

**NEW ISSUES - BOOK ENTRY ONLY**

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



**\$239,370,000**  
**ALASKA HOUSING FINANCE CORPORATION**  
**Home Mortgage Revenue Bonds**

**\$75,000,000 2007 Series A (Variable Rate)**                      **\$75,000,000 2007 Series B (Variable Rate)**  
**\$89,370,000 2007 Series D (Variable Rate)**

<i>Dated</i>	Date of delivery.	
<i>Due</i>	\$75,000,000 2007 Series A Term Bonds due December 1, 2041	CUSIP: 01170PBW5
	\$75,000,000 2007 Series B Term Bonds due December 1, 2041	CUSIP: 01170PBV7
	\$89,370,000 2007 Series D Term Bonds due December 1, 2041	CUSIP: 01170PBX3
<i>Price</i>	100%.	
<i>Tax Exemption</i>	In the opinion of Bond Counsel and 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 2007 Series A, 2007 Series B and 2007 Series D Bonds described above (collectively, the "Offered Bonds") is excluded from gross income for Federal income tax purposes; and (ii) interest on the Offered Bonds is not treated as a preference item to be included in calculating the alternative minimum tax imposed under the Code on individuals and corporations, but such interest is included in calculating the "adjusted current earnings" of certain corporations for purposes of computing the alternative minimum tax. In the opinion of Bond Counsel, under existing laws, interest on the Offered 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. Bond Counsel and Special Tax Counsel express no opinion regarding any other tax consequences relating to the ownership or disposition of, or the accrual or receipt of interest on, the Offered Bonds. See "Tax Matters."	
<i>Redemption</i>	The Offered Bonds are subject to redemption prior to maturity at 100% of their principal amount under the circumstances described herein. See "The Offered Bonds — Redemption Provisions."	
<i>Variable Rate;</i>	The Offered Bonds will initially bear interest at a Weekly Rate as described under "The Offered Bonds — General" and "The Offered Bonds — Description of the Offered Bonds." <b>THIS OFFICIAL STATEMENT IS NOT INTENDED TO DESCRIBE OFFERED BONDS THAT ARE NOT IN A WEEKLY MODE.</b> The Offered Bonds in a Weekly Mode are subject to optional and mandatory tender for purchase as described under "The Offered Bonds — Description of the Offered Bonds." The Offered Bonds subject to optional or mandatory tender for purchase and not remarketed by the applicable Remarketing Agent will be purchased, subject to certain conditions precedent, by Landesbank Baden-Württemberg, acting through its New York Branch ("LBBW"), pursuant to the terms of an Initial Liquidity Facility among the Corporation, LBBW, and the Tender Agent. The Initial Liquidity Facility will expire on May 30, 2017, unless extended or terminated pursuant to its terms. <b>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 OFFERED BONDS.</b> See "Liquidity Facility — Initial Liquidity Facility."	
<i>Tender;</i>		
<i>Initial Liquidity Facility</i>		
<i>Security</i>	<b>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 Corporation's 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 OF ANY POLITICAL SUBDIVISION THEREOF OR A PLEDGE OF THE FAITH AND CREDIT OR TAXING POWER OF THE STATE OF ALASKA OR OF ANY POLITICAL SUBDIVISION THEREOF. THE BONDS ARE GENERAL OBLIGATIONS OF THE CORPORATION AND ARE NOT INSURED OR GUARANTEED BY ANY OTHER GOVERNMENTAL AGENCY.</b>	
<i>Interest Payment Dates</i>	December 1, 2007, and thereafter on each June 1 and December 1.	
<i>Denominations</i>	\$100,000 or any integral multiple of \$5,000 in excess thereof.	
<i>Closing Date</i>	May 31, 2007.	
<i>Bond Counsel</i>	Birch, Horton, Bittner and Cherot.	
<i>Special Tax Counsel</i>	Kutak Rock LLP.	
<i>Underwriters' Counsel</i>	Hawkins Delafield & Wood LLP.	
<i>Remarketing Agents</i>	2007 Series A: Citigroup Global Markets Inc.	2007 Series B: Goldman, Sachs & Co. 2007 Series D: Merrill Lynch & Co.
<i>Trustee</i>	U.S. Bank National Association.	
<i>Financial Advisor</i>	First Southwest Company.	
<i>Book-Entry System</i>	The Depository Trust Company. See "The Offered Bonds — Book Entry Only."	

The Offered 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 Bond Counsel, and to the confirmation of certain tax matters by Bond Counsel and Special Tax Counsel, and to certain other conditions.

Citi<sup>†</sup>

Goldman, Sachs & Co.<sup>††</sup>

Merrill Lynch & Co.<sup>†††</sup>

May 23, 2007

† Sole underwriter with respect to the 2007 Series A Bonds.

†† Sole underwriter with respect to the 2007 Series B Bonds.

††† Sole underwriter with respect to the 2007 Series D Bonds.

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No dealer, broker, salesman or other person has been authorized by the Corporation or the Underwriters 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 Offered 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 Underwriters. 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 Offered 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 Offered Bonds, the Underwriters may over allot or effect transactions which stabilize or maintain the market price of the Offered Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

## TABLE OF CONTENTS

	Page		Page
INTRODUCTION.....	1	Investment Agreements (Section 514).....	62
SOURCES OF PAYMENT AND SECURITY FOR THE BONDS.....	4	No Limitation on Additional Collateral Contributions (Section 516).....	62
General.....	4	Payment of Bonds (Section 701).....	62
Program Obligations.....	5	Power to Issue Bonds and Pledge Revenues and Other Property; Hedging Instruments (Section 705).....	62
Debt Service Reserve Account.....	6	Tax Covenants (Section 706).....	63
Loan Loss Fund.....	7	Accounts and Reports (Section 707).....	63
Special Reserve Account.....	8	Sale of Program Obligations (Section 709).....	64
Bond Coverage Certificates.....	8	Supplemental Indentures (Sections 801, 802, 803 and 902).....	64
Additional Bonds.....	8	Events of Default (Section 1002).....	66
LIQUIDITY FACILITY.....	9	Remedies (Section 1003).....	66
Initial Liquidity Facility.....	9	Priority of Payments after Default (Section 1004).....	66
Alternate Liquidity Facility.....	15	Bondholders' Direction of Proceedings (Section 1006).....	67
Self Liquidity or Other Forms of Liquidity.....	15	Limitation on Rights of Bondholders (Section 1007).....	68
ESTIMATED SOURCES AND USES OF FUNDS.....	16	Trustee (Sections 1104, 1107 and 1108).....	68
THE OFFERED BONDS.....	16	Defeasance (Section 1201).....	69
General.....	16	Liquidity Providers (Section 1203).....	69
Redemption Provisions.....	17	Legal Holidays (Section 1207).....	70
Description of the Offered Bonds.....	20	Governing Law (Section 1208).....	70
Special Considerations Relating to the Offered Bonds.....	23	TAX MATTERS.....	70
Book Entry Only.....	24	Opinions of Bond Counsel and Special Tax Counsel.....	70
ASSUMPTIONS REGARDING REVENUES, DEBT SERVICE REQUIREMENTS AND PROGRAM EXPENSES.....	27	General.....	70
PROGRAM OBLIGATIONS.....	29	Certain Requirements Imposed by the Code.....	71
Mortgage Loans.....	29	Compliance.....	71
Mortgage Servicing.....	32	Backup Withholding.....	72
Pledge of Mortgage Loans.....	33	Certain Additional Tax Consequences.....	72
Primary Mortgage Insurance.....	33	RATINGS.....	73
Standard Homeowner Insurance Policies.....	34	FINANCIAL STATEMENTS.....	73
Alaska Foreclosure Law.....	35	INDEPENDENT AUDITORS.....	73
THE CORPORATION.....	36	LITIGATION.....	73
Certain Definitions.....	36	LEGAL MATTERS.....	74
General.....	36	STATE NOT LIABLE ON BONDS.....	74
Board of Directors, Staff and Organization.....	37	LEGALITY FOR INVESTMENT.....	74
Activities of the Corporation.....	39	UNDERWRITING.....	74
Financial Results of Operations.....	44	FINANCIAL ADVISOR.....	75
Legislative Activity/Transfers to the State.....	44	FORWARD-LOOKING STATEMENTS.....	75
Litigation.....	47	ADDITIONAL INFORMATION.....	76
SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE.....	47	APPENDIX A — FINANCIAL STATEMENTS OF THE CORPORATION.....	A-1
Certain Definitions (Section 102).....	47	APPENDIX B — FORM OF OPINIONS OF BOND COUNSEL.....	B-1
Indenture to Constitute a Contract (Section 203).....	54	APPENDIX C — FORM OF OPINIONS OF SPECIAL TAX COUNSEL.....	C-1
Issuance of Additional Bonds (Sections 205, 206 and 207).....	55	APPENDIX D — CERTAIN DEFINITIONS WITH RESPECT TO THE OFFERED BONDS.....	D-1
Funds and Accounts (Section 501).....	56	APPENDIX E — CERTAIN INFORMATION RELATING TO THE BANK.....	E-1
Program Obligation Fund (Section 502).....	56		
Revenue Fund (Section 503).....	57		
Redemption Fund (Section 504).....	58		
Rebate Fund (Section 505).....	60		
Bond Purchase Fund (Section 506).....	60		
Loan Loss Fund (Section 507).....	60		
Investments (Sections 513 and 515).....	61		

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**OFFICIAL STATEMENT  
OF  
ALASKA HOUSING FINANCE CORPORATION  
Relating to  
\$239,370,000 Home Mortgage Revenue Bonds  
\$75,000,000 2007 Series A (Variable Rate)  
\$75,000,000 2007 Series B (Variable Rate)  
\$89,370,000 2007 Series D (Variable Rate)**

**INTRODUCTION**

This Official Statement (including the cover page, inside cover page and appendices) sets forth information in connection with the Corporation's Home Mortgage Revenue Bonds, 2007 Series A (the "2007 Series A Bonds"), 2007 Series B (the "2007 Series B Bonds") and 2007 Series D (the "2007 Series D Bonds"; together with the 2007 Series A Bonds and the 2007 Series B Bonds, the "Offered Bonds"). The Offered 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, as amended and supplemented (the "General Indenture"), by and between the Corporation and U.S. Bank National Association, as trustee (the "Trustee"), and a 2007 Series A Supplemental Indenture, a 2007 Series B Supplemental Indenture and a 2007 Series D Supplemental Indenture (respectively, the "2007 Series A Supplemental Indenture", the "2007 Series B Supplemental Indenture" and the "2007 Series D Supplemental Indenture"; collectively, the "2007 Series A, B and D Supplemental Indenture"), each dated as of May 1, 2007, and each 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 2007 Series A, B and D Supplemental Indenture) are referred to collectively as the "Indenture." The Bonds issued under the Indenture prior to the issuance of the Offered Bonds are referred to collectively as the "Prior Series Bonds." FOR CERTAIN DEFINITIONS USED IN THIS OFFICIAL STATEMENT, SEE "THE CORPORATION — CERTAIN DEFINITIONS," "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE — CERTAIN DEFINITIONS" AND APPENDIX D — CERTAIN DEFINITIONS WITH RESPECT TO THE OFFERED BONDS." Capitalized terms used and not otherwise defined herein have the respective meanings ascribed thereto in the Indenture. All references to days in this Official Statement will mean calendar days *unless* stated otherwise. All references to times in this Official Statement, unless indicated otherwise, shall be to Eastern Time.

The 2007 Series A Bonds, 2007 Series B Bonds and 2007 Series D Bonds are the seventh, eighth and ninth Series of Bonds, respectively, issued under the Indenture. As of April 30, 2007, the Corporation had issued Prior Series Bonds in the aggregate principal amount of \$538,045,000, and as of such date there were Prior Series Bonds Outstanding in the aggregate principal amount of \$506,020,000. 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 2007 Series A Bonds, 2007 Series B Bonds and 2007 Series D Bonds will be secured on a parity with each other, with the Prior Series Bonds and with any Additional Bonds.

On March 23, 2006, the Corporation issued its \$75,000,000 Home Mortgage Revenue Bonds, 2006 Series B (the “2006 Series B Bonds”). The 2006 Series B Bonds and the 2007 Series A Bonds will constitute a composite issue (the “2006B/2007A Composite Issue”) for Federal tax purposes. However, the respective proceeds of the 2006 Series B Bonds and the 2007 Series A Bonds will not be blended in financing Mortgage Loans, nor will amounts related to 2006 Series B Bonds be required to be used to redeem 2007 Series A Bonds, or vice versa, *except* as may be required by the Code.

On June 20, 2006, the Corporation issued its \$75,000,000 Home Mortgage Revenue Bonds, 2006 Series C (the “2006 Series C Bonds”). The 2006 Series C Bonds and the 2007 Series B Bonds will constitute a composite issue (the “2006C/2007B Composite Issue”) for Federal tax purposes. However, the respective proceeds of the 2006 Series C Bonds and the 2007 Series B Bonds will not be blended in financing Mortgage Loans, nor will amounts related to 2006 Series C Bonds be required to be used to redeem 2007 Series B Bonds, or vice versa, *except* as may be required by the Code.

On February 14, 2007, the Corporation issued its \$89,370,000 Home Mortgage Revenue Bonds, 2007 Series C (the “2007 Series C Bonds”). The 2007 Series C Bonds and the 2007 Series D Bonds will constitute a composite issue (the “2007C/2007D Composite Issue”; together with the 2006B/2007A Composite Issue and the 2006C/2007B Composite Issue, the “Composite Issues”) for Federal tax purposes. However, the respective proceeds of the 2007 Series C Bonds and the 2007 Series D Bonds will not be blended in financing Mortgage Loans, nor will amounts related to 2007 Series C Bonds be required to be used to redeem 2007 Series D Bonds, or vice versa, *except* as may be required by the Code.

Citigroup Global Markets Inc. (“Citi”) will act as sole underwriter with respect to the 2007 Series A Bonds. Goldman, Sachs & Co. (“Goldman Sachs”) will act as sole underwriter with respect to the 2007 Series B Bonds. Merrill Lynch, Pierce, Fenner & Smith Incorporated (“Merrill Lynch”) will act as sole underwriter with respect to the 2007 Series D Bonds. Citi, Goldman Sachs and Merrill Lynch acting in such capacity are referred to herein collectively as the “Underwriters.”

Proceeds of the Offered Bonds will be used, within 90 days of the date of issuance of the Offered Bonds, to refund the balance of the Corporation’s General Mortgage Revenue Bonds, 1997 Series A (the “97 GMRB Bonds”) and other obligations of the Corporation. In connection therewith, mortgage loans currently pledged to the 97 GMRB Bonds and certain other mortgage loans (the “Transferred Mortgage Loans”) will be transferred to and become subject to the lien and pledge of the Indenture. For a description as of April 30, 2007 of the Transferred Mortgage Loans, see “Program Obligations — Mortgage Loans — Transferred Mortgage Loans.” The Corporation expects to transfer substantially all of the Transferred Mortgage Loans to the Indenture. However, the aggregate principal balance of such loans transferred to the Indenture will be reduced by principal prepayments and scheduled principal repayments received prior to such transfer.

The Offered Bonds will initially be issued in a Weekly Mode. The Corporation may elect to cause Offered Bonds to bear interest in another Mode or to Convert to Bonds bearing interest at Fixed Rates or an Indexed Rate. In each such case and under other circumstances, Offered Bonds will be subject to mandatory tender for purchase. See “The Offered Bonds — Description of the Offered Bonds — Mandatory Tender.” **THIS OFFICIAL STATEMENT IS NOT**

**INTENDED TO DESCRIBE OFFERED BONDS THAT ARE NOT IN A WEEKLY MODE.** While in a Weekly Mode, Offered Bonds also are subject to tender by the Holders thereof under the circumstances set forth in the 2007 Series A, B and D Supplemental Indenture.

Citi initially will act as sole Remarketing Agent with respect to the 2007 Series A Bonds. Goldman Sachs initially will act as sole Remarketing Agent with respect to the 2007 Series B Bonds. Merrill Lynch initially will act as sole Remarketing Agent with respect to the 2007 Series D 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.

There will be a Liquidity Facility provided in connection with the issuance of each Series of the Offered Bonds, pursuant to a Standby Bond Purchase Agreement dated as of May 1, 2007 (collectively, the "Initial Liquidity Facility"), by and among Landesbank Baden-Württemberg, acting through its New York Branch ("LBBW"), the Corporation, and U.S. Bank National Association 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 Offered Bonds of a Series in a Weekly Mode that cannot be remarketed as provided in the 2007 Series A, B and D 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."

The Corporation has entered into interest rate swap agreements relating to the Offered Bonds (the "Swap Agreements") with Goldman Sachs Mitsui Marine Derivative Products, L.P., an affiliate of Goldman Sachs, and Bear Stearns Financial Products Inc. (the "Counterparties"). The purpose of the Swap Agreements is to place the aggregate net obligation of the Corporation with respect to the portion of the Program financed by the Offered Bonds on an approximately fixed-rate basis. Payments made to the Corporation under the Swap Agreements will constitute Pledged Revenues and will be deposited in the Revenue Fund on receipt. Regularly scheduled payments due under the Swap Agreements to the Counterparties will be paid from Pledged Revenues pledged under the Indenture in the same order of priority as payments of interest on the Bonds. Payments due under the Swap Agreements to the Counterparties in respect of an Early Termination Date (as defined in the Swap Agreements) will be withdrawn free and clear of the lien of the Indenture (to the extent available thereunder and in accordance with the requirements therefor) as described in clause (iv) of paragraph Fifth under "Summary of Certain Provisions of the Indenture — Redemption Fund" for payment to the Counterparties. Any payments due under the Swap Agreements to the Counterparties in excess of amounts available therefor under the Indenture will be a general obligation of the Corporation.

The Corporation from its general unrestricted funds will make a deposit to the Debt Service Reserve Account and pay costs of issuance. 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 — Debt Service Reserve Account" and " — Loan Loss Fund" 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 Offered Bonds are referred to as the “2007 Series A/B/D Mortgage Loans.” The Corporation currently expects that the 2007 Series A/B/D Mortgage Loans will consist of the Transferred Mortgage Loans. See “Sources of Payment and Security for the Bonds — Program Obligations — Transferred Mortgage Loans.”

The summaries herein of the Offered 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 Prior Series Bonds and the Offered 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**

For a description as of April 30, 2007 of the Mortgage Loans financed with proceeds of Prior Series Bonds (the “Prior Series Mortgage Loans”), see “Program Obligations — Mortgage Loans — Prior Series Mortgage Loans.” As of April 30, 2007, approximately \$41.54 million of lendable proceeds of the Prior Series Bonds remained unexpended.

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 Prior Series Mortgage Loans consist of, and 2007 Series A/B/D 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 Offered 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 each Series of the Offered Bonds is an amount equal to 2% of the sum of (a) the outstanding principal balance of related 2007 Series A/B/D Mortgage Loans and (b) all other amounts on deposit in the related Series Account 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 at noon 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, or to reimburse the payment of, Debt Service Payments on such Debt Service Payment Date, any deficiency in each such Account shall 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 and the Special Reserve Account.

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 a 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 a 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. As of April 30, 2007, the aggregate amount of investments on deposit in the Debt Service Reserve Account was approximately \$10.06 million, which amount was at least equal to the Debt Service Reserve Requirement on such date. 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 Offered 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 Prior Series Bonds Supplemental Indentures and the 2007 Series A, B and D Supplemental Indenture establish Loan Loss Coverage with respect to the Prior Series Bonds and the Offered Bonds, respectively, 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 Requirements with respect to the Prior Series Bonds and the Offered Bonds are percentages of the Prior Series Mortgage Loans and the 2007 Series A/B/D Mortgage Loans, respectively, that are not covered by a mortgage pool insurance policy and that do not underlie Mortgage Certificates. (No Prior Series Mortgage Loans are, and it is expected that no more than an insubstantial portion of the 2007 Series A/B/D Mortgage Loans, if any, will be, covered by a mortgage pool insurance policy or underlie Mortgage Certificates.) Such percentages are determined by the nature of the assets on deposit in the Loan Loss Fund and are based upon criteria established by the Rating Agencies, including criteria related to mortgage loan credit risk. The Prior Series Bonds Supplemental Indentures and the 2007 Series A, B and D Supplemental Indenture each provide that the Corporation may revise the respective Series Loan Loss Requirement in any fashion upon confirmation from the Rating Agencies that such revision, in and of itself, will not adversely affect the then current Unenhanced Ratings assigned to the Bonds.

As of April 30, 2007, amounts on deposit in the Loan Loss Fund consisted of investments with a value of approximately \$2.30 million and of Mortgage Loans with an aggregate principal balance of approximately \$23.77 million, which amounts were in the aggregate at least equal to the Loan Loss Requirement as of such date. 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 Offered 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 Debt Service payments on such Debt Service Payment Date, any deficiency will be 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. 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 Subaccount of the General 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 Prior Series Bonds Supplemental Indentures created a Special Reserve Account within the Revenue Fund, into which the Corporation may deposit moneys from time to time. The Prior Series Bonds Supplemental Indentures permit 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 Debt Service payments on such Debt Service Payment Date, any deficiency will be 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 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 Offered Bonds) will not be reduced as a result of the issuance of such Additional Bonds. The Offered 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

Offered 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.

## **LIQUIDITY FACILITY**

### **Initial Liquidity Facility**

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 LBBW, the obligor under the Initial Liquidity Facility, see Appendix E — “Certain Information Relating to the Bank.” See also “Summary of Certain Provisions of the Indenture” and Appendix D — “Certain Definitions with Respect to the Offered Bonds.”

UNDER CERTAIN CIRCUMSTANCES DESCRIBED BELOW, THE OBLIGATION OF LBBW TO PURCHASE OFFERED BONDS TENDERED BY THE OWNERS THEREOF OR SUBJECT TO MANDATORY TENDER MAY BE TERMINATED OR SUSPENDED WITHOUT A PURCHASE BY LBBW. IN SUCH EVENT, SUFFICIENT FUNDS MAY NOT BE AVAILABLE TO PURCHASE OFFERED 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 OFFERED BONDS. THE INITIAL LIQUIDITY FACILITY PROVIDES FOR THE PURCHASE OF OFFERED BONDS ONLY.

### ***Certain Definitions***

“Debt” means with respect to any Person, all items that would be classified as a liability in accordance with generally accepted accounting principles, including, without limitation, (a) indebtedness or liability for borrowed money, or for the deferred purchase price of property or services; (b) obligations as lessee under leases which should have been, or should be, recorded as capital leases in accordance with generally accepted accounting principles; (c) current liabilities in respect of unfunded benefits under employee benefit, retirement or pension plans; (d) all obligations arising under acceptance facilities; (e) all guarantees, endorsements (other than for collection or deposit in the ordinary course of business) and other contingent obligations to purchase, to provide funds for payment, to supply funds to invest in any other Person or otherwise to assure a creditor against loss; (f) obligations secured by any mortgage, lien, pledge, security interest or other charge or encumbrance on property, whether or not the obligations have been assumed; and (g) obligations of such Person due and payable under Interest Rate Protection Agreements; *provided that* in no event shall “Debt” include obligations issued for the account of any other Person where such obligations are credit obligations of such other Person and not the credit obligations of the issuer of such Debt (sometimes known as conduit debt).

“Debtor Relief Laws” means the Bankruptcy Code of the United States, and all other liquidation, conservatorship, bankruptcy, assignment for the benefit of creditors, moratorium, rearrangement, receivership, insolvency, reorganization, or similar debtor relief Laws of the United States or other applicable jurisdictions from time to time in effect and affecting the rights of creditors generally.

“Default” means any occurrence, circumstance or event, or any combination thereof, which, with the lapse of time and/or giving of notice, would constitute a Liquidity Facility Event of Default.

“Default Tender” means a mandatory tender of the Offered Bonds as a result of LBBW’s delivery of a Notice of Termination Date to the Tender Agent.

“Expiration Date” means the later of (a) 5:00 p.m. Eastern United States time on May 30, 2017 and (b) 5:00 p.m. Eastern United States time on the last day of any extension of such date agreed to by LBBW in writing in response to a written request of the Corporation in the form set forth therefor in the Initial Liquidity Facility or, if such last day is not a Business Day, the Business Day next preceding such day.

“Governmental Agency” means any nation or government, any state or other political subdivision thereof, any agency, authority, instrumentality, regulatory body, court, administrative tribunal, central bank or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative powers or functions of or pertaining to government.

“Interest Rate Protection Agreement” means an interest rate swap, cap or collar agreement or similar arrangement between any Person and a financial institution providing for the transfer or mitigation of interest rate risks either generally or under specific contingencies.

“Investment Grade” means a rating of “Baa3” (or its equivalent) or better by Moody’s, “BBB-” (or its equivalent) or better by Fitch and a rating of “BBB-” (or its equivalent) or better by S&P.

“Laws” means, collectively, all international, foreign, Federal, state and local statutes, treaties, rules, guidelines, regulations, ordinances, codes and administrative or judicial precedents or authorities, including the interpretation or administration thereof by any Governmental Agency charged with the enforcement, interpretation or administration thereof, and all applicable administrative orders, directed duties, requests, licenses, authorizations and permits of, and agreements with, any Governmental Agency, in each case whether or not having the force of law.

“Lien” means any mortgage, pledge, hypothecation, assignment, deposit arrangement, encumbrance, lien (statutory or other), charge, or preference, priority or other security interest or preferential arrangement of any kind or nature whatsoever (including any conditional sale or other title retention agreement, and any financing lease having substantially the same economic effect as any of the foregoing).

“Liquidity Provider Bonds” means each Offered Bond purchased with funds provided under the Initial Liquidity Facility by LBBW, until remarketed or deemed to be remarketed in accordance with the Initial Liquidity Facility.

“Person” means any natural person, corporation, limited liability company, trust, joint venture, association, company, partnership, Governmental Agency or other entity.

“Related Documents” means the Initial Liquidity Facility, the Offered Bonds, the Liquidity Provider Bond Custody Agreement, the General Indenture, the 2007 Series A, B and D Supplemental Indenture and any Remarketing Agreement.

### ***General***

The following description is a summary of certain provisions of the Initial Liquidity Facility. Such summary does not purport to be a complete description or restatement of the material provisions of the Initial Liquidity Facility. Investors should obtain and review a copy of the Initial Liquidity Facility in order to understand all of its terms.

The Initial Liquidity Facility provides that LBBW shall purchase those Offered Bonds tendered or deemed tendered from time to time pursuant to an optional or mandatory tender by owners thereof in accordance with the terms of the Indenture, in each case, to the extent such Offered Bonds are not remarketed by the Remarketing Agent. The Initial Liquidity Facility will expire on May 30, 2017, unless extended or terminated pursuant to its terms.

Under certain circumstances described below, the obligation of LBBW to purchase Offered Bonds tendered or deemed tendered by the owners thereof pursuant to an optional or mandatory tender may be suspended or terminated. In such event, sufficient funds may not be available to purchase Offered Bonds tendered or deemed tendered by the owners thereof pursuant to an optional or mandatory tender. In addition, the Initial Liquidity Facility does not provide security for the payment of principal of or interest or premium, if any, on the Offered Bonds.

### ***Purchase of Tendered Offered Bonds by LBBW***

LBBW will purchase from time to time during the period prior to the expiration or earlier termination of the Initial Liquidity Facility, Variable Rate Bonds which are not Liquidity Provider Bonds or Offered Bonds owned by or held on behalf of, for the benefit of or for the account of, the Corporation or any Affiliate of the Corporation, tendered or deemed tendered from time to time during the period from and including May 31, 2007, to and including May 30, 2017 (unless earlier terminated pursuant to the terms of the Initial Liquidity Facility) pursuant to an optional or mandatory tender by owners thereof in accordance with the terms and provisions of the Indenture, in each case, to the extent such Offered Bonds are not remarketed in accordance with the terms and provisions of the Remarketing Agreement. The price to be paid by LBBW for Offered Bonds will be equal to the aggregate principal amount of each such Offered Bond, provided that the aggregate principal amount of all Offered Bonds so purchased shall not exceed the Available Principal Commitment (as defined in the Initial Liquidity Facility), plus the lesser of (i) the Available Interest Commitment (as defined in the Initial Liquidity Facility) and (ii) interest accrued thereon to but excluding the date of such purchase.

### ***Liquidity Facility Events of Default***

The occurrence of any of the following events shall constitute a “Liquidity Facility Event of Default”:

(a) any principal of, or interest on, any Offered Bond (including any Liquidity Provider Bond) or any other amount owed to LBBW shall not be paid when due; or

(b) the Corporation shall fail to pay any other amount owing under the Initial Liquidity Facility within five (5) days after the same shall become due; or

(c) any representation or warranty made by or on behalf of the Corporation in the Related Documents or in any certificate or statement delivered thereunder shall be incorrect or untrue in any material respect when made or deemed to have been made; or

(d) the Corporation shall fail to observe or perform any term, covenant or agreement of the Corporation contained (or incorporated by reference) in the Initial Liquidity Facility subject to applicable grace periods; or

(e) (i) the Corporation shall commence any case, proceeding or other action (A) under any existing or future Debtor Relief Laws of any jurisdiction, domestic or foreign, 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 (B) 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 (ii) there shall be commenced against the Corporation any case, proceeding or other action of a nature referred to in clause (i) above which (x) results in an order for such relief or in the appointment of a receiver or similar official or (y) remains undismissed, undischarged or unbonded for a period of sixty (60) days; or (iii) 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 sixty (60) days from the entry thereof; or (iv) 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 (v) the Corporation shall generally not, or shall be unable to, or so admit in writing its inability to, pay its Debts; or

(f) any Event of Default under the Indenture or any “event of default” which is not cured within any applicable cure period under any of the Related Documents shall occur which, if not cured, would give rise to remedies available thereunder; or

(g) (a) any provision of the Initial Liquidity Facility, the Offered Bonds, the General Indenture or the 2007 Series A, B and D Supplemental Indenture, as applicable, related to the payment of principal or interest on Offered Bonds or Liquidity Provider Bonds shall at any time for any reason cease to be valid and binding or fully enforceable on the Corporation as determined by any court or Governmental Agency having appropriate jurisdiction in a final non-appealable judgment; or (b) the validity or enforceability of any provision of the Initial Liquidity Facility, the Offered Bonds, the General Indenture or the 2007 Series A, B and D Supplemental Indenture, as applicable, related to the payment of principal or interest on Offered Bonds or Liquidity Provider Bonds shall be contested by the Corporation, or any governmental agency having appropriate jurisdiction over the Corporation shall make a finding or ruling or shall enact or adopt legislation or issue an executive order or enter a judgment or decree which contests the validity or enforceability of any provision of the Initial Liquidity Facility, the Offered Bonds, the



General Indenture or the 2007 Series A, B and D Supplemental Indenture related to the payment of principal or interest on Offered Bonds or Liquidity Provider Bonds or the Corporation shall deny or repudiate that it has any further liability or obligation under any such document; or (c) any material provision of the Initial Liquidity Facility, the Offered Bonds, the General Indenture or the 2007 Series A, B and D Supplemental Indenture, as applicable, other than a provision described in clause (a) of this subsection (g), shall at any time for any reason cease to be valid and binding on the Corporation, or shall be declared in a final non-appealable judgment by any court having jurisdiction over the Corporation to be null and void, invalid, or unenforceable, or the validity or enforceability thereof shall be publicly contested by the Corporation; or

(h) each of the long-term ratings assigned to any general obligation bonded indebtedness of the Corporation issued under the General Indenture shall fall below Investment Grade or each of Moody's, Fitch and S&P shall withdraw or suspend the rating on any general obligation bonded indebtedness of the Corporation issued under the General Indenture (but excluding any withdrawal or suspension of any such ratings if such rating agency stipulates in writing that the rating action is being taken for non-credit related reasons); or

(i) the Corporation shall (a) fail to pay when due and payable (whether by scheduled maturity, required prepayment, acceleration, demand or otherwise) any general obligation bonded indebtedness or any interest or premium thereon, and such failure shall continue beyond any applicable period of grace specified in any underlying resolution, indenture, contract or instrument providing for the creation of or concerning such indebtedness, or pursuant to the provisions of any such resolution, indenture, contract or instrument, the maturity of any such indebtedness, as a result of the occurrence of a payment default of any nature, may be accelerated, or may be required to be prepaid prior to the stated maturity thereof, or (b) fail to pay when due and payable (whether by scheduled maturity, required prepayment, acceleration, demand or otherwise) any Debt of the Corporation, other than general obligation bonded indebtedness, with an outstanding principal amount of \$1,000,000 or more, and such failure shall continue beyond any applicable period of grace specified in any underlying resolution, indenture, contract or instrument providing for the creation or concerning such Debt, or any other default under any resolution, indenture, contract or instrument providing for the creation of or concerning such Debt, or any other event, shall occur and shall continue after the applicable grace period, if any, specified in such resolution, indenture, contract or instrument, if the effect of such default or event is to accelerate, or to permit the acceleration of, the maturity of such Debt; or pursuant to the provisions of any such resolution, indenture, contract or instrument the maturity of any Debt, other than general obligation bonded indebtedness, in a principal amount in excess of \$1,000,000 shall have been or may be accelerated or shall have been or may be required to be prepaid prior to the stated maturity thereof; or

(j) a final judgment or order for the payment of money in excess of \$10,000,000 shall have been rendered against the Corporation and such judgment or order shall not have been satisfied, stayed or bonded pending appeal within a period of sixty (60) days from the date on which it was first so rendered; or

(k) the Corporation shall impose, or any Governmental Agency having appropriate jurisdiction over the Corporation shall make a finding or ruling or shall enact or adopt legislation or issue an executive order or enter a judgment or a decree which results in, a debt moratorium, debt restructuring, debt adjustment or comparable restriction on the repayment when due and

payable or the principal of or interest on any general obligation bonded indebtedness of the Corporation.

### ***Remedies***

Following the occurrence of the above-described Liquidity Facility Events of Default, LBBW may take any one or more of the following actions, among others. Reference is made to the Initial Liquidity Facility for a complete listing of all consequences of Liquidity Facility Events of Default.

(i) Upon the occurrence of a any Liquidity Facility Event of Default set forth in clause (a), (e), (g)(a), (h), (i)(a), (j) or (k) above (each a “Termination Event”), the Available Commitment (as defined in the Initial Liquidity Facility) and the obligation of LBBW to purchase Offered Bonds shall immediately terminate without notice or demand to any Person, and thereafter LBBW shall be under no obligation to purchase Offered Bonds. Promptly upon such Termination Event, LBBW shall give written notice of the same to the Corporation, the Tender Agent and the Remarketing Agent; provided, that LBBW 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 termination of the Available Commitment and of its obligations to purchase Offered Bonds pursuant to the Initial Liquidity Facility. The Corporation shall cause the Tender Agent to notify all Offered Bondholders of the termination of the Available Commitment and the termination of the obligation of LBBW to purchase the Offered Bonds.

(ii) In the case of the occurrence of any other Liquidity Facility Event of Default (other than any Termination Event), LBBW may give written notice of such Liquidity Facility Event of Default and termination of the Initial Liquidity Facility (a “Notice of Termination Date”) to the Trustee, the Tender Agent, the Corporation, and the Remarketing Agent, requesting a Default Tender. The obligation of LBBW to purchase Offered Bonds shall terminate on the thirtieth (30th) day (or if such day is not a Business Day, the next following Business Day) after such Notice of Termination Date is received by the Corporation and on such date the Available Commitment shall terminate and LBBW shall be under no obligation under the Initial Liquidity Facility to purchase Offered Bonds.

(iii) Upon the occurrence of a Liquidity Facility Event of Default under subsection (g)(b) above, the obligations of LBBW under the Initial Liquidity Facility shall be suspended from the time of the occurrence of such Liquidity Facility Event of Default, and in the event any provision of the Initial Liquidity Facility, the General Indenture or the 2007 Series A, B and D Supplemental Indenture, as applicable, related to the Corporation’s ability to pay principal or interest on the Offered Bonds or Liquidity Provider Bonds is declared to be null and void in a final non-appealable judgment, or it is determined that the Corporation has no liability under the Initial Liquidity Facility, the Offered Bonds, the General Indenture or the 2007 Series A, B and D Supplemental Indenture, in either case by a court or other Governmental Agency or authority with competent jurisdiction, then the obligations of LBBW under the Initial Liquidity Facility will terminate in accordance with subsection (a) above; provided, however, that if such provisions are upheld in their entirety, then LBBW’s obligations under the Initial Liquidity Facility shall be automatically reinstated and the terms of the Initial Liquidity Facility will continue in full force and effect (unless the Initial Liquidity Facility shall have otherwise expired or been terminated in accordance with its terms) as if there had been no such suspension. If the Liquidity Facility Event of Default which gave rise to the suspension of the obligations of

LBBW under the Initial Liquidity Facility has not been cured or does not cease to exist prior to the earlier of (i) the Expiration Date or (ii) the three (3) year anniversary of such occurrence, the obligations of LBBW under the Initial Liquidity Facility shall be immediately and automatically terminated, and thereafter LBBW shall have no further obligations thereunder.

