Dealers, by the remaining Commercial Paper Dealer or Commercial Paper Dealers.

If for any reason on any Auction Date the Auction Index shall not be determined as described above, the Auction Index shall be the Auction Rate for the Auction Period ending on such Auction Date.

The determination of the Auction Index as described above is conclusive and binding upon the Owners of the Auction Bonds.

Change in Auction Period; Change of Auction Date

(a) Changes in Auction Period or Periods.

(i) While any Auction Bonds are Outstanding, the Corporation may, from time to time, change the length of one or more Auction Periods from one Auction Mode to another in order to accommodate economic and financial factors that may affect or be relevant to the length of the Auction Period and the interest rate borne by such Auction Bonds. The Corporation shall initiate the change in the length of one or more Auction Periods by giving written notice to the Trustee, the Auction Agent, the Broker-Dealer and the Securities Depository that the Auction Period will change if the conditions described below are satisfied and the proposed effective date of the change, at least ten Business Days prior to the Auction Date for such Auction Period.

(ii) The change in the length of one or more Auction Periods shall not be allowed unless Sufficient Clearing Bids existed at both the Auction before the date on which the notice of the proposed change was given as provided in (a) above and the Auction immediately preceding the proposed change.

(iii) The change in length of one or more Auction Periods shall take effect only if

(A) the Trustee and the Auction Agent receive by 11:00 A.M., Eastern Time, on the Business Day before the Auction Date for the first such Auction Period, a certificate from the Corporation, authorizing the change in the length of one or more Auction Periods specified in such certificate, and

(B) Sufficient Clearing Bids exist at the Auction on the Auction Date for such first Auction Period.

If the condition referred to in (A) above is not met, the Auction Rate for the next Auction Period shall be determined pursuant to the Auction Procedures and the Auction Period shall be the Auction Period determined without reference to the proposed change. If the condition referred to in (A) is met but the condition referred to in (B) above is not met, the Auction Rate for the next Auction Period

shall be the Maximum Rate, and the Auction Period shall be a Seven Day Auction Mode.

(b) Changes in the Auction Dates. While any of the Auction Bonds are Outstanding, the Auction Agent, with the written consent of the Corporation, may specify an earlier Auction Date (but in no event more than five Business Days earlier) than the Auction Date that would otherwise be determined in accordance with the definition of "Auction Date" with respect to one or more specified Auction Periods in order to conform with then current market practice with respect to similar securities or to accommodate economic and financial factors that may affect or be relevant to the day of the week constituting an Auction Date and the interest rate borne on the Auction Bonds. The Corporation shall not consent to such change in the Auction Date unless it has received from the Auction Agent not less than three (3) days nor more than twenty (20) days prior to the effective date of such change a written request for consent together with a certificate demonstrating the need for change in reliance on such factors. The Auction Agent shall provide notice of its determination to specify an earlier Auction Date for one or more Auction Periods by means of a written notice delivered at least 45 days prior to the proposed changed Auction Date to the Trustee, the Corporation, the Broker-Dealer and the Securities Depository.

(c) Notwithstanding anything herein to the contrary, prior to any change in the duration of any Auction Period, the Trustee shall receive a confirmation from each rating agency then rating any Auction Bonds at the request of the Corporation to the effect that such change does not adversely affect the rating of any Auction Bond then being rated by such rating agency.

Miscellaneous Provisions

(a) The Auction Procedures may be interpreted by the Corporation to resolve any inconsistency or ambiguity which may arise or be revealed in connection therewith and such interpretation shall be binding upon the Trustee, the Auction Agent, each Broker-Dealer and the Owners.

(b) Prior to the Conversion Date, if any, applicable to an Auction Bond

(i) except during a period in which the Auction Procedures are not to be implemented as a result of a default in payment on any Auction Bond, an Existing Owner may sell, transfer or otherwise dispose of an Auction Bond only pursuant to a Bid or Sell Order in accordance with the Auction Procedures or to or through a Broker-Dealer or to a Person that has delivered a signed copy of a Master Purchaser's Letter to the Auction Agent, provided that in the case of all transfers other than pursuant to Auctions such Existing Owner or its Broker-Dealer or its Agent Member advises the Auction Agent of such transfer and

(ii) an Existing Owner shall have the ownership of the Auction Bond held by it maintained in book entry form by the Securities Depository for the account of its Agent Member which, in turn, is to maintain records of such Existing Owner's beneficial ownership.

