

**SERIES 2-C: CONVERSION OF PREVIOUSLY ISSUED BONDS (NOT REOFFERED)      BOOK-ENTRY ONLY**  
**SERIES 5:      NEW ISSUE**

*In the opinion of Bond Counsel under existing statutes and court decisions, assuming continuing compliance with certain conditions imposed by applicable federal tax law as described herein (i) interest on the Series 2-C and 5 Bonds is not included in the gross income of the owners thereof for federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code", and (ii) interest on the Series 2-C and 5 Bonds is not a specific preference item for purposes of the federal alternative minimum tax provisions of the Code applicable to individuals, corporations and other taxpayers and such interest on the Series 2-C and 5 Bonds is not included in adjusted current earnings of corporations for purposes of the federal alternative minimum tax. Further, pursuant to the provisions of the Rhode Island Housing and Mortgage Finance Corporation Act, income on the Series 2-C and 5 Bonds (including any profit on the sale thereof) is free from Rhode Island personal income taxes. See "TAX MATTERS" herein.*

**RHODE ISLAND HOUSING AND MORTGAGE  
FINANCE CORPORATION**

**\$32,000,000 Home Funding Bonds, Series 2, Subseries 2-C (Non-AMT)†**  
**\$39,840,000 Home Funding Bonds, Series 5 (Non-AMT)**

**Dated: Series 2-C – December 21, 2009 (interest to accrue from December 20, 2012)      Due: As shown on inside cover hereof**  
**Series 5 – Date of Delivery**

The Series 2, Subseries 2-C Bonds (the "Series 2-C Bonds") and the Series 5 Bonds (the "Series 5 Bonds" and, collectively with the Series 2-C Bonds, the "Series 2-C and 5 Bonds") are available only as fully registered bonds, registered in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository of the Series 2-C and 5 Bonds. Individual purchases will be made in book-entry form, in minimum denominations of \$5,000, or any integral multiple thereof. So long as Cede & Co. is the registered owner of the Series 2-C and 5 Bonds and nominee of DTC, references herein to the Bondholders or registered owners shall mean Cede & Co. and shall not mean the beneficial owners of the Series 2-C and 5 Bonds. See "**BOOK-ENTRY ONLY SYSTEM**" herein. The Bank of New York Mellon Trust Company, N.A., Providence, Rhode Island acts as Trustee for the Series 2-C and 5 Bonds. Principal and premium, if any, and interest on the Series 2-C and 5 Bonds are payable by check or wire transfer by the Trustee in its capacity as Paying Agent at its corporate trust office in Dallas, Texas. So long as Cede & Co. or another nominee of DTC is the registered owner of the Series 2-C and 5 Bonds, payments of the principal of, premium, if any, and interest on the Series 2-C and 5 Bonds will be made directly to DTC. Disbursement of such payments to Direct Participants (as herein defined) is the responsibility of DTC and disbursement of such payments to the Beneficial Owners (as herein defined) is the responsibility of Direct Participants and Indirect Participants (as herein defined).

The Series 2-C Bonds are a subseries of Rhode Island Housing's previously issued Home Funding Bonds, Series 2 for which Conversion (as defined herein) is taking place.

The Series 5 Bonds will bear interest from the Dated Date shown above to their maturity or prior redemption at the rates set forth on the inside cover page hereof, payable semi-annually on each April 1 and October 1, commencing April 1, 2013, and at maturity. The Series 2-C Bonds will bear interest determined and payable as described herein to their maturity or prior redemption. Interest on the Series 2-C and 5 Bonds is computed on the basis of a 30 day month and a 360 day year. The Series 2-C and 5 Bonds are subject to redemption, without premium, as further described under the heading "**DESCRIPTION OF THE SERIES 2-C and 5 BONDS**" herein.

The Series 2-C and 5 Bonds will not constitute general obligations of Rhode Island Housing but will constitute special revenue obligations of Rhode Island Housing and will be secured by and payable solely from a pledge of certain Revenues and Accounts established under the Resolution, all as more fully set forth herein. Rhode Island Housing has no taxing power. The Series 2-C and 5 Bonds are not a debt or liability of the State of Rhode Island or any political subdivision thereof.