(iv) Upon the occurrence of a Default described in Section (e)(ii)(y) or (iii) above, the obligation of LBBW to purchase Offered Bonds under the Initial Liquidity Facility shall be immediately suspended until the proceeding referred to therein is terminated prior to the court entering an order granting the relief sought in such proceeding. In the event such proceeding is so terminated, the obligations of LBBW to purchase Offered Bonds under the Initial Liquidity Facility shall be reinstated and the terms of the Initial Liquidity Facility will continue in full force and effect (unless the obligations of LBBW to purchase Offered Bonds thereunder shall have otherwise terminated in accordance with the terms of the Initial Liquidity Facility) as if there had been no such suspension.

(v) Upon the occurrence of any Liquidity Facility Event of Default, LBBW may declare all accrued and unpaid amounts payable to it under the Initial Liquidity Facility immediately due and payable (other than payments of principal of and interest on Liquidity Provider Bonds, acceleration rights with respect to which are governed by the Indenture), and LBBW shall have all remedies provided at Law or equity, including, without limitation, specific performance; provided, however, LBBW agrees to purchase Offered Bonds on the terms and conditions of the Initial Liquidity Facility notwithstanding the occurrence of a Liquidity Facility Event of Default which does not terminate or suspend its obligation to purchase Offered Bonds under Section (a), (b), (c) or (d) above.

(vi) The remedies provided in (a), (b), (c) and (d) above shall only be exclusive with respect to such Liquidity Facility Events of Default to the extent they are obtained by LBBW. If, for any reason whatsoever LBBW is not able to obtain all such remedies, then LBBW reserves the right and shall have the right to pursue any other available remedies, whether provided by Law, equity or the Initial Liquidity Facility. No failure by LBBW to exercise, and no delay in exercising, any right, remedy, power or privilege under the Initial Liquidity Facility shall operate as a waiver thereof; nor shall any single or partial exercise of any right, remedy, power or privilege under the Initial Liquidity Facility preclude any other or further exercise thereof or the exercise of any other right, remedy, power or privilege.

### **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 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; promptly after receiving such notice from the Corporation, the Trustee shall so notify the affected Bondholders. The Offered Bonds will be subject to mandatory tender in the event of the delivery of an Alternate Liquidity Facility. See "The Offered Bonds — Description of the Offered Bonds — Mandatory Tender."

### **Self Liquidity or Other Forms of Liquidity**

The Corporation may also elect to provide liquidity support for any series or all of the Offered Bonds from its own funds or by delivering a liquidity facility which does not meet the

requirements of an Alternate Liquidity Facility. See Appendix D — “Certain Definitions with Respect to the Offered Bonds.” If the Corporation makes such an election, the affected Offered Bonds will be subject to mandatory tender prior to the expiration of the Liquidity Facility then in effect. See “The Offered Bonds — Description of the Offered Bonds — Mandatory Tender.”

## ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of funds with respect to the Offered Bonds, exclusive of accrued interest, are expected to be approximately as follows:

### Sources

Principal Amount of Offered Bonds	\$239,370,000
Corporation Funds	<u>5,719,057</u>
<b>TOTAL</b>	<b><u>\$245,089,057</u></b>

### Uses

Redemption of 97 GMRB Bonds and other obligations of the Corporation	\$239,370,000
Deposit to Debt Service Reserve Account	4,787,564
Payment of Underwriting Fees	531,493
Payment of Costs of Issuance	<u>400,000</u>
<b>TOTAL</b>	<b><u>\$245,089,057</u></b>

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 OFFERED BONDS

### General

The Offered Bonds will be dated as set forth on the cover page. Offered Bonds will bear interest from such date at the Effective Rate determined by the applicable Remarketing Agent. The Offered Bonds will mature on the dates and in the amounts set forth on the cover page. The Offered Bonds initially will bear interest at a Weekly Rate. **THIS OFFICIAL STATEMENT IS NOT INTENDED TO DESCRIBE OFFERED BONDS THAT ARE NOT IN A WEEKLY MODE.** Interest on the Offered Bonds will be payable on the dates set forth on the cover page. Interest accrued on the Offered Bonds during a Weekly Mode Period will be computed on the basis of a 365-day year or 366-day year, as applicable, for the number of days actually elapsed. The Offered Bonds will be issuable in the denominations set forth on the cover page.

Any Holder of Offered Bonds has the option of tendering the Bonds to the Tender Agent in accordance with the provisions of the 2007 Series A, B and D Supplemental Indenture as described under “Description of the Offered Bonds” below. Pursuant to the Initial Liquidity

Facility, the Bank has the obligation to purchase, under certain conditions and from time to time, Offered Bonds in a Weekly Mode tendered or deemed tendered to the Tender Agent, which tendered Offered Bonds are not remarketed. For additional information with respect to the Offered Bonds, see also Appendix D — “Certain Definitions with Respect to the Offered Bonds.”

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

The Offered 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 DTC, which will act as securities depository for the Offered Bonds. See “Book Entry Only” below.

## **Redemption Provisions**

### ***Sinking Fund Redemption***

The Offered Term Bonds are subject to mandatory redemption in part from sinking fund payments at 100% of the principal amount thereof, plus accrued interest, on the respective dates and in the respective principal amounts set forth below:

<b>Date</b>	<b>2007 Series A Term Bonds Maturing December 1, 2041</b>	<b>2007 Series B Term Bonds Maturing December 1, 2041</b>	<b>2007 Series D Term Bonds Maturing December 1, 2041</b>
June 1, 2017	\$ 765,000	\$ 765,000	\$ 925,000
December 1, 2017	780,000	780,000	950,000
June 1, 2018	810,000	810,000	960,000
December 1, 2018	830,000	830,000	995,000
June 1, 2019	850,000	850,000	1,005,000
December 1, 2019	870,000	870,000	1,035,000
June 1, 2020	895,000	895,000	1,060,000
December 1, 2020	915,000	915,000	1,085,000
June 1, 2021	935,000	935,000	1,115,000
December 1, 2021	960,000	960,000	1,140,000
June 1, 2022	985,000	985,000	1,180,000
December 1, 2022	1,010,000	1,010,000	1,200,000
June 1, 2023	1,035,000	1,035,000	1,240,000
December 1, 2023	1,060,000	1,060,000	1,260,000
June 1, 2024	1,085,000	1,085,000	1,295,000
December 1, 2024	1,115,000	1,115,000	1,330,000
June 1, 2025	1,140,000	1,140,000	1,365,000
December 1, 2025	1,170,000	1,170,000	1,390,000
June 1, 2026	1,200,000	1,200,000	1,435,000
December 1, 2026	1,230,000	1,230,000	1,465,000
June 1, 2027	1,265,000	1,265,000	1,505,000
December 1, 2027	1,290,000	1,290,000	1,545,000
June 1, 2028	1,325,000	1,325,000	1,580,000
December 1, 2028	1,360,000	1,360,000	1,615,000
June 1, 2029	1,390,000	1,390,000	1,660,000
December 1, 2029	1,425,000	1,425,000	1,695,000
June 1, 2030	1,465,000	1,465,000	1,740,000
December 1, 2030	1,495,000	1,495,000	1,785,000
June 1, 2031	1,535,000	1,535,000	1,830,000
December 1, 2031	1,575,000	1,575,000	1,870,000
June 1, 2032	1,610,000	1,610,000	1,925,000
December 1, 2032	1,655,000	1,655,000	1,975,000
June 1, 2033	1,695,000	1,695,000	2,025,000
December 1, 2033	1,740,000	1,740,000	2,075,000
June 1, 2034	1,780,000	1,780,000	2,120,000
December 1, 2034	1,825,000	1,825,000	2,170,000
June 1, 2035	1,870,000	1,870,000	2,235,000
December 1, 2035	1,920,000	1,920,000	2,285,000
June 1, 2036	1,970,000	1,970,000	2,340,000
December 1, 2036	2,020,000	2,020,000	2,400,000
June 1, 2037	2,070,000	2,070,000	2,460,000
December 1, 2037	2,115,000	2,115,000	2,525,000
June 1, 2038	2,175,000	2,175,000	2,585,000
December 1, 2038	2,225,000	2,225,000	2,645,000
June 1, 2039	2,280,000	2,280,000	2,710,000
December 1, 2039	2,340,000	2,340,000	2,785,000
June 1, 2040	2,395,000	2,395,000	2,850,000
December 1, 2040	2,455,000	2,455,000	2,925,000
June 1, 2041	2,515,000	2,515,000	3,000,000
December 1, 2041	2,580,000†	2,580,000†	3,080,000†

† Stated Maturity

Any redemption (other than a mandatory redemption from sinking fund payments) of Offered Term Bonds of a particular Series and maturity will be credited against future sinking fund payments for such Series and maturity (i) on a reasonably proportionate basis or (ii) on such other basis as shall be directed by the Corporation.

### ***Optional Redemption***

The Offered Bonds in a Weekly Mode 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 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 Offered 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 Offered Bond to be redeemed in whole or in part at the address shown on the registration books maintained by the Trustee. The 2007 Series A, B and D Supplemental Indenture provides that such notice also shall be given to the Remarketing Agent. 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 Offered Bonds**

See Appendix D for the definitions of certain capitalized terms with respect to the Offered Bonds.

### ***Interest on the Offered Bonds***

From the date of initial authentication and delivery of the Offered Bonds to but not including June 7, 2007, the Offered Bonds will bear interest at the Weekly Rate determined in advance by the Remarketing Agent. Thereafter, Offered Bonds will bear interest, commencing on the Effective Rate Date (for Offered Bonds while in the Weekly Mode, each Thursday), at the Weekly Rate determined by the Remarketing Agent for the new Effective Rate Period (except for the Offered 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 Offered Bonds exceed the Maximum Rate.

The Weekly Rate will be the lowest rate which, in the determination of the Remarketing Agent, would result as nearly as practicable in the market value of the Offered 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 Weekly Rate, will take into account to the extent applicable (1) market interest rates for comparable securities held by tax-exempt 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 Offered 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 Offered 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 interest rate indices); (3) general financial market conditions; and (4) factors particular to the Corporation and the Offered Bonds.

The determination by the Remarketing Agent of the Weekly Rate to be borne by the Offered Bonds (other than Offered 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 Offered Bonds and the other Notice Parties except as provided in the Indenture. Failure by any 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 Offered 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 Offered 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 SIFMA Index plus 0.25% or (ii) the Maximum Rate.



### *Optional Tender*

Holders of the Offered Bonds in a Weekly Mode may elect to tender their Offered Bonds for purchase by providing written notice to the applicable Remarketing Agent and the Tender Agent not later than 5:00 P.M. Eastern time on any Business Day that is at least seven calendar days before the purchase date, which must be a Business Day and must be set forth in such tender notice. Such Offered Bonds will be purchased 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 Offered Bonds by the Holders thereof will be irrevocable once such notice is given to the Tender Agent (in which event the Tender Agent shall promptly notify the Remarketing Agent of receipt of such notice).

The Offered Bonds will be subject to mandatory tender for purchase as described below.

### *Corporation Not Responsible For Bank's Failure to Purchase Offered Bonds*

Under the terms and provisions of the Remarketing Agreement and the Initial Liquidity Facility, the purchase price of Offered 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 Offered Bonds or from the Initial Liquidity Facility. **The Corporation is not responsible for any wrongful failure by the Bank to purchase Offered Bonds tendered at the option of the Holder or subject to mandatory tender for purchase pursuant to the 2007 Series A, B and D Supplemental Indenture nor upon the occurrence of an Event of Termination under the Initial Liquidity Facility. Failure to purchase an Offered Bond tendered at the option of the Holder or subject to mandatory tender for purchase as described above and in accordance with the 2007 Series A, B and D 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 Offered 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 Offered 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 is not responsible for any failure by the Bank to purchase Offered Bonds tendered at the option of the Holder or subject to mandatory tender for purchase pursuant to the 2007 Series A, B and D 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 Offered Bonds covered by Self Liquidity, except to the extent provided thereunder.**

In the event of a failure by the Bank to purchase any Offered Bonds tendered or deemed tendered for purchase by the Holders thereof resulting from an Event of Termination under the Initial Liquidity Facility, such Offered 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 SIFMA Index plus 1.0% or (ii) the Maximum Rate. Bondholders will not have the right to tender their Offered

Bonds during such period and may be required to hold their Offered Bonds to their respective maturities or prior redemption.

### ***Mandatory Tender***

The Offered 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 any related Conversion Date, and (iv) 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, not less than 15 days prior to such tender, shall deliver a notice of mandatory tender to related Holders and the Remarketing Agent stating the reason for the mandatory tender, the date of mandatory tender, and that all Holders of Offered Bonds subject to such mandatory tender will be deemed to have tendered their Offered Bonds upon such date.

### ***Remarketing***

On each date on which Offered Bonds are required to be purchased, the Remarketing Agent shall use its best efforts as described herein to sell such Offered 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 Offered 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 Offered Bond certificates. Any Offered 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 Offered 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. Offered Bond certificates will be issued in place of Untendered Bonds pursuant to the Indenture and, after the issuance of the replacement Offered 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 2007 Series A, B and D Supplemental Indenture provides that the Corporation has the option to Convert all or a portion of the Offered 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 Offered Bonds, the Trustee must deliver a notice to the Holders thereof and the Remarketing Agent 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 Offered 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 related Offered Bonds from gross income for federal income tax purposes. Unless and until such conditions for Conversion are satisfied, the Offered Bonds shall continue to bear interest at the Effective Rate. Upon any Conversion to Fixed Interest Rates or an Indexed Rate, the Offered Bonds will be subject to mandatory tender for purchase.

## **Special Considerations Relating to the Offered Bonds**

### ***The Remarketing Agent is Paid by the Corporation***

The Remarketing Agent's responsibilities include determining the interest rate from time to time and remarketing Offered Bonds that are optionally or mandatorily tendered by the owners thereof (subject, in each case, to the terms of the Remarketing Agreement), all as further described in this Official Statement. The Remarketing Agent is appointed by the Corporation and is paid by the Corporation for its services. As a result, the interests of the Remarketing Agent may differ from those of existing holders and potential purchasers of Offered Bonds.

### ***The Remarketing Agent Routinely Purchases Bonds for its Own Account***

The Remarketing Agent acts as remarketing agent for a variety of variable rate demand obligations and, in its sole discretion, routinely purchases such obligations for its own account. The Remarketing Agent is permitted, but not obligated, to purchase tendered bonds for its own account and, in its sole discretion, routinely acquires such tendered bonds in order to achieve a successful remarketing of the bonds (*i.e.*, because there otherwise are not enough buyers to purchase the bonds) or for other reasons. However, the Remarketing Agent is not obligated to purchase Offered Bonds, and may cease doing so at any time without notice. The Remarketing Agent may also make a market in the Offered Bonds by routinely purchasing and selling Offered Bonds other than in connection with an optional or mandatory tender and remarketing. Such purchases and sales may be at or below par. However, the Remarketing Agent is not required to make a market in the Offered Bonds. The Remarketing Agent may also sell any Offered Bonds it has purchased to one or more affiliated investment vehicles for collective ownership or enter into derivative arrangements with affiliates or others in order to reduce its exposure to the Offered Bonds. The purchase of Offered Bonds by the Remarketing Agent may create the appearance that there is greater third party demand for the Offered Bonds in the market than is actually the case. The practices described above also may result in fewer Offered Bonds being tendered in a remarketing.

### ***Offered Bonds May be Offered at Different Prices on Any Date Including an Interest Rate Determination Date***

Pursuant to the Remarketing Agreement, the Remarketing Agent is required to determine the applicable rate of interest that, in its judgment, is the lowest rate that would permit the sale of the Offered Bonds bearing interest at the applicable interest rate at par plus accrued interest, if any, on and as of the applicable Rate Determination Date. The interest rate will reflect, among

other factors, the level of market demand for the Offered Bonds (including whether the Remarketing Agent is willing to purchase Offered Bonds for its own account). There may or may not be Offered Bonds tendered and remarketed on a Rate Determination Date, the Remarketing Agent may or may not be able to remarket any Offered Bonds tendered for purchase on such date at par and the Remarketing Agent may sell Offered Bonds at varying prices to different investors on such date or any other date. The Remarketing Agent is not obligated to advise purchasers in a remarketing if it does not have third party buyers for all of the Offered Bonds at the remarketing price. In the event a Remarketing Agent owns any Offered Bonds for its own account, it may, in its sole discretion in a secondary market transaction outside the tender process, offer such Offered Bonds on any date, including the Rate Determination Date, at a discount to par to some investors.

***The Ability to Sell the Offered Bonds other than through Tender Process May Be Limited***

The Remarketing Agent may buy and sell Offered Bonds other than through the tender process. However, it is not obligated to do so and may cease doing so at any time without notice and may require holders that wish to tender their Offered Bonds to do so through the Tender Agent with appropriate notice. Thus, investors who purchase the Offered Bonds, whether in a remarketing or otherwise, should not assume that they will be able to sell their Offered Bonds other than by tendering the Offered Bonds in accordance with the tender process.

***Under Certain Circumstances, the Remarketing Agent May Be Removed, Resign or Cease Remarketing the Offered Bonds, Without a Successor Being Named***

Under certain circumstances the Remarketing Agent may be removed or have the ability to resign or cease its remarketing efforts, without a successor having been named, subject to the terms of the Remarketing Agreement. In the event there is no Remarketing Agent, the Trustee may assume such duties as described in the Indenture.

**Book Entry Only**

***General***

The Offered Bonds will be issued as fully registered bonds in the name of Cede & Co., as nominee of DTC, as registered owner of the Offered 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 Offered Bonds are immobilized in the custody of DTC, references to holders or owners of Offered 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 Underwriters take responsibility for the accuracy or completeness thereof.

DTC will act as securities depository for the Offered Bonds. The Offered 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 Offered Bond certificate will be issued for each maturity of each Series thereof

set forth on the inside cover page in the aggregate principal amount of each such maturity, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 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, Fixed Income Clearing Corporation and Emerging Markets Clearing Corporation (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). 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 Offered Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Offered Bonds on DTC's records. The ownership interest of each actual purchaser of each Offered 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 Offered 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 Offered Bonds, except in the event that use of the book-entry system for the Offered Bonds is discontinued.

To facilitate subsequent transfers, all Offered 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 Offered 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 Offered Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Offered 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 Offered Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Offered Bonds, such as redemptions, tenders, defaults and proposed amendments to the Indenture. For example, Beneficial Owners of Offered Bonds may wish to ascertain that the nominee holding the Offered 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 Offered 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 Offered 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 Offered 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 Offered 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 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 OFFERED 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 OFFERED 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 OFFERED BONDS OR ANY OTHER ACTION TAKEN BY DTC AS REGISTERED BONDOWNER.

DTC may discontinue providing its services as securities depository with respect to the Offered 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, Offered 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, Offered 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 Offered Bonds will be payable at the office of the Trustee, as paying agent, upon presentation and surrender of such Offered 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 Offered Bond (prior to the maturity or earlier redemption thereof) will be made by the Trustee to the registered owner of such Offered Bond by check mailed by first class mail on the Interest Payment Date to such registered owner as of the Record Date at the address appearing on the registration books relating to the Offered Bonds.

If bond certificates are issued, the Offered 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 mailing of notice of any proposed redemption of any Offered Bond, nor of any Offered Bond so selected for redemption, nor 10 days prior to an Interest Payment Date. If any Offered Bond is mutilated, lost, stolen or destroyed, the Trustee may execute and deliver a new Offered Bond or Offered Bonds of the same interest rate, maturity and principal amount as the Offered Bond or Offered Bonds so mutilated, lost, stolen or destroyed, provided that such Offered 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 Offered Bonds, the following assumptions, among others, were made by the Corporation:

- (1) no Additional Bonds will be issued;
- (2) Offered Bonds will bear interest at an effective fixed rate of 3.842% per annum;
- (3) Transferred Mortgage Loans that as of April 30, 2007 bore interest at the rates and had outstanding principal balances and weighted average remaining terms as described under “Program Obligations — Mortgage Loans — Transferred Mortgage Loans” will be transferred to the Indenture on May 31, 2007;
- (4) upon the issuance of the Offered Bonds, the Corporation will with respect to such Bonds make deposits from its unrestricted general funds to the Debt Service Reserve Account and pay costs of issuance as reflected under “Estimated Sources and Uses of Funds”;
- (5) scheduled principal of and interest on Mortgage Loans will be paid on the thirtieth (30th) day following the scheduled payment date therefor, and Mortgage Loans will not be prepaid or otherwise terminated prior to maturity;
- (6) excess Pledged Revenues attributable to the Offered Bonds will be recycled to finance additional 2007 Series A/B/D Mortgage Loans until December 1, 2016;
- (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 three years following delivery of the Offered Bonds, and 2.00% thereafter, except that amounts in the Loan Loss Fund were not considered in establishing the dates and amounts of the maturities of the Offered Bonds; and
- (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.

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 Offered 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

### Mortgage Loans

#### *Prior Series Mortgage Loans*

As of April 30, 2007, there were Prior Series Mortgage Loans with an outstanding aggregate principal balance of \$445,898,702, bearing interest at a weighted average rate of approximately 5.36% per annum, with a weighted average remaining term of 334 months.

The following table sets forth certain information as of April 30, 2007 regarding the type of primary mortgage insurance coverage originally applicable to the Prior Series 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 Prior Series 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>Outstanding Principal Balance</u>	<u>Percentage of Total Prior Series Mortgage Loans by Outstanding Principal Balance</u>
FHA Insurance	\$192,000,349	43.06%
VA Guarantee	108,478,253	24.33
Uninsured†	69,253,545	15.53
Private Mortgage Insurance	42,494,075	9.53
FMH Insurance	<u>33,672,481</u>	<u>7.55</u>
TOTAL	<u>\$445,898,702</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, 2007 regarding the type of dwellings securing Prior Series Mortgage Loans.

<u>Property Type</u>	<u>Outstanding Principal Balance</u>	<u>Percentage of Total Prior Series Mortgage Loans by Outstanding Principal Balance</u>
1-Unit Detached Dwellings	\$281,877,455	63.22%
Condominiums	143,793,607	32.25
2-4 Unit Dwellings	12,210,409	2.74
Zero Lot Line Dwellings	4,072,638	0.91
PUDs	<u>3,944,593</u>	<u>0.88</u>
TOTAL	<u>\$445,898,702</u>	<u>100.00%</u>

The following table sets forth certain information as of April 30, 2007 regarding the location of the mortgaged property securing Prior Series Mortgage Loans.

<u>Property Location</u>	<u>Outstanding Principal Balance</u>	<u>Percentage of Total Prior Series Mortgage Loans by Outstanding Principal Balance</u>
Anchorage	\$248,149,783	55.65%
Wasilla	51,632,056	11.58
Eagle River	28,176,930	6.32
Palmer	26,867,956	6.03
Fairbanks	26,031,266	5.84
Juneau	17,629,244	3.95
North Pole	14,724,890	3.30
Other	12,315,244	2.76
Kodiak	5,311,760	1.19
Ketchikan	4,382,881	0.98
Kenai	4,118,735	0.92
Chugiak	3,519,908	0.79
Soldotna	<u>3,038,049</u>	<u>0.68</u>
TOTAL	<u>\$445,898,702</u>	<u>100.00%</u>

#### *Transferred Mortgage Loans*

As of April 30, 2007, there were Transferred Mortgage Loans with an outstanding aggregate principal balance of \$239,378,183, bearing interest at a weighted average rate of approximately 5.69% per annum, with a weighted average remaining term of 306 months. The Corporation expects to transfer substantially all of the Transferred Mortgage Loans to the Indenture. However, the aggregate principal balance of such loans transferred to the Indenture will be reduced by principal prepayments and scheduled principal repayments received prior to such transfer.

The following table sets forth certain information as of April 30, 2007 regarding the type of primary mortgage insurance coverage originally applicable to the Transferred 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 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>	<b>Outstanding Principal Balance</b>	<b>Percentage of Total Transferred Mortgage Loans by Outstanding Principal Balance</b>
Uninsured†	\$106,952,792	44.68%
FHA Insurance	49,171,786	20.54
VA Guarantee	39,560,706	16.53
Private Mortgage Insurance	32,087,758	13.40
FMH Insurance	11,384,595	4.76
MGIC Pool Insurance	<u>220,547</u>	<u>0.09</u>
TOTAL	<u>\$239,378,183</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, 2007 regarding the type of dwellings securing Transferred Mortgage Loans.

<u>Property Type</u>	<b>Outstanding Principal Balance</b>	<b>Percentage of Total Available Mortgage Loans by Outstanding Principal Balance</b>
1-Unit Detached Dwellings	\$206,329,752	86.19%
2-4 Unit Dwellings	15,552,419	6.50
Condominiums	14,869,947	6.21
PUDs	<u>2,626,065</u>	<u>1.10</u>
TOTAL	<u>\$239,378,183</u>	<u>100.00%</u>

The following table sets forth certain information as of April 30, 2007 regarding the location of the mortgaged property securing Transferred Mortgage Loans.

<u>Property Location</u>	<u>Outstanding Principal Balance</u>	<u>Percentage of Total Available Mortgage Loans by Outstanding Principal Balance</u>
Anchorage	\$ 61,940,384	25.88%
Other	55,804,051	23.31
Fairbanks	18,692,612	7.81
Wasilla	17,676,924	7.38
Kodiak	17,294,801	7.22
Palmer	11,775,979	4.92
Ketchikan	10,722,917	4.48
Juneau	9,617,709	4.02
Soldotna	8,967,641	3.75
Eagle River	8,837,928	3.69
North Pole	8,246,483	3.44
Kenai	6,735,068	2.81
Chugiak	<u>3,065,687</u>	<u>1.28</u>
TOTAL	<u>\$239,378,183</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**

### **Certain Definitions**

“Authority” means the Alaska State Housing Authority.

“Board” means the Board of Directors of the Corporation.

“Department” means the former Department of Community and Regional Affairs.

“Dividend Plan” means the dividend plan adopted by the Board in 1991 to transfer one-half of the lesser of its unrestricted net income or total net income to the State.

“Division” means The Public Housing Division of the Corporation.

“HUD” means the U.S. Department of Housing and Urban Development.

“Self-Liquidity Bonds” means, collectively, the Corporation’s \$33,000,000 Governmental Purpose Bonds (University of Alaska), 1997 Series A; the Corporation’s \$62,450,000 Housing Development Bonds, 2000 Series A and B; the Corporation’s \$370,170,000 Governmental Purpose Bonds, 2001 Series A, B, C and D; the Corporation’s \$37,870,000 Housing Development Bonds, 2002 Series D; and the Corporation’s \$60,250,000 State Capital Project Bonds, 2002 Series C.

### **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 mortgage loans by appropriation from the State and by purchase from independent originating lending institutions operating throughout the State. On July 1, 1992, the Corporation succeeded to the public housing functions of the Authority and the rural housing and residential energy functions of 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 on its website a monthly Mortgage and Bond Disclosure Report containing detailed information concerning characteristics of the Corporation's mortgage loan portfolios and outstanding bond issues, including bond redemptions and mortgage prepayments. 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 and unaudited financial statements of the Corporation dated June 30, 2006 and December 31, 2006, respectively, and the April 2007 Mortgage and Bond Disclosure Report of the Corporation. Copies of such financial statements and disclosure report may be obtained upon request from the Corporation. The Corporation's main office is located at 4300 Boniface Parkway, Anchorage, Alaska 99504, and its telephone number is (907) 338-6100. Electronic versions of the financial statements and disclosure reports are available at the Corporation's website.

### **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 Commerce, 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 to serve two-year terms: 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>
<b>Mr. Franklin C. Roppel</b> Chair	Retired Wrangell, Alaska
<b>Mr. N. Claiborne Porter</b> Vice-Chair	President NCP Design/Build Ltd. Anchorage, Alaska
<b>Mr. Bert Sharp</b>	Retired Fairbanks, Alaska
<b>Mr. Marty Shuravloff</b>	Executive Director Kodiak Island Housing Authority Kodiak, Alaska
<b>Mr. Patrick S. Galvin</b> Commissioner Alaska Department of Revenue	<b>Mr. Brian Andrews (designee)</b> Deputy Commissioner Alaska Department of Revenue Juneau, Alaska
<b>Ms. Karleen Jackson</b> Commissioner Alaska Department of Health & Social Services	<b>Ms. Janet Clarke (designee)</b> Assistant Commissioner Alaska Department of Health & Social Services Juneau, Alaska
<b>Mr. Emil Notti</b> Commissioner Alaska Department of Commerce, Community & Economic Development	<b>Mr. Ted Leonard (designee)</b> Deputy Commissioner Alaska Department of Commerce, Community & Economic Development Anchorage, 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 employees organized into the following departments: Administrative Services, Mortgage Operations, Public Housing, Finance, Accounting, Planning and Program Development, Audit, Corporate Communications, Budget, Personnel, and Research and Rural Development. Principal financial officers of the Corporation 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 and managed a

\$1.2 billion capital improvement program while at the Borough. Mr. Fauske holds a master's degree in business administration from Gonzaga University.

**Michael Buller** - Deputy Executive Director. Mr. Buller has been with the Corporation since June 1995, and previously served as Chief Administrative Officer. 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 degree in business administration.

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

**Michael L. Strand** - Finance Officer. Mr. Strand joined the Corporation in April 2001, and previously served as Financial Analyst II. Prior to joining the Corporation, he served for one year as Budget Analyst for Anchorage 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 Business Administration degree in finance and economics.

### **Activities of the Corporation**

The principal activity of the Corporation is the purchase of residential mortgage loans. 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."

#### ***Lending Activities***

The Corporation finances its lending activities with a combination of general operating funds, bond proceeds, and loan prepayments and earnings derived from the permitted spread between borrowing and lending rates. 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 continues to service the mortgage loan on behalf of the Corporation. The Corporation also makes available a streamlined refinance option that allows applicants to obtain new financing secured by property that is currently financed by the Corporation without income, credit, or appraisal qualifications.

Following are brief descriptions of the Corporation's lending programs:

*Tax-Exempt First-Time Homebuyer Program.* The Tax-Exempt First-Time Homebuyer Program offers lower interest rates to eligible borrowers who meet income, purchase price, and other requirements of the Code.

*Veterans Mortgage Program.* The Veterans Mortgage Program offers a reduced interest rate to qualified veterans who purchase or construct owner-occupied single-family residences or, with certain restrictions, who purchase a duplex, triplex, or fourplex.

*Taxable First-Time Homebuyer.* The Taxable First-Time Homebuyer Program offers a reduced interest rate to first-time homebuyers whose loans do not meet the Code requirements of the Tax-Exempt First-Time Homebuyer Program.

*Rural Loan Program.* The Rural Loan Program offers financing to purchase, construct, or renovate owner occupied and non-owner occupied housing in small communities. The Rural interest rate is one percent below the rate established for the Corporation's Taxable Program and is applied to the first \$250,000 of the loan only. The balance of the loan is at the Rural interest rate plus 1%.

*Taxable Program.* The Taxable Program is available statewide for applicants or properties not meeting requirements of other Corporation programs. Borrowers and properties must meet the Corporation's general financing requirements. This program also includes non-conforming loans for certain properties for which financing may not be obtained through private, state or federal mortgage programs.

*Multi-Family Loan Purchase Program.* The Corporation participates with approved lenders to provide financing for the acquisition, rehabilitation, and refinancing of multi-family housing (buildings with at least five units and designed principally for residential use) as well as certain special-needs and congregate housing facilities.

The following tables set forth certain information regarding the mortgage loans financed under the above-described lending programs:

### Mortgage Purchases by Program

<u>Loan Program</u>	<b>Original Principal Balance of Mortgage Loans Purchased During FY 2005</b>	<b>Original Principal Balance of Mortgage Loans Purchased During FY 2006</b>	<b>Original Principal Balance of Mortgage Loans Purchased During the Ten Months Ended 4/30/2007</b>
Tax-Exempt First-Time Homebuyer	\$172,047,509	\$141,594,498	\$236,043,863
Veterans Mortgage Program	12,706,927	11,783,085	89,368,314
Taxable First-Time Homebuyer	93,334,166	61,426,321	47,935,500
Rural	131,644,776	117,833,327	72,759,664
Taxable Other	111,172,386	80,098,440	27,985,734
Multi-Family	43,052,750	31,186,150	13,242,900
Streamline Refinance <sup>†</sup>	9,813,850	4,209,959	620,621

### Mortgage Portfolio Summary

	<u>As of 6/30/2005</u>	<u>As of 6/30/2006</u>	<u>As of 4/30/2007</u>
Mortgages and Participation Loans	\$3,339,886,912	\$3,254,861,682	\$3,370,718,818
Real Estate Owned and Insurance Receivables	428,356	210,027	536,870
Total Mortgage Portfolio	<u>\$3,340,315,268</u>	<u>\$3,255,071,709</u>	<u>\$3,371,255,687</u>

### Mortgage Delinquency and Foreclosure Summary

	<u>As of 6/30/2005</u>	<u>As of 6/30/2006</u>	<u>As of 4/30/2007</u>
Delinquent 30 Days	2.01%	1.91%	1.88%
Delinquent 60 Days	0.58	0.64	0.65
Delinquent 90 Days or More	0.43	0.47	0.49
Total Mortgage Delinquency	<u>3.02%</u>	<u>3.02%</u>	<u>3.02%</u>
Total Foreclosures	\$4,050,253	\$3,475,127	\$2,403,888

### *Financing Activities*

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.

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<sup>†</sup> For information only. These amounts are already included in the categories above.

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 the maximum annual limit.

Since 1986, implementation of refinancing programs by the Corporation has resulted in the prepayment of outstanding mortgage loans with a corresponding redemption at par of substantial amounts of the Corporation's notes or bonds secured by such mortgage loans.

Since 1997, the Corporation has issued certain Self-Liquidity Bonds, which are variable rate demand obligations with weekly interest rate resets. If these bonds are tendered or deemed tendered, the Corporation has the obligation to purchase any such bonds that cannot be remarketed. This general obligation is 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 it currently provides for the Self-Liquidity Bonds.

Following are brief descriptions of the Corporation's financing programs:

*Long-Term Financing*

General financing activities include recurring long-term debt issuances under established bond indentures. Such issuances constitute the majority of the Corporation's financing activities.

*Home Mortgage Revenue Bonds.* The Corporation funds its Tax-Exempt First-Time Homebuyer Program with the proceeds of Home Mortgage Revenue Bonds. Qualified mortgage loans and/or mortgage-backed securities are pledged as collateral for the Home Mortgage Revenue Bonds. Home Mortgage Revenue Bonds are also general obligations of the Corporation.

*Collateralized Bonds.* The Corporation funds its Veterans Mortgage Program with the proceeds of State-guaranteed Collateralized Bonds. Qualified mortgage loans and/or mortgage-backed securities are pledged as collateral for the Collateralized Bonds. Collateralized Bonds are also general obligations of the Corporation and general obligations of the State.

*Housing Development Bonds.* The Corporation funds its Multifamily Loan Purchase Program with the proceeds of Housing Development Bonds. Housing Development Bonds are general obligations of the Corporation.

*General Mortgage Revenue Bonds.* The Corporation issues General Mortgage Revenue Bonds to finance capital expenditures, with certain proceeds available for general corporate purposes. The Corporation expects that proceeds of future issues of General Mortgage Revenue Bonds will only be used to refund other obligations of the Corporation. Mortgage loans and/or mortgage-backed securities are pledged as collateral for the General Mortgage Revenue Bonds. General Mortgage Revenue Bonds are also general obligations of the Corporation.

*General Housing Purpose Bonds.* The Corporation issues General Housing Purpose Bonds to finance certain capital expenditures of the State. The Corporation expects that proceeds of future issues of General Housing Purpose Bonds will only be used to refund other

obligations of the Corporation. General Housing Purpose Bonds are general obligations of the Corporation.