(c) The provisions of the 2002 Series A/B Supplemental Indenture relating to the Auction Bonds and the definitions applicable hereto, including without limitation the definitions of Auction Rate, Default Rate, Maximum Rate, No Auction Rate, Minimum Rate, Auction Index, Auction Multiple and Auction Rate, may be amended by obtaining the consent of the Insurer and the beneficial owners of all Auction Bonds affected by such amendment. If on the first Auction Date occurring at least twenty (20) days after the date on which the Auction Agent mailed notice to the registered owners of the Auction Bonds affected by such amendment, Sufficient Clearing Bids have been received or all of the Auction Bonds affected by such amendment are subject to Submitted Hold Orders, the proposed amendment shall be deemed to have been consented to by the beneficial owners of all Auction Bonds affected by such amendment. Any such consent or deemed consent by a beneficial owner shall be conclusive and binding upon such beneficial owner and all future beneficial owners thereof. As a condition precedent to any amendment referred to in this paragraph, there shall be delivered to the Trustee an opinion of Bond Counsel to the effect that such amendment will not in and of itself adversely affect the validity of the 2002 Bonds or, with respect to the Variable Rate Tax-Exempt Bonds, the exclusion of interest thereon from gross income for federal income tax purposes.

FORM OF MASTER PURCHASER'S LETTER

Relating to Securities Involving Rate Settings Through Auctions

THE COMPANY
THE AUCTION AGENT
A BROKER-DEALER
AN AGENT MEMBER
OTHER PERSONS

Dear Sirs:

1. This letter is designed to apply to auctions for publicly or privately offered debt or equity securities ("Securities") of any issuer ("Company") which are described in any final prospectus, private placement memorandum or other offering materials relating to such Securities as the same may be amended or supplemented (collectively, with respect to the particular Securities concerned, the "Prospectus"), and which involve periodic rate settings through auctions ("Auctions"). This letter shall be for the benefit of the Company and of any trust company or auction agent (collectively, "Trust Company"), broker-dealer, agent member, securities depository or other interested person in connection with any Securities and related Auctions (it being understood that such persons may be required to execute specified agreements and nothing herein shall alter such requirements). The terminology used herein is intended to be general in its application and not to exclude any Securities in respect to which (in the Prospectus or otherwise) alternative terminology is used.

2. We may from time to time offer to purchase, offer to sell and/or sell Securities of the Company as described in the Prospectus relating thereto. We agree that this letter shall apply to all such purchases, sales and offers and to Securities owned by us. We understand that (a) the dividend/interest rate on Securities may be based from time to time on the results of Auctions as set forth in the Prospectus, (b) a component of each such dividend/interest rate on Securities may include fees and charges owed to the Trust Company or other interested persons, including a broker-dealer, and (c) such fees and charges may be deducted prior to our receipt of such dividend/interest rate. We agree that in the event any such fee or charge is not so deducted and is paid to us in a circumstance in which it is owed to any Trust Company or other interested person, we are not relieved of our liability to such Trust Company or other interested person for payment of such fee or charge and we shall make such payment promptly upon notice delivered to us that such payment is due. We agree that the Trust Company or other interested person may collect such fees and charges on its or all interested parties' behalf.

3. We agree that any bid or sell order placed by us shall constitute an irrevocable offer by us to purchase or sell the Securities subject to such bid or sell order, or such lesser amounts of Securities as we shall be required to sell or purchase as a result of such Auction, at the

applicable price, all as set forth in the Prospectus, and that if we fail to place a bid or sell order with respect to Securities owned by us with a broker-dealer on any auction date, or a broker-dealer to which we communicate a bid or sell order fails to submit such bid or sell order to the Trust Company concerned, we shall be deemed to have placed a hold order with respect to such Securities as described in the Prospectus. We authorize any broker-dealer that submits a bid or sell order as our agent in Auctions to execute contracts for the sale of Securities covered by such bid or sell order. We recognize that the payment by such broker-dealer for Securities purchased on our behalf shall not relieve us of any liability to such broker-dealer for payment for such Securities.

4. We agree that, during the applicable period as described in the Prospectus, dispositions of Securities can be made only in denominations set forth in the Prospectus and we will sell, transfer or otherwise dispose of any Securities held by us from time to time only pursuant to a bid or sell order placed in an Auction, to or through a broker-dealer or, when permitted in the Prospectus, to a person that has signed and delivered, or caused to be delivered on its behalf, to the applicable Trust Company a letter substantially in the form of this letter (or other applicable purchaser's letter), provided that in the case of all transfers rather than pursuant to Auctions we or our broker-dealer or our agent member shall advise such Trust Company of such transfer. We understand that a restrictive legend will be placed on certificates representing the securities and stop-transfer instructions will be issued to the transfer agent and/or registrar, all as set forth in the Prospectus. We agree to comply with any other transfer restrictions or other related procedures as described in the Prospectus.

5. We agree that, during the applicable period as described in the Prospectus, ownership of Securities shall be represented by one or more global certificates registered in the name of the applicable securities depository or its nominee, that we will not be entitled to receive any certificate representing the Securities and that our ownership of any Securities will be maintained in book-entry form by the securities depository for the account of our agent member, which in turn will maintain records of our beneficial ownership. We authorize and instruct our agent member to disclose to the applicable Trust Company such information concerning our beneficial ownership of Securities as such Trust Company shall request.