The Series 5 Bonds are offered when, as and if issued, and received by the Underwriters and subject to approval of legality of Kutak Rock LLP, Atlanta, Georgia, Bond Counsel. The Series 2-C Bonds have been privately placed and the interest rate thereon is being converted as described herein, subject to the approval of legality of Bond Counsel. Certain legal matters incident to the issuance of the Series 5 Bonds and to the conversion of the Series 2-C Bonds will be passed upon by Bond Counsel. Certain legal matters will be passed upon for the Underwriters of the Series 5 Bonds by Hawkins Delafield & Wood LLP, New York, New York, and for Rhode Island Housing by its Special Counsel, Nixon Peabody LLP, Providence, Rhode Island. It is expected that the Series 5 Bonds in definitive form will be available for delivery in New York, New York on or about December 20, 2012.

**Morgan Stanley**  
**Janney Capital Markets**  
**RBC Capital Markets**

**BofA Merrill Lynch**  
**M.R. Beal & Company**

**J.P. Morgan**  
**Oppenheimer & Co. Inc.**  
**Roosevelt & Cross, Inc.**

November 30, 2012

† Not reoffered.

## MATURITY SCHEDULE

### **Series 2-C Bonds (Non-AMT)<sup>†</sup>**

\$32,000,000 Series 2-C Term Bonds due October 1, 2041<sup>† ††</sup>

### **Series 5 Bonds (Non-AMT)**

\$2,095,000 3.05% Series 5 Term Bonds due October 1, 2028  
\$14,175,000 3.35% Series 5 Term Bonds due October 1, 2033  
\$4,505,000 3.45% Series 5 Term Bonds due April 1, 2035  
\$19,065,000 2.75% Series 5 Term Bonds due April 1, 2040

**Price of Series 5 Bonds due April 1, 2040: 103.702%,  
approximate yield to projected weighted average life: 1.95%**

**Price of all other Series 5 Bonds: 100%**

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<sup>†</sup> Not reoffered.

<sup>††</sup> The Series 2-C Bonds will bear interest from (i) December 20, 2012 to and including February 20, 2013 at the per annum rate (the "Short Term Rate"), equal to the lesser of (A) the sum of the Four Week T-Bill Rate reported by the Federal Reserve on its website as of the second business day prior to the Release Date applicable to the Series 2-C Bonds plus 75 basis points (0.75%), or (B) the Permanent Rate, and (ii) from February 20, 2013 to their maturity (or prior redemption) at the Permanent Rate, as defined in the Resolution. The Permanent Rate will be calculated in accordance with the Resolution and is not expected to be greater than 2.73%.

No dealer, broker, salesperson or other person has been authorized to give any information or to make any representations, other than as contained in this Official Statement in connection with the issuance of the Series 5 Bonds described herein and, if given or made, such information or representations must not be relied upon as having been authorized by Rhode Island Housing or the Underwriters. This Official Statement does not constitute an offer to sell the Series 5 Bonds or a solicitation of an offer to buy, nor shall there be any sale of the Series 5 Bonds by any person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale. The information set forth herein has been furnished by Rhode Island Housing and by other sources which are believed to be reliable. The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their respective responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information. The Series 2-C Bonds were privately placed by Rhode Island Housing and the interest rate thereon is being converted as described herein. The Series 2-C Bonds are not being reoffered. 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 implications that there has been no change in the affairs of Rhode Island Housing, the lending institutions or any other parties described herein since the date hereof.