*Governmental Purpose Bonds.* The Corporation issues Governmental Purpose Bonds to finance capital expenditures of the State for governmental purposes, with certain proceeds available for general corporate purposes. Governmental Purpose Bonds are general obligations of the Corporation.

*State Capital Project Bonds.* The Corporation issues State Capital Project Bonds to finance designated capital projects of State agencies and instrumentalities. State Capital Project Bonds also include the Corporation's State Building Lease Bonds, Series 1999, issued to finance the purchase of an office building in downtown Anchorage, Alaska, and primarily secured by a lease agreement between the Corporation and the State of Alaska. State Capital Project Bonds are general obligations of the Corporation.

The following tables set forth certain information regarding bonds issued under the above-described financing programs:

#### **Bonds Issued and Remaining Outstanding by Program**

<b><u>Bond Program</u></b>	<b><u>Issued through</u></b> <b><u>4/30/2007</u></b>	<b><u>Issued During</u></b> <b><u>the Ten</u></b> <b><u>Months Ended</u></b> <b><u>4/30/2007</u></b>	<b><u>Outstanding</u></b> <b><u>as of</u></b> <b><u>4/30/2007</u></b>
Home Mortgage Revenue Bonds	\$3,103,620,353	\$164,370,000	\$820,729,750
Collateralized Bonds	2,502,500,000	190,000,000	322,145,000
Housing Development Bonds	570,290,000	0	388,565,000
General Mortgage Revenue Bonds	973,170,000	0	175,165,000
General Housing Purpose Bonds	1,220,245,874	0	637,000,874
Governmental Purpose Bonds	519,480,000	100,890,000	234,235,000
State Capital Project Bonds	941,135,000	0	457,000,000
Other Bonds	1,747,750,000	61,925,000	61,925,000

#### **Summary of Bonds Issued and Remaining Outstanding**

	<b><u>Issued through</u></b> <b><u>4/30/2007</u></b>	<b><u>Issued During the</u></b> <b><u>Ten Months Ended</u></b> <b><u>4/30/2007</u></b>	<b><u>Outstanding</u></b> <b><u>as of</u></b> <b><u>4/30/2007</u></b>
Tax-Exempt Bonds	\$11,224,984,122	\$517,185,000	\$2,989,074,806
Taxable Bonds	<u>4,313,215,000</u>	<u>0</u>	<u>108,195,000</u>
Total Bonds	<u>\$15,538,199,122</u>	<u>\$517,185,000</u>	<u>\$3,097,269,806</u>
Self-Liquidity Bonds <sup>†</sup>	\$563,740,000	0	\$312,545,000

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<sup>†</sup> For information only. These amounts are already included in the categories above

### *Short-Term Financing*

Short-term financing activities include recurring short-term debt issuances under established programs or agreements. The proceeds of such issuances may be used for any lawful purpose of the Corporation; however, the Corporation has in the past and intends to continue to use such proceeds to temporarily refund outstanding tax-exempt obligations prior to their permanent refunding through the issuance of tax-exempt bonds.

*Commercial Paper Notes Program.* The Corporation maintains a domestic Commercial Paper Notes Program with a major dealer permitting the issuance of up to \$150 million of short-term unsecured notes. 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.

*Reverse Repurchase Agreements.* The Corporation may enter into reverse repurchase agreements in such amounts as it deems necessary for carrying out its purpose.

*Revolving Credit Agreement.* The Corporation maintains a \$200 million Revolving Credit Agreement with a major European bank under which it may borrow, on an unsecured basis, up to the principal amount of the Agreement for general corporate purposes.

### *Public Housing Activities*

The Corporation performs certain public housing functions in the State through the Division. The Division operates Low Rent and Section 8 New Construction/Additional Assistance housing to serve low-income families, disabled persons and seniors in several communities throughout Alaska. The Division also administers the rent subsidies for numerous 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 HUD. The Division is engaged in a number of multifamily renovation and new construction projects throughout the State.

## **Financial Results of Operations**

See Note 23 to the Corporation's audited annual financial statements dated June 30, 2006 contained in Appendix A — "Financial Statements of the Corporation" for a summary of revenues, expenses and changes in net assets of the Corporation for each of its five most recent fiscal years.

## **Legislative Activity/Transfers to the State**

### *Prior Transfers to the State*

The Board adopted the Dividend Plan in 1991 to transfer one-half of the lesser of its unrestricted net income or total net income to the State. Under the Dividend Plan, in 1991 the Corporation transferred a total of \$114,324,000 to the State. Additionally, in 1995, the Board voted to make a one-time payment to the State in the amount of \$200,000,000. On April 27, 1995, the Corporation agreed to make a one-time transfer of \$50,000,000 to the State and close



the Dividend Plan. In 1997, the Corporation transferred to the State's general fund \$20,000,000 made available as a consequence of certain bond retirements.

### ***The Current Transfer Plan***

In the fiscal year 1996 capital appropriation bill (the April 27, 1995 agreement referred to in the immediately preceding paragraph and the 1996 capital appropriation bill, as amended, collectively, the "Transfer Plan") the Legislature expressed its intent that the Corporation transfer to the State (or expend on its behalf) amounts not to exceed \$127,000,000 in fiscal year 1996 and \$103,000,000 in each fiscal year from 1997 to 2000, but that, "[T]o ensure the prudent management of [the Corporation and] to protect its excellent debt rating ..." in no fiscal year should such amount exceed the Corporation's net income for the preceding fiscal year.

The 1998 Legislature adopted legislation (the "1998 Act") authorizing the Corporation to finance state capital projects through the issuance of up to \$224,000,000 in bonds. The 1998 Act also extended the term of the Transfer Plan by stating the Legislature's intent that the Corporation transfer to the State (or expend on its behalf) an amount not to exceed \$103,000,000 in each fiscal year through fiscal year 2006, again stating that, to protect the Corporation and its bond rating, in no fiscal year should such amount exceed the Corporation's net income for the preceding fiscal year.

The 2000 Legislature adopted legislation (the "2000 Act") authorizing the issuance of bonds in sufficient amounts to fund the construction of various State capital projects, and extended the Transfer Plan (as described above) through fiscal year 2008.

The 2002 Legislature adopted legislation (the "2002 Act") authorizing the issuance of \$60,250,000 in capital project bonds for the renovation and deferred maintenance of the Corporation's Public Housing facilities.

The 2004 Legislature adopted legislation (the "2004 Act") authorizing the additional issuance of bonds in sufficient amounts to fund the construction of various State capital projects. The bond proceeds are allocated to agencies and municipalities subject to specific legislative appropriation.

The Corporation has issued \$196,345,000 principal amount of State Capital Project Bonds pursuant to the 1998 Act, \$74,535,000 principal amount of State Capital Project Bonds pursuant to the 2000 Act, \$60,250,000 principal amount of State Capital Project Bonds pursuant to the 2002 Act, and \$45,000,000 principal amount of State Capital Project Bonds pursuant to the 2004 Act, and has completed its issuance authority under the Acts. Payment of principal and interest on these bonds is categorized as a transfer pursuant to the Transfer Plan and is included in the Corporation's capital budget.

The 2003 Legislature enacted Chapter 76 SLA 2003, subsequently amended by Chapter 120 SLA 2004 and Chapter 7 SLA 2006 (as so amended, the "2003 Act"), which modified and incorporated provisions of the Transfer Plan. The Corporation views the 2003 Act as an indefinite, sustainable continuation of the Transfer Plan. The 2003 Act provides that the amount transferred by the Corporation to the State in fiscal years 2004, 2005, and 2006 shall not

exceed \$103,000,000 (in each case, less debt service on certain State Capital Project Bonds and any legislative appropriation of the Corporation's unrestricted, unencumbered funds other than appropriations for the Corporation's operating budget).

The 2003 Act further provides that the amount transferred by the Corporation to the State in each fiscal year beginning with fiscal year 2007 shall not exceed

(i) the lesser of (A) \$103,000,000 and (B) the respective percentage of adjusted change in net assets for such fiscal year set forth in the table below, less

(ii) debt service on certain State Capital Project Bonds, less

(iii) any legislative appropriation of the Corporation's unrestricted, unencumbered funds other than appropriations for the Corporation's operating budget.

<u>Fiscal Year</u>	<u>Percentage of Adjusted Change in Net Assets</u>
2007	95%
2008	85%
2009 and thereafter	75%

Under the 2003 Act, "adjusted change in net assets" means the change in net assets for a fiscal year as reflected in the Corporation's financial statements, adjusted for capital expenditures incurred during such year.

***Aggregate Transfers to the State of Alaska***

The following reflects the aggregate transfers the Corporation has made to the State through December 31, 2006, 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-FY06</u>	<u>FY06</u>	<u>FY07</u>	<u>Total</u>
State Debt Repaid Early	\$ 29,800,000	\$ 0	\$ 0	\$ 29,800,000
State Asset Purchases	252,300,000	0	0	252,300,000
Dividend Plan Payments	114,300,000	0	0	114,300,000
State Equity Transfers	531,206,000	18,855,000	8,721,000	558,782,000
Other State Appropriations	2,078,000	0	300,576,000	302,654,000
State Capital Project Bond Fund	256,497,000	6,621,000	10,467,000	273,585,000
Non-Housing Capital Projects	<u>256,797,000</u>	<u>21,369,000</u>	<u>9,138,000</u>	<u>287,304,000</u>
<b>Total</b>	<b><u>\$1,442,978,000</u></b>	<b><u>\$46,845,000</u></b>	<b><u>\$328,902,000</u></b>	<b><u>\$1,818,725,000</u></b>

### ***Corporation Budget Legislation***

The Corporation's fiscal year 2007 operating budget was approved by the Legislature at approximately the amount submitted during the fiscal year 2006 legislative session, including the full level of funding requested by the Corporation for personnel and contractual costs. Consistent with the Transfer Plan, the enacted fiscal year 2007 operating budget estimated that \$80,617,000 would be available from net income for payment of debt service, appropriation for capital projects and transfer to the Alaska debt retirement fund.

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.

### **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 Offered Bonds, see "The Offered 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 (but only until the termination date of such 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 instruments, 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 "F1+" 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.

“Redemption Price” means, with respect to any Bond, the principal amount thereof and any applicable premium.

“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” means, 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 authority 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*, the Trustee shall transfer 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*, the Trustee shall transfer (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 related 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 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, or to reimburse the payment of, Debt Service Payments 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 Authorized Hedging Payments 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.

### **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 memoranda 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 has been met, 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 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, or to reimburse the payment of, Debt Service Payments on such Debt Service Payment Date, any deficiency in each such Account shall 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.

### **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, 803 and 902)**

*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 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 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.

### **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 Offered Bonds, assuming compliance with certain covenants which are designed to meet the requirements of the Code with respect to each of the 2006B/2007A Composite Issue, the 2006C/2007B Composite Issue and the 2007C/2007D Composite Issue (each of which Composite Issues is considered a separate “issue” under the provisions of the Code), under existing laws, regulations, rulings and judicial decisions, (i) interest on the Offered Bonds is excluded from gross income for Federal income tax purposes and (ii) interest on the Offered Bonds is not a specific preference item for purposes of the alternative minimum tax provisions imposed on individuals and corporations by the Code; *however*, interest on the Offered Bonds is included in the adjusted current earnings (*i.e.*, alternative minimum taxable income as adjusted for certain items, including those items that would be included in the calculation of a corporation’s earnings and profits under Subchapter C of the Code) of certain corporations, and such corporations are required to include in the calculation of alternative minimum taxable income 75% of the excess of such corporation’s adjusted current earnings over its alternative minimum taxable income (determined without regard to such adjustment and prior to reduction for certain net operating losses).

In the opinion of Bond Counsel, interest on the Offered 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).

### **General**

The requirements of applicable Federal tax law must be satisfied with respect to each of the 2006B/2007A Composite Issue, the 2006C/2007B Composite Issue and the 2007C/2007D Composite Issue in order that interest on the 2007 Series A Bonds, the 2007 Series B Bonds and

the 2007 Series D Bonds, respectively, 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 for first-time homebuyers (such as the additional bonds that comprise the Composite Issues, *i.e.*, the 2006 Series B Bonds, the 2006 Series C Bonds and the 2007 Series C Bonds, respectively) 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. Such requirements generally do not apply to the Mortgage Loans financed by the 2007 Series A Bonds, the 2007 Series B Bonds and the 2007 Series D Bonds as a result of transition rules in various federal tax laws adopted since 1980.

### **Certain Requirements Imposed by the Code**

The Code requires that the effective interest rate on mortgage loans financed with the lendable proceeds of qualified mortgage bonds (such as the 2006 Series B Bonds, the 2006 Series C Bonds and the 2007 Series C Bonds) may not exceed the yield on the related Composite Issue (*i.e.*, the 2006B/2007A Composite Issue, the 2006C/2007B Composite Issue and the 2007C/2007D Composite Issue, respectively) by more than 1.125%, and the effective interest rate on the mortgage loans collectively financed by each of the Composite Issues may not exceed the yield of such Composite Issue by more than 1.50%. With respect to each of the Composite Issues, the Code requires 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 respective Composite Issue, 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.

### **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 Offered Bonds (and the Composite Issues), including compliance with restrictions on the yield of mortgage loans and non-mortgage investments and periodic rebate payments to the Federal government, as well as restrictions on the type of Mortgage Loans financed. The Corporation has delivered concurrently and in connection with the delivery of each of the 2006 Series B Bonds, the 2006 Series C Bonds and the 2007 Series C Bonds, and the Corporation will deliver concurrently with the delivery of each Series of the Offered Bonds, a Tax Regulatory Agreement and No Arbitrage Certificate which contains provisions and procedures relating to compliance with such 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 each of the Composite Issues. 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 Offered Bonds (and the Composite Issues) 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 affected Composite Issue being included in gross income for Federal income tax purposes from the date of issuance of the related 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 cannot 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 any of the Composite Issues may affect the tax status of interest thereon.

### **Backup Withholding**

As a result of the enactment of the Tax Increase Prevention and Reconciliation Act of 2005, interest on tax-exempt obligations such as the Offered Bonds and the Composite Issues is subject to information reporting in a manner similar to that with respect to interest paid on taxable obligations. Backup withholding may be imposed on payments made after March 31, 2007 to any bondholder who fails to provide certain required information including an accurate taxpayer identification number to any person required to collect such information pursuant to Section 6049 of the Code. The new reporting requirement does not in and of itself affect or alter the excludability of interest on the Offered Bonds and the Composite Issues from gross income for Federal income tax purposes or any other Federal tax consequence of purchasing, holding or selling tax-exempt obligations.

### **Certain Additional Tax Consequences**

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

Although Bond Counsel and Special Tax Counsel will each render an opinion that interest on the Offered Bonds will be excluded from gross income for Federal income tax purposes, the accrual or receipt of interest on the Offered Bonds, or the related Composite Issue, 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 Offered 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 Offered 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

Offered 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 Offered 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.

## **RATINGS**

S&P is expected to assign the Offered Bonds a rating of “AA/A-1”, Moody’s is expected to assign the Offered Bonds a rating of “Aa2/VMIG-1”, and Fitch is expected to assign the Offered Bonds a rating of “AA+/F1+”. The assignment of such ratings by S&P, Moody’s and Fitch with respect to the Offered Bonds is conditioned upon the effectiveness of the Initial Liquidity Facility at the time of delivery of the Offered Bonds. The obligation of the Underwriters to purchase the Offered Bonds is conditioned on the assignment by S&P, Moody’s and Fitch of the respective aforementioned ratings to the Offered 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 Offered Bonds.

## **FINANCIAL STATEMENTS**

The unaudited financial statements of the Corporation as and for the six months ended December 31, 2006, included in Appendix A to this Official Statement, appear without review or audit by an independent accountant.

Copies of the Corporation’s annual financial statements as of and for the year ended June 30, 2006 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 financial statements of Corporation as of and for the year ended June 30, 2006, included in Appendix A to this Official Statement, have been audited by Mikunda, Cottrell & Co., independent auditors, as stated in their report appearing herein.

## **LITIGATION**

There is no controversy or litigation of any material nature now pending or threatened to restrain or enjoin the issuance, sale, execution, authentication, or delivery of the Offered Bonds, or in any way contesting or affecting the validity of such Offered Bonds or any proceedings of the Corporation taken with respect to the issuance or sale thereof, the pledge or application of

any moneys or security provided for the payment of such Offered Bonds, or the existence or powers of the Corporation.

## **LEGAL MATTERS**

All legal matters incident to the authorization, sale and delivery of the Offered Bonds and certain Federal and state tax matters are subject to the approval of Birch, Horton, Bittner and Cherot, 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 LLP.

## **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 Offered 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 Offered Bonds.

## **UNDERWRITING**

The 2007 Series A Bonds are being purchased by Citi. Citi has agreed to purchase the 2007 Series A Bonds at the price of par. Citi will be paid a fee of \$215,540.00 with respect to the 2007 Series A Bonds. The Bond Purchase Agreement with respect to the 2007 Series A Bonds provides that Citi 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 2007 Series B Bonds are being purchased by Goldman Sachs. Goldman Sachs has agreed to purchase the 2007 Series B Bonds at the price of par. Goldman Sachs will be paid a fee of \$133,643.33 with respect to the 2007 Series B Bonds. The Bond Purchase Agreement with respect to the 2007 Series B Bonds provides that Goldman Sachs 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 2007 Series D Bonds are being purchased by Merrill Lynch. Merrill Lynch has agreed to purchase the 2007 Series D Bonds at the price of par. Merrill Lynch will be paid a fee

of \$182,309.70 with respect to the 2007 Series D Bonds. The Bond Purchase Agreement with respect to the 2007 Series D Bonds provides that Merrill Lynch 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 Offered Bonds may be changed from time to time by the Underwriters. The Bond Purchase Agreements with respect to the Offered Bonds provide that the Underwriters may offer and sell the Offered Bonds to certain dealers (including dealers depositing such Bonds into unit investment trusts, certain of which may be sponsored or managed by an Underwriter) and others at prices lower or yields higher than the public offering prices and yields of the Offered Bonds set forth on the inside cover page.

### **FINANCIAL ADVISOR**

First Southwest Company is employed as Financial Advisor to the Corporation in connection with the issuance of the Offered Bonds. The Financial Advisor's fee for services rendered with respect to the sale of the Offered Bonds is contingent upon the issuance and delivery of the Offered Bonds. First Southwest Company, in its capacity as Financial Advisor, does not assume any responsibility for the information, covenants and representations contained in any of the legal documents with respect to the federal income tax status of the Offered Bonds, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies.

The Financial Advisor to the Corporation has provided the following sentence for inclusion in this Official Statement. The Financial Advisor has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to the Corporation and, as applicable, to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Financial Advisor does not guarantee the accuracy or completeness of such information.

### **FORWARD-LOOKING STATEMENTS**

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.

### **ADDITIONAL INFORMATION**

The summaries and references herein to the Act, the Offered 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 address and telephone number of the Corporation’s main office.

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 Offered Bonds.



**APPENDIX A**

**FINANCIAL STATEMENTS OF THE CORPORATION**

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The logo features a stylized mountain peak or roofline composed of three parallel, upward-pointing chevron shapes. The top shape is dark gray, the middle is medium gray, and the bottom is light gray. Below this graphic, the word "Alaska" is written in a large, bold, black serif font. Underneath "Alaska", the word "Housing" is written in a larger, bold, black serif font. At the bottom of the logo, the words "FINANCE CORPORATION" are written in a smaller, bold, black sans-serif font.

**Alaska**  
**Housing**  
**FINANCE CORPORATION**

*a component unit of the State of Alaska*

**Quarterly Unaudited  
Financial Statements  
December 31, 2006**

# Table of Contents

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		PAGE NUMBER
<b>FINANCIAL STATEMENTS</b>		
<u>EXHIBITS</u>		
A	Statement of Net Assets.....	1
B	Statement of Revenues, Expenses, and Changes in Net Assets.....	2
C	Statement of Cash flows.....	3
	Notes to the Financial Statements.....	4-34
	Schedule of Funding Progress for PERS.....	35

**This is an unaudited quarterly publication of Alaska Housing Finance Corporation.**

**For comments or questions:**

**Web site:** <http://www.ahfc.us/financials.htm>

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**ALASKA HOUSING FINANCE CORPORATION**

Exhibit A

(A Component Unit of the State of Alaska)

**STATEMENT OF NET ASSETS**

As of December 31, 2006

*(in thousands of dollars)*

	Administrative Fund	Housing Development Bonds	Other Non-Major Funds	Total December 31, 2006
<b><u>ASSETS</u></b>				
Cash	11,940	-	15,947	27,887
Investments	399,624	134,604	766,109	1,300,337
Accrued interest receivable	2,779	3,414	14,342	20,535
Inter-fund due to/from	(45,431)	12,474	32,957	-
Mortgage loans, notes and other loans	593,215	295,506	2,412,476	3,301,197
Net investment in direct financing lease	-	-	28,110	28,110
Unamortized bond issuance costs	-	3,674	22,508	26,182
Capital assets - non-depreciable	139	-	42,135	42,274
Capital assets - depreciable, net	230	-	77,691	77,921
Other assets	6,413	93	8,732	15,238
Intergovernmental receivable	1,112	-	415	1,527
<b>Total Assets</b>	<b>970,021</b>	<b>449,765</b>	<b>3,421,422</b>	<b>4,841,208</b>
<b><u>LIABILITIES</u></b>				
Bonds and notes payable	-	391,290	2,558,135	2,949,425
Short term debt	173,233	-	-	173,233
Accrued interest payable	833	1,598	14,600	17,031
Other liabilities	5,017	168	6,589	11,774
Intergovernmental payable	-	-	4,021	4,021
<b>Total Liabilities</b>	<b>179,083</b>	<b>393,056</b>	<b>2,583,345</b>	<b>3,155,484</b>
<b><u>NET ASSETS</u></b>				
Invested in capital assets, net of related debt	369	-	119,312	119,681
Restricted by bond resolutions	-	56,709	660,582	717,291
Restricted by contractual or statutory agreements	130,314	-	67,703	198,017
Unrestricted net assets, (deficit)	660,255	-	(9,520)	650,735
<b>Total Net Assets</b>	<b>790,938</b>	<b>56,709</b>	<b>838,077</b>	<b>1,685,724</b>

See accompanying notes to the financial statements.

**ALASKA HOUSING FINANCE CORPORATION**

Exhibit B

(A Component Unit of the State of Alaska)

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**

For the Six Months Ended December 31, 2006

*(in thousands of dollars)*

	<b>Administrative Fund</b>	<b>Housing Development Bonds</b>	<b>Other Non-Major Funds</b>	<b>Total December 31, 2006</b>
<b><u>OPERATING REVENUES</u></b>				
Mortgage and loans revenue	19,933	11,622	65,200	96,755
Investment interest	10,548	2,843	27,732	41,123
Net change in the fair value of investments	669	(8)	1,499	2,160
<b>Total Investment Revenue</b>	<b>11,217</b>	<b>2,835</b>	<b>29,231</b>	<b>43,283</b>
Externally funded programs	-	-	34,151	34,151
Rental	5	-	3,369	3,374
Other	45	-	364	409
<b>Total Operating Revenues</b>	<b>31,200</b>	<b>14,457</b>	<b>132,315</b>	<b>177,972</b>
<b><u>OPERATING EXPENSES</u></b>				
Interest	5,711	9,670	64,768	80,149
Mortgage and loan costs	1,582	404	4,582	6,568
Financing expenses	338	220	3,095	3,653
Provision for loan loss	(1,672)	(297)	2,041	72
Operations and administration	404	1,096	18,978	20,478
Rental housing operating expenses	68	-	5,006	5,074
Housing grants and subsidies	-	-	37,384	37,384
<b>Total Operating Expenses</b>	<b>6,431</b>	<b>11,093</b>	<b>135,854</b>	<b>153,378</b>
<b>Operating Income (Loss)</b>	<b>24,769</b>	<b>3,364</b>	<b>(3,539)</b>	<b>24,594</b>
<b><u>NONOPERATING EXPENSES, SPECIAL ITEM &amp; TRANSFERS</u></b>				
Contributions to the State of Alaska or other State agencies	(309,456)	-	(19,446)	(328,902)
Transfers - Internal	(62,391)	19,076	43,315	-
Change in Net Assets	(347,078)	22,440	20,330	(304,308)
Net assets at beginning of year	1,138,016	34,269	817,747	1,990,032
<b>Net Assets at End of Period</b>	<b>790,938</b>	<b>56,709</b>	<b>838,077</b>	<b>1,685,724</b>

*See accompanying notes to the financial statements.*

**ALASKA HOUSING FINANCE CORPORATION**
**Exhibit C**

(A Component Unit of the State of Alaska)

**STATEMENT OF CASH FLOWS**

For the Six Months Ended December 31, 2006

(in thousands of dollars)

	Administrative Fund	Housing Development Bonds	Other Non-Major Funds	Total December 31, 2006
<b>Cash flows from operating activities:</b>				
Interest income on mortgages and loans	16,928	11,535	62,065	90,528
Principal payments received on mortgages and loans	26,195	33,527	188,172	247,894
Purchases of mortgages and loans	(308,968)	-	-	(308,968)
Receipt (payment) for loan transfers between funds	202,387	(52,700)	(149,687)	-
Payments to employees and other payroll disbursements	(8,620)	-	(5,467)	(14,087)
Payments for goods and services	(7,857)	(9)	(3,771)	(11,637)
Cash received for externally funded programs	-	-	16,199	16,199
Cash received for Federal HAP subsidies	-	-	15,907	15,907
Payments for Federal HAP subsidies	-	-	(15,020)	(15,020)
Interfund Receipts	359,958	32,832	234,205	626,995
Interfund Payments	(310,786)	(45,306)	(270,903)	(626,995)
Grant payments to other agencies	(7,874)	-	(12,118)	(19,992)
Other operating cash receipts	1,950	-	4,643	6,593
Other operating cash payments	(3,063)	(9)	(2,333)	(5,405)
<b>Net cash provided by (used for) operating activities</b>	<b>(39,750)</b>	<b>(20,130)</b>	<b>61,892</b>	<b>2,012</b>
<b>Cash flows from noncapital financing activities:</b>				
Proceeds from the issuance of bonds	-	-	366,512	366,512
Principal paid on bonds	-	(9,930)	(314,352)	(324,282)
Payment of bond issuance costs	(1,045)	-	-	(1,045)
Interest paid	(5,426)	(9,686)	(64,184)	(79,296)
Proceeds from issuance of short term debt	638,617	-	-	638,617
Payment of short term debt	(708,082)	-	-	(708,082)
Contributions to the State of Alaska or other State agencies	(15,187)	-	(9,017)	(24,204)
Transfers (to) from other funds	68,465	17,203	(85,668)	-
Other cash payments	-	-	-	-
<b>Net cash provided by (used for) noncapital financing activities</b>	<b>(22,658)</b>	<b>(2,413)</b>	<b>(106,709)</b>	<b>(131,780)</b>
<b>Cash flows from capital financing activities:</b>				
Acquisition of capital assets	(1,074)	-	(1,776)	(2,850)
Proceeds from the disposal of capital assets	13	-	-	13
Proceeds from the issuance of capital notes	-	-	-	-
Principal paid on capital notes	-	-	(1,089)	(1,089)
Payment of bond issuance costs	-	-	-	-
Interest paid on capital notes	-	-	(1,040)	(1,040)
Proceeds from the direct financing lease payments	-	-	1,734	1,734
Other cash payments	-	-	(2,055)	(2,055)
<b>Net cash provided by (used for) capital financing activities</b>	<b>(1,061)</b>	<b>-</b>	<b>(4,226)</b>	<b>(5,287)</b>
<b>Cash flows from investing activities:</b>				
Purchase of investments	(3,986,574)	(194,699)	(2,995,185)	(7,176,458)
Proceeds from maturity of investments	4,043,064	214,351	3,030,182	7,287,597
Interest received from investments	12,414	2,891	24,917	40,222
<b>Net cash provided by (used for) investing activities</b>	<b>68,904</b>	<b>22,543</b>	<b>59,914</b>	<b>151,361</b>
Net Increase (decrease) in cash	5,435	-	10,869	16,304
Cash at the beginning of year	6,505	-	5,078	11,583
<b>Cash at the end of period</b>	<b>11,940</b>	<b>-</b>	<b>15,947</b>	<b>27,887</b>
<b>Reconciliation of operating income (loss) to net cash provided by (used for) operating activities</b>				
Operating income (loss)	24,769	3,364	(3,539)	24,594
<i>Adjustments:</i>				
Depreciation expense	-	-	2,630	2,630
Provision for loan losses	(1,672)	(297)	2,041	72
Amortization of bond issuance costs	-	70	519	589
Net change in the fair value of investments	(669)	8	(1,499)	(2,160)
Transfers between funds for operating activity	(23,360)	1,623	21,737	-
Interest received from investments	(12,414)	(2,891)	(24,917)	(40,222)
Interest paid	5,426	9,686	65,224	80,336
<i>Changes in assets and liabilities:</i>				
Net increase (decrease) in mortgages and loans	(80,386)	(19,173)	38,485	(61,074)
Net increase (decrease) in assets and liabilities	48,556	(12,520)	(38,789)	(2,753)
<b>Net cash provided by (used for) operating activities</b>	<b>(39,750)</b>	<b>(20,130)</b>	<b>61,892</b>	<b>2,012</b>
<b>Noncash investing, capital and financing activities:</b>				
Asset transfers	(3,026)	-	3,026	-
Contributions to Alaska Housing Capital Corporation	300,576	-	-	300,576
Transfer of investments	(358,868)	-	-	(358,868)
Transfer of other liabilities	58,293	-	-	58,293

See accompanying notes to the financial statements.

NOTES TO FINANCIAL STATEMENTS

**FOOTNOTE INDEX**

<u>Footnote Number</u>	<u>Description</u>	<u>Page Number</u>
1	Authorizing Legislation and Funding .....	5
2	Summary of Significant Accounting Policies .....	5 - 7
3	Cash and Investments .....	8 – 12
4	Interfund Receivable/Payable .....	13
5	Mortgage Loans, Notes and Other Loans .....	13
6	Insurance Agreements .....	13
7	Loan Self Insurance Program .....	13
8	Direct Financing Lease .....	14
9	Capital Assets .....	14
10	Bonds and Notes Payable .....	15 - 21
11	Derivatives .....	22 - 23
12	Long Term Liabilities .....	24
13	Short Term Debt .....	24
14	Transfers .....	25
15	Other Credit Arrangements.....	25
16	Yield Restriction and Arbitrage Rebate .....	26
17	Contributions from the State of Alaska .....	26 - 27
18	State Authorizations and Commitments .....	28
19	Grants .....	29
20	Other Programs .....	30 - 31
21	Pension Plan .....	31 - 32
22	Other Commitments and Contingencies .....	33
23	Risk Management .....	33
24	Special Item .....	33
25	Five Year Financial Information.....	34



NOTES TO FINANCIAL STATEMENTS

**FOR THE SIX MONTHS ENDED DECEMBER 31, 2006**  
**(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2006)**

**1 AUTHORIZING LEGISLATION AND FUNDING**

The Alaska Housing Finance Corporation (Corporation), a public corporation and government instrumentality of the State of Alaska (State), was created in 1971, and substantially modified in 1992, by acts of the Alaska State 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. The Corporation is a component unit of the State of Alaska and is discretely presented in the State's financial statements.

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 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.

The Northern Tobacco Securitization Corporation (NTSC) was incorporated in the State of Alaska pursuant to House Bill No. 281 of the Alaska Legislature, as a subsidiary of the Corporation. There is no financial accountability between NTSC and 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 is not included in the Corporation's financial statements. NTSC is a government instrumentality of, but separate and apart from, the State and is reported as a blended component unit in the State's financial statements.

In accordance with the Legislature's intent, the Corporation formed a subsidiary, the Alaska Housing Capital Corporation ("AHCC"), under the Alaska Nonprofit Corporation Act (AS 10.20) and provisions of the Alaska Housing Finance Corporation Act (AS 18.56), as amended. AHCC was incorporated on May 23, 2006, as a public corporation and government instrumentality of, but having a legal existence independent of and separate from, the State of Alaska. AHCC is a subsidiary of, but separate and apart from, the Corporation. There is no financial accountability between AHCC and the Corporation. AHCC is not a component unit of the Corporation and thus is not included in the Corporation's financial statements.

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Accounting**

The Corporation's funds are accounted for as enterprise funds for financial reporting purposes. All funds utilize the economic resource measurement focus and accrual basis of accounting wherein revenues are recognized when earned and expenses when incurred. The Corporation applies all Governmental Accounting Standards Board (GASB) pronouncements for the Corporation's funds, as well as those Financial Accounting Standards Board (FASB) pronouncements issued before November 30, 1989, unless such pronouncements conflict with or contradict GASB pronouncements. After November 30, 1989, the Corporation only applies applicable GASB pronouncements.

**Basis of Presentation**

The Corporation's financial statements include a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Net Assets formatted to report operating and non-operating revenues and expenses, a Cash Flow Statement presented using the direct method, and notes to the financial statements. The Corporation's financial statements present the Administrative Fund and the other Major Funds in separate columns. The remaining Non-Major Funds are aggregated and displayed in a single column. The total column presents the entity-wide amounts for the Corporation.

NOTES TO FINANCIAL STATEMENTS

**Major and Non-Major Funds**

The Corporation reports the following major and non-major funds:

*Administrative Fund.* This is the Corporation's primary operating fund. It accounts for all financial resources of the Corporation, except those accounted for in separate funds.

*Housing Development Bonds.* This fund accounts for debt issued and assets pledged for payment of the debt under the bond indentures for Housing Development projects.

*Other Non-Major Funds.* Resources to assist in the financing, development and sale of housing units, public housing assistance programs, energy programs, and home loan programs are aggregated and reported in Other Non-Major Funds.

**Restricted Net Assets**

The restricted net asset amounts of the Administrative Fund consist of the Corporation's remaining commitments to the State (refer to Footnote No. 18, State Authorizations and Commitments, for further details). The remaining resources of the Administrative Fund are unrestricted.

The other financial activities of the Corporation are restricted by the Corporation's bond resolutions, requirements from the Legislature, and statutory requirements or third party agreements that restrict the use of resources. These restricted resources are recorded in various special purpose funds and accounts. Restricted funds with a net deficit balance are shown as having an unrestricted net asset balance pursuant to reporting requirements.

When both restricted and unrestricted resources are available in a fund, it is the Corporation's policy to spend restricted funds to the extent allowed and only spend unrestricted funds when needed.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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. The significant estimate for the Corporation is the allowance for loan losses.

**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.

**Accrued Interest Receivable on Loans and Real Estate Owned**

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.

**Loans and Allowances for Estimated Loan Losses**

Mortgage loans are carried at their unpaid principal balances net of allowance for estimated loan losses. Mortgage loans are recorded as amounts are disbursed.

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.

NOTES TO 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. These amounts are included in other assets.

**Depreciation**

Depreciation and amortization of buildings, equipment and leasehold improvements 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 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.

**Operating Revenues and Expenses**

The Corporation was created with the authority to issue bonds to the investing public in order to create a flow of private capital through the Corporation into mortgage loans to qualified housing sponsors and to certain individuals. The Corporation's primary purpose is to borrow funds in the bond market and to use those funds to make single-family and multi-family mortgages and loans. Its primary operating revenue is derived from the interest income and fees from those mortgages and loans and on the invested proceeds from the bond issues. Additionally, the Corporation's statutory purpose includes providing financial assistance programs for rental subsidies to tenants of various housing developments. The Corporation records all revenues from mortgages and loans, investments, rental activities, and externally funded programs as operating revenues. The primary costs of providing these programs are recorded as operating expenses.

**Income Taxes**

The Corporation is exempt from federal and state income taxes.

NOTES TO FINANCIAL STATEMENTS

**3 CASH AND INVESTMENTS**

Cash consists of demand deposits, time deposits and cash held in trust. The carrying amount of the Corporation's cash is restricted by bond resolutions, contractual agreements, and statutory agreements. A summary of the Corporation's cash is shown below (in thousands):

	December 31, 2006	June 30, 2006
Restricted cash	\$ 15,947	\$ 5,078
Unrestricted	11,940	6,505
Carrying amount	<u>\$ 27,887</u>	<u>\$ 11,583</u>
Bank balance	<u>\$ 29,706</u>	<u>\$ 12,297</u>

Of the \$29,706,000 carrying amount at December 31, 2006, approximately \$12,159,000 is subject to various restrictions associated with the HUD Low Rent program operated by the Corporation's Public Housing Division. This restricted cash is not available to fund the Corporation's general operations.