6. We acknowledge that partial deliveries of Securities purchased in Auctions may be made to us and such deliveries shall constitute good delivery as set forth in the Prospectus.

7. This letter is not a commitment by us to purchase any Securities.

8. This letter supersedes any prior-dated version of this master purchaser's letter, and supplements any prior or post-dated purchaser's letter specific to particular Securities; any recipient of this letter may rely upon it until such recipient has received a signed writing amending or revoking this letter.

9. The descriptions of Auction procedures set forth in each applicable Prospectus are incorporated by reference herein and, in case of any conflict between this letter and any such description, such description shall control.

10. Any photocopy or reproduction of this letter shall be deemed of equal effect as a signed original.

11. Our agent member of the securities depository currently is _____.

12. Our personnel authorized to place orders with broker-dealers for the purposes set forth in the Prospectus in Auctions currently is/are _____ telephone number _____.

13. Our taxpayer identification number is _____.

14. We agree that, during the applicable periods described in the Prospectus, if we decide to link our beneficial ownership of any Securities which permit such linkage with our beneficial ownership of other debt or equity securities which permit such linkage of the Company, or if we decide to break any linkage, we will instruct our agent member or our broker-dealer to link such beneficial ownership or break such linkage in accordance with the procedures set forth in the Prospectus, and we acknowledge that such instruction must be submitted through the applicable Trust Company and may not be given during certain periods described in the Prospectus.

15. We acknowledge that the Securities may be subject to mandatory tender by us as described in the Prospectus. We further agree that if we should receive any payment in connection with any tender transaction to which we are not entitled (as a result of failure of another security holder to provide the tender price or otherwise), we will take such actions (including return of funds and repayment of interest to any party who provided funds to us which they were not obligated to provide) so that all interested parties (including any broker-dealer) are restored to the positions which would have obtained if the tender transactions were effected, or not effected, as the case may be, in accordance with the provisions set forth in the Prospectus.

Dated: _____

Mailing address of Purchaser

(Name of Purchaser)

By: _____

Printed Name: _____

Title: _____

CERTAIN DEFINITIONS WITH RESPECT TO THE 2002 BONDS

"Agent Member" means a member of, or participant in, the Securities Depository who will act on behalf of a Bidder and is identified as such in the Bidder's Master Purchaser's Letter.

"Alternate Liquidity Facility" means any Liquidity Facility subsequent to the Initial Liquidity Facility (not including a Non-Conforming Liquidity Facility or Self Liquidity) that the Corporation may provide pursuant to the 2002 Series A/B Supplemental Indenture; provided, however, that the delivery of each such Liquidity Facility shall result in a short-term rating of 2002 Bonds of not less than "A-1" (in the case of S&P) or "P-1" or "VMIG-1", as applicable (in the case of Moody's), or such other rating(s) as may be approved by the Corporation and the Insurer, as evidenced by rating letters delivered when such Liquidity Facility is delivered.

"Auction" means each periodic implementation of the Auction Procedures.

"Auction Agent" means the auctioneer appointed in accordance with the Indenture.

"Auction Agreement" means the Auction Agreement between the Auction Agent and the Trustee, as it may be amended, supplemented, or replaced from time to time with notice to the Insurer.

"Auction Date" means during any period in which the Auction Procedures are not suspended in accordance with the terms of the 2002 Series A/B Supplemental Indenture, the Business Day next preceding each Auction Period applicable to such Bonds (whether or not an Auction shall be conducted on such date) or such other date as determined by the Corporation in connection with the adjustment to the Auction Period for Auction Bonds, commencing on the First Auction Date applicable to such Auction Bonds; provided, however, the last Auction Date for any Auction Bond shall be the earlier of (i) the Business Day next preceding the Auction Period next preceding the Conversion Date relating to such Bond and (ii) the Business Day next preceding the Auction Period next preceding the final maturity date of such Bond.

"Auction Index" is described in the Section entitled "Auction Index" in Appendix D.

"Auction Mode Period" means either a Seven Day Auction Mode Period, a Twenty-Eight Day Auction Mode Period, a Thirty-Five Day Auction Mode Period, or a Semiannual Auction Mode Period.

"Auction Multiple" means, as of any Auction Date, the percentage determined as set forth below, or otherwise established as described in the Section entitled "Miscellaneous Provisions" in Appendix D, based on the Prevailing Rating of the Auction Bonds in effect at the close of business on the Business Day immediately preceding such Auction Date:

<u>Prevailing Rating</u>	<u>Percentage of Auction Index</u>
AAA/Aaa	140%
AA/Aa	150
A/A	200
BBB/Baa	250
Below BBB/Baa	300

"Auction Period" means

(i) with respect to Auction Bonds in a Seven Day Auction Mode Period, a period of seven days generally beginning on a Thursday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Wednesday) and ending on the next succeeding Wednesday (unless such Wednesday is not a Business Day, in which case ending on the next succeeding Business Day);

(ii) with respect to Auction Bonds in a Twenty-Eight Day Auction Mode Period, a period of twenty-eight days generally beginning on a Thursday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Wednesday) and ending on the next succeeding fourth Wednesday (unless such Wednesday is not a Business Day, in which case ending on the next succeeding Business Day);

(iii) with respect to Auction Bonds in the Thirty-Five Day Auction Mode Period, a period of thirty-five days generally beginning on a Thursday (or the last day of the prior Auction Period if the prior Auction Period does not end on a Wednesday) and ending on the next succeeding fifth Wednesday (unless such Wednesday is not a Business Day in which case ending on the next succeeding Business Day); and

(iv) with respect to Auction Bonds in a Semiannual Auction Mode Period, a period of six months generally (or shorter period upon a conversion from another Auction Period) beginning on the day following the last day of the prior Auction Period and ending on the next succeeding May 31 or November 30.

"Auction Procedures" means the procedures for conducting auctions for Auction Bonds as described in Appendix D.

"Auction Rate" means the rate of interest to be borne by Auction Bonds for each Auction Period which shall be:

(i) for the Initial Period, those interest rates set forth in a certificate of the Corporation with respect to the Auction Bonds and

(ii) after the Initial Period,

(a) if Sufficient Clearing Bids exist, the Winning Bid Rate,

(b) if Sufficient Clearing Bids do not exist (other than as a result of all Auction Bonds being subject to Submitted Hold Orders), the Maximum Rate, and

(c) if all Auction Bonds are subject to Submitted Hold Orders, the Minimum Rate; provided, however, that, if the Auction Agent shall have failed to determine the Auction Rate for any Auction Period (including, without limitation, the circumstances where there is no Auction Agent or no Broker-Dealer), the Auction Rate for such Auction Period shall be the No Auction Rate determined for such Auction Period; and provided, further, that, if an Event of Default with respect to the payment of any debt service or redemption price on any Bond shall have occurred the Auction Rate for the Auction Period during which such Event of Default shall have occurred and each Auction Period thereafter commencing prior to the date on which such Event of Default shall have ceased to be continuing shall be the Default Rate for such Auction Period; and provided, further, that in no event shall the Auction Rate applicable to Auction Bonds exceed 15% per annum in the case of the Variable Rate Tax-Exempt Bonds or 25% per annum in the case of the Variable Rate Taxable Bonds or, if less, the maximum rate permitted by law; and provided, further, in the event of a failed conversion from one Auction Mode Period to another Auction Mode Period or Conversion from an Auction Mode Period to Fixed Interest Rates or an Indexed Rate, the Auction Bonds will automatically convert to an Auction Period in the Seven Day Auction Mode Period and bear interest at the Maximum Rate for the next Auction Period.

"Auction Rate Conversion Date" means each date on which any 2002 Bonds are converted to Auction Bonds with approval in writing by the Insurer, which approval may not be unreasonably withheld.

"Available Auction Bonds" means the excess of the aggregate principal amount of Outstanding Auction Bonds over the principal amount of Auction Bonds that are the subject of Submitted Hold Orders.

"Bank" means (i) with respect to the Initial Liquidity Facility, Dexia, together with its successors and assigns; (ii) with respect to an Alternate Liquidity Facility or a Non-Conforming Liquidity Facility, the providers thereof, together with their successors and assigns, as approved by the Insurer; and (iii) with respect to Self Liquidity, the Corporation, together with its successors and assigns.

"Bank Bonds" means 2002 Bonds purchased with funds provided by a Bank pursuant to a Liquidity Facility.

"Bank Interest Rate" means the rate of interest, if any, on all 2002 Bonds held by and payable to a Bank at any time as determined and calculated in accordance with the provisions of the Liquidity Facility.

"Bid" means the information submitted by an Existing Owner to a Broker-Dealer as to the principal amount of Outstanding Auction Bonds, if any, held by such Existing Owner which such Existing Owner desires to continue to hold if the rate determined by the Auction Procedures for the next succeeding Auction Period shall not be less than the rate per annum then specified by such Existing Owner and which such Existing Owner desires to sell on the next succeeding Auction Bond Debt Service Payment Date if the Auction Rate is less than the rate per annum then specified by such Existing Owner; and, for purposes of implementing the Auction, in order to achieve the lowest possible interest rate on the Auction Bonds, the Broker-Dealers shall contact Potential Owners, including Persons who are Existing Owners, by telephone or otherwise to determine the principal amount of Auction Bonds, if any, which each such Potential Owner offers to purchase if the rate determined by the Auction Procedures for the next succeeding Auction Period were not less than the rate per annum specified by such Potential Owner.