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 penalty.

	Investment Maturities (in Years)				December 31, 2006	June 30, 2006
	Less Than 1	1-5	6-10	More Than 10		
Bank investment contracts	\$ 69,578	\$ -	\$ -	\$ -	\$ 69,578	\$ 158,358
U.S. Treasury securities	2,689	14,496	-	-	17,185	187,967
Securities of U.S. Government agencies and corporations	177,297	12,820	-	567	190,684	240,257
Asset-backed securities	627	898	-	-	1,525	11,263
Certificates of deposit	35,630	-	-	-	35,630	15,000
Commercial paper & medium term notes	660,811	4,238	1,124	-	666,173	655,598
Guaranteed investment contracts	300,104	-	-	-	300,104	130,170
Money market funds	19,458	-	-	-	19,458	10,697
Total AHFC portfolio	<u>\$1,266,194</u>	<u>\$ 32,452</u>	<u>\$ 1,124</u>	<u>\$ 567</u>	1,300,337	1,409,310
SOA investment pools (Note 17)					-	358,868
Total investments					<u>\$ 1,300,337</u>	<u>\$ 1,768,178</u>

**Restricted Investments**

The carrying amount of the Corporation's investments, a majority of which are restricted by bond resolutions, contractual agreements, and statutory agreements, is shown below (in thousands):

	December 31, 2006	June 30, 2006
Restricted investments	\$1,031,027	\$ 1,411,309
Unrestricted	269,310	356,869
Carrying amount	<u>\$1,300,337</u>	<u>\$ 1,768,178</u>

NOTES TO FINANCIAL STATEMENTS

**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 is shown below (in thousands):

	December 31, 2006	June 30, 2006
Ending unrealized holding gain	\$ 1,817	\$ 859
Beginning unrealized holding gain (loss)	859	423
Net change in unrealized holding gain (loss)	958	436
Fair value of investment transferred		
to state agency	575	-
Net realized gain (loss)	627	(2,266)
Net increase (decrease) in Fair Value	<u>\$ 2,160</u>	<u>\$ (1,830)</u>

**Deposit and Investment Policies**

The Corporation utilizes different investment strategies depending upon the nature and intended use of the assets being invested. All funds are classified as trust or non-trust, and this determines the applicable investment guidelines used by staff when making investment decisions.

The Corporation's fiscal policies provide investment guidelines for non-trusted funds. Funds are invested according to anticipated use: those that must remain immediately available to provide working capital are invested in short-term, highly liquid securities, while those not expected to be used in the short-term are invested in longer-term securities.

The following securities are eligible for investment under the Corporation's fiscal policies:

- Obligations of, or obligations guaranteed as to principal and interest by, the United States or any agency or instrumentality thereof when such obligations are backed by the full faith and credit of the United States;
- Obligations of U.S. government-sponsored agencies, including mortgage securities, that are not backed by the full faith and credit of the U.S. Government;
- Bank debt obligations, including unsecured certificates of deposit, notes, time deposits, and bankers' acceptances (having maturities of not more than 365 days) 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 or "F-1" by Fitch;
- Deposits in and investments of a commercial bank or credit union which are fully insured by the FDIC or NCUA or, to the extent not insured by the FDIC or NCUA, provide for the pledge of collateral maintained at a minimum level of 105% and valued at least monthly;
- 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 or "AA" by Fitch if maturing in excess of one year, and "A-1" by S&P or "P-1" by Moody's or "F1" by Fitch if maturing in one year or less;
- Asset-backed securities, other than commercial paper and 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 or "AA" by Fitch;
- Commercial paper, including asset-backed commercial paper, rated at least "A-1" by S&P or "P-1" by Moody's or "F1" by Fitch;
- 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 "A" by Fitch or short-term ratings of at least "A-1" by S&P or "P-1" by Moody's or "F-1" by Fitch and where collateral is maintained at a minimum level of 102%, valued on a daily basis;
- Money market funds which are rated at least "AAm" or "AAm-G" by S&P or "Aa" by Moody's, or "V-1+" by Fitch;
- Investment agreements or guaranteed investment contracts with an insurance company, bank or other financial institution 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 or "AA" by Fitch, or, if the term is one year or less, at least "A-1" by S&P or "P-1" by Moody's or "F1" by Fitch;

NOTES TO FINANCIAL STATEMENTS

- Floating rate notes issued by entities having outstanding unsecured long-term obligations rated “AA” by S&P or “Aa” by Moody’s or “AA” by Fitch, or, if the term of the floating rate note is one year or less, having outstanding short-term obligations rated at least “A-1” by S&P or “P-1” by Moody’s or “F1” by Fitch; with interest rates subject to adjustment at least every 100 days; and with a maximum maturity of three years or less, or an optional tender available to bondholders no less frequently than every interest rate reset date;
- Adjustable rate funds, provided they are rated “AAAf” credit and “S-1” 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 or “AAA” by Fitch.

Trusted funds are invested according to the terms outlined in their respective indentures or governing agreements, which generally mandate the purchase of relatively short-term, high quality fixed income securities. In those rare instances, if any, where an indenture or governing agreement is less restrictive than the Corporation’s fiscal policies for non-trust funds, the investment will be made in accordance with the more restrictive fiscal policies.

**Credit Risk**

Credit risk is the risk of loss due to the failure of the security or backer. The Corporation mitigates its credit risk by limiting investments to those permitted in the deposit and investment policies, diversifying the investment portfolio, and pre-qualifying firms with which the Corporation administers its investment activities.

The credit quality ratings of the Corporation’s investments as of December 31, 2006, as described by nationally recognized statistical rating organizations, are shown below (in thousands). \$17,185,000 of U.S. Treasury securities and securities of agencies and corporations which are explicitly guaranteed by the U.S. government are not considered to have credit risk and therefore, are not included in the summary.

	Moody’s	S & P	Investment Fair Value
Securities of U. S. Government agencies and corporations:			
Aaa		AAA	\$ 190,684
Asset-backed securities:			
Aaa		AAA	1,525
Commercial paper & medium-term notes:			
Aaa		AAA	752
Aa1		AA+	-
Aa1		AA-	717
Aa2		AA	542
Aa2		AA-	304
Aa2		A+	200
Aa3		AA	1,950
Aa3		AA-	4,218
Aa3		A+	197
A1		AA-	-
P-1		A-1+	535,369
P-1		A-1	120,800
--		A-1	-
Baa3		BBB	1,124
			<u>666,173</u>
Money market funds			
--		AAAm	19,458
<u>Unrated investments:</u>			
Bank investment contracts			69,578
Certificates of deposit			35,630
Guaranteed investment contracts			300,104
			<u>405,312</u>
			<u>\$ 1,283,152</u>

NOTES TO FINANCIAL STATEMENTS

**Concentration Risk**

Concentration risk is the risk of loss attributed to the magnitude of the Corporation's investment in a single issuer. Concentration limits are not established in the bond indentures and governing agreements for trust investments. The Corporation's fiscal policies set the maximum concentration limits for non-trust investments as follows:

Investment Type	Investment Type Limit as a % of Total Portfolio	Issuer Limit as a % of Total Portfolio
General obligations of the United States	100%	100%
Securities of U.S. Government agencies and corporations	65%	35%
Corporate and non-corporate (including the following):	60%	5%
<ul style="list-style-type: none"> <li>• Adjustable rate funds</li> <li>• Bank investment contracts</li> <li>• Certificates of deposit</li> <li>• Commercial paper &amp; medium term notes</li> <li>• Deposits in and investments of a commercial bank or credit union</li> <li>• Floating or variable rate notes</li> <li>• Guaranteed investment contracts</li> <li>• Money market funds</li> <li>• Repurchase agreements</li> </ul>		
Mortgage and asset-backed securities	20%	5%

**Investment Holdings Greater than Five Percent of Total Portfolio**

The following investment holdings, summarized by issuer, include both investments that are governed by the maximum concentration limits of the Corporation's fiscal policy and trusted investments which have no established concentration limits. Investments issued or explicitly guaranteed by the U.S. government, investments in mutual funds, external investment pools, and other pooled investments are excluded from this summary. As of December 31, 2006, the Corporation had investment balances, greater than 5 percent of the Corporation's total investments, with the following issuers (in thousands).

Issuer	Investment Fair Value	Percentage of Total Portfolio
Fidelity Prime Domestic Port C	\$ 235,000	18.1
Fidelity Instl Cash Portfolio	166,020	12.8
AIM Treasury Portfolio	122,447	9.4
Abbey Nat NA LLC	105,000	8.1
AMBAC	94,058	7.2
American Express Card	69,578	5.4
American Gen Fin CP	66,146	5.1

**Custodial Credit Risk**

The Corporation assumes levels of custodial credit risk for its deposits with financial institutions, bank investment agreements, and investments. For deposits, custodial credit risk is the risk that, in the event of a bank failure, the Corporation's deposits may not be returned. For bank investment agreements and investments, custodial credit risk is the risk that, in the event of failure of the custodian or counterparty holding the investment, the Corporation will not be able to recover the value of the investment. The Corporation has not established a formal custodial credit risk policy for its investments.

Of the Corporation's \$29,706,000 bank balance at December 31, 2006, cash deposits in the amount of \$13,623,000 were uninsured and uncollateralized.

Of the Corporation's \$1,300,337,000 total investments at December 31, 2006, bank investment contracts in the amount of \$69,578,000 were uninsured, unregistered, and held by the counterparty or its agent, but not in the Corporation's name.

NOTES TO FINANCIAL STATEMENTS

**Interest Rate Risk**

Interest rate risk is the risk that the market value of investments will decline as a result of changes in general interest rates. For non-trust investments, the Corporation mitigates interest rate risk by structuring its investment maturities to meet cash requirements (including corporate operations), thereby avoiding the need to sell securities in the open market prior to maturity. For investments held in trust, investment maturities are structured to meet cash requirements as outlined in the bond indentures and contractual and statutory agreements.

**Modified Duration**

Modified duration estimates the sensitivity of an investment to interest rate changes. The following table shows the Corporation's trusted and non-trusted investments (in thousands) with their modified duration as of December 31, 2006:

	<b>Investment Fair Value</b>	<b>Modified Duration</b>
Bank investment contracts	\$ 69,578	0.000
U.S. Treasury securities:		
Treasury coupon securities	17,085	0.088
Treasury discounts	100	0.046
Securities of U.S. Government agencies and corporations:		
Federal agency discounts	172,033	0.113
Federal agency coupon securities	17,367	1.189
Federal agency pass through securities	1,284	3.194
Asset-backed securities	1,525	2.634
Certificates of deposit	35,630	0.063
Commercial paper & medium term notes:		
Commercial paper discounts	657,864	0.218
Corporate bonds	61	2.231
Medium term notes	6,124	1.666
Municipal bonds	1,124	6.861
Floating rate notes	1,000	0.407
Guaranteed investment contracts	300,104	0.000
Money market funds	<u>19,458</u>	0.000
	<u>\$ 1,300,337</u>	
Portfolio modified duration		0.338

A minimal percentage of the Corporation's total investment portfolio is municipal bonds, which are relatively more sensitive to changing interest rates than the rest of the Corporation's investment portfolio. Municipal bonds held as of December 31, 2006, are as follows (in thousands):

	<b>Fair Value</b>	<b>Rate</b>	<b>Maturity</b>
Northern Tobacco Securitization Corporation	\$ 1,124	4.75%	June 1, 2015

**Reverse Repurchase Agreements**

State statutes permit the Corporation to enter into reverse repurchase agreements. At December 31, 2006, there was no credit exposure related to these agreements. All sales of investments under such agreements are for fixed terms. When investing the proceeds of reverse repurchase agreements, the Corporation attempts to match, as closely as economically and reasonably possible, the term of the related reverse repurchase agreement. Reverse repurchase agreements are currently being issued to warehouse refunded debt, thereby preserving the attributes of the refunded debt for future bond refunding opportunities.



NOTES TO FINANCIAL STATEMENTS

**4 INTERFUND RECEIVABLE/PAYABLE**

D u e  F r o m	Due to		
	Administrative Fund	Other Non Major Funds	Total
Administrative Fund	\$ -	\$12,563	\$12,563
Housing Development	12,474	-	12,474
Other Non Major Funds	45,520	-	45,520
Total	\$57,994	\$12,563	\$70,557

The balance of \$12,563,000 due to the Other Non-Major funds from the Administrative fund resulted from monies belonging to the Other Non-Major funds being deposited in an Administrative fund account to obtain a greater rate of return.

Of the \$45,520,000 due from the Other Non-Major funds to the Administrative fund, \$14,340,000 resulted from an allocation of management and bookkeeping fees mandated by HUD.

All remaining balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur and (2) payments between funds are made.

**5 MORTGAGE LOANS, NOTES AND OTHER LOANS**

A summary of mortgage loans, notes and other loans is shown below: (in thousands):

	December 31, 2006	June 30, 2006
Mortgage loans	\$ 3,078,193	\$ 3,041,707
Multi-family loans	238,745	260,757
Other notes receivable	73,825	26,726
	3,390,763	3,329,190
Less:		
Allowance for losses	(89,566)	(88,981)
Net Mortgage loans, notes and other loans	\$ 3,301,197	\$ 3,240,209

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

	December 31, 2006	June 30, 2006
<u>Delinquencies and foreclosures:</u>		
Loans delinquent 30 days or more	\$ 99,088	\$ 98,249
Foreclosures during period	463	1,315
Loans in foreclosure process	9,169	7,828
<u>Mortgage-related commitments:</u>		
To purchase mortgage loans	93,652	117,500
To repurchase loans upon foreclosure	--	-

**6 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, maintaining, and liquidating 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.

**7 LOAN SELF INSURANCE PROGRAM**

The Corporation, for the purpose of insuring itself against losses which might occur as a result of mortgages purchased under various loan programs, collects insurance premiums from the borrowers. The premiums are administered by the management of the Corporation and included in the Administrative Fund in the accompanying financial statements.

NOTES TO FINANCIAL STATEMENTS

## 8 DIRECT FINANCING LEASE

In July 1997, the Corporation purchased an office building in downtown Anchorage with its Administrative Fund assets for approximately \$26 million. The building is 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 purchase. The lease of the building to the State has been recorded as a direct financing lease.

In May 2005, the Corporation issued General Housing Purpose Bonds, 2005 Series C to defease \$16,485,000 of the State Building Lease Bonds, 1999 Series. As a result, the liability of these bonds has been reduced, and the lease balance was decreased by \$1,792,000.

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):

12 Months Ending June 30	Future Minimum Payments Due
2007	\$ 3,467
2008	3,467
2009	3,467
2010	3,467
2011	3,467
Thereafter	<u>19,069</u>
Gross payments due	36,404
Less: Unearned revenue	<u>(8,294)</u>
Net investment in direct financing lease	<u>\$ 28,110</u>

## 9 CAPITAL ASSETS

Capital assets activity for the six months ended December 31, 2006 and a summary of balances are shown below (in thousands):

	July 1, 2006	Additions	Reductions	December 31, 2006
<b>NON-DEPRECIABLE CAPITAL ASSETS:</b>				
Land	\$ 13,762	\$ -	\$ (9)	\$ 13,753
Construction in progress	<u>25,773</u>	2,748	-	<u>28,521</u>
TOTAL NON-DEPRECIABLE	<u>39,535</u>	2,748	(9)	<u>42,274</u>
<b>DEPRECIABLE CAPITAL ASSETS:</b>				
Buildings	166,979	-	-	166,979
Computers & Equipment	2,708	24	-	2,732
Leasehold Improvements	88	-	-	88
Vehicles	<u>2,023</u>	32	-	<u>2,055</u>
	<u>171,798</u>	56	-	<u>171,854</u>
Less: Accumulated depreciation				
Buildings	(87,258)	(2,457)	-	(89,715)
Computers & Equipment	(2,270)	(100)	-	(2,370)
Leasehold Improvements	(27)	(10)	-	(37)
Vehicles	<u>(1,748)</u>	(63)	-	<u>(1,811)</u>
	<u>(91,303)</u>	(2,630)	-	<u>(93,933)</u>
TOTAL DEPRECIABLE, NET	80,495	(2,574)	-	77,921
<b>TOTAL CAPITAL ASSETS, NET</b>	<u>\$ 120,030</u>	\$ 174	\$ (9)	<u>\$ 120,195</u>

The depreciation expense charged by the Corporation was \$2,630,466 for the six months ended December 31, 2006. 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, was \$3,013,000 at December 31, 2006.

NOTES TO FINANCIAL STATEMENTS

**10 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 and Notes 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 shown below (in thousands):

	Original Amount	December 31, 2006	June 30, 2006
<b>FIRST-TIME HOME BUYER BONDS:</b>			
<b><i>Mortgage Revenue Bonds:</i></b>			
<b>Tax-Exempt:</b>			
• 1997 Series A, 4.9% to 6.0%, due 2037	\$ 160,000	\$ 37,595	\$ 51,135
Accreted interest		8,166	7,593
Unamortized discount		(362)	(371)
• 1998 Series A, 4.65% to 5.4%, due 2007-2035	70,000	31,605	32,680
• 1999 Series A1 & A2 5.25% to 6.25%, due 2007-2031	200,000	103,780	109,140
Unamortized discount		(112)	(113)
• 2000 Series A, 5.9% to 6.0%, due 2036-2040	58,315	28,920	28,920
• 2000 Series B, 5.45%, due 2015	3,795	3,795	3,795
• 2000 Series C, 4.9% to 6.0% due 2007-2032	68,785	33,190	35,510
Unamortized discount		(145)	(179)
• 2001 Series A, 3.5% to 5.3%, due 2007-2031	32,740	23,045	24,245
• 2001 Series B, 4.15% to 5.45%, due 2007-2041	104,450	49,965	57,895
Unamortized premium		63	64
• 2002 Series A, Floating Rate*, 4.03% at December 31, 2006, due 2032, 2036	170,000	170,000	170,000
• 2006 Series A, 3.4% to 5.0%, due 2007-2036	98,675	97,150	98,185
Unamortized premium		1,125	1,216
• 2006 Series B, 3.5% to 5.0%, due 2007-2036	75,000	74,500	75,000
Unamortized premium		755	812
• 2006 Series C, 3.9% TO 5.5%, due 2007-2037	75,000	75,000	-
Unamortized premium		1,558	-

NOTES TO FINANCIAL STATEMENTS

	Original Amount	December 31, 2006	June 30, 2006
<b>Taxable:</b>			
• 2000 Series D, 7.25% to 7.32%, due 2007-2020	25,740	2,815	4,535
• 2002 Series B, Floating Rate*	30,000	-	11,545
TOTAL FIRST-TIME HOMEBUYER BONDS	<u>1,172,500</u>	<u>742,408</u>	<u>711,607</u>

**VETERANS MORTGAGE PROGRAM BONDS AND NOTES:**

***Collateralized State Guaranteed Bonds and Notes:***

**Tax-Exempt:**

• Collateralized Bonds 1997 First Series, 5.5%, due 2039	100,000	6,250	10,495
• Collateralized Bonds 1998 First and Second Series, 4.7% to 5.5%, due 2007-2040 Unamortized discount	60,000	18,740 (174)	21,725 (177)
• Collateralized Bonds 1999 First Series, 5.0% to 6.25%, due 2007-2039	110,000	44,515	47,950
• Collateralized Bonds 2000 First Series, 5.5% to 6.45%, due 2007-2039	70,000	23,275	25,960
• Collateralized Bonds 2002 First Series, 4.15% to 5.65%, due 2007-2034	50,000	24,675	26,905
• Collateralized Bonds 2005 First Series, 4.8%, due 2035	15,000	14,690	15,000
• Collateralized Notes 2005 Second Series, 3.43%, due 2006	145,000	-	145,000
• Collateralized Notes 2006 First Series, 3.75% to 4.9%, due 2008-2037	190,000	190,000	-
TOTAL VETERANS MORTGAGE PROGRAM BONDS AND NOTES	<u>740,000</u>	<u>321,971</u>	<u>292,858</u>

**OTHER HOUSING BONDS:**

***Housing Development Bonds:***

**Tax-Exempt:**

• 1997 Series A, 4.9% to 5.7%, due 2007-2029	6,510	125	245
• 1997 Series B, 5.0% to 5.8%, due 2007-2029	17,000	325	635
• 1999 Series A, 4.95% to 6.3%, due 2007-2029	1,675	1,485	1,515
• 1999 Series B, 5.0% to 6.37%, due 2007-2029	5,080	4,535	4,625
• 1999 Series C, 4.875% to 6.2%, due 2007-2029	50,000	44,470	45,375

NOTES TO FINANCIAL STATEMENTS

	Original Amount	December 31, 2006	June 30, 2006
• 2000 Series B, Floating Rate*, monthly payments, 3.92% at December 31, 2006, due 2030	41,705	41,705	41,705
• 2002 Series A, 3.0% to 5.3%, due 2007-2033	8,440	3,210	3,280
• 2002 Series B, 2.85% to 5.15%, due 2007-2022	8,690	7,460	7,625
• 2002 Series C, 2.85% to 5.25%, due 2007-2032	70,000	65,120	65,760
• 2002 Series D, Floating Rate*, monthly payments, 3.84% at December 31, 2006, due 2037	37,870	35,425	35,750
• 2004 Series A, 2.0% to 4.85%, due 2007-2030	33,060	30,985	31,705
• 2004 Series B, 1.8% to 4.75%, due 2007-2032	52,025	48,340	49,715
<b>Taxable:</b>			
• 1997 Series C, 6.8% to 7.55%, due 2007-2029	23,895	380	735
• 2004 Series C, Floating Rate Auction Bonds** Payments every five weeks, 5.28% at December 31, 2006 due 2007-2035	42,125	2,725	7,550
• 2004 Series D, 3.65% to 5.6%, due 2008-2043	105,000	105,000	105,000
SUB-TOTAL HOUSING DEVELOPMENT BONDS	503,075	391,290	401,220
<b>General Mortgage Revenue Bonds:</b>			
<b>Tax-Exempt:</b>			
• 1997 Series A, 5.1% to 6.1%, due 2007-2037	434,911	238,941	241,851
Accreted interest		8,271	7,716
• 1999 Series A, 4.85% to 6.05%, due 2007-2049	302,700	248,060	248,060
Unamortized deferred debt refunding expense		(1,584)	(1,624)
Unamortized discount		(1,533)	(1,579)
• 2002 Series A, 3.45% to 5.0%, due 2010-2040	150,000	150,000	150,000
Unamortized deferred debt refunding expense		(1,216)	(1,239)
Unamortized premium		566	576
<b>Government Purpose Bonds:</b>			
<b>Tax-Exempt:</b>			
• 1997 Series A, Floating Rate* monthly payments, 4.03% at December 31, 2006, due 2027	33,000	23,300	23,300
• 2001 Series A, Floating Rate*, 3.98% at December 31, 2006, due 2030	76,580	68,345	69,190
• 2001 Series B, Floating Rate*, 3.84% at December 31, 2006, due 2030	93,590	83,520	84,555

NOTES TO FINANCIAL STATEMENTS

	Original Amount	December 31, 2006	June 30, 2006
<b>Taxable:</b>			
• 2001 Series C, Floating Rate*, monthly payments,	100,000	-	78,070
TOTAL OTHER HOUSING BONDS	1,693,856	1,207,960	1,300,096
<b>NON-HOUSING BONDS:</b>			
<b>State Capital Project Bonds:</b>			
<b>Tax-Exempt:</b>			
• 2001 Series A, 4.0% to 5.25%, due 2007 Unamortized premium	74,535	11,915 752	19,500 958
• 2002 Series A, 3.0% to 5.0%, due 2007-2011 Unamortized premium	32,905	19,855 865	23,320 956
• 2002 Series B, Floating Rate Auction Bonds** Payments every four weeks, 3.75% at December 31, 2006, due 2024	14,555	14,555	14,555
• 2002 Series C, Floating Rate* 3.89% at December 31, 2006, due 2022	60,250	60,250	60,250
• 2006 Series A, 3.5% to 5%, due 2007 to 2040 Unamortized discount Unamortized premium	100,890	100,890 (2,275) 2,346	- - -
<b>State Building Lease Bonds:</b>			
<b>Tax-Exempt:</b>			
• 1999 Series, 4.875% to 5.8%, due 2007-2017 Unamortized discount	40,000	11,290 (72)	12,270 (73)
<b>General Housing Purpose Bonds:</b>			
<b>Tax-Exempt:</b>			
• 1992 Series A, 6.1% to 6.6%, due 2007-2023	200,000	12,780	18,705
• 2003 Series A, Floating Rate*, monthly payments, 3.98% at December 31, 2006, due 2023	143,995	126,275	131,625
• 2003 Series B, Floating Rate*, monthly payments, 3.98% at December 31, 2006, due 2023	16,095	16,095	16,095
• 2005 Series A, 2.2% to 5.25%, due 2007-2041 Unamortized premium	143,235	142,240 4,734	142,740 5,117

NOTES TO FINANCIAL STATEMENTS

	Original Amount	December 31, 2006	June 30, 2006
• 2005 Series B, 2.7% to 5.25%, due 2007-2030	147,610	142,790	144,415
Unamortized deferred debt refunding expense		(12,414)	(12,755)
Unamortized premium		6,881	7,617
• 2005 Series C, 2.7% to 5%, due 2007-2017	<u>16,885</u>	<u>16,820</u>	<u>16,840</u>
TOTAL NON-HOUSING BONDS	<u>990,955</u>	<u>676,572</u>	<u>602,135</u>
<b>OTHER PROGRAM FUNDS:</b>			
<b>Home Ownership Notes:</b>			
<b>Tax-Exempt:</b>			
• Wrangell Project HUD Note, monthly payments, 1.0%-3.0%, due 2007	<u>1,161</u>	<u>514</u>	<u>527</u>
TOTAL OTHER PROGRAMS	<u>1,161</u>	<u>514</u>	<u>557</u>
<b>TOTAL BONDS AND NOTES PAYABLE</b>	<b><u>\$ 4,598,472</u></b>	<b><u>\$ 2,949,425</u></b>	<b><u>\$ 2,907,223</u></b>

Note: Debt service payments on the above mentioned bonds and notes are semi-annual unless otherwise mentioned.

\* Interest rates on the annotated variable-rate bonds are established by the Remarketing Agents on each Rate Determination Date.

\*\* Interest rates on the annotated variable-rate auction bonds are established by the Auction Agents on each Auction Date.

**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 Corporation also issues new debt whose proceeds are used to immediately redeem previously issued debt, called current refundings. The accelerated amortization of related discounts and costs of issuance resulting from these early redemptions is included in interest expense and financing costs. The Corporation may call some bonds at a premium using any monies once bonds reach a certain age and may also use a clean-up call to redeem certain bonds once they reach 15% of issuance.

During the six months ended December 31, 2006, the Corporation made special revenue redemptions of \$137,360,000 and no current refundings. The Corporation made special revenue redemptions of \$232,125,000 and no current refundings during fiscal year 2006.

**Advance Refundings**

From time to time, the Corporation effects an advanced refunding where the proceeds of issued bonds 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, 2006	June 30, 2006
State Building Lease Bonds, 1999 Series	<u>\$ 16,485</u>	<u>\$ 16,485</u>

NOTES TO FINANCIAL STATEMENTS

**Debt Service Requirements\*\***

For all mortgage bonds and notes in the preceding schedules, the Corporation's debt service requirements through 2011 and in five year increments thereafter to maturity, categorized by each Major Fund and other Non-Major Funds in the aggregate, are shown below and continued on the following page (in thousands):

<b>12 Months Ending December 31, 2006</b>	<b>Housing Development Bonds (Various Issues)</b>		<b>Other Non-Major Bonds</b>	
	<b>Principal</b>	<b>Interest*</b>	<b>Principal</b>	<b>Interest*</b>
2007	\$ 6,505	\$ 19,163	\$ 55,684	\$ 126,874
2008	6,510	18,925	46,105	122,774
2009	6,985	18,685	42,355	120,763
2010	7,285	18,436	48,545	118,963
2011	7,620	18,123	52,000	116,750
<b>Total Five Years 2007-2011</b>	34,905	93,332	244,689	606,124
<b>Five Years Ending June 30</b>				
2012-2016	44,230	85,170	307,780	540,783
2017-2021	56,260	73,035	376,425	488,530
2022-2026	66,290	57,398	397,543	378,478
2027-2031	110,490	37,315	471,528	281,550
2032-2036	39,445	16,289	524,068	172,755
2037-2041	30,625	7,343	135,836	43,855
2042-2046	9,045	460	53,935	18,138
2047-2049	-	-	30,135	2,739
	<b>\$ 391,290</b>	<b>\$ 370,342</b>	<b>\$ 2,541,939</b>	<b>\$ 2,532,952</b>

\* Interest requirements for variable-rate bonds have been computed using the effective interest rate at December 31, 2006.

\*\* Also see Note 11 – Derivatives.



NOTES TO FINANCIAL STATEMENTS

<b>Total Debt Service</b>		
<b>Principal</b>	<b>Interest*</b>	<b>Total</b>
\$ 62,189	\$ 146,037	\$ 208,226
52,615	141,699	194,314
49,340	139,448	188,788
55,830	137,399	193,229
59,620	134,873	194,493
279,594	699,456	979,050
352,010	625,953	977,963
432,685	561,565	994,250
463,833	435,876	899,709
582,018	318,865	900,883
563,513	189,044	752,557
166,461	51,198	217,659
62,980	18,598	81,578
30,135	2,739	32,874
<u>\$ 2,933,229</u>	<u>\$ 2,903,294</u>	<u>\$ 5,836,523</u>

NOTES TO FINANCIAL STATEMENTS

## 11 DERIVATIVES

### Swap Objectives

In order to both reduce the Corporation's overall cost of borrowing long-term capital and protect against the potential of rising interest rates, AHFC entered into six separate pay-fixed, receive-variable interest rate swap agreements at a cost less than what the Corporation would have paid to issue conventional fixed-rate debt.

### Swap Payments and Associated Debt

As of December 31, 2006, debt service requirements of the Corporation's outstanding variable-rate debt and net swap payments, assuming current interest rates remain the same, for their terms are displayed in the following schedule. As interest rates vary, variable-rate bond interest payments and net swap payments will also vary.

Fiscal Year Ending June 30	VRDO Principal	VRDO Interest	Swap Net Payment	Total Payments
2007	\$ 1,915	\$ 7,762	\$ 1,083	\$ 10,760
2008	4,640	15,565	2,148	22,353
2009	5,135	15,342	2,121	22,598
2010	5,465	15,155	2,092	22,712
2011	5,710	14,937	2,061	22,708
2012-2016	61,630	69,062	9,568	140,260
2017-2021	82,715	54,711	7,793	145,219
2022-2026	94,065	36,529	5,629	136,223
2027-2031	80,440	19,701	3,272	103,413
2032-2036	49,415	6,768	1,212	57,395
2037-2041	5,540	112	20	5,672
	<u>\$396,670</u>	<u>\$255,644</u>	<u>\$36,999</u>	<u>\$689,313</u>

### Significant Terms

The terms, fair values and credit ratings of the Corporation's outstanding swaps as of December 31, 2006, are included in the following schedule. The notional amounts of the swaps match the principal amounts of the associated debt. These notional amounts amortize over a time period that approximates the payments the Corporation would experience with a fixed-rate, level debt service schedule and are expected to follow scheduled or anticipated reductions in the associated bonds outstanding.

Related Bond Issue	Notional Amounts	Present Values	Fair Values	Effective Date	Fixed Rate Paid	Variable Rate Received	Swap Termination Date	Counterparty Credit Rating <sup>6</sup>
GP01A <sup>1</sup>	\$ 68,345	\$ 72,793	\$ (4,448)	08/02/01	4.1427%	67% of LIBOR <sup>4</sup>	12/01/30	A/A2
GP01B	83,520	88,940	(5,420)	08/02/01	4.1427%	67% of LIBOR	12/01/30	A+/Aa3
E021A1 <sup>2</sup>	50,000	53,072	(3,072)	05/16/02	4.1030%	68% of LIBOR	06/01/32	AAA/Aaa
E021A2	120,000	125,766	(5,766)	05/16/02	4.3430%	68% of LIBOR	12/01/36	AAA/Aaa
SC02B <sup>3</sup>	14,555	14,703	(148)	12/05/02	3.7700%	70% of LIBOR	07/01/24	AAA/Aaa
SC02C	60,250	62,390	(2,140)	12/05/02	4.3030%	BMA <sup>5</sup> + 0.115%	07/01/22	AAA/Aaa
	<u>396,670</u>	<u>\$ 417,664</u>	<u>\$(20,994)</u>					

1. Governmental Purpose Bonds
2. Home Mortgage Revenue Bonds
3. State Capital Project Bonds
4. London Interbank Offered Rate
5. The Bond Market Association Municipal Swap Index
6. Standard & Poor's/Moody's

NOTES TO FINANCIAL STATEMENTS

**Fair Value**

Because interest rates have declined and taxable/tax-exempt spreads have narrowed since the agreements became effective, all of the Corporation's LIBOR-based and BMA-based interest rate swaps had a negative fair value as of December 31, 2006. The negative fair values are countered by reductions in total interest payments required under the variable-rate bonds. Given that coupons on the Corporation's variable-rate bonds adjust to changing interest rates, the associated debt does not have corresponding increases in fair value. The fair value amounts, obtained from mark to market statements from the respective counterparties and reconciled to present value calculations done by the Corporation, represent mid-market valuations that approximate the current economic value using market averages, reference rates, and/or mathematical models. Actual trade prices may vary significantly from these estimates as a result of various factors, which may include (but are not limited to) portfolio composition, current trading intentions, prevailing credit spreads, market liquidity, hedging costs and risk, position size, transaction and financing costs, and use of capital profit. The fair value represents the current price to settle swap liabilities in the marketplace if a swap were to be terminated.

**Risks**

**a. Credit Risk**

As of December 31, 2006, the Corporation was not exposed to credit risk on any outstanding swaps because they all had negative fair values. If interest rates rise and the swaps' fair values become positive, the Corporation would be exposed to credit risk in the amount of the swaps fair values. The swap agreements contain varying collateral agreements with the counterparties and require full collateralization of the fair value amount of the swap should the counterparty's rating fall below specific levels. The Corporation currently has swap agreements with four separate counterparties. Approximately 62% of the total notional amount of swaps is held with two separate counterparties, both of whom are rated AAA/Aaa. Of the remaining swaps, one of the counterparties is rated AA-/Aa3 while the other counterparty is rated A/A2, approximating 21% and 17%, respectively, of the total outstanding notional swap value.

**b. Basis Risk**

A majority of the Corporation's variable-rate demand obligation bond coupon payments are based on the BMA index. Therefore, the Corporation is exposed to basis risk on swaps where the variable payment received is based on a LIBOR index rather than a BMA index. As of December 31, 2006, the BMA rate was 3.91%, whereas LIBOR was 5.32%. Since the spread between LIBOR and BMA has narrowed since the agreements became effective, the expected cost savings from the swaps may not be as large as originally anticipated.

**c. Rollover Risk**

Rollover risk occurs when there is a mismatch in the amortization of the swap versus the amortization of the floating rate bonds. The Corporation has structured the swaps to amortize at the same rate as scheduled or anticipated reductions in the associated floating rate bonds outstanding. As the bonds mature the swaps will amortize. In addition, the swaps covering the 2001 Governmental Purpose Bonds cover only a portion of the debt issuance, allowing any increase in the speed of mortgage prepayments to be directed at the unswapped portion of the debt. The swap agreements associated with the 2002 Home Mortgage Revenue Bonds were structured with several tranches, allowing the Corporation to cancel individual tranches of the swap to match special redemptions of the bonds. The result of these swap structures is a decrease in rollover risk usually caused by rapid mortgage prepayments.

**d. Termination Risk**

If any of the swaps are terminated, the associated floating rate bonds would no longer carry synthetic fixed interest rates and, thus, the Corporation would be exposed to interest rate risk. This risk is mitigated by the fact that the termination payment could be used to enter into an identical swap at the termination date of the existing swap. Further, if any of the swaps have a negative fair value at termination, the Corporation would be liable to the counterparty for payments equal to the swaps' fair value. The Corporation or the counterparty may terminate any of the swaps if the other party fails to perform under the terms of the agreement. As of December 31, 2006, the Corporation is not exposed to any additional termination risk on its interest rate swaps.