"Bidder" means each Existing Owner and Potential Owner who places an Order.

"Bondholder" or "Holder" means, for purposes of this Official Statement, any Holder (as defined under the Indenture) of 2002 Bonds, except that (i) where the context so requires, such terms shall mean Holders of Bonds under the Indenture and (ii) except under "Tax Matters" herein, so long as the 2002 Bonds are immobilized in the custody of DTC, such terms shall mean, for purposes of giving notice to such Bondholders or Holders, DTC or its nominee. (See "DTC and Book-Entry" herein.)

"Broker-Dealer" means Lehman Brothers and any broker-dealer or other entity that is permitted by law to perform the functions required of a Broker-Dealer on behalf of Existing Owners and Potential Owners of Auction Bonds, that is a Direct Participant, that has been selected by the Corporation with notice to the Insurer, and that is a party to a Broker-Dealer Agreement with the Auction Agent that remains effective.

"Broker-Dealer Agreement" means a Broker-Dealer Agreement between a Broker Dealer and the Auction Agent, as may be amended from time to time, with notice to the Insurer.

"Change Date" means the date on which Auction Bonds are to be changed to a different Auction Mode Period.

"Conversion Date" means the Business Day on which any of the 2002 Bonds are Converted to Fixed Interest Rates or an Indexed Rate.

"Convert", "Converted" or "Conversion", as appropriate, means the conversion of the interest rate on the 2002 Bonds to Fixed Interest Rates or an Indexed Rate as herein described.

"Default Rate" means, in respect of any Auction Period, (i) with respect to the Variable Rate Tax-Exempt Bonds, three hundred percent (300%) of the Auction Index determined on the Auction Date next preceding the first day of such Auction Period; provided, however, that in no event shall the Default Rate exceed 15% per annum and (ii) with respect to the Variable Rate

Taxable Bonds, three hundred percent (300%) of the Auction Index determined on the Auction Date next preceding the first day of such Auction Period; provided, however, that in no event shall the Default Rate exceed 25% per annum.

"Effective Rate" means the rate of interest, which rate shall be less than or equal to the Maximum Rate, payable on the 2002 Bonds prior to Conversion, determined for each Effective Rate Period as herein described.

"Effective Rate Date" means the date on which the 2002 Bonds begin to bear interest at the Effective Rate.

"Effective Rate Period" means the period during which interest accrues under a particular Mode from one Effective Rate Date to and including the day preceding the next Effective Rate Date.

"First Auction Date" means a date not later than a date sixty (60) days after the date on which any 2002 Bonds become Auction Bonds.

"Fixed Interest Rates" means long-term interest rates fixed to maturity of a 2002 Bond, established in accordance with the 2002 Series A/B Supplemental Indenture. This Official Statement is not intended to describe the 2002 Bonds following a Conversion to Fixed Interest Rates.

"Hold Order" means the information submitted by an Existing Owner to a Broker-Dealer as to the principal amount of Outstanding Auction Bonds, if any, held by such Existing Owner which such Existing Owner desires to continue to hold without regard to the rate determined by the Auction Procedures for the next succeeding Auction Period.

"Indexed Rate" means an index-based variable rate determined in accordance with the 2002 Series A/B Supplemental Indenture. This Official Statement is not intended to describe the 2002 Bonds following a Conversion to an Indexed Rate.

"Initial Period" means a period commencing on the date on which Auction Bonds are authenticated and delivered and ending on the First Auction Date.

"Initial Liquidity Facility" means the Standby Bond Purchase Agreement, by and among the Corporation, Dexia, and U.S. Bank, N. A., as Tender Agent, dated as of the date of delivery and authentication of the 2002 Bonds.

"Liquidity Expiration Event" means either (i) the Corporation has determined to terminate a Liquidity Facility in whole or in part in accordance with its terms or (ii) the Trustee has not received written notice from the Bank on or prior to forty-five (45) days prior to the scheduled expiration of a Liquidity Facility that such Liquidity Facility will be extended, renewed, or replaced.

"Liquidity Facility" means, for purposes of the 2002 Bonds, any Liquidity Facility provided pursuant to the 2002 Series A/B Supplemental Indenture by the Corporation, including the Initial Liquidity Facility and any Alternate Liquidity Facility, Non-Conforming Liquidity Facility or Self-Liquidity.

"Mandatory Tender Date" means each date on which 2002 Bonds are subject to mandatory tender pursuant to the 2002 Series A/B Supplemental Indenture. (See "Mode Chart for 2002 Bonds" appearing on page (i).)