NOTES TO FINANCIAL STATEMENTS

## 12 LONG TERM LIABILITIES

The activity for other liabilities for the six months ended December 31, 2006 is summarized in the following schedule (in thousands):

	July 1, 2006	Additions	Reductions	December 31, 2006	Due Within One Year
Bonds and notes payable	\$ 2,907,223	\$ 371,818	\$ (329,616)	\$ 2,949,425	\$ 62,189
Compensated absences	3,339	1,319	(1,190)	3,468	2,004
Other liabilities	1,512	1,830	(924)	2,418	-
Total other long-term liabilities	4,851	3,149	(2,114)	5,886	2,004
	<u>\$ 2,912,074</u>	<u>\$ 374,967</u>	<u>\$ (331,730)</u>	<u>\$ 2,955,311</u>	<u>\$ 64,193</u>

## 13 SHORT TERM DEBT

The Corporation has a commercial paper program. Commercial paper is issued and redeemed to meet the cash flow requirements of the Corporation's activities. Individual maturities may range from 2 to 270 days from date of issuance. The maximum aggregate outstanding principal balance authorized by the Board of Directors is \$150,000,000.

Yields issued during period	December 31, 2006	June 30, 2006
Lowest	5.25%	3.2200%
Highest	5.34%	5.2500%

The Corporation borrows funds utilizing reverse repurchase agreements to warehouse refunded debt, thereby preserving the attributes of the refunded debt for future bond refunding opportunities. 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.

Short term debt activity for the six months ended December 31, 2006 is summarized in the following schedule (in thousands):

	July 1, 2006	Additions	Reductions	December 31, 2006
Commercial Paper	\$150,000	\$339,302	\$(339,302)	\$150,000
Unamortized discount	(1,201)	(3,983)	3,989	(1,195)
Commercial paper, net	148,799	335,319	(335,313)	148,805
Reverse repurchase	93,650	303,298	(372,520)	24,428
	<u>\$242,449</u>	<u>\$638,617</u>	<u>\$(707,833)</u>	<u>\$173,233</u>

NOTES TO FINANCIAL STATEMENTS

**14 TRANSFERS**

Transfers for the six months ended December 31, 2006 are summarized in the following schedule (in thousands):

		<b>Transfer From</b>		
<b>Transfer To</b>		<b>Administrative Fund</b>	<b>Other Non Major Funds</b>	<b>Total</b>
	<b>Administrative Fund</b>	\$ -	\$ 105,900	\$ 105,900
	<b>Housing Development</b>	18,826	-	\$ 18,826
	<b>Other Non Major Funds</b>	41,969	-	\$ 41,969
	<b>Total</b>	<u>\$ 60,795</u>	<u>\$ 105,900</u>	<u>\$ 166,695</u>

Transfers are used to (1) move funds between the Administrative Fund and the other Funds of the Corporation for financing mortgage related activities and to subsidy debt service payments, (2) to move Corporate revenue to the Administrative Fund from Bond Funds, and (3) to record expenditures paid on behalf of the Bond Funds by the Administrative Fund.

**15 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 liquidity facilities or similar credit enhancement agreements in connection with amounts required for debt service or unpaid bond principal for certain bond issues as shown below (in thousands):

	<b>December 31, 2006</b>	<b>June 30, 2006</b>
Liquidity facility	\$ 664,235	\$ 761,080
Bond insurance	2,091,646	2,045,546
	<u>\$ 2,755,881</u>	<u>\$ 2,806,626</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.

In October 2002, the Corporation also reestablished a \$200,000,000 revolving credit facility that is not related to a specific bond issue. At December 31, 2006, no draw downs had been made on the revolving credit facility.

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.

NOTES TO FINANCIAL STATEMENTS

## 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 to the Internal Revenue Service. Following is a summary of excess earnings recorded and paid (in thousands):

	December 31, 2006	June 30, 2006
Arbitrage expense	\$922	\$ (2,218)
Arbitrage paid	407	1,274

## 17 CONTRIBUTIONS FROM THE STATE OF ALASKA

### Appropriation of Capital Projects Funds

On April 27, 2006, the Governor of Alaska signed Senate Bill No. 232 of the Alaska Legislature into law. Senate Bill 232 appropriated the sum of \$300,000,000 from the State of Alaska General Fund to the Corporation for the purpose of funding capital projects, including financing expenses. The appropriated funds and related earnings and security lending agreements were transferred to AHCC on July 1, 2006 from the Corporation.

### Investments

For the year ended June 30, 2006 the Corporation invested in the State's internally managed General Fund and Other Non Segregated Investments Pool (GeFONSI). GeFONSI consists of investments in the State's internally managed Short-term and Intermediate-term Fixed Income Pools. Actual investing is performed by investment officers in the State's Department of Revenue, Treasury Division. A complete description of the investment policy for each pool is included in the Department of Revenue, Treasury Division, Policies and Procedures.

Assets in the pools are reported at fair value in accordance with Governmental Accounting Standards Board (GASB) Statement No. 31. Investment purchases and sales are recorded on a trade-date basis. Securities are valued each business day using prices obtained from a pricing service when such prices are available; otherwise, such securities are valued at the mid-point between the bid and asked price or at prices for securities of comparable maturity, quality and type.

The accrual basis of accounting is used for investment income and GeFONSI investment income is distributed to pool participants monthly if prescribed by statute or if appropriated by state legislature.

At December 31, 2006 the Corporation had no share of pool investments. At June 30, 2006, the Corporation's share of pool investments was as follows:

Investment Type	Fair Value			Total
	Short-term Fixed Income Pool	Intermediate- term Fixed Income Pool	Securities Lending Collateral	
Overnight Sweep Account (LMCS)	\$ 220	\$ -	\$ -	\$ 220
Money Market	-	-	58,293	58,293
Short-term Investment Fund	5,420	-	-	5,420
Commercial Paper	10,872	-	-	10,872
U.S. Treasury Notes	-	88,149	-	88,149
U.S. Government Agency	-	32,793	-	32,793
Mortgage-backed	9,359	19,447	-	28,806
Other Asset-backed	65,076	4,384	-	69,460
Corporate Bonds	33,670	28,829	-	62,499
Yankees:				
Corporate	1,382	959	-	2,341
Total Invested Assets	125,999	174,561	58,293	358,853
Pool related net assets (liabilities)	493	(478)	-	15
Net Invested Assets	<u>\$ 126,492</u>	<u>\$ 174,083</u>	<u>\$ 58,293</u>	<u>\$ 358,868</u>

NOTES TO FINANCIAL STATEMENTS

**Securities Lending**

Alaska Statute 37.10.071 authorizes the Commissioner of Revenue to lend assets, under an agreement and for a fee, against deposited collateral of equivalent fair value. The Commissioner entered into an agreement with State Street Corporation (the Bank) to lend securities in the Short-term and Intermediate-term Fixed Income Pools. The Bank, acting as the Commissioner's agent under the agreement, transfers securities to broker agents or other entities for collateral in the form of cash or securities and simultaneously agrees to return the collateral for the same securities in the future.

The Corporation transferred the pool investments and related security lending agreements to the new subsidiary AHCC on July 1, 2006. At December 31, 2006 there were no liabilities resulting from securities lending transactions. At June 30, 2006, liabilities resulting from these securities lending transactions totaled \$58,293,000 and were represented as current other liabilities in the Statement of Net Assets.

Cash collateral is invested in a registered 2(a)-7 money market fund. Maturities of investments in the money market fund generally do not match the maturities of the loaned securities because the lending agreements are terminable at will. Collateral securities may be pledged or sold upon borrower default. Since the Commissioner does not have the ability to pledge or sell the collateral securities unless the borrower defaults, they are not recorded in the financial statements. Securities under loan, cash collateral and cash collateral payable are recorded in the financial statements at fair value. The Bank, the Corporation and the borrower receive a fee from earnings on invested collateral. The Bank and the Corporation share a fee paid by the borrower for loans not collateralized with cash.

There is limited credit risk associated with the lending transactions since the Commissioner is indemnified by the Bank against any loss resulting from counterparty failure or default on a loaned security or its related income distributions. The Bank further indemnifies the Board against loss due to borrower rebates in excess of earnings on cash collateral. Indemnifications are subject to limitation relating to war, civil unrest or revolution, or beyond the reasonable control of the Bank.

For the year ended June 30, 2006, there were no losses incurred as a result of securities lending transactions and there were no significant violations of legal or contractual provisions nor failures by any borrowers to return loaned securities.

NOTES TO FINANCIAL STATEMENTS

## 18 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”. The total state authorizations from FY1995–FY2007 was \$ 1,289,886,000; payments up thru December 31, 2006 was \$1,159,572,000; resulting in total remaining commitments of \$130,314,000 as of December 31, 2006.

### Transfer Plan with the State

The 1998 Legislature authorized the Corporation to finance state capital projects through the issuance of up to \$224 million in bonds. Debt service payments on such bonds are categorized as transfers pursuant to the Transfer Plan. That legislation also extended the term of the Transfer Plan by stating the Legislature’s intent that the Corporation transfer to the State (or expend on its behalf) an amount not to exceed \$103 million in each fiscal year through fiscal year 2006, again stating that, to protect the Corporation and its bond rating, in no fiscal year should such amount exceed the Corporation’s net income for the preceding fiscal 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 (as described above) through fiscal year 2008. The 2002 Legislature authorized the issuance of \$60,250,000 in capital project bonds for the renovation and deferred maintenance of the Corporation’s Public Housing facilities. The 2004 Legislature adopted legislation authorizing the additional issuance of bonds in sufficient amounts to fund the construction of various State capital projects. The bond proceeds are allocated to agencies and municipalities subject to specific legislative appropriation. Debt service payments on such bonds are categorized as transfers pursuant to the Transfer Plan.

The Corporation has issued \$196,345,000 principal amount of State Capital Project Bonds pursuant to the 1998 Act, \$74,535,000 principal amount of State Capital Project Bonds pursuant to the 2000 Act, and \$60,250,000 principal amount of State Capital Project Bonds pursuant to the 2002 Act, and \$45,000,000 principal amount of bonds under the State Capital Project agreement pursuant to the 2004 Act, and has completed its issuance authority under the Acts. The payment of principal and interest on these bonds will be included in future capital budgets of the Corporation.

The Twenty-Third Legislature in 2003 enacted SCSBH 256 (the “2003” Act) which added language to the Alaska Statutes to modify and incorporate the Transfer Plan. The Corporation and the State view the 2003 Act as an indefinite, sustainable continuation of the Transfer Plan. As approved and signed into law by the Governor, the 2003 Transfer Plan calls for annual transfers as follows (in thousands):

Fiscal Year	Transfer Plan Amount
2007	Lesser of 95% Net Income or \$103,000
2008	Lesser of 85% Net Income or \$103,000
2009 & Thereafter	Lesser of 75% Net Income or \$103,000

Subsequent to GASB 34, the Corporation interprets net income as operating income.

### Contributions to the State of Alaska or other State agencies

Since the inception of the Corporation, the State has contributed a total of \$1,369,523,000 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, 2006	Cumulative Prior Fiscal Year	Total Payments To State
State debt repayment	\$ -	\$ 29,800	\$ 29,800
Asset purchases	-	252,300	252,300
Dividends	-	114,300	114,300
Direct cash transfers	8,721	550,061	550,061
Other State appropriations	300,576	2,078	2,078
Non-Housing capital projects	10,467	263,418	263,418
Various bond’s proceeds disbursed	9,138	277,866	277,866
Total	\$ 328,902	\$ 1,489,823	\$ 1,489,823



NOTES TO FINANCIAL STATEMENTS

**19 GRANTS**

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

<b>Program</b>	<b>December 31, 2006</b>
<i>Energy Programs:</i>	
▪ Energy Efficiency Monitoring Research	\$ 307
▪ Low-Income Home Energy Assistance	178
▪ State Energy Program Special Project	27
▪ Low Income Weatherization Assistance	2,730
	<u>3,242</u>
<i>Section 8 Vouchers and Contract Administration</i>	<u>11,801</u>
<i>Other Housing Assistance Programs</i>	
▪ AMHTA Short Term Housing Assistance	46
▪ Beneficiaries and Special Needs Housing	121
▪ Centers for Medicare/Medicaid Services	204
▪ Denali Commission	5,453
▪ Drug Elimination	106
▪ Grant Match Program	30
▪ HOMD Investment Partnership	2,606
▪ Homeless Assistance Program	570
▪ Homeless Information Management System	3
▪ Housing Loan Program	1,651
▪ Housing Opportunities for Persons with AIDS	246
▪ Resident Opportunity and Support Service	113
▪ Section 8 Contract Administration	3,251
▪ Shelter Plus Care	280
▪ Special Program for the Aging	13
▪ Senior Citizen Housing Development Grant	803
▪ Supportive Housing Grant Match	422
▪ Supplemental Housing Grant	6,385
▪ Technical Assistance Grant	38
	<u>22,341</u>
<b>Total Housing Grant Expenses</b>	<u>37,384</u>
<i>Other Program Funds:</i>	
▪ Legislative Appropriations	10,429
▪ University of Alaska FY99	38
<b>Total Non-Housing Capital Project Grants</b>	<u>10,467</u>
<b>Total Grants</b>	<u>\$ 47,851</u>

In addition to grant payments made, the Corporation has advanced grant funds of \$4,313,000 and committed to third parties a sum of \$19,413,000 in grant awards at December 31, 2006.

NOTES TO FINANCIAL STATEMENTS

## 20 OTHER PROGRAMS

Other programs include public-housing activities, energy conservation funded from a combination of corporate receipts and external sources and other activities not reported elsewhere.

### Housing Assistance Programs

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

- Low Rent Management
- Modernization/Capital Fund Programs

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

- Section 8 Moderate Rehabilitation
- Section 8 Vouchers

Section 8 Program consists of Corporate owned low-income housing facilities at various locations and the Wrangell 221(d)(3) housing facility, for which the Corporation receives tenant-based rental assistance under contract with HUD, and administration of HUD contracts directly with landlords:

- Section 8 Contract Administration
- Section 8 New Construction
- Wrangell Multi-Family

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

- Drug Elimination Grant
- Denali Commission Housing Programs
- Family Self Sufficiency Program (FSS)
- Family Investment Center Grant
- Gateway Literacy Program
- Grant Match Program
- Healthy Homes Initiative
- HOME Investment Partnerships Program (HOME)
- HOME Technical Assistance
- Housing Opportunities for Persons with AIDS (HOPWA)
- Housing Preservation Grants
- Service Coordinator for Public Housing Agencies Grant
- Shelter Plus Care Program
- Special Needs Assistance
- Supplemental Assistance for Facilities to Assist the Homeless (SAFAH)
- Supportive Housing Technical Assistance
- Teacher Health Professional and Public Safety Housing Programs

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

### 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.

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:

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

NOTES TO FINANCIAL STATEMENTS

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

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

**Housing Units Owned, Managed or Administered**

As of December 31, 2006, the Public Housing Division of the Corporation operates the following programs in 18 Alaskan communities:

Program	Number of Units
Low Rent Conventional Housing	987
Low Rent Conventional Housing – Senior Units	343
Section 8 New Construction Housing	59
Section 8 New Construction Housing – Senior Units	268
Other Housing Units	32
Section 8 Existing – Housing Assistance:	
Housing Choice Vouchers	4,115
Single Room Occupancy	70
	5,874

## 21 PENSION PLAN

As of December 31, 2006, 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 plan. This plan is a defined benefit plan for all employees hired prior to July 1, 2006 and a defined contribution plan for all employees hired on or after July 1, 2006. The plan is 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

*Defined Benefit Plan (Employees hired prior to July 1, 2006):*

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. 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 plan pays the retiree medical plan premium and also provides death and disability benefits.

Effective with employees hired after June 30, 1986, the normal retirement age became 60 and the early retirement age became 55. Also the system does not pay the retiree medical plan premium for retirees under the age of 60. The employee may elect to pay the full premium cost for medical coverage.

The retirement benefit calculation for employees hired after June 30, 1996 is based on the average of the member's five-year highest average monthly compensation. The plan does not pay the retiree medical plan premium for retirees with less than 10 years of service at age 60. The employee may elect to pay the full premium cost for medical coverage.

*Defined Contribution Plan (Employees hired after July 1, 2006):*

There is no retirement age set, however taxes and penalties may be apply if withdrawn prior to age 59 ½. Retirement benefits are equal to the Defined Contribution account balance plus interest. The employee may direct the investment of the account if so desired. The account balance is 100% of the employees contribution plus 25% of the Corporation's contribution after two years of service, 50% of the Corporation's contribution after three years of service, 75% of the Corporation's contribution after four years of service, and 100% of the Corporation's contribution after 5 years of service. The plan pays a portion of the retiree medical plan premium if the retiree retires directly from the plan and is eligible for Medicare. The portion of premium paid by the plan is determined by years of service. Disability benefits are also provided.

NOTES TO FINANCIAL STATEMENTS

**Funding Policy**

*Defined Benefit Plan:*

Under State law, covered employees are required to contribute 6% of their annual covered salary and the Corporation is required to contribute an actuarially determined rate; the current rate is 20.49% of annual covered payroll.

*Defined Contribution Plan:*

Under State law, covered employees are required to contribute 8% of their annual covered salary and the Corporation is required to contribute 7.05% of the Defined Contribution account balance to the Defined Contribution account, 3% of the Corporation's average annual compensation as a flat dollar amount per employee to a health reimbursement arrangement.

The contributions to this plan for the six months ended December 31, 2006 by the employees was \$9,100 and by the Corporation was \$8,000.

**Annual Pension Cost**

The Corporation's annual pension and postretirement health cost shown in the following table was equal to the required and actual contribution. The actuarial required contribution was computed as part of an actuarial valuation as of June 30, 2005. 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 ten years of employment, with distinction made between amounts for inflation (3.5%), merit (1.5%), 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 (in thousands):**

<b>Year Ended</b>	<b>Annual Pension and Postretirement Health Cost (APC)</b>	<b>Percentage of APC Contributed</b>	<b>Net Pension Obligation</b>
June 30, 2006	\$ 1,161	100.00%	\$ -
June 30, 2005	1,780	100.00%	-
June 30, 2004	980	100.00%	-

NOTES TO FINANCIAL STATEMENTS

## 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 \$1,165,000 and \$553,000 as of December 31, 2006 and June 30, 2006, 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.

### 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 Administrative Fund. In management's opinion, disallowance, if any, will be immaterial.

### Subsequent Event

On January 10, 2007, the Corporation's Board of Directors authorized the issuance of up to \$100,000,000 Home Mortgage Revenue Bonds 2007 Series D.

On February 14, 2007, the Corporation issued \$89,370,000 Home Mortgage Revenue Bonds, 2007 Series C. The bonds are general obligations of the Corporation that bear interest at fixed rates between 3.75% and 4.8%, payable on each June 1 and December 1, with a final maturity date of June 1, 2038. The Bonds are primarily secured by program obligations consisting of qualifying mortgage loans purchased from bond proceeds.

On March 8, 2007, the Corporation issued \$900,000,000 Draw Down Bonds, 2007 Series A, B, C and D. The Series A, C and D Bonds are secured solely by amounts on deposit in the Bond Escrow Fund and investment earnings thereon. The Series B Bonds are general obligations of the Corporation and are primarily secured by amounts on deposit in the Bond Escrow Fund attributable to draws under the Series B Bonds. The Bonds bear interest at variable interest rates on the outstanding principal amount drawn, payable on the first business day of each calendar month, with a final maturity date of February 1, 2019, subject to mandatory tender on March 1, 2011, and February 1, 2015.

## 23 RISK MANAGEMENT

The Corporation is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by various commercial insurance policies and contractual risk transfers. When the Corporation enters into agreements, contracts or grants, it requires insurance from the party the Corporation is doing business with. This ensures that the party can adequately sustain any loss exposure, so the Corporation is not first-in-line in case of a loss. There have been no significant reductions in insurance coverage from the prior year, and settlements have not exceeded insurance coverage during the past three years.

## 24 SPECIAL ITEM

On December 13, 2005, the Corporation sold its Aurora Military Loan II, with a principal balance of \$31,627,000, accrued interest income of \$76,000 and closing cost expense of \$90,000, for proceeds of \$38,919,000, resulting in a special item gain of \$7,126,000.

NOTES TO FINANCIAL STATEMENTS

## 25 FIVE YEAR FINANCIAL INFORMATION

Entity-wide amounts at year-end are presented below for informational purposes (in thousands):

	June 30, 2006	June 30, 2005	June 30, 2004	June 30, 2003	June 30, 2002
<b>ASSETS</b>					
Cash	\$ 11,583	\$ 9,769	\$ 7,939	\$ 21,215	\$ 9,508
Investments	1,768,178	1,219,415	1,143,547	1,518,997	1,587,877
Accrued interest receivable	19,013	20,762	19,897	22,349	25,015
Mortgage loans, notes and other loans	3,240,209	3,325,182	3,355,300	3,312,511	3,373,640
Net investment in direct financing lease	29,110	32,843	34,547	36,165	37,697
Unamortized bond issuance costs	24,584	25,135	26,404	29,024	28,105
Capital assets, net	120,030	116,073	110,813	105,065	99,040
Other assets	16,869	13,754	10,033	10,185	21,272
<b>Total Assets</b>	<b>\$ 5,229,576</b>	<b>\$ 4,762,933</b>	<b>\$ 4,708,480</b>	<b>\$ 5,055,511</b>	<b>\$ 5,182,154</b>
<b>LIABILITIES</b>					
Bonds and notes payable	\$ 2,907,223	\$ 2,898,730	\$ 2,890,879	\$ 3,110,941	\$ 3,267,553
Short term debt	242,449	138,375	70,145	149,995	108,541
Accrued interest payable	17,340	14,147	14,562	15,627	14,253
Other liabilities	72,532	28,608	26,435	41,382	25,997
<b>Total Liabilities</b>	<b>3,239,544</b>	<b>3,079,860</b>	<b>3,002,021</b>	<b>3,317,945</b>	<b>3,416,344</b>
<b>Total Fund Equity</b>	<b>1,990,032</b>	<b>1,683,073</b>	<b>1,706,459</b>	<b>1,737,566</b>	<b>1,765,810</b>
	<b>June 30, 2006</b>	<b>June 30, 2006</b>	<b>June 30, 2005</b>	<b>June 30, 2004</b>	<b>June 30, 2003</b>
<b>OPERATING REVENUES</b>					
Mortgage and loans revenue	\$ 193,573	\$ 201,386	\$ 206,300	\$ 220,393	\$222,446
Investment interest	60,220	43,162	46,358	57,013	71,115
Net change in fair value of investments	(1,830)	(1,653)	(9,554)	9,877	111
Total Investment Revenue	58,390	41,509	36,804	66,890	71,226
Externally funded programs	59,587	57,877	56,084	53,702	46,283
Rental	6,575	6,183	6,109	6,812	7,034
Other	807	2,252	743	644	2,241
<b>Total Operating Revenues</b>	<b>318,932</b>	<b>309,207</b>	<b>306,040</b>	<b>348,441</b>	<b>349,230</b>
<b>OPERATING EXPENSES</b>					
Interest	146,971	141,161	151,165	172,939	174,582
Mortgage and loan costs	13,133	13,130	13,059	12,894	12,933
Operations and administration	38,858	35,530	36,240	35,339	32,393
Financing expenses	4,836	11,941	6,168	10,496	2,197
Provision for loan loss	406	(103)	(1,861)	(12,232)	2,690
Housing grants and subsidies	56,829	56,506	48,640	52,023	39,520
Rental housing operating expenses	11,221	10,985	10,149	9,905	9,255
<b>Total Operating Expenses</b>	<b>272,254</b>	<b>269,150</b>	<b>263,560</b>	<b>281,364</b>	<b>273,570</b>
<b>Operating Income</b>	<b>46,678</b>	<b>40,057</b>	<b>42,480</b>	<b>67,077</b>	<b>75,660</b>
<b>NON-OPERATING &amp; SPECIAL ITEM</b>					
Contribution from the State of Alaska	300,000	-	-	-	-
Contribution to State or State agency	(46,845)	(67,288)	(66,136)	(95,321)	(85,562)
Special item	7,126	3,845	(7,451)	-	2,035
<b>Change in Net Assets</b>	<b>\$ 306,959</b>	<b>\$ (23,386)</b>	<b>\$ (31,107)</b>	<b>\$ (28,244)</b>	<b>\$ (7,867)</b>

REQUIRED SUPPLEMENTARY INFORMATION

**Schedule of Funding Progress for PERS (in thousands):**

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) (b)</b>	<b>Excess or (Unfunded) AAL (a) – (b)</b>	<b>Funded Ratio (a) / (b)</b>	<b>Covered Payroll (c)</b>	<b>Excess or (Unfunded) AAL as a Percentage of Covered Payroll ((a) – (b)) / (c)</b>
Pension:						
June 30, 2005	\$ 37,227	\$ 49,251	\$(12,024)	76%	\$ 16,479	(73%)
June 30, 2004	35,749	\$ 46,202	\$(10,453)	77%	\$ 16,006	(65%)
June 30, 2003	34,407	43,271	(8,864)	80%	14,987	(59%)
Postretirement Health:						
June 30, 2005	30,879	40,851	(9,972)	76%	16,479	(61%)
June 30, 2004	25,207	32,578	(7,371)	77%	16,006	(46%)
June 30, 2003	22,997	28,921	(5,924)	80%	14,987	(40%)

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**Alaska**  
**Housing**  
**FINANCE CORPORATION**

*a component unit of the State of Alaska*

**Financial Statements**  
**And Independent Auditors' Report**

**June 30, 2006**

**With Summarized Financial Information for**  
**June 30, 2005**

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# Table of Contents

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	<b>FINANCIAL STATEMENTS</b>	<u>PAGE NUMBER</u>
	Independent Auditors' Report.....	1 - 2
	Management's Discussion and Analysis [MD & A].....	3 - 8
<u>EXHIBITS</u>		
A	Statement of Net Assets.....	9 - 10
B	Statement of Revenues, Expenses, and Changes in Net Assets.....	11 - 12
C	Statement of Cash flows.....	13 - 14
	Notes to the Financial Statements.....	15 - 48
	Schedule of Funding Progress for PERS.....	49



Independent Auditor's Report

The Board of Directors  
Alaska Housing Finance Corporation:

We have audited the accompanying statements of net assets, revenues, expenses, and changes in net assets and cash flows of each major fund and the aggregate remaining fund information of Alaska Housing Finance Corporation (the Corporation) as of and for the year ended June 30, 2006, which collectively comprise the Corporation's basic financial statements. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Corporation's 2005 financial statements and in our report dated September 2, 2005, we expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund and the aggregate remaining fund information of Alaska Housing Finance Corporation as of June 30, 2006, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued a report dated September 1, 2006, on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal controls over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Board of Directors  
Alaska Housing Finance Corporation:

The Management's Discussion and Analysis on pages 3-8 and the schedule of funding progress for PERS on page 49 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Mikunda, Cottrell & Co.*

Anchorage, Alaska  
September 1, 2006

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### OVERVIEW OF THE FINANCIAL STATEMENTS

This financial report consists of three sections: management's discussion and analysis, the basic financial statements and supplementary schedules. The Corporation's operations are business type activities and follow enterprise fund accounting. The Corporation is a component unit of the State of Alaska ("the State") and is discretely presented in the State's financial statements. The Corporation's basic financial statements include: the Statement of Net Assets; the Statement of Revenues, Expenses and Changes in Net Assets; the Statement of Cash Flows and the Notes to Financial Statements. These statements are presented for all of the Corporation's operations and programs, with a dual focus on the Corporation as a whole (entity-wide) and on its major funds. Summarized financial information for FY 2005 is also presented and is intended to facilitate and enhance understanding of the Corporation's financial position, results of operations and cash flows for the current fiscal year in comparison to the prior fiscal year.

#### Management's Discussion and Analysis

This section of the Alaska Housing Finance Corporation's ("the Corporation") annual financial report presents management's discussion and analysis of the financial position and results of operations at and for the fiscal year ended June 30, 2006. This information is being presented to assist the reader in focusing on significant financial issues and to provide additional information regarding the activities of the Corporation. This information should be read in conjunction with the Independent Auditors' Report, the audited financial statements and accompanying notes.

#### Basic Financial Statements

The *Statement of Net Assets (Exhibit A)* answers the question, "How is our financial health at the end of the year?" This statement includes all assets and liabilities of the Corporation, both financial and capital, short-term and long-term, using the accrual basis of accounting and economic resources measurement focus, which is similar to the accounting used by most private-sector companies. The resulting net assets presented in this statement are displayed as restricted or unrestricted. Assets are restricted when their use is subject to external limits such as bond resolutions, legal agreements or statutes. Assets falling outside this category are characterized as unrestricted. Over time, changes in net assets may serve as a useful indicator of whether the financial position of the Corporation is improving or deteriorating.

The *Statement of Revenues, Expenses and Changes in Net Assets (Exhibit B)* measures the activities of the Corporation's operations over the past year and presents the operating income (loss) and change in net assets. It can be used to determine whether the Corporation has successfully recovered all of its costs through mortgage and loan interest, externally funded programs and other revenue sources. This statement helps answer the question, "Is the Corporation as a whole better off or worse off as a result of the year's activities?"

The primary purpose of the *Statement of Cash Flows (Exhibit C)* is to provide information about the sources and uses of the Corporation's cash and the change in cash balance during the reporting period. This statement reports cash receipts, cash payments, and net changes resulting from operating, non-capital financing, capital financing and investing activities. It provides answers to such questions as "Where did cash come from?", "What was cash used for?" and "What was the change in cash balance during the reporting period?"

The *Notes to Financial Statements* provide additional information that is essential to a full understanding of the data provided in the entity-wide financial statements. The Notes to Financial Statements follow Exhibit C.

#### Major Funds

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. For the fiscal year 2006, the Corporation reports the following major funds:

The *Administrative Fund* is the main operating fund of the Corporation. It represents all of the Corporation's activity not presented in other funds. The resources in this fund:

- provide for general working capital requirements of the Corporation
- fund program requirements

MANAGEMENT'S DISCUSSION AND ANALYSIS

- are available to meet outstanding obligations and to fund continuing appropriations
- are available to absorb future loan foreclosure losses, and
- are the source of legislatively authorized transfers to and from the State and debt service payments for debt issued on behalf of the State for state capital projects

As of June 30, 2006, the Administrative Fund reported net assets of \$1,138 million, an increase of \$203 million from June 30, 2005. The increase in net assets can be primarily attributed to contributions from the State of Alaska of \$300 million and an offset by internal transfers from the Administrative Fund of \$125 million. Approximately \$402 million, or 35%, of the Administrative Fund's net assets are restricted by contractual or statutory agreements and \$736 million, or 65%, are unrestricted and may be used for operations and to meet the continuing obligations of the Corporation.

The Administrative Fund reported operating income of \$40 million for FY 2006, a decrease of \$2 million from FY 2005, due primarily to an increase in interest expense of \$6 million, operations and administration expenses of \$1 million, provision for loan loss of \$2 million and offset by an increase in investment interest of \$7 million.

The *Housing Development Bonds Fund* accounts for debt issued and assets pledged for payment of the debt under the bond indentures for Housing Development projects.

The Corporation's *Other Non-Major Funds* include individual funds for First Time Homebuyer Bonds, Veterans Mortgage Program Bonds, Other Housing Bonds, Non-Housing Bonds, Other Program Funds and Revolving Funds. Supplementary schedules present these funds.

## FINANCIAL HIGHLIGHTS

- As a result of this year's operations, the Corporation's operating income was \$47 million, up 17% from FY 2005. Profitability, based on operating income, as measured by the adjusted return on average assets (excluding the change in the fair value of investments) increased to 1.0% at June 30, 2006, compared to 0.9% at June 30, 2005. The change in the fair value has been removed from the ratio due to the volatility of the return.
- The Corporation's assets exceeded its liabilities as of June 30, 2006, by \$1.99 billion (net assets).
- The Corporation's mortgage loan portfolio is one of its primary assets. During the fiscal year ended June 30, 2006, mortgage loans decreased by 2.6%, due to collection of loan payments exceeding new loan purchases.
- During the fiscal year ended June 30, 2006, the Corporation's total assets increased by \$467 million due primarily to changes in investments and mortgage loans. Total liabilities increased by \$160 million due primarily to a \$104 million increase in short-term debt and a \$58 million increase in other liabilities as the result of securities lending transactions in the State of Alaska investment pools.
- During the fiscal year ended June 30, 2006, the Corporation entered into reverse repurchase agreements, a new type of short term debt, which is issued to warehouse refunded debt.

MANAGEMENT'S DISCUSSION AND ANALYSIS

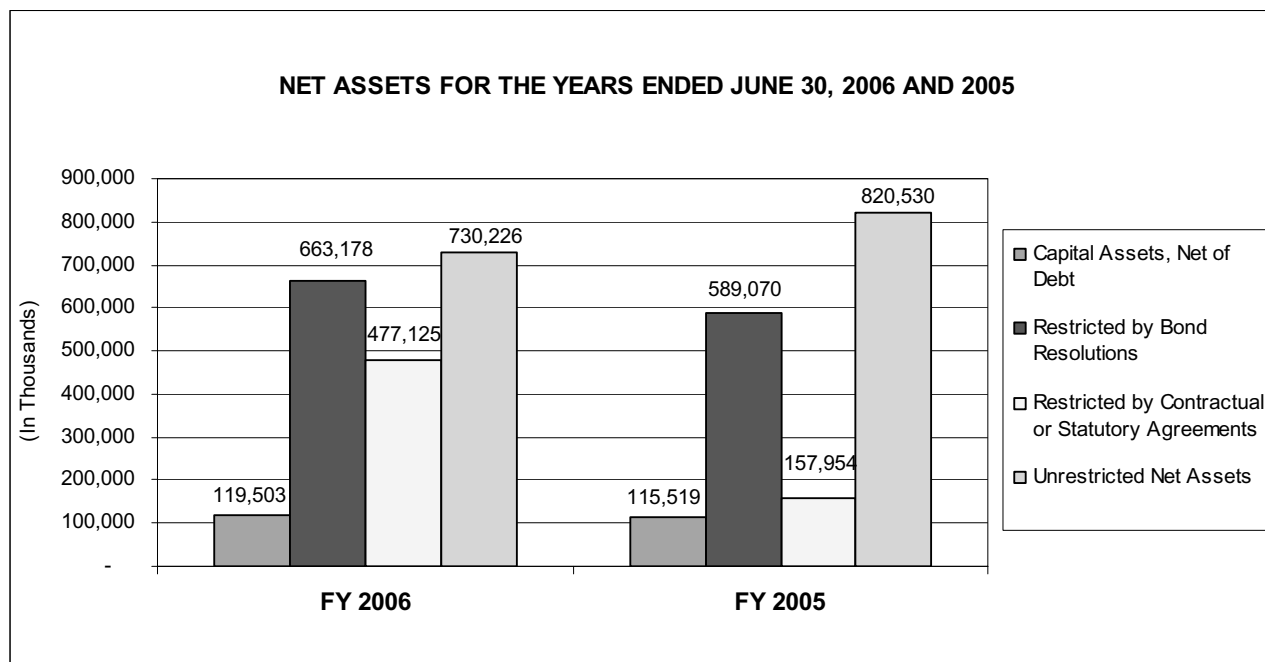
**CONDENSED STATEMENT OF NET ASSETS**

The following table presents condensed information about the financial position of the Corporation as of June 30, 2006 and 2005, and changes in the balances of selected items during the fiscal year ended June 30, 2006 (in thousands):

	2006	2005	Change	
			Increase (Decrease)	
Investments	\$ 1,768,178	\$ 1,219,415	\$ 548,763	45.0 %
Mortgage loans, notes and other loans, net	3,240,209	3,325,182	(84,973)	(2.6) %
Capital assets, net	120,030	116,073	3,957	3.4 %
Total assets	5,229,576	4,762,933	466,643	9.8 %
Bonds and notes, net	2,907,223	2,898,730	8,493	0.3 %
Short term debt	242,449	138,375	104,074	75.2 %
Total liabilities	3,239,544	3,079,860	159,684	5.2 %
Total net assets	1,990,032	1,683,073	306,959	18.2 %

As of June 30, 2006, total assets increased by \$467 million from June 30, 2005. The increase in total assets can be primarily attributed to an increase in investments resulting from a \$300 million contribution from the State of Alaska and \$58 million of investments receives as collateral on securities lending transactions in the State of Alaska investment pools (Note 16). The increase in total assets was offset partially by a decrease in mortgages owing to loan payments exceeding loan purchases. Total liabilities increased by \$160 million from June 30, 2005. The increase in total liabilities is primarily due to an increase in short term debt resulting from the Corporation participating in reverse repurchase agreements and an increase in other liabilities due to securities lending transactions.