"Master Purchaser's Letter" means the Master Purchaser's Letter in substantially the form of the letter attached hereto as Appendix E.

"Maximum Rate" means

(i) with respect to the 2002 Bonds other than Auction Bonds, 12% per annum in the case of the Variable Rate Tax-Exempt Bonds (provided that the Corporation may direct that such rate be increased to a higher rate upon delivery of a Bond Coverage Certificate assuming such higher interest rate) and 10% per annum in the case of the Variable Rate Taxable Bonds (provided that the Corporation may direct that such rate be increased to a higher rate upon delivery of a Bond Coverage Certificate assuming such higher interest rate) or, with respect to Bank Bonds, the maximum allowable interest rate in the State, and

(ii) with respect to Auction Bonds, as of any Auction Date, the product of the Auction Index times the Auction Multiple; *provided, however*, that in no event shall the Maximum Rate exceed the maximum rate permitted by applicable law, anything in the 2002 Series A/B Supplemental Indenture to the contrary notwithstanding.

"Minimum Rate" means with respect to Auction Bonds, as of any date of determination thereof, 75 percent of the Auction Index in effect on the date of calculation in the case of the Variable Rate Tax-Exempt Bonds and 90 percent of the Auction Index in effect on the date of calculation in the case of the Variable Rate Taxable Bonds.

"Mode" means the manner in which the interest rate is determined on each Rate Determination Date, consisting of a Daily Rate, Weekly Rate, Monthly Rate, Quarterly Rate, Semiannual Rate, and Auction Rate.

"Mode Change" means a change in Mode Period.

"Mode Period" means each period beginning on the first Effective Rate Date for the 2002 Bonds, or the first Effective Rate Date following a change from one Mode to another (including a change from one Auction Mode Period to another Auction Mode Period of a different duration), and ending on the date immediately preceding the first Effective Rate Date following the next such change in Mode. (See "Mode Chart for 2002 Bonds" appearing on page (i).)

"No Auction Rate" means, as of any Auction Date, the rate determined as set forth below, based on the Prevailing Rating of the Auction Bonds in effect at the close of business on the Business Day immediately preceding such Auction Date:

<u>Prevailing Rating</u>	<u>Percentage of Auction Index</u>
AAA/Aaa	140%
AA/Aa	150
A/A	200
BBB/Baa	250
Below BBB/Baa	300

provided, however, that in no event shall the No Auction Rate exceed the Maximum Rate.

"Non-Conforming Liquidity Facility" means a liquidity facility provided by the Corporation pursuant to the 2002 Series A/B Supplemental Indenture, other than the Initial Liquidity Facility or an Alternate Liquidity Facility. See "Liquidity Facility — Self Liquidity or Other forms of Liquidity."

"Notice Parties" means the Corporation, the Insurer, the Remarketing Agent, the Bank, the Tender Agent, and the Trustee.

"Order" means, as the context requires, a Hold Order, a Bid or a Sell Order.

"Potential Owner" any person, including any Existing Owner, (i) who shall have executed a Master Purchaser's Letter and (ii) who may be interested in acquiring Auction Bonds or, in the case of an Existing Owner, an additional principal amount of Auction Bonds.

"Prevailing Rating" means

(a) AAA/Aaa/AAA, if the Auction Bonds shall have a rating of AAA or better by S&P, a rating of Aaa or better by Moody's, and a rating of AAA or better by Fitch,

(b) if not AAA/Aaa/AAA, then AA/Aa/AA if the Auction Bonds shall have a rating of AA- or better by S&P, a rating of Aa3 or better by Moody's, and a rating of AA- or better by Fitch,

(c) if not AAA/Aaa/AAA or AA/Aa/AA, then A/A/A if the Auction Bonds shall have a rating of A- or better by S&P, a rating of A3 or better by Moody's, and a rating of A- or better by Fitch,

(d) if not AAA/Aaa/AAA, AA/Aa/AA or A/A/A, then BBB/Baa/BBB if the Auction Bonds shall have a rating of BBB- or better by S&P, a rating of Baa3 or better by Moody's, and a rating of BBB- or better by Fitch, and

(e) if not AAA/Aaa/AAA, AA/Aa/AA, A/A/A or BBB/Baa/BBB, then Below BBB/Baa/BBB, whether or not the Auction Bonds are rated by any securities rating agency.

For purposes of this paragraph, S&P's rating categories of "AAA", "AA-", "A-" and "BBB-", Moody's rating categories of "Aaa", "Aa3", "A3" and "Baa3," and Fitch's rating categories of "AAA", "AA-", "A" and "BBB-" shall be deemed to refer to and include the respective rating categories correlative thereto in the event that either or both of such rating agencies shall have changed or modified their generic rating categories or if any successor thereto appointed in accordance with the definitions shall use different rating categories.