The chart below represents the classification of unrestricted and restricted net assets, and capital assets, net of debt, for FY 2006 and FY 2005.





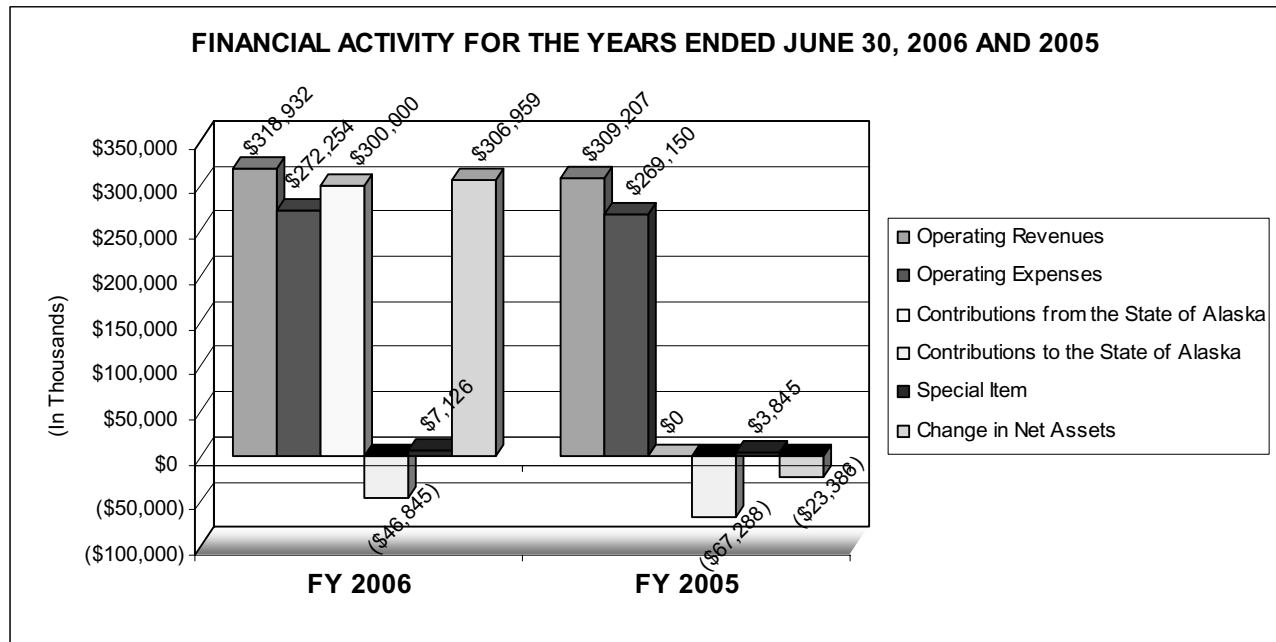
MANAGEMENT'S DISCUSSION AND ANALYSIS

In the fiscal year 2006, net assets restricted by contractual or statutory agreements increased by \$319 million primarily due to the \$300 million contribution from the State of Alaska.

**CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**

The following table presents condensed information about the revenues, expenses and changes in net assets for the fiscal years ended June 30, 2006 and 2005, and the variance from the prior fiscal year (in thousands):

	2006	2005	Change Increase (Decrease)	
Mortgages and loan revenue	\$ 193,573	\$ 201,386	\$ (7,813)	(3.9) %
Investment interest income	60,220	43,162	17,058	39.5 %
Net change in the fair value of investments	(1,830)	(1,653)	(177)	(10.7) %
Externally funded programs	59,587	57,877	1,710	3.0 %
Total operating revenues	318,932	309,207	9,725	3.1 %
Interest expense	146,971	141,161	5,810	4.1 %
Operations and administration	38,858	35,530	3,328	9.4 %
Housing grants and subsidies	56,829	56,506	323	0.6 %
Total operating expenses	272,254	269,150	3,104	1.2 %
Operating income	46,678	40,057	6,621	16.5 %
Contributions from the State of Alaska	300,000	-	300,000	-
Contributions to the State of Alaska or other State agencies	(46,845)	(67,288)	20,443	(30.4) %
Special item	7,126	3,845	3,281	(85.3) %
Change in net assets	306,959	(23,386)	330,345	1,412.6 %



MANAGEMENT'S DISCUSSION AND ANALYSIS

Total operating revenues increased by a net amount of \$10 million, or 3.1%, during FY 2006 primarily due to an increase in investment interest income. Total operating expenses increased slightly by \$3 million, or 1.2%. The net effect of changes in operating revenues and expenses was a 16.5% increase in operating income from \$40 million to \$47 million.

The Corporation continued its series of annual payments to the State of Alaska and State agencies. As a result of a modification to the Transfer Plan during the 2004 Legislative Session, transfers to the State for FY 2005 and FY 2006 were \$103 million. In FY 2007 the Transfer Plan calls for payment of the lesser of \$103 million or 95% of the Corporation's net income, with this payment percentage declining to 85% in FY 2008 and 75% in the fiscal years thereafter. Subsequent to GASB 34, the Corporation interprets net income as operating income.

During the fiscal years 2006 and 2005, the Corporation recorded a gain on sale of a loan in the amount of \$7 million and \$4 million, respectively. Because loan sales are unusual for the Corporation, the gain on sale was treated as a special item on the Corporation's Statement of Revenues, Expenses and Changes in Net Assets.

The Change in Net Assets for FY 2006 was an increase of \$307 million primarily due to the \$300 million contribution from the State of Alaska. The Change in Net Assets for FY 2005 was a slight decrease of \$23 million primarily due to contributions to the State of Alaska and other State agencies exceeding operating income.

**DEBT ADMINISTRATION**

As of June 30, 2006, the Corporation had \$2.91 billion of bonds and notes payable secured by assets held and the general obligation pledge of the Corporation. The Corporation's debt is rated by three major rating agencies. The ratings assigned to the Corporation by each of those agencies are:

Rating Category	Fitch Ratings	Moody's Investors Service	Standard & Poor's
General Obligation:			
Long Term	AA+	Aa2	AA
Short Term	F1+	P-1	A-1+
General Account Fund Rating:			
Credit Quality			AAAf
Volatility			S1

Significant debt activity during the year included the following:

- Issued \$174 million in Tax-Exempt Home Mortgage Revenue Bonds;
- Issued \$15 million in Tax-Exempt Veterans Collateralized Bonds;
- Issued \$145 million in Tax-Exempt Veterans Collateralized Notes;
- Redeemed previously defeased Governmental Purpose Bonds in the amount of \$150 million.
- Redeemed bonds through surplus redemption provisions of their respective indentures in the amount of \$232 million;
- Issued and redeemed short-term commercial paper under the Corporation's \$150 million commercial paper program and
- Issued \$602 million and redeemed \$508 million of short term reverse repurchase agreements.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Operating Budget of the State of Alaska for the fiscal year ended June 30, 2006, authorized the issuance of \$800 million in bonds by the Corporation. This limitation did not apply to refunding bonds. Bond issuances for the year were under this limit.

Additional information on the Corporation's long-term debt can be found in the Notes to Financial Statements.

**ECONOMIC FACTORS AND OTHER FINANCIAL INFORMATION**

The primary business activity of the Corporation is providing a secondary market for the purchase of single-family and multi-family mortgage loans. The Corporation's mortgage financing activities are sensitive to changes in interest rates, the spread between the rate on the Corporation's loans and those available in the conventional mortgage markets, and the availability of affordable housing in the State. The availability of long-term tax-exempt financing on favorable terms is a key element in providing the funding necessary for the Corporation to continue its mortgage financing activities.

The Corporation's main sources of revenues include mortgage loan activity, investment interest income and externally funded grants and subsidies. Market interest rates have an effect on both the mortgage program and investment income revenues. If interest rates continue at current levels, the Corporation expects mortgage and investment income to remain relatively stable. If interest rates rise, mortgage and investment income should increase as new loans are originated and new investments are purchased at the higher rates. If interest rates fall, mortgage and investment income will decrease as new loans are originated and new investments are purchased at the lower rates. Any decrease in interest rates could also cause an increase in prepayments on higher rate mortgages. The Corporation uses many of these prepayments to call the corresponding bond series, which lowers the interest expense incurred on the Corporation's overall bonds outstanding, or to recycle mortgages to obtain the maximum allowable spread. Large federal deficits or changes in programs or funding levels could have a negative impact on externally funded program revenues.

**CONTACTING THE CORPORATION'S FINANCIAL MANAGEMENT**

This financial report is designed to provide a general overview of the Corporation's finances and to show the Corporation's accountability for the money it receives. If you have questions about this report or need additional financial information, please visit the Corporation's web site [www.ahfc.state.ak.us](http://www.ahfc.state.ak.us) or contact the Financial Reporting Officer at [dboyce@ahfc.state.ak.us](mailto:dboyce@ahfc.state.ak.us).

# ALASKA HOUSING FINANCE CORPORATION

(A Component Unit of the State of Alaska)

## STATEMENT OF NET ASSETS

As of June 30, 2006

(with summarized financial information for June 30, 2005)

(in thousands of dollars)

	Administrative Fund	Housing Development Bonds	Other Non-Major Funds
<b><u>ASSETS</u></b>			
<b>Current</b>			
Cash	6,505	-	5,078
Investments	817,338	25,998	374,566
Accrued interest receivable	3,355	3,389	12,269
Mortgage loans, notes and other loans	14,032	6,428	61,460
Net investment in direct financing lease	-	-	2,025
Other assets	6,852	73	7,748
Intergovernmental receivable	13	-	633
<b>Total Current</b>	<b>848,095</b>	<b>35,888</b>	<b>463,779</b>
<b>Non Current</b>			
Investments	-	128,266	422,010
Mortgage loans, notes and other loans, net of allowance	593,159	269,259	2,295,871
Net investment in direct financing lease	-	-	27,085
Unamortized bond issuance costs	-	3,744	20,840
Capital assets - non-depreciable	148	-	39,387
Capital assets - depreciable, net	231	-	80,264
Other assets	1,550	-	-
<b>Total Non Current</b>	<b>595,088</b>	<b>401,269</b>	<b>2,885,457</b>
<b>Total Assets</b>	<b>1,443,183</b>	<b>437,157</b>	<b>3,349,236</b>
<b><u>LIABILITIES</u></b>			
<b>Current</b>			
Bonds and notes payable	-	6,310	205,658
Short term debt	242,449	-	-
Accrued interest payable	781	1,614	14,945
Other liabilities	61,255	54	3,379
Intergovernmental payable	-	-	4,972
<b>Total Current</b>	<b>304,485</b>	<b>7,978</b>	<b>228,954</b>
<b>Non Current</b>			
Bonds and notes payable	-	394,910	2,300,345
Other liabilities	682	-	2,190
<b>Total Non Current</b>	<b>682</b>	<b>394,910</b>	<b>2,302,535</b>
<b>Total Liabilities</b>	<b>305,167</b>	<b>402,888</b>	<b>2,531,489</b>
<b><u>NET ASSETS</u></b>			
Invested in capital assets, net of related debt	379	-	119,124
Restricted by bond resolutions	-	34,269	628,909
Restricted by contractual or statutory agreements	401,601	-	75,524
Unrestricted net assets, (deficit)	736,036	-	(5,810)
<b>Total Net Assets</b>	<b>1,138,016</b>	<b>34,269</b>	<b>817,747</b>

See accompanying notes to the financial statements.

**Exhibit A**

<b>Total June 30, 2006</b>	<b>Total June 30, 2005</b>
11,583	9,769
1,217,902	699,453
19,013	20,762
81,920	83,364
2,025	1,799
14,673	11,364
646	715
<u>1,347,762</u>	<u>827,226</u>
550,276	519,962
3,158,289	3,241,818
27,085	31,044
24,584	25,135
39,535	40,691
80,495	75,382
1,550	1,675
<u>3,881,814</u>	<u>3,935,707</u>
<u>5,229,576</u>	<u>4,762,933</u>
211,968	90,977
242,449	138,375
17,340	14,147
64,688	19,264
4,972	3,007
<u>541,417</u>	<u>265,770</u>
2,695,255	2,807,753
2,872	6,337
<u>2,698,127</u>	<u>2,814,090</u>
<u>3,239,544</u>	<u>3,079,860</u>
119,503	115,519
663,178	589,070
477,125	157,954
730,226	820,530
<u>1,990,032</u>	<u>1,683,073</u>

(A Component Unit of the State of Alaska)

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**

For the Year Ended June 30, 2006

(with summarized financial information for June 30, 2005)

(in thousands of dollars)

	<b>Administrative Fund</b>	<b>Housing Development Bonds</b>	<b>Other Non-Major Funds</b>
<b><u>OPERATING REVENUES</u></b>			
Mortgage and loans revenue	41,716	21,224	130,633
Investment interest	17,245	5,577	37,398
Net change in the fair value of investments	(1,662)	19	(187)
<b>Total Investment Revenue</b>	<b>15,583</b>	<b>5,596</b>	<b>37,211</b>
Externally funded programs	-	-	59,587
Rental	-	-	6,575
Other	78	-	729
<b>Total Operating Revenues</b>	<b>57,377</b>	<b>26,820</b>	<b>234,735</b>
<b><u>OPERATING EXPENSES</u></b>			
Interest	7,754	19,417	119,800
Mortgage and loan costs	3,144	666	9,323
Operations and administration	3,481	1,584	33,793
Financing expenses	1,125	894	2,817
Provision for loan loss	989	(1,195)	612
Housing grants and subsidies	565	-	56,264
Rental housing operating expenses	-	-	11,221
<b>Total Operating Expenses</b>	<b>17,058</b>	<b>21,366</b>	<b>233,830</b>
<b>Operating Income (Loss)</b>	<b>40,319</b>	<b>5,454</b>	<b>905</b>
<b><u>NONOPERATING REVENUES &amp; EXPENSES</u></b>			
<b><u>SPECIAL ITEM &amp; TRANSFERS</u></b>			
Contributions from the State of Alaska (note 16)	300,000	-	-
Contributions to the State of Alaska or other State agencies	(19,964)	-	(26,881)
Special Item (note 22)	7,126	-	-
Transfers - Internal	(124,517)	46,416	78,101
Change in Net Assets	202,964	51,870	52,125
Net assets at beginning of year	935,052	(17,601)	765,622
<b>Net Assets at End of Period</b>	<b>1,138,016</b>	<b>34,269</b>	<b>817,747</b>

See accompanying notes to the financial statements.

**Exhibit B**

<b>Total June 30, 2006</b>	<b>Year Ended June 30, 2005</b>
193,573	201,386
60,220	43,162
(1,830)	(1,653)
<u>58,390</u>	<u>41,509</u>
59,587	57,877
6,575	6,183
807	2,252
<u>318,932</u>	<u>309,207</u>
146,971	141,161
13,133	13,130
38,858	35,530
4,836	11,941
406	(103)
56,829	56,506
11,221	10,985
<u>272,254</u>	<u>269,150</u>
46,678	40,057
300,000	-
(46,845)	(67,288)
7,126	3,845
-	-
<u>306,959</u>	<u>(23,386)</u>
1,683,073	1,706,459
<u>1,990,032</u>	<u>1,683,073</u>

# ALASKA HOUSING FINANCE CORPORATION

(A Component Unit of the State of Alaska)

## STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2006

(with summarized financial information for June 30, 2005)

(in thousands of dollars)

Audited

	Administrative Fund	Housing Development Bonds	Other Non-Major Funds
<b>Cash flows from operating activities:</b>			
Interest income on mortgages and loans	35,185	20,634	126,803
Principal payments received on mortgages and loans	60,606	38,700	432,868
Purchases of mortgages and loans	(482,745)	-	-
Receipt (payment) for loan transfers between funds	350,074	(22,113)	(327,961)
Payments to employees and other payroll disbursements	(28,530)	-	-
Payments for goods and services	(49,158)	(53)	(37)
Cash received for externally funded programs	764	-	27,505
Cash received for Federal HAP subsidies	-	-	31,970
Payments for Federal HAP subsidies	-	-	(30,310)
Other operating cash receipts	41,977	-	10,335
Other operating cash payments	(2,935)	-	(12)
<b>Net cash provided by (used for) operating activities</b>	<b>(74,762)</b>	<b>37,168</b>	<b>271,161</b>
<b>Cash flows from noncapital financing activities:</b>			
Proceeds from the issuance of bonds	-	-	335,806
Principal paid on bonds	-	(21,820)	(299,121)
Payment to defease bonds	-	-	-
Payment of bond issuance costs	(1,675)	-	-
Interest paid	(7,542)	(19,376)	(116,103)
Proceeds from issuance of short term debt	2,012,356	-	-
Payment of short term debt	(1,908,441)	-	-
Contributions to the State of Alaska or other State agencies	(26,945)	-	(20,308)
Transfers (to) from other funds	15,924	2,424	(18,348)
Other cash payments	-	-	-
<b>Net cash provided by (used for) noncapital financing activities</b>	<b>83,677</b>	<b>(38,772)</b>	<b>(118,074)</b>
<b>Cash flows from capital financing activities:</b>			
Acquisition of capital assets	(9,176)	-	-
Proceeds from the disposal of capital assets	-	-	-
Proceeds from the issuance of capital notes	-	-	-
Principal paid on capital notes	(27)	-	(2,214)
Payment of bond issuance costs	-	-	-
Interest paid on capital notes	(1)	-	(1,899)
Proceeds from the direct financing lease payments	-	-	2,535
<b>Net cash provided by (used for) capital financing activities</b>	<b>(9,204)</b>	<b>-</b>	<b>(1,578)</b>
<b>Cash flows from investing activities:</b>			
Purchase of investments	(6,123,452)	(392,051)	(3,870,482)
Proceeds from maturity of investments	6,110,654	387,849	3,681,609
Interest received from investments	17,390	5,462	35,219
<b>Net cash provided by (used for) investing activities</b>	<b>4,592</b>	<b>1,260</b>	<b>(153,654)</b>
Net Increase (decrease) in cash	4,303	(344)	(2,145)
Cash at the beginning of year	2,202	344	7,223
<b>Cash at the end of period</b>	<b>6,505</b>	<b>-</b>	<b>5,078</b>
<b>Reconciliation of operating income (loss) to net cash provided by (used for) operating activities</b>			
Operating income (loss)	40,319	5,454	905
<i>Adjustments:</i>			
Depreciation expense	106	-	4,794
Provision for loan losses	989	(1,195)	612
Amortization of bond issuance costs	-	145	1,923
Net change in the fair value of investments	1,662	(19)	187
Transfers between funds for operating activity	(85,351)	2,077	83,274
Interest received from investments	(17,390)	(5,462)	(35,219)
Interest paid	7,543	19,376	118,002
<i>Changes in assets and liabilities:</i>			
Net increase (decrease) in mortgages and loans	(40,438)	16,587	104,907
Net increase (decrease) in assets and liabilities	17,798	205	(8,224)
<b>Net cash provided by (used for) operating activities</b>	<b>(74,762)</b>	<b>37,168</b>	<b>271,161</b>
<b>Noncash investing, capital and financing activities:</b>			
Asset transfers	(43,157)	41,366	1,791
Contributions from the State of Alaska	300,000	-	-
Purchase of investments	(358,293)	-	-
Other liabilities	58,293	-	-

See accompanying notes to the financial statements.



Total June 30, 2006	Year Ended June 30, 2005
182,622	201,929
532,174	542,245
(482,745)	(567,521)
-	-
(28,530)	(25,535)
(49,248)	(49,520)
28,269	22,611
31,970	32,908
(30,310)	(32,916)
52,312	62,961
(2,947)	(7,012)
233,567	180,150
335,806	405,993
(320,941)	(240,366)
-	(173,820)
(1,675)	(3,518)
(143,021)	(143,086)
2,012,356	828,416
(1,908,441)	(760,477)
(47,253)	(65,828)
-	-
-	(130)
(73,169)	(152,816)
(9,176)	(11,055)
-	739
-	24,000
(2,241)	(1,106)
-	(200)
(1,900)	(1,033)
2,535	-
(10,782)	11,345
(10,385,985)	(7,751,993)
10,180,112	7,675,078
58,071	40,066
(147,802)	(36,849)
1,814	1,830
9,769	7,939
11,583	9,769
46,678	40,057
4,900	5,072
406	(103)
2,068	2,725
1,830	1,653
-	-
(58,071)	(40,066)
144,921	144,119
81,056	22,192
9,779	4,501
233,567	180,150

NOTES TO FINANCIAL STATEMENTS

**FOOTNOTE INDEX**

<u>Footnote Number</u>	<u>Description</u>	<u>Page Number</u>
1	Authorizing Legislation and Funding .....	16
2	Summary of Significant Accounting Policies .....	16 - 18
3	Cash and Investments .....	19 - 23
4	Mortgage Loans, Notes and Other Loans .....	24
5	Insurance Agreements .....	24
6	Loan Self Insurance Program .....	24
7	Direct Financing Lease .....	25
8	Capital Assets .....	25
9	Bonds and Notes Payable .....	26 - 32
10	Derivatives .....	33 - 34
11	Long Term Liabilities .....	35
12	Short Term Debt .....	35
13	Transfers .....	36
14	Unused Letters of Credit and Other Credit Arrangements .....	36
15	Yield Restriction and Arbitrage Rebate .....	37
16	Contributions from the State of Alaska .....	37 - 41
17	State Authorizations and Commitments .....	41 - 42
18	Grants .....	43
19	Other Programs .....	44 - 45
20	Pension Plan .....	45 - 46
21	Other Commitments and Contingencies .....	46
22	Risk Management .....	46
23	Special Item .....	47
24	Summarized Balance Sheet .....	47
25	Statement of Activity .....	48

NOTES TO FINANCIAL STATEMENTS

**FOR THE YEAR ENDED JUNE 30, 2006**  
**(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2005)**

**1 AUTHORIZING LEGISLATION AND FUNDING**

The Alaska Housing Finance Corporation (Corporation), a public corporation and government instrumentality of the State of Alaska (State), was created in 1971, and substantially modified in 1992, by acts of the Alaska State 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. The Corporation is a component unit of the State of Alaska and is discretely presented in the State's financial statements.

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 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.

The Northern Tobacco Securitization Corporation (NTSC) was incorporated in the State of Alaska pursuant to House Bill No. 281 of the Alaska Legislature, as a subsidiary of the Corporation. There is no financial accountability between NTSC and 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 is not included in the Corporation's financial statements. NTSC is a government instrumentality of, but separate and apart from, the State and is reported as a blended component unit in the State's financial statements.

In accordance with the Legislature's intent, the Corporation formed a subsidiary, the Alaska Housing Capital Corporation ("AHCC"), under the Alaska Nonprofit Corporation Act (AS 10.20) and provisions of the Alaska Housing Finance Corporation Act (AS 18.56), as amended. AHCC was incorporated on May 23, 2006, as a public corporation and government instrumentality of, but having a legal existence independent of and separate from, the State of Alaska. AHCC is a subsidiary of, but separate and apart from, the Corporation. There is no financial accountability between AHCC and the Corporation. AHCC is not a component unit of the Corporation and thus is not included in the Corporation's financial statements.

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Accounting**

The Corporation's funds are accounted for as enterprise funds for financial reporting purposes. All funds utilize the economic resource measurement focus and accrual basis of accounting wherein revenues are recognized when earned and expenses when incurred. The Corporation applies all Governmental Accounting Standards Board (GASB) pronouncements for the Corporation's funds, as well as those Financial Accounting Standards Board (FASB) pronouncements issued before November 30, 1989, unless such pronouncements conflict with or contradict GASB pronouncements. After November 30, 1989, the Corporation only applies applicable GASB pronouncements.

**Basis of Presentation**

The Corporation's financial statements include a classified Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Net Assets formatted to report operating and non-operating revenues and expenses, a Cash Flow Statement presented using the direct method, and notes to the financial statements. The Corporation's financial statements present the Administrative Fund and the other Major Funds in separate columns. The remaining Non-Major Funds are aggregated and displayed in a single column. The total column presents the entity-wide amounts for the Corporation.

Summarized financial information for fiscal year 2006 has been presented in the accompanying financial statements in order to provide an understanding of changes in the Corporation's entity-wide financial position, results of operations and cash flows on an entity-wide basis. However, the summarized financial information is not intended to present the financial position, result of operations or cash flows in accordance with accounting principles generally accepted in the United States of America.

NOTES TO FINANCIAL STATEMENTS

**Major and Non-Major Funds**

The Corporation reports the following major and non-major funds:

*Administrative Fund.* This is the Corporation's primary operating fund. It accounts for all financial resources of the Corporation, except those accounted for in separate funds.

*Housing Development Bonds.* This fund accounts for debt issued and assets pledged for payment of the debt under the bond indentures for Housing Development projects.

*Other Non-Major Funds.* Resources to assist in the financing, development and sale of housing units, public housing assistance programs, energy programs, and home loan programs are aggregated and reported in Other Non-Major Funds.

**Restricted Net Assets**

The restricted net asset amounts of the Administrative Fund consist of the Corporation's remaining commitments to the State (refer to Footnote No. 16, State Authorizations and Commitments, for further details). The remaining resources of the Administrative Fund are unrestricted.

The other financial activities of the Corporation are restricted by the Corporation's bond resolutions, requirements from the Legislature, and statutory requirements or third party agreements that restrict the use of resources. These restricted resources are recorded in various special purpose funds and accounts. Restricted funds with a net deficit balance are shown as having an unrestricted net asset balance pursuant to reporting requirements.

When both restricted and unrestricted resources are available in a fund, it is the Corporation's policy to spend restricted funds to the extent allowed and only spend unrestricted funds when needed.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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. The significant estimate for the Corporation is the allowance for loan losses.

**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.

**Accrued Interest Receivable on Loans and Real Estate Owned**

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.

**Loans and Allowances for Estimated Loan Losses**

Mortgage loans are carried at their unpaid principal balances net of allowance for estimated loan losses. Mortgage loans are recorded as amounts are disbursed.

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.

NOTES TO 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. These amounts are included in other assets.

**Depreciation**

Depreciation and amortization of buildings, equipment and leasehold improvements 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 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.

**Operating Revenues and Expenses**

The Corporation was created with the authority to issue bonds to the investing public in order to create a flow of private capital through the Corporation into mortgage loans to qualified housing sponsors and to certain individuals. The Corporation's primary purpose is to borrow funds in the bond market and to use those funds to make single-family and multi-family mortgages and loans. Its primary operating revenue is derived from the interest income and fees from those mortgages and loans and on the invested proceeds from the bond issues. Additionally, the Corporation's statutory purpose includes providing financial assistance programs for rental subsidies to tenants of various housing developments. The Corporation records all revenues from mortgages and loans, investments, rental activities, and externally funded programs as operating revenues. The primary costs of providing these programs are recorded as operating expenses.

**Income Taxes**

The Corporation is exempt from federal and state income taxes.

NOTES TO FINANCIAL STATEMENTS

**3 CASH AND INVESTMENTS**

Cash consists of demand deposits, time deposits and cash held in trust. The carrying amount of the Corporation's cash is restricted by bond resolutions, contractual agreements, and statutory agreements. A summary of the Corporation's cash is shown below (in thousands):

	June 30, 2006	June 30, 2005
Restricted cash	\$ 5,078	\$ 7,567
Unrestricted	6,505	2,202
Carrying amount	<u>\$ 11,583</u>	<u>\$ 9,769</u>
Bank balance	<u>\$ 12,297</u>	<u>\$ 11,570</u>

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 penalty.

	Investment Maturities (in Years)				June 30, 2006	June 30, 2005
	Less Than 1	1-5	6-10	More Than 10		
Bank investment contracts	\$ 158,358	\$ -	\$ -	\$ -	\$ 158,358	\$ 198,848
U.S. Treasury securities	152,746	35,221	-	-	187,967	73,603
Securities of U.S. Government agencies and corporations	206,432	32,424	757	644	240,257	256,002
Asset-backed securities	782	10,481	-	-	11,263	24,067
Certificates of deposit	15,000	-	-	-	15,000	15,000
Commercial paper & medium term notes	630,514	23,950	1,134	-	655,598	489,860
Guaranteed investment contracts	130,170	-	-	-	130,170	128,907
Money market funds	10,697	-	-	-	10,697	33,128
Total AHFC portfolio	<u>\$1,304,699</u>	<u>\$102,076</u>	<u>\$ 1,891</u>	<u>\$ 644</u>	1,409,310	1,219,415
SOA investment pools (Note 16)					358,868	-
Total investments					<u>\$1,768,178</u>	<u>\$1,219,415</u>

**Restricted Investments**

The carrying amount of the Corporation's investments, a majority of which are restricted by bond resolutions, contractual agreements, and statutory agreements, is shown below (in thousands):

	June 30, 2006	June 30, 2005
Restricted investments	\$ 1,411,309	\$ 857,599
Unrestricted	356,869	361,816
Carrying amount	<u>\$ 1,768,178</u>	<u>\$ 1,219,415</u>

NOTES TO FINANCIAL STATEMENTS

**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 is shown below (in thousands):

	June 30, 2006	June 30, 2005
Ending unrealized holding gain	\$ 859	\$ 423
Beginning unrealized holding gain (loss)	423	(745)
Net change in unrealized holding gain (loss)	436	1,168
Net realized loss	(2,266)	(2,821)
Net decrease in Fair Value	<u>\$ (1,830)</u>	<u>\$ (1,653)</u>

**Deposit and Investment Policies**

The Corporation utilizes different investment strategies depending upon the nature and intended use of the assets being invested. All funds are classified as trust or non-trust, and this determines the applicable investment guidelines used by staff when making investment decisions.

The Corporation's fiscal policies provide investment guidelines for non-trusted funds. Funds are invested according to anticipated use: those that must remain immediately available to provide working capital are invested in short-term, highly liquid securities, while those not expected to be used in the short-term are invested in longer-term securities.

The following securities are eligible for investment under the Corporation's fiscal policies:

- Obligations of, or obligations guaranteed as to principal and interest by, the United States or any agency or instrumentality thereof when such obligations are backed by the full faith and credit of the United States;
- Obligations of U.S. government-sponsored agencies, including mortgage securities, that are not backed by the full faith and credit of the U.S. Government;
- Bank debt obligations, including unsecured certificates of deposit, notes, time deposits, and bankers' acceptances (having maturities of not more than 365 days) 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 or "F-1" by Fitch;
- Deposits in and investments of a commercial bank or credit union which are fully insured by the FDIC or NCUA or, to the extent not insured by the FDIC or NCUA, provide for the pledge of collateral maintained at a minimum level of 105% and valued at least monthly;
- 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 or "AA" by Fitch if maturing in excess of one year, and "A-1" by S&P or "P-1" by Moody's or "F1" by Fitch if maturing in one year or less;
- Asset-backed securities, other than commercial paper and 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 or "AA" by Fitch;
- Commercial paper, including asset-backed commercial paper, rated at least "A-1" by S&P or "P-1" by Moody's or "F1" by Fitch;
- 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 "A" by Fitch or short-term ratings of at least "A-1" by S&P or "P-1" by Moody's or "F-1" by Fitch and where collateral is maintained at a minimum level of 102%, valued on a daily basis;
- Money market funds which are rated at least "AAm" or "AAm-G" by S&P or "Aa" by Moody's, or "V-1+" by Fitch;
- Investment agreements or guaranteed investment contracts with an insurance company, bank or other financial institution 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 or "AA" by Fitch, or, if the term is one year or less, at least "A-1" by S&P or "P-1" by Moody's or "F1" by Fitch;

NOTES TO FINANCIAL STATEMENTS

- Floating rate notes issued by entities having outstanding unsecured long-term obligations rated “AA” by S&P or “Aa” by Moody’s or “AA” by Fitch, or, if the term of the floating rate note is one year or less, having outstanding short-term obligations rated at least “A-1” by S&P or “P-1” by Moody’s or “F1” by Fitch; with interest rates subject to adjustment at least every 100 days; and with a maximum maturity of three years or less, or an optional tender available to bondholders no less frequently than every interest rate reset date;
- Adjustable rate funds, provided they are rated “AAAF” credit and “S-1” 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 or “AAA” by Fitch.

Trusted funds are invested according to the terms outlined in their respective indentures or governing agreements, which generally mandate the purchase of relatively short-term, high quality fixed income securities. In those rare instances, if any, where an indenture or governing agreement is less restrictive than the Corporation’s fiscal policies for non-trust funds, the investment will be made in accordance with the more restrictive fiscal policies.

**Credit Risk**

Credit risk is the risk of loss due to the failure of the security or backer. The Corporation mitigates its credit risk by limiting investments to those permitted in the deposit and investment policies, diversifying the investment portfolio, and pre-qualifying firms with which the Corporation administers its investment activities.

The credit quality ratings of the Corporation’s investments as of June 30, 2006, as described by nationally recognized statistical rating organizations, are shown below (in thousands). \$187,967,000 of U.S. Treasury securities and securities of agencies and corporations which are explicitly guaranteed by the U.S. government are not considered to have credit risk and therefore, are not included in the summary.

	Moody’s	S & P	Investment Fair Value
Securities of U. S. Government agencies and corporations:			
Aaa		AAA	\$ 240,257
Asset-backed securities:			
Aaa		AAA	10,166
Commercial paper & medium-term notes:			
Aaa		AAA	7,070
Aa1		AA+	1,945
Aa1		AA-	1,937
Aa2		AA	1,108
Aa2		AA-	2,898
Aa2		A+	2,047
Aa3		AA	6,494
Aa3		AA-	5,237
Aa3		A+	4,532
A1		AA-	1,000
P-1		A-1+	466,250
P-1		A-1	102,344
--		A-1	50,224
Baa3		BBB	1,134
			<u>654,220</u>
Money market funds			
--		AAAm	10,661
<u>Unrated investments:</u>			
Bank investment contracts			158,358
Asset-backed securities			1,097
Certificates of deposit			15,000
Guaranteed investment contracts			130,170
Money market funds			36
Commercial paper & medium-term notes			1,378
			<u>306,039</u>
			<u>\$ 1,221,343</u>



NOTES TO FINANCIAL STATEMENTS

**Concentration Risk**

Concentration risk is the risk of loss attributed to the magnitude of the Corporation's investment in a single issuer. Concentration limits are not established in the bond indentures and governing agreements for trust investments. The Corporation's fiscal policies set the maximum concentration limits for non-trust investments as follows:

Investment Type	Investment Type Limit as a % of Total Portfolio	Issuer Limit as a % of Total Portfolio
General obligations of the United States	100%	100%
Securities of U.S. Government agencies and corporations	65%	35%
Corporate and non-corporate (including the following):	60%	5%
<ul style="list-style-type: none"> <li>• Adjustable rate funds</li> <li>• Bank investment contracts</li> <li>• Certificates of deposit</li> <li>• Commercial paper &amp; medium term notes</li> <li>• Deposits in and investments of a commercial bank or credit union</li> <li>• Floating or variable rate notes</li> <li>• Guaranteed investment contracts</li> <li>• Money market funds</li> <li>• Repurchase agreements</li> </ul>		
Mortgage and asset-backed securities	20%	5%

**Investment Holdings Greater than Five Percent of Total Portfolio**

The following investment holdings, summarized by issuer, include both investments that are governed by the maximum concentration limits of the Corporation's fiscal policy and trusted investments which have no established concentration limits. Investments issued or explicitly guaranteed by the U.S. government, investments in mutual funds, external investment pools, and other pooled investments are excluded from this summary. As of June 30, 2006, the Corporation had investment balances, greater than 5 percent of the Corporation's total investments, with the following issuers (in thousands).

Issuer	Investment Fair Value	Percentage of Total Portfolio
Federal National Mortgage Association	\$ 185,727	13.2%
HBOS Treasury Services	123,217	8.8
Chesham Fin	122,723	8.7
FSA Capital Management Services	105,000	7.5
Bayerische Landesbank	93,121	6.6

**Custodial Credit Risk**

The Corporation assumes levels of custodial credit risk for its deposits with financial institutions, bank investment agreements, and investments. For deposits, custodial credit risk is the risk that, in the event of a bank failure, the Corporation's deposits may not be returned. For bank investment agreements and investments, custodial credit risk is the risk that, in the event of failure of the custodian or counterparty holding the investment, the Corporation will not be able to recover the value of the investment. The Corporation has not established a formal custodial credit risk policy for its investments.

Of the Corporation's \$12,297,000 bank balance at June 30, 2006, cash deposits in the amount of \$9,399,000 were uninsured and uncollateralized.

Of the Corporation's \$1,409,310,000 total investments at June 30, 2006, bank investment contracts in the amount of \$93,121,000 were uninsured, unregistered, and held by the counterparty or its agent, but not in the Corporation's name.

NOTES TO FINANCIAL STATEMENTS

**Interest Rate Risk**

Interest rate risk is the risk that the market value of investments will decline as a result of changes in general interest rates. For non-trust investments, the Corporation mitigates interest rate risk by structuring its investment maturities to meet cash requirements (including corporate operations), thereby avoiding the need to sell securities in the open market prior to maturity. For investments held in trust, investment maturities are structured to meet cash requirements as outlined in the bond indentures and contractual and statutory agreements.

**Modified Duration**

Modified duration estimates the sensitivity of an investment to interest rate changes. The following table shows the Corporation's trusted and non-trusted investments (in thousands) with their modified duration as of June 30, 2006:

	<b>Investment Fair Value</b>	<b>Modified Duration</b>
Bank investment contracts	\$ 158,358	0.000
U.S. Treasury securities:		
Treasury coupon securities	187,967	0.792
Securities of U.S. Government agencies and corporations:		
Federal agency discounts	198,102	0.157
Federal agency coupon securities	35,893	1.575
Federal agency pass through securities	6,262	1.278
Asset-backed securities	11,263	3.141
Certificates of deposit	15,000	0.136
Commercial paper & medium term notes:		
Commercial paper discounts	620,195	0.144
Corporate bonds	5,003	1.725
Medium term notes	26,870	1.639
Municipal bonds	1,134	7.178
Floating rate notes	2,396	1.072
Guaranteed investment contracts	130,170	0.000
Money market funds	<u>10,697</u>	0.000
	<u>\$ 1,409,310</u>	
Portfolio modified duration		0.338

A minimal percentage of the Corporation's total investment portfolio is municipal bonds, which are relatively more sensitive to changing interest rates than the rest of the Corporation's investment portfolio. Municipal bonds held as of June 30, 2006, are as follows (in thousands):

	<b>Fair Value</b>	<b>Rate</b>	<b>Maturity</b>
Northern Tobacco Securitization Corporation	\$ 1,134	4.75%	June 1, 2015

**Reverse Repurchase Agreements**

State statutes permit the Corporation to enter into reverse repurchase agreements. At June 30, 2006, the credit exposure related to these agreements was approximately \$1,930,000. All sales of investments under such agreements are for fixed terms. When investing the proceeds of reverse repurchase agreements, Corporation policy requires that the investment term to maturity be the same as that of the reverse repurchase agreement. Such term matching existed at June 30, 2006. Reverse repurchase agreements are currently being issued to warehouse refunded debt, thereby preserving the attributes of the refunded debt for future bond refunding opportunities.

NOTES TO FINANCIAL STATEMENTS

**4 MORTGAGE LOANS, NOTES AND OTHER LOANS**

A summary of mortgage loans, notes and other loans is shown below: (in thousands):

	June 30, 2006	June 30, 2005
Mortgage loans	\$ 3,041,707	\$ 3,107,178
Mortgage-backed securities issued by the Corporation	-	15,387
Multi-family loans	260,757	262,066
Other notes receivable	<u>26,726</u>	<u>29,142</u>
	3,329,190	3,413,773
Less:		
Allowance for losses	<u>(88,981)</u>	<u>(88,591)</u>
Net Mortgage loans, notes and other loans	<u>\$ 3,240,209</u>	<u>\$ 3,325,182</u>

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

	June 30, 2006	June 30, 2005
<u>Delinquencies and foreclosures:</u>		
Loans delinquent 30 days or more	\$ 98,249	\$ 100,797
Foreclosures during period	1,315	2,347
Loans in foreclosure process	7,828	9,629
<u>Mortgage-related commitments:</u>		
To purchase mortgage loans	117,500	109,845
To repurchase loans upon foreclosure	-	13,694

**5 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, maintaining, and liquidating 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.

**6 LOAN SELF INSURANCE PROGRAM**

The Corporation, for the purpose of insuring itself against losses which might occur as a result of mortgages purchased under various loan programs, collects insurance premiums from the borrowers. The insurance premiums are held in trust by a commercial banking institution and are administered by the management of the Corporation. They are included in the Administrative Fund in the accompanying financial statements.

NOTES TO FINANCIAL STATEMENTS

## 7 DIRECT FINANCING LEASE

In July 1997, the Corporation purchased an office building in downtown Anchorage with its Administrative Fund assets for approximately \$26 million. The building is 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 purchase. The lease of the building to the State has been recorded as a direct financing lease.

In May 2005, the Corporation issued General Housing Purpose Bonds, 2005 Series C to defease \$16,485,000 of the State Building Lease Bonds, 1999 Series. As a result, the liability of these bonds has been reduced, and the lease balance was decreased by \$1,792,000.

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):

12 Months Ending June 30	Future Minimum Payments Due
2007	\$ 3,467
2008	3,467
2009	3,467
2010	3,467
2011	3,467
Thereafter	<u>20,802</u>
Gross payments due	38,137
Less: Unearned revenue	<u>(9,027)</u>
Net investment in direct financing lease	<u>\$ 29,110</u>

## 8 CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2006 and a summary of balances are shown below (in thousands):

	July 1, 2005	Additions	Reductions	June 30, 2006
<b>NON-DEPRECIABLE CAPITAL ASSETS:</b>				
Land	\$ 13,762	\$ -	\$ -	\$ 13,762
Construction in progress	26,929	8,501	(9,657)	25,773
TOTAL NON-DEPRECIABLE	<u>40,691</u>	<u>8,501</u>	<u>(9,657)</u>	<u>39,535</u>
<b>DEPRECIABLE CAPITAL ASSETS:</b>				
Buildings	160,475	9,657	(3,153)	166,979
Computers & Equipment	3,247	281	(820)	2,708
Leasehold Improvements	88	-	-	88
Vehicles	1,955	75	(7)	2,023
	<u>165,765</u>	<u>10,013</u>	<u>(3,980)</u>	<u>171,798</u>
Less: Accumulated depreciation				
Buildings	(85,836)	(4,575)	3,153	(87,258)
Computers & Equipment	(2,927)	(163)	820	(2,270)
Leasehold Improvements	(5)	(22)	-	(27)
Vehicles	(1,615)	(140)	7	(1,748)
	<u>(90,383)</u>	<u>(4,900)</u>	<u>3,980</u>	<u>(91,303)</u>
TOTAL DEPRECIABLE, NET	<u>75,382</u>	<u>5,113</u>	<u>-</u>	<u>80,495</u>
<b>TOTAL CAPITAL ASSETS, NET</b>	<u>\$ 116,073</u>	<u>\$ 13,614</u>	<u>\$ (9,657)</u>	<u>\$ 120,030</u>

The depreciation expense charged by the Corporation was \$4,900,000 for the year ended June 30, 2006. 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, was \$3,744,000 at June 30, 2006.

NOTES TO FINANCIAL STATEMENTS

**9 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 and Notes 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 shown below (in thousands):

	Original Amount	June 30, 2006	June 30, 2005
<b>FIRST-TIME HOME BUYER BONDS:</b>			
<b><i>Mortgage Revenue Bonds:</i></b>			
<b>Tax-Exempt:</b>			
• 1997 Series A, 4.9% to 6.0%, due 2006-2037	\$ 160,000	\$ 51,135	\$ 59,500
Accreted interest		7,593	6,497
Unamortized discount		(371)	(386)
• 1998 Series A, 4.65% to 5.4%, due 2006-2035	70,000	32,680	36,765
• 1999 Series A1 & A2 5.25% to 6.25%, due 2006-2031	200,000	109,140	133,070
Unamortized discount		(113)	(115)
• 2000 Series A, 5.9% to 6.0%, due 2036-2040	58,315	28,920	28,920
• 2000 Series B, 5.45%, due 2015	3,795	3,795	3,795
• 2000 Series C, 4.9% to 6.0% due 2006-2032	68,785	35,510	40,340
Unamortized discount		(179)	(211)
• 2001 Series A, 3.5% to 5.3%, due 2006-2031	32,740	24,245	26,165
• 2001 Series B, 4.15% to 5.45%, due 2007-2041	104,450	57,895	75,325
Unamortized premium		64	69
• 2002 Series A, Floating Rate*, 4.03% at June 30, 2006, due 2032, 2036	170,000	170,000	170,000
• 2006 Series A, 3.4% to 5.0%, due 2006-2036	98,675	98,185	-
Unamortized premium		1,216	-
• 2006 Series B, 3.5% to 5.0%, due 2007-2036	75,000	75,000	-
Unamortized premium		812	-

NOTES TO FINANCIAL STATEMENTS

	Original Amount	June 30, 2006	June 30, 2005
<b>Taxable:</b>			
• 2000 Series D, 7.25% to 7.32%, due 2006-2020	25,740	4,535	8,140
• 2002 Series B, Floating Rate* 5.44% at June 30, 2006, due 2036	30,000	11,545	24,255
TOTAL FIRST-TIME HOMEBUYER BONDS	<u>1,097,500</u>	<u>711,607</u>	<u>612,129</u>

**VETERANS MORTGAGE PROGRAM BONDS AND NOTES:**

***Collateralized State Guaranteed Bonds and Notes:***

**Tax-Exempt:**

• Collateralized Bonds 1997 First Series, 5.5%, due 2039	100,000	10,495	20,120
• Collateralized Bonds 1998 First and Second Series, 4.7% to 5.5%, due 2006-2040 Unamortized discount	60,000	21,725 (177)	27,310 (183)
• Collateralized Bonds 1999 First Series, 5.0% to 6.25%, due 2006-2039	110,000	47,950	59,110
• Collateralized Bonds 2000 First Series, 5.5% to 6.45%, due 2006-2039	70,000	25,960	33,145
• Collateralized Bonds 2002 First Series, 4.15% to 5.65%, due 2006-2034	50,000	26,905	32,970
• Collateralized Bonds 2005 First Series, 4.8%, due 2035	15,000	15,000	-
• Collateralized Notes 2005 Second Series, 3.43%, due 2006	145,000	145,000	-
TOTAL VETERANS MORTGAGE PROGRAM BONDS AND NOTES	<u>550,000</u>	<u>292,858</u>	<u>172,472</u>

**OTHER HOUSING BONDS:**

***Housing Development Bonds:***

**Tax-Exempt:**

• 1997 Series A, 4.9% to 5.7%, due 2006-2029	6,510	245	360
• 1997 Series B, 5.0% to 5.8%, due 2006-2029	17,000	635	930
• 1999 Series A, 4.95% to 6.3%, due 2006-2029	1,675	1,515	1,545
• 1999 Series B, 5.0% to 6.37%, due 2006-2029 Unamortized discount	5,080	4,625	4,710 (2)
• 1999 Series C, 4.875% to 6.2%, due 2006-2029 Unamortized discount	50,000	45,375	46,235 (17)
• 2000 Series B, Floating Rate*, monthly payments, 3.97% at June 30, 2006, due 2030	41,705	41,705	41,705

NOTES TO FINANCIAL STATEMENTS

	Original Amount	June 30, 2006	June 30, 2005
• 2002 Series A, 3.0% to 5.3%, due 2006-2033	8,440	3,280	3,420
• 2002 Series B, 2.85% to 5.15%, due 2006-2022	8,690	7,625	7,930
• 2002 Series C, 2.85% to 5.25%, due 2006-2032	70,000	65,760	67,010
• 2002 Series D, Floating Rate*, monthly payments, 3.9% at June 30, 2006, due 2037	37,870	35,750	36,380
• 2004 Series A, 2.0% to 4.85%, due 2006-2030	33,060	31,705	32,405
• 2004 Series B, 1.8% to 4.75%, due 2006-2032	52,025	49,715	51,070
<b>Taxable:</b>			
• 1997 Series C, 6.8% to 7.55%, due 2007-2029	23,895	735	1,065
• 2004 Series C, Floating Rate Auction Bonds** Payments every five weeks, 5.2% at June 30, 2006 due 2006-2035	42,125	7,550	23,275
• 2004 Series D, 3.65% to 5.6%, due 2008-2043	105,000	105,000	105,000
SUB-TOTAL HOUSING DEVELOPMENT BONDS	503,075	401,220	423,021
<b>General Mortgage Revenue Bonds:</b>			
<b>Tax-Exempt:</b>			
• 1997 Series A, 5.1% to 6.1%, due 2006-2037 Accreted interest	434,911	241,851 7,716	270,576 6,656
• 1999 Series A, 4.85% to 6.05%, due 2006-2049 Unamortized deferred debt refunding expense Unamortized discount	302,700	248,060 (1,624) (1,579)	249,760 (1,706) (1,677)
• 2002 Series A, 3.45% to 5.0%, due 2010-2040 Unamortized deferred debt refunding expense Unamortized premium	150,000	150,000 (1,239) 576	150,000 (1,282) 593
<b>Government Purpose Bonds:</b>			
<b>Tax-Exempt:</b>			
• 1997 Series A, Floating Rate* monthly payments, 4.01% at June 30, 2006, due 2027	33,000	23,300	26,700
• 2001 Series A, Floating Rate*, 3.98% at June 30, 2006, due 2030	76,580	69,190	70,830
• 2001 Series B, Floating Rate*, 3.90% at June 30, 2006, due 2030	93,590	84,555	86,555

NOTES TO FINANCIAL STATEMENTS

	Original Amount	June 30, 2006	June 30, 2005
<b>Taxable:</b>			
• 2001 Series C, Floating Rate*, monthly payments, 5.32% at June 30, 2006, due 2032	100,000	78,070	96,580
• 2001 Series D, Floating Rate*, monthly payments, 4.92% at June 30, 2006, due 2032	100,000	-	62,070
TOTAL OTHER HOUSING BONDS	1,793,856	1,300,096	1,438,676
<b>NON-HOUSING BONDS:</b>			
<b>State Capital Project Bonds:</b>			
<b>Tax-Exempt:</b>			
• 1999 Series A, 4.0% to 5.0%, due 2005 Unamortized premium	92,365	-	7,665 859
• 1999 Series B, 4.8% to 5.5%, due 2005 Unamortized premium	103,980	-	13,185 805
• 2001 Series A, 4.0% to 5.25%, due 2006-2007 Unamortized premium	74,535	19,500 958	46,190 1,302
• 2002 Series A, 3.0% to 5.0%, due 2006-2011 Unamortized premium	32,905	23,320 956	26,655 1,161
• 2002 Series B, Floating Rate Auction Bonds** Payments every four weeks, 3.5% at June 30, 2006, due 2024	14,555	14,555	14,555
• 2002 Series C, Floating Rate* 4.0% at June 30, 2006, due 2022	60,250	60,250	60,250
<b>State Building Lease Bonds:</b>			
<b>Tax-Exempt:</b>			
• 1999 Series, 4.875% to 5.8%, due 2006-2017 Unamortized discount	40,000	12,270 (73)	14,165 (74)
<b>General Housing Purpose Bonds:</b>			
<b>Tax-Exempt:</b>			
• 1992 Series A, 6.1% to 6.6%, due 2006-2023	200,000	18,705	23,340
• 2003 Series A, Floating Rate*, monthly payments, 3.98% at June 30, 2006, due 2023	143,995	131,625	136,790
• 2003 Series B, Floating Rate*, monthly payments, 3.98% at June 30, 2006, due 2023	16,095	16,095	16,095
• 2005 Series A, 2.2% to 5.25%, due 2006-2041 Unamortized premium	143,235	142,740 5,117	143,235 6,114



NOTES TO FINANCIAL STATEMENTS

	Original Amount	June 30, 2006	June 30, 2005
• 2005 Series B, 2.7% to 5.25%, due 2006-2030	147,610	144,415	147,610
Unamortized deferred debt refunding expense		(12,755)	(11,646)
Unamortized premium		7,617	9,758
• 2005 Series C, 2.7% to 5%, due 2006-2017	16,885	16,840	16,885
TOTAL NON-HOUSING BONDS	<u>1,086,410</u>	<u>602,135</u>	<u>674,899</u>
<b>OTHER PROGRAM FUNDS:</b>			
<b>Home Ownership Notes:</b>			
<b>Tax-Exempt:</b>			
• Wrangell Project HUD Note, monthly payments, 1.0%-3.0%, due 2006-2007	1,161	527	554
TOTAL OTHER PROGRAMS	<u>1,161</u>	<u>527</u>	<u>554</u>
<b>TOTAL BONDS AND NOTES PAYABLE</b>	<u>\$ 4,528,927</u>	<u>\$ 2,907,223</u>	<u>\$ 2,898,730</u>

Note: Debt service payments on the above mentioned bonds and notes are semi-annual unless otherwise mentioned.

\* Interest rates on the annotated variable-rate bonds are established by the Remarketing Agents on each Rate Determination Date.

\*\* Interest rates on the annotated variable-rate auction bonds are established by the Auction Agents on each Auction Date.

**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 Corporation also issues new debt whose proceeds are used to immediately redeem previously issued debt, called current refundings. The accelerated amortization of related discounts and costs of issuance resulting from these early redemptions is included in interest expense and financing costs. The Corporation may call some bonds at a premium using any monies once bonds reach a certain age and may also use a clean-up call to redeem certain bonds once they reach 15% of issuance.

During the year ended June 30, 2006, the Corporation made special revenue redemptions of \$232,125,000 and no current refundings. The Corporation made special revenue redemptions of \$150,596,000 and no current refundings during fiscal year 2005.

**Advance Refundings**

From time to time, the Corporation effects an advanced refunding where the proceeds of issued bonds 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, 2006	June 30, 2005
Governmental Purpose Bonds, 1995 Series A	\$ -	\$ 150,995
State Building Lease Bonds, 1999 Series	16,485	16,485
	<u>\$ 16,485</u>	<u>\$ 167,480</u>

The final redemption of \$150,995,000 of the Governmental Purpose Bonds, 1995 Series A, occurred on December 1, 2005, of which \$149,640,000 was a special redemption.

NOTES TO FINANCIAL STATEMENTS

**Debt Service Requirements\*\***

For all mortgage bonds and notes in the preceding schedules, the Corporation's debt service requirements through 2011 and in five year increments thereafter to maturity, categorized by each Major Fund and other Non-Major Funds in the aggregate, are shown below and continued on the following page (in thousands):

<b>12 Months Ending June 30</b>	<b>Housing Development Bonds (Various Issues)</b>		<b>Other Non-Major Bonds</b>	
	<b>Principal</b>	<b>Interest*</b>	<b>Principal</b>	<b>Interest*</b>
2007	\$ 6,310	\$ 19,556	\$ 205,658	\$ 121,957
2008	6,780	19,376	44,239	114,065
2009	6,770	19,088	43,505	112,031
2010	7,060	18,840	40,310	110,164
2011	7,370	18,596	45,670	108,224
<b>Total Five Years 2007-2011</b>	<b>34,290</b>	<b>95,456</b>	<b>379,382</b>	<b>566,441</b>
<b>Five Years Ending June 30</b>				
2012-2016	42,610	87,602	288,355	501,667
2017-2021	54,540	75,859	343,341	454,671
2022-2026	65,030	60,521	368,222	348,369
2027-2031	114,095	41,485	448,313	263,200
2032-2036	47,585	18,511	287,034	163,322
2037-2041	30,610	8,185	287,616	51,929
2042-2046	12,460	809	53,330	19,738
2047-2049	-	-	35,895	3,816
	<b>\$ 401,220</b>	<b>\$ 388,428</b>	<b>\$ 2,491,488</b>	<b>\$ 2,373,153</b>

\* Interest requirements for variable-rate bonds have been computed using the effective interest rate at June 30, 2006.

\*\* Also see Note 10 – Derivatives.

NOTES TO FINANCIAL STATEMENTS

<b>Total Debt Service</b>		
<b>Principal</b>	<b>Interest*</b>	<b>Total</b>
\$ 211,968	\$ 141,513	\$ 353,481
51,019	133,441	184,460
50,275	131,119	181,394
47,370	129,004	176,374
53,040	126,820	179,860
413,672	661,897	1,075,569
330,965	589,269	920,234
397,881	530,530	928,411
433,252	408,890	842,142
562,408	304,685	867,093
334,619	181,833	516,452
318,226	60,114	378,340
65,790	20,547	86,337
35,895	3,816	39,711
<u>\$ 2,892,708</u>	<u>\$ 2,761,581</u>	<u>\$ 5,654,289</u>

NOTES TO FINANCIAL STATEMENTS

## 10 DERIVATIVES

### Swap Objectives

In order to both reduce the Corporation's overall cost of borrowing long-term capital and protect against the potential of rising interest rates, AHFC entered into six separate pay-fixed, receive-variable interest rate swap agreements at a cost less than what the Corporation would have paid to issue conventional fixed-rate debt.

### Swap Payments and Associated Debt

As of June 30, 2006, debt service requirements of the Corporation's outstanding variable-rate debt and net swap payments, assuming current interest rates remain the same, for their terms are displayed in the following schedule. As interest rates vary, variable-rate bond interest payments and net swap payments will also vary.

Fiscal Year Ending June 30	VRDO Principal	VRDO Interest	Swap Net Payment	Total Payments
2007	\$ 3,795	\$ 15,744	\$ 2,067	\$ 21,606
2008	4,640	15,644	2,045	22,329
2009	5,135	15,420	2,019	22,574
2010	5,465	15,231	1,990	22,686
2011	5,710	15,013	1,960	22,683
2012-2016	61,630	69,378	9,107	140,115
2017-2021	82,715	54,834	7,458	145,007
2022-2026	94,065	36,556	5,437	136,058
2027-2031	80,440	19,736	3,172	103,348
2032-2036	49,415	6,768	1,178	57,361
2037-2041	5,540	112	19	5,671
	<u>\$ 398,550</u>	<u>\$ 264,436</u>	<u>\$ 36,452</u>	<u>\$ 699,438</u>

### Significant Terms

The terms, fair values and credit ratings of the Corporation's outstanding swaps as of June 30, 2006, are included in the following schedule. The notional amounts of the swaps match the principal amounts of the associated debt. These notional amounts amortize over a time period that approximates the payments the Corporation would experience with a fixed-rate, level debt service schedule and are expected to follow scheduled or anticipated reductions in the associated bonds outstanding.

Related Bond Issue	Notional Amounts	Present Values	Fair Values	Effective Date	Fixed Rate Paid	Variable Rate Received	Swap Termination Date	Counterparty Credit Rating <sup>6</sup>
GP01A <sup>1</sup>	\$ 69,190	\$ 71,516	\$ (2,326)	08/02/01	4.1427%	67% of LIBOR <sup>4</sup>	12/01/30	A/A2
GP01B	84,555	87,375	(2,820)	08/02/01	4.1427%	67% of LIBOR	12/01/30	A+/Aa3
E021A1 <sup>2</sup>	50,000	51,326	(1,326)	05/16/02	4.1030%	68% of LIBOR	06/01/32	AAA/Aaa
E021A2	120,000	121,989	(1,989)	05/16/02	4.3430%	68% of LIBOR	12/01/36	AAA/Aaa
SC02B <sup>3</sup>	14,555	14,086	469	12/05/02	3.7700%	70% of LIBOR	07/01/24	AAA/Aaa
SC02C	60,250	60,169	81	12/05/02	4.3030%	BMA <sup>5</sup> + 0.115%	07/01/22	AAA/Aaa
	<u>\$ 398,550</u>	<u>\$ 406,461</u>	<u>\$ (7,911)</u>					

1. Governmental Purpose Bonds
2. Home Mortgage Revenue Bonds
3. State Capital Project Bonds
4. London Interbank Offered Rate
5. The Bond Market Association Municipal Swap Index
6. Standard & Poor's/Moody's

NOTES TO FINANCIAL STATEMENTS

**Fair Value**

Because interest rates have declined sharply and taxable/tax-exempt spreads have narrowed since the agreements became effective, the majority of the Corporation's LIBOR-based and BMA-based interest rate swaps had a negative fair value as of June 30, 2006. The negative fair values are countered by reductions in total interest payments required under the variable-rate bonds. Given that coupons on the Corporation's variable-rate bonds adjust to changing interest rates, the associated debt does not have corresponding increases in fair value. The fair value amounts, obtained from mark to market statements from the respective counterparties and reconciled to present value calculations done by the Corporation, represent mid-market valuations that approximate the current economic value using market averages, reference rates, and/or mathematical models. Actual trade prices may vary significantly from these estimates as a result of various factors, which may include (but are not limited to) portfolio composition, current trading intentions, prevailing credit spreads, market liquidity, hedging costs and risk, position size, transaction and financing costs, and use of capital profit. The fair value represents the current price to settle swap liabilities in the marketplace if a swap were to be terminated.

**Risks**

**a. Credit Risk**

As of June 30, 2006, the Corporation was exposed to credit risk on its SC02B and SC02C outstanding swaps in the amount of the swap's fair value of \$550,000. The swap agreements contain varying collateral agreements with the counterparties and require full collateralization of the fair value amount of the swap should the counterparty's rating fall below specific levels. The Corporation currently has swap agreements with four separate counterparties. Approximately 61% of the total notional amount of swaps is held with two separate counterparties, both of whom are rated AAA/Aaa. Of the remaining swaps, one of the counterparties is rated A+/Aa3 while the other counterparty is rated A/A2, approximating 21% and 18%, respectively, of the total outstanding notional swap value.

**b. Basis Risk**

A majority of the Corporation's variable-rate demand obligation bond coupon payments are based on the BMA index. Therefore, the Corporation is exposed to basis risk on swaps where the variable payment received is based on a LIBOR index rather than a BMA index. As of June 30, 2006, the BMA rate was 3.97%, whereas LIBOR was 5.35%. Since the spread between LIBOR and BMA has narrowed since the agreements became effective, the expected cost savings from the swaps may not be as large as originally anticipated.

**c. Rollover Risk**

Rollover risk occurs when there is a mismatch in the amortization of the swap versus the amortization of the floating rate bonds. The Corporation has structured the swaps to amortize at the same rate as scheduled or anticipated reductions in the associated floating rate bonds outstanding. As the bonds mature the swaps will amortize. In addition, the swaps covering the 2001 Governmental Purpose Bonds cover only a portion of the debt issuance, allowing any increase in the speed of mortgage prepayments to be directed at the unswapped portion of the debt. The swap agreements associated with the 2002 Home Mortgage Revenue Bonds were structured with several tranches, allowing the Corporation to cancel individual tranches of the swap to match special redemptions of the bonds. The result of these swap structures is a decrease in rollover risk usually caused by rapid mortgage prepayments.

**d. Termination Risk**

If any of the swaps are terminated, the associated floating rate bonds would no longer carry synthetic fixed interest rates and, thus, the Corporation would be exposed to interest rate risk. This risk is mitigated by the fact that the termination payment could be used to enter into an identical swap at the termination date of the existing swap. Further, if any of the swaps have a negative fair value at termination, the Corporation would be liable to the counterparty for payments equal to the swaps' fair value. The Corporation or the counterparty may terminate any of the swaps if the other party fails to perform under the terms of the agreement. As of June 30, 2006, the Corporation is not exposed to any additional termination risk on its interest rate swaps.

NOTES TO FINANCIAL STATEMENTS

## 11 LONG TERM LIABILITIES

The activity for other liabilities for the year ended June 30, 2006 is summarized in the following schedule (in thousands):

	July 1, 2005	Additions	Reductions	June 30, 2006	Due Within One Year
Bonds and notes payable	\$ 2,898,730	\$ 339,013	\$ (330,520)	\$ 2,907,223	\$ 211,968
Compensated absences	3,007	1,853	(1,521)	3,339	1,979
Other liabilities	5,398	-	(3,886)	1,512	-
Total other long-term liabilities	8,405	1,853	(5,407)	4,851	1,979
	<u>\$ 2,907,135</u>	<u>\$ 340,866</u>	<u>\$ (335,927)</u>	<u>\$ 2,912,074</u>	<u>\$ 213,947</u>

## 12 SHORT TERM DEBT

The Corporation has a commercial paper program. Commercial paper is issued and redeemed to meet the cash flow requirements of the Corporation's activities. Individual maturities may range from 2 to 270 days from date of issuance. The maximum aggregate outstanding principal balance authorized by the Board of Directors is \$150,000,000.

Yields issued during period	June 30, 2006	June 30, 2005
Lowest	3.2200%	1.1600%
Highest	5.2500%	3.2200%

The Corporation borrows funds utilizing reverse repurchase agreements to warehouse refunded debt, thereby preserving the attributes of the refunded debt for future bond refunding opportunities. 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.

Short term debt activity for the year ended June 30, 2006 is summarized in the following schedule (in thousands):

	July 1, 2005	Additions	Reductions	June 30, 2006
Commercial paper	\$ 138,510	\$ 1,417,859	\$ (1,406,369)	\$ 150,000
Unamortized discount	(135)	(7,103)	6,037	(1,201)
Commercial paper, net	138,375	1,410,756	(1,400,332)	148,799
Reverse Repurchase	-	601,600	(507,950)	93,650
	<u>\$ 138,375</u>	<u>\$ 2,012,356</u>	<u>\$ (1,908,282)</u>	<u>\$ 242,449</u>

NOTES TO FINANCIAL STATEMENTS

**13 TRANSFERS**

Transfers for the year ended June 30, 2006 are summarized in the following schedule (in thousands):

		<b>Transfer From</b>		
		<b>Administrative Fund</b>	<b>Other Non-Major Funds</b>	<b>Total</b>
<b>Transfer To</b>	<b>Administrative Fund</b>	\$ -	\$ 18,354	\$ 18,354
	<b>Housing Development</b>	4,501	-	4,501
	<b>Other Non-Major Funds</b>	83,280	871	84,151
	<b>Total</b>	<u>\$ 87,781</u>	<u>\$ 19,225</u>	<u>\$ 107,006</u>

Transfers are used to (1) move funds between the Administrative Fund and the other Funds of the Corporation for financing mortgage related activities and to subsidy debt service payments, (2) to move Corporate revenue to the Administrative Fund from Bond Funds, and (3) to reimburse the Administrative Fund from Bond Funds for expenditures paid on behalf of the Bond Funds by the Administrative Fund.

**14 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 liquidity facilities or similar credit enhancement agreements in connection with amounts required for debt service or unpaid bond principal for certain bond issues as shown below (in thousands):

	<b>June 30, 2006</b>	<b>June 30, 2005</b>
Liquidity facility	\$ 761,080	\$ 863,175
Bond insurance	2,045,546	2,229,826
	<u>\$ 2,806,626</u>	<u>\$ 3,093,001</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.

In October 2002, the Corporation also reestablished a \$200,000,000 revolving credit facility that is not related to a specific bond issue. At June 30, 2006, no draw downs had been made on the revolving credit facility.

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.

NOTES TO FINANCIAL STATEMENTS

## 15 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 to the Internal Revenue Service. Following is a summary of excess earnings recorded and paid (in thousands):

	June 30, 2006	June 30, 2005
Arbitrage expense	\$ (2,218)	\$ 4,181
Arbitrage paid	1,274	3,841

## 16 CONTRIBUTIONS FROM THE STATE OF ALASKA

### Appropriation of Capital Projects Funds and Creation of Subsidiary

On April 27, 2006, the Governor of Alaska signed Senate Bill No. 232 of the Alaska Legislature into law. Senate Bill 232 appropriated the sum of \$300,000,000 from the State of Alaska General Fund to the Corporation for the purpose of funding capital projects, including financing expenses. It was the Legislature's intent that the Corporation transfer the appropriated funds and any associated earnings to a subsidiary of the Corporation on or after July 1, 2006.

In accordance with the Legislature's intent, the Corporation formed a subsidiary, the Alaska Housing Capital Corporation ("AHCC"), under the Alaska Nonprofit Corporation Act (AS 10.20) and provisions of the Alaska Housing Finance Corporation Act (AS 18.56), as amended. AHCC was incorporated on May 23, 2006, as a public corporation and government instrumentality of, but having a legal existence independent of and separate from, the State of Alaska. AHCC is a subsidiary of, but separate and apart from, the Corporation. The appropriated funds were transferred to AHCC on July 1, 2006.

### Investments

The Corporation invests in the State's internally managed General Fund and Other Non Segregated Investments Pool (GeFONSI). GeFONSI consists of investments in the State's internally managed Short-term and Intermediate-term Fixed Income Pools. Actual investing is performed by investment officers in the State's Department of Revenue, Treasury Division. A complete description of the investment policy for each pool is included in the Department of Revenue, Treasury Division, Policies and Procedures.

Assets in the pools are reported at fair value in accordance with Governmental Accounting Standards Board (GASB) Statement No. 31. Investment purchases and sales are recorded on a trade-date basis. Securities are valued each business day using prices obtained from a pricing service when such prices are available; otherwise, such securities are valued at the mid-point between the bid and asked price or at prices for securities of comparable maturity, quality and type.

The accrual basis of accounting is used for investment income and GeFONSI investment income is distributed to pool participants monthly if prescribed by statute or if appropriated by state legislature.



NOTES TO FINANCIAL STATEMENTS

At June 30, 2006, the Corporation's share of pool investments was as follows:

Investment Type	Fair Value			Total
	Short-term Fixed Income Pool	Intermediate- term Fixed Income Pool	Securities Lending Collateral	
Overnight Sweep Account (LMCS)	\$ 220	\$ -	\$ -	\$ 220
Money Market	-	-	58,293	58,293
Short-term Investment Fund	5,420	-	-	5,420
Commercial Paper	10,872	-	-	10,872
U.S. Treasury Notes	-	88,149	-	88,149
U.S. Government Agency	-	32,793	-	32,793
Mortgage-backed	9,359	19,447	-	28,806
Other Asset-backed	65,076	4,384	-	69,460
Corporate Bonds	33,670	28,829	-	62,499
Yankees:	-	-	-	-
Government	-	-	-	-
Corporate	1,382	959	-	2,341
Domestic Equity	-	-	-	-
International Equity	-	-	-	-
Total Invested Assets	125,999	174,561	58,293	358,853
Pool related net assets (liabilities)	493	(478)	-	15
Net Invested Assets	\$ 126,492	\$ 174,083	\$ 58,293	\$ 358,868

**Interest Rate Risk**

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

Short-term Fixed Income Pool

As a means of limiting its exposure to fair value losses arising from increasing interest rates, Treasury's investment policy limits individual fixed rate securities to fourteen months in maturity or fourteen months expected average life. Floating rate securities are limited to three years in maturity or three years expected average life. Treasury utilizes the actual maturity date for commercial paper and twelve month prepay speeds for other securities. At June 30, 2006, the expected average life of individual fixed rate securities ranged from three days to seven months and the expected average life of floating rate securities ranged from less than one year to three years.

Intermediate-term Fixed Income Pool

Through its investment policy, Treasury manages its exposure to fair value losses arising from increasing interest rates by limiting the effective duration of its Intermediate-term Fixed Income Pool to  $\pm 20\%$  of the Merrill Lynch 1-5 year Government Bond Index. The effective duration for the Merrill Lynch 1-5 year Government Bond Index at June 30, 2006, was 2.28 years.

NOTES TO FINANCIAL STATEMENTS

At June 30, 2006, the effective duration by investment type was as follows:

	<u>Effective Duration (in years)</u> <u>Intermediate-term Fixed</u> <u>Income Pool</u>
U.S. Treasury Notes	2.01
U.S. Government Agency	2.36
Mortgage-backed	2.79
Other Asset-backed	1.06
Corporate Bonds	2.65
Yankees:	
Corporate	4.17
Portfolio Effective Duration	2.16

Duration is a measure of interest rate risk. It measures a security's sensitivity to a 100-basis point change in interest rates. The duration of a pool is the average fair value weighted duration of each security in the pool taking into account all related cash flows.

Treasury uses industry-standard analytical software developed by The Yield Book Inc. to calculate effective duration. The software takes into account various possible future interest rates, historical and estimated prepayment rates, call options and other variable cash flows for purposes of the effective duration calculation.