"Rate Determination Date" means the date on which the Effective Rate for the Effective Rate Period following each such Rate Determination Date is determined, as described in the "Mode Chart for 2002 Bonds" appearing on page (i) and herein.

"Remarketing Agent" means Lehman Brothers and its successors and assigns, unless another remarketing agent shall be duly appointed in accordance with the Indenture.

"Self Liquidity" means liquidity from the Corporation's own funds pursuant to the 2002 Series A/B Supplemental Indenture. See "Liquidity Facility — Self Liquidity or Other Forms of Liquidity."

"Sell Order" means the information submitted by an Existing Owner to a Broker-Dealer as to the principal amount of Outstanding Auction Bonds, if any, held by such Existing Owner which such Existing Owner offers to sell without regard to the rate determined by the Auction Procedures for the next succeeding Auction Period.

"Semiannual Auction Mode Period" means the period of time during which Auction Bonds bear interest for an Auction Period of six (6) months.

"Seven Day Auction Mode Period" means the period of time during which Auction Bonds bear interest for an Auction Period of seven (7) days.

"Seven-Day LIBOR" means the rate of interest per annum equal to the rate per annum at which United States dollar deposits having a maturity of seven days are offered to prime banks in the London interbank market which appear on the Telerate Service LIBOR Page as of approximately 11:00 A.M. London time, on the second Business Day immediately preceding the Effective Rate Date. If at least two such quotations appear, Seven-Day LIBOR will be determined at approximately 11:00 A.M., London time, on such calculation date on the basis of the rate at which deposits in United States dollars having a maturity of seven days are offered to prime banks

in the London interbank market by four major banks in the London interbank market selected by the Remarketing Agent and in a principal amount of not less than U.S. \$1,000,000 and that is representative for a single transaction in such market at such time. The Remarketing Agent will request the principal London office of each of such banks to provide a quotation of its rate. If at least two quotations are provided, Seven-Day LIBOR will be the arithmetic mean (rounded upwards, if necessary, to the nearest one-hundredth of one percent) of the rates quoted at approximately 11:00 A.M., New York City time on the second Business Day immediately preceding the Effective Rate Date by three major banks in New York, New York selected by the Remarketing Agent for loans in United States dollars to leading European banks having a maturity of seven days and in a principal amount equal to an amount of not less the U.S. \$1,000,000 and that is representative for a single transaction in such market at such time; provided, however, that if the banks selected as aforesaid are not quoting as mentioned in this sentence, Seven-Day LIBOR will be Seven-Day LIBOR in effect for the immediately preceding Weekly Mode Period.

"Submission Deadline" means 1:00 P.M. New York City time on each Auction Date or such other time on such date as shall be specified from time to time by the Auction Agent as the time by which Brokers-Dealers are required to submit Orders to the Auction Agent.

"Submitted Bid" means a Bid submitted to the Auction Agent by the Broker-Dealer.

"Submitted Hold Order" means a Hold Order submitted to the Auction Agent by the Broker-Dealer.

"Submitted Order" means an Order submitted to the Auction Agent by the Broker-Dealer.

"Submitted Sell Order" means a Sell Order submitted to the Auction Agent by the Broker-Dealer.

"Sufficient Clearing Bids" with respect to any Auction, the condition in which the aggregate principal amount of Auction Bonds that are the subject of Submitted Bids by Potential Owners specifying one or more rates not higher than the Maximum Rate is not less than the sum of (i) the aggregate principal amount of Auction Bonds that are the subject of Submitted Bids by Existing Owners specifying rates higher than the Maximum Rate, and (ii) the aggregate principal amount of Auction Bonds that are the subject of Submitted Sell Orders.

"TBMA Index" means the rate determined on the basis of an index based upon the weekly interest rate resets of tax-exempt variable rate issues included in a database maintained by Municipal Market Data which meet specific criteria established by The Bond Market Association, formerly the Public Securities Association.

"Tender Agent" means U.S. Bank, N.A., organized and existing under the laws of the United States of America, and its successors and assigns.

"Thirty-Five Day Auction Mode Period" means the period of time during which Auction Bonds bear interest for an Auction Period of thirty-five (35) days.

"Twenty-Eight Day Auction Mode Period" means the period of time during which Auction Bonds bear interest for an Auction Period of twenty-eight (28) days.

"Variable Rate Taxable Bonds" means the 2002 Series B Bonds prior to their Conversion.

"Variable Rate Tax-Exempt Bonds" means the 2002 Series A Bonds prior to their Conversion.

"Winning Bid Rate" means the lowest rate specified in any Submitted Bid which if selected by the Auction Agent as the Auction Rate would cause the aggregate principal amount of the Auction Bonds that are the subject of Submitted Bids specifying a rate not greater than such rate to be not less than the aggregate principal amount of Available Auction Bonds.

CERTAIN INFORMATION RELATING TO THE BANK

The following information has been provided by Dexia Credit Local, acting through its New York Agency (“Dexia”) for use in this Official Statement. Neither the Corporation nor the Underwriter has undertaken any independent investigation of the operations of Dexia and no representation is made herein as to the accuracy or adequacy of such information.

Dexia is a subsidiary of the Dexia Group, which was created in 1996. The Dexia Group is a major European banking organization that is the product of several cross-border mergers. Dexia is an authentically European bank in terms of both its management organization and the scope of its different lines of business. The Dexia Group is listed on the Brussels, Paris and Luxembourg stock exchanges. With a stock market capitalization of more than 17 billion euros as of March 14, 2001, the Dexia Group ranks in the top third of the Euronext 100 companies.

Dexia specializes in the Dexia Group’s first line of business-public and project finance and financial services for the public sector. Worldwide, Dexia federates group entities involved in this business and spearheads their development. Dexia has recognized expertise in local sector financing and project finance. It is backed by a network of specialized banks, which employ 2,500 professionals.

Through this network of subsidiaries, affiliates and branches, Dexia is present in almost all of the countries of the European Union. It is progressively expanding its activities to Asia Pacific, South America and the Caribbean, and countries around the Mediterranean. Dexia, known as Dexia Public Finance Bank until March 8, 2001, is a bank with its principal office located in Paris, France. In issuing the Dexia Standby Agreement for the 2002 Bonds, Dexia will act through its New York Agency, which is licensed by the Banking Department of the State of New York as an unincorporated agency of Dexia Credit Local, Paris. Dexia is the leading local authority lender in Europe, funding its lending activities in 2001 primarily through the issuance of euro and U.S. dollar-denominated bonds. In 2001, total funding raised by Dexia and Dexia Municipal Agency was 12.4 billion euros.

The acquisition by the Dexia Group of Financial Security Assurance Holdings Ltd. (“FSA Holdings”), the holding company for the Insurer was completed on July 5, 2000. As of December 31, 2001, Dexia had total consolidated assets of 155.5 billion euros, outstanding medium and long term loans to customers of 129 billion euros and shareholders’ equity of nearly 3.3 billion euros (Tier I plus Tier II), and for the year then ended had consolidated net income of 644 million euros. These figures were determined in accordance with generally accepted accounting principles in France. Dexia maintains its records and prepares its financial statements in euros. At December 31, 2001, the exchange rate was 1.0000 euro equals 0.8813 United States dollar. Such exchange rate fluctuates from time to time. Dexia is rated Aa2 long-term and P-1 short-term by Moody’s, AA long-term and A-1+ short-term by S&P, and AA+ long-term and F1+ short-term by Fitch.

Dexia will provide without charge a copy of its most recent publicly available annual report. Written requests should be directed to: Dexia Credit Local, New York Agency, 445 Park Avenue, 8th Floor, New York, New York 10022, Attention: General Manager. The delivery of this information shall not create any implication that the information contained or referred to herein is correct as of any time subsequent to its date.

**FORM OF FINANCIAL SECURITY
ASSURANCE INC. BOND INSURANCE POLICY**



**FINANCIAL
SECURITY
ASSURANCE®**

**MUNICIPAL BOND
INSURANCE POLICY**

ISSUER:

BONDS:

Policy No.: -N

Effective Date:

Premium:

FINANCIAL SECURITY ASSURANCE INC. ("Financial Security"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of Financial Security, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which Financial Security shall have received Notice of Nonpayment, Financial Security will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by Financial Security, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in Financial Security. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 pm (New York time) on such Business Day; otherwise it will be deemed received on the next Business Day. If any Notice of Nonpayment received by Financial Security is incomplete, it shall be deemed not to have been received by Financial Security for purposes of the preceding sentence and Financial Security shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, Financial Security shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by Financial Security hereunder. Payment by Financial Security to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of Financial Security under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless Financial Security shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the

United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to Financial Security which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

Financial Security may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to Financial Security pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to Financial Security and shall not be deemed received until received by both and (b) all payments required to be made by Financial Security under this Policy may be made directly by Financial Security or by the Insurer's Fiscal Agent on behalf of Financial Security. The Insurer's Fiscal Agent is the agent of Financial Security only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of Financial Security to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, Financial Security agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud, whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to Financial Security to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of Financial Security, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, FINANCIAL SECURITY ASSURANCE INC. has caused this Policy to be executed on its behalf by its Authorized Officer.

[Countersignature]

FINANCIAL SECURITY ASSURANCE INC.

By _____

By _____
Authorized Officer

A subsidiary of Financial Security Assurance Holdings Ltd.
350 Park Avenue, New York, N.Y. 10022-6022

(212) 826-0100

Form 500NY (5/90)



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