**Credit Risk**

Credit risk is the risk that an issuer or other counter party to an investment will not fulfill its obligations.

Treasury's investment policy has the following limitations with regard to credit risk:

With the exception of the sweep account, Short-term Fixed Income Pool investments are limited to instruments with a long-term credit rating of at least A3 or equivalent and instruments with a short-term credit rating of at least A1 or equivalent. For securities with long-term credit ratings, they may be purchased if the median rating of Standard & Poor's Corporation, Moody's and Fitch is A3 or equivalent. Asset-backed and non-agency mortgage securities may be purchased if only rated by one of the rating agencies mentioned above if they are rated AAA. Unexpected daily cash surpluses that arise in this pool are invested overnight in the custodian's repurchase agreement sweep account. Treasury does not have a policy to limit credit risk associated with the sweep account.

Intermediate-term Fixed Income Pool investments are limited to securities with a long-term credit rating of at least BBB3 or equivalent and securities with a short-term credit rating of at least A1 or equivalent. For securities with long-term credit ratings, they may be purchased if the median rating of Standard & Poor's Corporation, Moody's and Fitch is BBB3 or equivalent. Asset-backed and non-agency mortgage securities may be purchased if only rated by one of the rating agencies mentioned above if they are rated AAA.

NOTES TO FINANCIAL STATEMENTS

At June 30, 2006, the State's internally managed Pools consisted of investments with credit quality ratings issued by nationally recognized statistical rating organizations as follows (using Standard and Poor's Corporation rating scale):

Investment Type	Rating <sup>1</sup>	Short-term Fixed Income Pool	Intermediate- term Fixed Income Pool
Overnight Sweep Account	Not Rated	0.17%	
Short-term Investment Account	Not Rated	4.29%	
Commercial Paper	A-1	8.60%	
U.S. Government Agency	AAA		18.84%
Mortgage-backed	AAA		10.48%
Mortgage-backed	Not Rated	7.40%	0.69%
Other Asset-backed	AAA	48.17%	1.67%
Other Asset-backed	A	3.28%	0.85%
Corporate Bonds	AAA	2.02%	5.78%
Corporate Bonds	AA	15.32%	3.20%
Corporate Bonds	A	9.27%	4.42%
Corporate Bonds	BBB		3.17%
Yankees - Corporate	AAA		0.24%
Yankees - Corporate	AA	0.91%	
Yankees - Corporate	A	0.18%	0.13%
No Credit Exposure		0.38%	50.36%
		100%	100%

At June 30, 2006, the securities lending collateral was invested in a registered 2(a)-7 money market fund that was not rated.

**Concentration of Credit Risk**

Treasury's policy with regard to concentration of credit risk is to prohibit the purchase of more than five percent of a pool's holdings in corporate bonds of any one company or affiliated group. At June 30, 2006, the Corporation's had more than five percent of their investments in Federal Home Loan Mortgage Corporation and Federal National Mortgage Association as follows:

Issuer	Fair Value	Percent of Total Investments
Federal Home Loan Mortgage Corporation	\$ 24,442,122	7 %
Federal National Mortgage Association	28,594,570	8

**Securities Lending**

Alaska Statute 37.10.071 authorizes the Commissioner of Revenue to lend assets, under an agreement and for a fee, against deposited collateral of equivalent fair value. The Commissioner entered into an agreement with State Street Corporation (the Bank) to lend securities in the Short-term and Intermediate-term Fixed Income Pools. The Bank, acting as the Commissioner's agent under the agreement, transfers securities to broker agents or other entities for collateral in the form of cash or securities and simultaneously agrees to return the collateral for the same securities in the future.

At June 30, 2006, the fair value of securities on loan allocable to the Corporation totaled \$57,221,000.

There is no limit to the amount that can be loaned and the Commissioner is able to sell securities on loan. Loans are collateralized at not less than 102 percent of their fair value. Loaned securities and collateral is marked to market daily and collateral is received or delivered the following day to maintain collateral levels.

At June 30, 2006, liabilities resulting from these securities lending transactions totaled \$58,293,000 and were represented as current other liabilities in the Statement of Net Assets.

NOTES TO FINANCIAL STATEMENTS

Cash collateral is invested in a registered 2(a)-7 money market fund. Maturities of investments in the money market fund generally do not match the maturities of the loaned securities because the lending agreements are terminable at will. Collateral securities may be pledged or sold upon borrower default. Since the Commissioner does not have the ability to pledge or sell the collateral securities unless the borrower defaults, they are not recorded in the financial statements. Securities under loan, cash collateral and cash collateral payable are recorded in the financial statements at fair value. The Bank, the Corporation and the borrower receive a fee from earnings on invested collateral. The Bank and the Corporation share a fee paid by the borrower for loans not collateralized with cash.

There is limited credit risk associated with the lending transactions since the Commissioner is indemnified by the Bank against any loss resulting from counterparty failure or default on a loaned security or its related income distributions. The Bank further indemnifies the Board against loss due to borrower rebates in excess of earnings on cash collateral. Indemnifications are subject to limitation relating to war, civil unrest or revolution, or beyond the reasonable control of the Bank.

For the year ended June 30, 2006, there were no losses incurred as a result of securities lending transactions and there were no significant violations of legal or contractual provisions nor failures by any borrowers to return loaned securities.

## 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 is shown below (in thousands):

	Total State Authorizations	Payments To-Date	Total Remaining Commitments
FY 1995*	\$ 22,500	\$ 22,493	\$ 7
FY 1996*	128,033	127,895	138
FY 1997	100,448	100,193	255
FY 1998*	131,515	130,903	612
FY 1999*	102,615	101,315	1,300
FY 2000*	105,138	99,098	6,040
FY 2001*	103,107	94,970	8,137
FY 2002	103,000	95,342	7,658
FY 2003*	103,499	92,005	11,494
FY 2004*	103,036	83,364	19,672
FY 2005	103,000	91,321	11,679
FY 2006*	103,379	76,611	26,768
Total	<u>\$ 1,209,270</u>	<u>\$ 1,115,510</u>	<u>\$ 93,760</u>

\* With re-appropriations

NOTES TO FINANCIAL STATEMENTS

**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 the lesser of \$103 million or the Corporation's net income annually to the year 2008.

The 2002 and 2004 Legislature adopted legislation authorizing the additional issuance of bonds in sufficient amounts to fund the construction of various State capital projects. The bond proceeds are allocated to agencies and municipalities subject to specific legislative appropriation.

As of June 30, 2006, the Corporation has issued \$196,345,000 principal amount of State Capital Project Bonds pursuant to the 1998 Act, \$74,535,000 principal amount of State Capital Project Bonds pursuant to the 2000 Act, and \$107,710,000 principal amount of State Capital Project Bonds pursuant to the 2002 Act, and has completed its issuance authority under the Acts. The payment of principal and interest on these bonds will be included in future capital budgets of the Corporation.

The Twenty-Third Legislature in 2003 enacted SCSBH 256 (the "2003" Act) which added language to the Alaska Statutes to modify and incorporate the Transfer Plan. The Corporation and the State view the 2003 Act as an indefinite, sustainable continuation of the Transfer Plan. As approved and signed into law by the Governor, the Transfer Plan calls for annual transfers as follows (in thousands):

<b>Fiscal Year</b>	<b>Transfer Plan Amount</b>
2006	103,000
2007	Lesser of 95% Net Income or 103,000
2008	Lesser of 85% Net Income or 103,000
2009 & Thereafter	Lesser of 75% Net Income or 103,000

Subsequent to GASB 34, the Corporation interprets net income as operating income.

**Transfers to the State of Alaska**

Since the inception of the Corporation, the State has contributed a total of \$1,369,523,000 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):

	<b>June 30, 2006</b>	<b>June 30, 2005</b>	<b>Cumulative Prior Fiscal Years</b>	<b>Total Payments To State</b>
State debt repayment	\$ -	\$ -	\$ 29,800	\$ 29,800
Asset purchases	-	-	252,300	252,300
Dividends	-	-	114,300	114,300
Direct cash transfers	18,855	29,618	501,588	550,061
Other State appropriations	-	2,078	-	2,078
Non-Housing capital projects	6,621	22,372	234,425	263,418
Various bond's proceeds disbursed	21,369	13,220	243,277	277,866
<b>Total</b>	<b>\$ 46,845</b>	<b>\$ 67,288</b>	<b>\$ 1,375,690</b>	<b>\$ 1,489,823</b>

NOTES TO FINANCIAL STATEMENTS

**18 GRANTS**

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

Program	June 30, 2006	June 30, 2005
<i>Energy Programs:</i>		
• Enhanced Weatherization	\$ 909	\$ 957
• Low-Income Weatherization Assistance	4,564	4,090
State Energy Program	386	303
• Others	394	627
	<u>6,253</u>	<u>5,977</u>
<i>Section 8 Vouchers and Contract Administration</i>	<u>23,139</u>	<u>26,156</u>
<i>Other Housing Assistance Programs:</i>		
• Beneficiary and Special Needs Housing	22	1,844
• Drug Elimination Program	236	225
• Denali Teacher Housing	3,707	1,159
• Healthy Homes	-	284
• HOME Program	2,910	3,758
• Homeless Assistance Program	1,059	809
• Housing Loan Program	2,033	1,914
• Housing Opportunities for Persons with AIDS	586	600
• Section 8 Contract Administration	6,845	6,555
• Senior Citizens Housing	2,004	2,034
• Supplemental Housing	5,587	3,101
• Supportive Housing Grant Match	937	845
• Others	946	817
	<u>26,872</u>	<u>23,945</u>
<i>Other Programs</i>	<u>565</u>	<u>428</u>
<b>Total Housing Grant Expenses</b>	<u>56,829</u>	<u>56,506</u>
<i>Other Program Funds:</i>		
• State Match Federal Aid Airports Proj. – FY 98 Appro.	64	70
• Municipal Matching Grants – FY 99 Appro.	657	6,576
• University of Alaska – FY 99 Appro.	49	145
• Village Safe Water Grants Program – FY 99 Appro.	1,916	11,791
• Child Protection Information System – FY 01 Appro.	-	849
• AK Public Safety Info. Network Redesign – FY 02 Appro.	1,503	816
• Brother Francis Shelter Replacement – FY 03 Appro.	50	450
• Law Enforcement Equipment Replacement – FY 05 Appro.	165	340
• FY 98 Legislative Appropriations – Others	2	151
• FY 99 Legislative Appropriations – Others	-	11
• FY 01 Legislative Appropriations	396	544
• FY 02 Legislative Appropriations	41	28
• FY 04 Legislative Appropriations	272	194
• FY 05 Legislative Appropriations	934	407
• FY 06 Legislative Appropriations	572	-
<b>Total Non-Housing Capital Project Grants</b>	<u>6,621</u>	<u>22,372</u>
<b>Total Grants</b>	<u>\$ 63,450</u>	<u>\$ 78,878</u>

In addition to grant payments made, the Corporation has advanced grant funds of \$5,502,000 and committed to third parties a sum of \$23,950,000 in grant awards at June 30, 2006.

NOTES TO FINANCIAL STATEMENTS

## 19 OTHER PROGRAMS

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

### Housing Assistance Programs

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

- Low Rent Management
- Modernization/Capital Fund Programs

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

- Section 8 Moderate Rehabilitation
- Section 8 Vouchers

Section 8 Program consists of Corporate owned low-income housing facilities at various locations and the Wrangell 221(d)(3) housing facility, for which the Corporation receives tenant-based rental assistance under contract with HUD, and administration of HUD contracts directly with landlords:

- Section 8 Contract Administration
- Section 8 New Construction
- Wrangell Multi-Family

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

- Drug Elimination Grant
- Denali Commission Housing Programs
- Family Self Sufficiency Program (FSS)
- Family Investment Center Grant
- Gateway Literacy Program
- Grant Match Program
- Healthy Homes Initiative
- HOME Investment Partnerships Program (HOME)
- HOME Technical Assistance
- Housing Opportunities for Persons with AIDS (HOPWA)
- Housing Preservation Grants
- Service Coordinator for Public Housing Agencies Grant
- Shelter Plus Care Program
- Special Needs Assistance
- Supplemental Assistance for Facilities to Assist the Homeless (SAFAH)
- Supportive Housing Technical Assistance
- Teacher Health Professional and Public Safety Housing Programs

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

### 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.

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)

NOTES TO FINANCIAL STATEMENTS

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

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

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

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

**Housing Units Owned, Managed or Administered**

The Public Housing Division of the Corporation operates the following programs in 18 Alaskan communities:

Program	Number of Units
Low Rent Conventional Housing	987
Low Rent Conventional Housing – Senior Units	343
Section 8 New Construction Housing	59
Section 8 New Construction Housing – Senior Units	268
Other Housing Units	32
Section 8 Existing – Housing Assistance:	
Housing Choice Vouchers	4,115
Single Room Occupancy	70
	5,874

**20 PENSION PLAN**

As of June 30, 2006, 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 16.14% of annual covered payroll.



NOTES TO FINANCIAL STATEMENTS

**Annual Pension Cost**

The Corporation's annual pension and postretirement health cost shown in the following table was equal to the required and actual contribution. The actuarial required contribution was computed as part of an actuarial valuation as of June 30, 2004. 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 ten years of employment, with distinction made between amounts for inflation (3.5%), merit (1.5%), 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 (in thousands):**

Year Ended	Annual Pension and Postretirement Health Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2006	\$ 1,161	100.00%	\$ -
June 30, 2005	1,780	100.00%	-
June 30, 2004	980	100.00%	-

**21 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 \$553,000 and \$1,077,000 as of June 30, 2006 and June 30, 2005, 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.

**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 Administrative Fund. In management's opinion, disallowance, if any, will be immaterial.

**Subsequent Event**

On July 1, 2006, \$300,000,000 of state appropriated funds was transferred to AHCC, a subsidiary of the Corporation.

On July 20, 2006, the Corporation issued \$75,000,000 Home Mortgage Revenue Bonds, 2006 Series C. The Bonds are general obligations of the Corporation that bear interest at fixed rates between 3.90% and 5.50%, payable on each June 1 and December 1, with a final maturity date of December 1, 2037. The scheduled debt service on the Bonds is guaranteed under an insurance policy issued by MBIA Insurance Corporation. The Bonds will be primarily secured by program obligations consisting of qualifying FTHB mortgage loans purchased from Bond proceeds.

On August 9, 2006, the Corporation's Board of Directors authorized the issuance of \$190,000,000 Collateralized Bonds, 2006 First Series (Veterans Mortgage Program).

**22 RISK MANAGEMENT**

The Corporation is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by various commercial insurance policies and contractual risk transfers. When the Corporation enters into agreements, contracts or grants, it requires insurance from the party the Corporation is doing business with. This ensures that the party can adequately sustain any loss exposure, so the Corporation is not first-in-line in case of a loss. There have been no significant reductions in insurance coverage from the prior year, and settlements have not exceeded insurance coverage during the past three years.

NOTES TO FINANCIAL STATEMENTS

**23 SPECIAL ITEM**

On December 1, 2004, the Corporation sold its Aurora Military Loan, with a principal balance of \$47,468,000, for \$51,403,000 and paid \$90,000 in subsequent expenses related to the sale, resulting in a special item gain of \$3,845,000.

On December 13, 2005, the Corporation sold its Aurora Military Loan II, with a principal balance of \$31,627,000, accrued interest income of \$76,000 and closing cost expense of \$90,000, for proceeds of \$38,919,000, resulting in a special item gain of \$7,126,000.

**24 SUMMARIZED BALANCE SHEET**

Entity-wide balance sheet information in an unclassified format is presented below for informational purposes (in thousands):

	June 30, 2006	June 30, 2005	June 30, 2004	June 30, 2003	June 30, 2002
<b><u>ASSETS</u></b>					
Cash	\$ 11,583	\$ 9,769	\$ 7,939	\$ 21,215	\$ 9,508
Investments	1,768,178	1,219,415	1,143,547	1,518,997	1,587,877
Accrued interest receivable	19,013	20,762	19,897	22,349	25,015
Mortgage loans, notes and other loans	3,240,209	3,325,182	3,355,300	3,312,511	3,373,640
Net investment in direct financing lease	29,110	32,843	34,547	36,165	37,697
Unamortized bond issuance costs	24,584	25,135	26,404	29,024	28,105
Capital assets, net	120,030	116,073	110,813	105,065	99,040
Other assets	16,869	13,754	10,033	10,185	21,272
<b>Total Assets</b>	<b>\$ 5,229,576</b>	<b>\$ 4,762,933</b>	<b>\$ 4,708,480</b>	<b>\$ 5,055,511</b>	<b>\$ 5,182,154</b>
<b><u>LIABILITIES AND FUND EQUITY</u></b>					
Liabilities:					
Bonds and notes payable	\$ 2,907,223	\$ 2,898,730	\$ 2,890,879	\$ 3,110,941	\$ 3,267,553
Short term debt	242,449	138,375	70,145	149,995	108,541
Accrued interest payable	17,340	14,147	14,562	15,627	14,253
Other liabilities	72,532	28,608	26,435	41,382	25,997
<b>Total Liabilities</b>	<b>3,239,544</b>	<b>3,079,860</b>	<b>3,002,021</b>	<b>3,317,945</b>	<b>3,416,344</b>
<b>Total Fund Equity</b>	<b>1,990,032</b>	<b>1,683,073</b>	<b>1,706,459</b>	<b>1,737,566</b>	<b>1,765,810</b>
<b>Total Liabilities and Fund Equity</b>	<b>\$ 5,229,576</b>	<b>\$ 4,762,933</b>	<b>\$ 4,708,480</b>	<b>\$ 5,055,511</b>	<b>\$ 5,182,154</b>

NOTES TO FINANCIAL STATEMENTS

**25 STATEMENT OF ACTIVITY**

Entity-wide revenues, expenses, and changes in net assets are presented below for informational purposes (in thousands):

	Year Ended June 30, 2006	Year Ended June 30, 2005	Year Ended June 30, 2004	Year Ended June 30, 2003	Year Ended June 30, 2002
<b><u>OPERATING REVENUES</u></b>					
Mortgage and loans revenue	\$ 193,573	\$ 201,386	\$ 206,300	\$ 220,393	\$ 222,446
Investment interest	60,220	43,162	46,358	57,013	71,115
Net change in the fair value of investments	(1,830)	(1,653)	(9,554)	9,877	111
Total Investment Revenue	58,390	41,509	36,804	66,890	71,226
Externally funded programs	59,587	57,877	56,084	53,702	46,283
Rental	6,575	6,183	6,109	6,812	7,034
Other	807	2,252	743	644	2,241
<b>Total Operating Revenues</b>	<b>318,932</b>	<b>309,207</b>	<b>306,040</b>	<b>348,441</b>	<b>349,230</b>
<b><u>OPERATING EXPENSES</u></b>					
Interest	146,971	141,161	151,165	172,939	174,582
Mortgage and loan costs	13,133	13,130	13,059	12,894	12,933
Operations and administration	38,858	35,530	36,240	35,339	32,393
Financing expenses	4,836	11,941	6,168	10,496	2,197
Provision for loan loss	406	(103)	(1,861)	(12,232)	2,690
Housing grants and subsidies	56,829	56,506	48,640	52,023	39,520
Rental housing operating expenses	11,221	10,985	10,149	9,905	9,255
<b>Total Operating Expenses</b>	<b>272,254</b>	<b>269,150</b>	<b>263,560</b>	<b>281,364</b>	<b>273,570</b>
<b>Operating Income</b>	<b>46,678</b>	<b>40,057</b>	<b>42,480</b>	<b>67,077</b>	<b>75,660</b>
<b><u>NONOPERATING REVENUES, EXPENSES AND SPECIAL ITEM</u></b>					
Contributions from the State of Alaska	300,000	-	-	-	-
Contributions to the State of Alaska or other State agencies	(46,845)	(67,288)	(66,136)	(95,321)	(85,562)
Special Item	7,126	3,845	(7,451)	-	2,035
<b>Change in Net Assets</b>	<b>\$ 306,959</b>	<b>\$ (23,386)</b>	<b>\$ (31,107)</b>	<b>\$ (28,244)</b>	<b>\$ (7,867)</b>

REQUIRED SUPPLEMENTARY INFORMATION

**Schedule of Funding Progress for PERS (in thousands):**

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) (b)</b>	<b>Excess or (Unfunded) AAL (a) – (b)</b>	<b>Funded Ratio (a) / (b)</b>	<b>Covered Payroll (c)</b>	<b>Excess or (Unfunded) AAL as a Percentage of Covered Payroll ((a) – (b)) / (c)</b>
Pension:						
June 30, 2004	\$ 35,749	\$ 46,202	\$(10,453)	77%	\$ 16,006	(65%)
June 30, 2003	34,407	43,271	(8,864)	80%	14,987	(59%)
June 30, 2002	30,857	40,980	(10,123)	75%	14,119	(72%)
Postretirement Health:						
June 30, 2004	25,207	32,578	(7,371)	77%	16,006	(46%)
June 30, 2003	22,997	28,921	(5,924)	80%	14,987	(40%)
June 30, 2002	18,748	24,899	(6,151)	75%	14,119	(44%)

**FORM OF OPINIONS 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 \$ \_\_\_\_\_ aggregate principal amount of Home Mortgage Revenue Bonds, 2007 Series \_ (the “2007 Series \_ 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 18.55 and 18.56, as amended (the “Act”). In addition we have examined a transcript of proceedings prepared in connection with the issuance by the Corporation of its Home Mortgage Revenue Bonds, 200\_ Series \_.

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 2007 Series \_ Bonds are authorized and issued pursuant to the Act and a resolution of the Corporation adopted \_\_\_\_\_, 200\_, and are issued pursuant to the Indenture by and between the Corporation and U.S. Bank National Association (previously known as U.S. Bank, N.A.), as trustee (the “Trustee”), dated as of May 1, 2002 (the “General Indenture”), and the 2007 Series \_ Supplemental Indenture, by and between the Corporation and the Trustee, dated as of May 1, 2007, executed pursuant to the General Indenture (together, the “Indenture”).

The 2007 Series \_ 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 2007 Series \_ Bonds in order for interest on the 2007 Series \_ 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 and, as applicable, the Internal Revenue Code of 1954, as amended (collectively, 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 2007 Series \_ Bonds will be, and remain, not included in gross income for Federal income tax purposes. 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 2007 Series \_ 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 2007 Series \_ 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 2007 Series \_ 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 2007 Series \_ 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 2007 Series \_ Bonds is excluded from gross income for Federal income tax purposes.

7. Interest on the 2007 Series \_ Bonds is not treated as a preference item for purposes of calculating the alternative minimum tax imposed under the Code with respect to individuals and corporations; *however*, such interest is included in calculating the "adjusted current earnings" of certain corporations for purposes of calculating the alternative minimum tax

imposed on such corporations. We express no opinion regarding any other consequences affecting the Federal income tax liability of a recipient of interest on the 2007 Series \_ Bonds.

8. Under existing laws, interest on the 2007 Series \_ 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 inheritance and estate taxes and taxes of transfers by or in anticipation of death).

9. 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 2007 Series \_ Bond, or the interest thereon, if any change occurs or action is taken upon the advice or approval of other counsel.

Sincerely,

BIRCH, HORTON, BITTNER AND CHEROT

By: \_\_\_\_\_

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FORM OF OPINIONS OF SPECIAL TAX COUNSEL

Alaska Housing Finance Corporation  
4300 Boniface Parkway  
Anchorage, AK 99504

\$ \_\_\_\_\_  
Alaska Housing Finance Corporation  
Home Mortgage Revenue Bonds  
2007 Series \_

Ladies and Gentlemen:

We have acted as Special Tax Counsel in connection with the issuance and sale of \$ \_\_\_\_\_ aggregate principal amount of Alaska Housing Finance Corporation Home Mortgage Revenue Bonds, 200\_ Series \_ (the “200\_ Series \_ Bonds”), and \$ \_\_\_\_\_ aggregate principal amount of Alaska Housing Finance Corporation Home Mortgage Revenue Bonds, 2007 Series \_ (the “2007 Series \_ Bonds,” and together with the 200\_ Series \_ Bonds, the “Bonds”). The 200\_ Series \_ Bonds were issued pursuant to the Indenture by and between the Alaska Housing Finance Corporation (the “Corporation”) and U.S. Bank National Association, as trustee (the “Trustee”), dated as of May 1, 2002 (the “Indenture”), and the 200\_ Series \_ Supplemental Indenture (the “200\_ Series \_ Supplemental Indenture”), by and between the Corporation and the Trustee, dated as of \_\_\_\_\_ 1, 200\_, authorizing the issuance of the 200\_ Series \_ Bonds. The 2007 Series \_ Bonds will be issued pursuant to the Indenture and the 2007 Series \_ Supplemental Indenture (the “2007 Series \_ Supplemental Indenture”; together with the 200\_ Series \_ Supplemental Indenture, the “Supplemental Indentures”), by and between the Corporation and the Trustee, dated as of May 1, 2007, authorizing the issuance of the 2007 Series \_ Bonds. Capitalized terms not otherwise defined herein are used as defined in the Indenture and the Supplemental Indentures.

In connection with the issuance of the Bonds, we have examined the Indenture, the 200\_ Series \_ Supplemental Indenture, the 2007 Series \_ Supplemental Indenture, the Tax Regulatory Agreement and No Arbitrage Certificates (the “Arbitrage Certificates”) 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 Indentures and the Arbitrage Certificates designed to meet the requirements of the Internal Revenue Code of 1986, as amended, and, as applicable, the Internal Revenue Code of 1954, as amended (collectively, the “Code”), under existing laws, regulations, rulings and judicial decisions, interest on the 2007 Series \_ Bonds is excluded from gross income for federal income tax purposes and is not a specific preference item for purposes of the alternative minimum tax provisions imposed on individuals and corporations by the Code.

Interest on the 2007 Series \_ Bonds, however, is included in the adjusted current earnings (*i.e.*, alternative minimum taxable income as adjusted for certain items, including those items that would be included in the calculation of a corporation's earnings and profits under Subchapter C of the Code) of certain corporations, and such corporations are required to include in the calculation of alternative minimum taxable income 75% of the excess of such corporation's adjusted current earnings over its alternative minimum taxable income (determined without regard to such adjustment and prior to reduction for certain net operating losses).

We express no opinion regarding any other consequences affecting the Federal income tax liability of a recipient of interest on the 2007 Series \_ Bonds.

The opinions expressed herein are rendered in reliance upon the opinion of Birch, Horton, Bittner and Cherot, 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

## APPENDIX D

### CERTAIN DEFINITIONS WITH RESPECT TO THE OFFERED BONDS

“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 2007 Series A, B and D Supplemental Indenture; provided, however, that the delivery of each such Liquidity Facility shall result in a short-term rating of Offered 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, as evidenced by rating letters delivered when such Liquidity Facility is delivered.

“Bank” means (i) with respect to the Initial Liquidity Facility, LBBW, 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; and (iii) with respect to Self Liquidity, the Corporation, together with its successors and assigns.

“Bank Bonds” means Offered 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 Offered Bonds held by (or at the direction of) and payable to a Bank at any time as determined and calculated in accordance with the provisions of the Liquidity Facility.

“Bondholder” or “Holder” means, for purposes of this Official Statement, any Holder (as defined under the Indenture) of Offered 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 Offered 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.)

“Conversion Date” means the Business Day on which any of the Offered 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 Offered Bonds to Fixed Interest Rates or an Indexed Rate as herein described.

“Effective Rate” means the rate of interest, which rate shall be less than or equal to the Maximum Rate, payable on the Offered Bonds prior to Conversion, determined for each Effective Rate Period as herein described.

“Effective Rate Date” means the date on which the Offered 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.

“Fixed Interest Rates” means long-term interest rates fixed to maturity of an Offered Bond, established in accordance with the 2007 Series A, B and D Supplemental Indenture. This Official Statement is not intended to describe the Offered Bonds following a Conversion to Fixed Interest Rates.

“Indexed Rate” means an index-based variable rate determined in accordance with the 2007 Series A, B and D Supplemental Indenture. This Official Statement is not intended to describe the Offered Bonds following a Conversion to an Indexed Rate.

“Initial Liquidity Facility” means the Standby Bond Purchase Agreement, by and among the Corporation, LBBW, and U.S. Bank, N.A., as Tender Agent, dated as of the date of delivery and authentication of the Offered Bonds.

“Liquidity Expiration Event” means (a) 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 30 days prior to the scheduled expiration of a Liquidity Facility that such Liquidity Facility will be extended, renewed, or replaced; or (iii) the Bank has issued a Notice of Termination pursuant to the Liquidity Facility; and (b) the Corporation has not notified the Trustee at least 20 days before the date of termination of such Liquidity Facility of its intention to provide an Alternate Liquidity Facility or a Non-Conforming Liquidity Facility pursuant to the 2007 Series A, B and D Supplemental Indenture; *provided, however*, that any assignment of a Liquidity Facility by the Corporation shall also constitute a “Liquidity Expiration Event.”

“Liquidity Facility” means, for purposes of the Offered Bonds, any Liquidity Facility provided pursuant to the 2007 Series A, B and D Supplemental Indenture by the Corporation, including the Initial Liquidity Facility and any Alternate Liquidity Facility, Non-Conforming Liquidity Facility or Self-Liquidity.

“Maximum Rate” (i) with respect to Weekly Rate Bonds, means 12% per annum; and (ii) with respect to Bank Bonds, has the meaning ascribed to such term in the Liquidity Facility; provided, however, that in no event may the Maximum Rate exceed the lesser of (x) 25% or such higher rate as approved by the Corporation’s Board of Directors or (y) the maximum rate permitted by applicable law.

“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, and Semiannual Rate. This Official Statement is not intended to describe Offered Bonds bearing interest at other than a Weekly Rate.

“Mode Change” means a change in Mode Period.

“Mode Period” means each period beginning on the first Effective Rate Date for the Offered Bonds, or the first Effective Rate Date following a change from one Mode to another, and ending on the date immediately preceding the first Effective Rate Date following the next such change in Mode.

“Non-Conforming Liquidity Facility” means a liquidity facility provided by the Corporation pursuant to the 2007 Series A, B and D 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 Remarketing Agent, the Bank, the Tender Agent, and the Trustee.

“Rate Determination Date” means the date on which the Effective Rate for the Effective Rate Period following each such Rate Determination Date is determined, which is the first Business Day preceding the related Effective Rate Date.

“Remarketing Agent” means (i) with respect to the 2007 Series A Bonds, Citi and its successors and assigns; (ii) with respect to the 2007 Series B Bonds, Goldman Sachs and its successors and assigns; and (iii) with respect to the 2007 Series D Bonds, Merrill Lynch and its successors and assigns, in each case 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 2007 Series A, B and D Supplemental Indenture. See “Liquidity Facility — Self Liquidity or Other Forms of Liquidity.”

“SIFMA Index” means (a) the SIFMA Rate or (b) if the SIFMA Rate is no longer available or no longer published, the S&P Index - High Grade (formerly known as the Kenny Index), or if neither the SIFMA Rate nor the S&P Index - High Grade is published, the index determined to equal the prevailing rate determined by the Remarketing Agent for tax-exempt state and local government bonds meeting criteria determined in good faith by the Remarketing Agent to be comparable under the circumstances to the criteria used by the Securities Industry and Financial Markets Association to determine the SIFMA Rate just prior to when the Securities Industry and Financial Markets Association stopped publishing the SIFMA Rate. The Paying Agent shall make the determination required by this definition, upon notification from the Corporation, if there is no Remarketing Agent, if the Remarketing Agent fails to make any such determination or if the Remarketing Agent has suspended its remarketing efforts in accordance with the Remarketing Agreement.

“SIFMA Rate” means the Securities Industry and Financial Markets Association Municipal Swap Index of Municipal Market Data, formerly the Bond Market Association/PSA Municipal Swap Index (as such term is defined in the 1992 ISDA U.S. Municipal Counterparty Definitions) most recently available as of the date of determination.

“Tender Agent” means U.S. Bank National Association, organized and existing under the laws of the United States of America, and its successors and assigns.

“Variable Rate Bonds” means Offered Bonds bearing interest at a Daily Rate, Weekly Rate, Monthly Rate, Quarterly Rate, or Semiannual Rate. This Official Statement is not intended to describe Offered Bonds bearing interest at other than a Weekly Rate.

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## CERTAIN INFORMATION RELATING TO THE BANK

*The following information has been provided by Landesbank Baden-Württemberg (“LBBW”), acting through its New York Branch for use in this Official Statement. Neither the Corporation nor the Underwriters have undertaken any independent investigation of the operations of LBBW and no representation is made herein as to the accuracy or adequacy of such information.*

**Landesbank Baden-Württemberg**

LBBW is a public law institution (*rechtsfähige Anstalt des öffentlichen Rechts*) owned and controlled jointly by the State of Baden-Württemberg, the Savings Bank Association of Baden-Württemberg (the Association of Baden-Württemberg), the City of Stuttgart, the Savings Bank and Giro Association of Rhineland-Palatinate (SGV-RP), and Landeskreditbank Baden-Württemberg (L-Bank). Baden-Württemberg holds 35.611% of LBBW’s nominal capital, the Association of Baden-Württemberg holds 35.611%, Stuttgart holds 18.932%, the SGV RP holds 4.923% and L-Bank holds 4.923%. With a balance sheet total of approximately €404.9 billion at December 31, 2005, the LBBW Group is among the ten largest German banks and among the 50 largest credit institutions in the world.

The LBBW Act (*Gesetz über die Landesbank Baden-Württemberg*; the “LBBW Act”) authorizes LBBW to engage in all types of banking and financial service activities as well as in all other activities that are useful to LBBW, including issuing mortgage Pfandbriefe (*Hypothekendarlehenbriefe*), public sector Pfandbriefe (*Öffentliche Pfandbriefe* or *Kommunalobligationen*), and other debt obligations. In addition, LBBW is the central bank for the savings banks (*Sparkassen*) in the State of Baden-Württemberg. Furthermore, LBBW and its 100 per cent subsidiary Landesbank Rheinland-Pfalz act together as the central bank for the savings banks in Rheinland-Pfalz. In this regard, LBBW conducts its activities with due consideration of the interests of these savings banks. Furthermore, LBBW also performs the activities of a savings bank through its brand “BW-Bank” in the territory of Stuttgart.

As a German “universal bank,” LBBW provides a comprehensive range of commercial banking and investment banking services to businesses, other banking institutions, governmental entities, counties, municipalities, other organizations and individuals. LBBW makes loans, extends guaranties, underwrites securities, deals and trades in debt and equity securities and makes equity investments. LBBW underwrites, trades in, and acts as paying agent and fiscal agent with respect to debt securities issued by the State of Baden-Württemberg.

**Landesbank Baden-Württemberg, New York Branch**

The New York Branch of LBBW (the “Branch”) was licensed by the Banking Department of New York State in December 1998, and amended its license in April 1999 to reflect the merger that created LBBW. The Branch is not required to be and is not a member of the Federal Deposit Insurance Corporation (the “FDIC”). The Branch is engaged in numerous business activities such as extending credit and providing banking services to the middle market clientele of Baden-Württemberg and their North American subsidiaries, as well as to

international corporations. The Branch is also involved in the financing of commercial real estate in select U.S. cities and in public finance with U.S. municipal entities. The Branch also engages in capital markets and asset management activities, which include the management of an investment portfolio consisting entirely of investment-grade notes, including floating- and fixed-rate asset-backed securities, collateralized obligations, and senior debt medium-term notes issued by higher quality banks, finance companies, and other corporate issuers. The Branch funds itself with corporate, bank and government entity deposits, and the issuance of certificates of deposit, medium-term notes and other obligations. The Branch is active in both the inter-bank and corporate markets.

### **Phase-out of Guaranty Obligation and Maintenance Obligation**

In 2001 and 2002, the European Commission, the Federal Republic of Germany and the German federal states (including Baden-Württemberg) reached agreements to make the Guaranty Obligation (*Gewährträgerhaftung*) and Maintenance Obligation (*Anstaltslast*) of the owners of German Landesbanken compatible with the state aid provisions of the Treaty Establishing the European Community, as amended by the Treaty on European Union. Under these agreements, Germany and its federal states began to phase out the Guaranty and Maintenance Obligations. On July 18, 2005, this phase-out was completed. Obligations of LBBW incurred after that date are no longer backed by the Guaranty Obligation or Maintenance Obligation of its owners. Furthermore, LBBW became capable of being subject to insolvency proceedings after 18 July 2005.



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