IN CONNECTION WITH THE OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 5 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

	<u>Page</u>
INTRODUCTION .....	2
RHODE ISLAND HOUSING .....	3
NEW ISSUE BOND PROGRAM .....	8
SOURCES AND USES OF FUNDS .....	10
DESCRIPTION OF THE SERIES 2-C AND 5 BONDS .....	11
BOOK-ENTRY ONLY SYSTEM .....	21
SECURITY FOR THE SERIES 2-C AND 5 BONDS .....	22
INVESTMENTS UNDER THE BOND RESOLUTION .....	24
SERIES 2-C AND 5 PROGRAM LOANS .....	24
MORTGAGE LOAN PORTFOLIO .....	29
HOME FUNDING PROGRAM .....	32
OTHER PROGRAMS OF RHODE ISLAND HOUSING .....	37
TRUSTEE .....	37
AGREEMENT OF THE STATE .....	38
STATE NOT LIABLE ON BONDS .....	38
LEGALITY FOR INVESTMENT .....	38
LITIGATION .....	39
APPROVAL OF LEGALITY .....	39
RATINGS .....	39
UNDERWRITING OF SERIES 5 BONDS .....	39
TAX MATTERS .....	40
UNDERTAKING TO PROVIDE ONGOING DISCLOSURE .....	42
FINANCIAL STATEMENTS OF RHODE ISLAND HOUSING .....	44
MISCELLANEOUS .....	45
APPENDIX A – Description of Certain Primary Mortgage Insurance, Federal Housing Programs and Rhode Island Mortgage Foreclosure Procedures .....	A-1
APPENDIX B – Participating Mortgage Lenders .....	B-1
APPENDIX C – Audited Financial Statements of Rhode Island Housing – June 30, 2012 and 2011 .....	C-1
APPENDIX D-1 – Proposed Form of Opinion of Bond Counsel with respect to the Series 2-C Bonds .....	D-1
APPENDIX D-2 – Proposed Form of Opinion of Bond Counsel with respect to the Issuance of the Series 5 Bonds .....	D-2
APPENDIX E – Summary of Outstanding Bond Indebtedness of Rhode Island Housing .....	E-1
APPENDIX F – Summary of Certain Provisions of the Bond Resolution .....	F-1

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# RHODE ISLAND HOUSING AND MORTGAGE FINANCE CORPORATION

## Official Statement Relating To

**\$32,000,000 Home Funding Bonds, Series 2, Subseries 2-C (Non-AMT)**  
**\$39,840,000 Home Funding Bonds, Series 5 (Non-AMT)**

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This Official Statement, which includes the cover page and the appendices hereto, sets forth certain information concerning the Rhode Island Housing and Mortgage Finance Corporation (“Rhode Island Housing”) and the issuance of its Home Funding Bonds, Series 5 (Non-AMT) (the “Series 5 Bonds”), and the Release and Conversion (as defined below) of its Home Funding Bonds, Series 2, Subseries 2-C (the “Series 2-C Bonds”), in the respective principal amounts shown above. The Series 2-C Bonds and the Series 5 Bonds are collectively referred to herein as the “Series 2-C and 5 Bonds.” Rhode Island Housing is a public corporation and instrumentality and agency of the State of Rhode Island and Providence Plantations (the “State”), created by the Rhode Island Housing and Mortgage Finance Corporation Act, constituting Chapter 55 of Title 42 of the General Laws of Rhode Island, 1956 (2006 Reenactment), as amended and supplemented (the “Act”).

The Series 2-C Bonds were issued and the Series 5 Bonds are being issued to make funds available to purchase Program Loans to finance the ownership or improvement of single family housing within the State by eligible low and moderate income families. See “**SERIES 2-C AND 5 PROGRAM LOANS**” herein. The proceeds of the Series 5 Bonds will be applied to redeem the Series 1-B Bonds previously issued under the Resolution (as hereinafter defined).

The Series 2-C Bonds were issued pursuant to the Act and Rhode Island Housing’s General Home Funding Program Bond Resolution adopted November 19, 2009 (the “Bond Resolution”), as supplemented by the Series 1 and 2 Home Funding Program Supplemental Resolution, adopted on November 19, 2009 (the “Series 1 and 2 Resolution” and a Series Certificate of Rhode Island Housing delivered pursuant thereto relating to the Series 2 Bonds, as amended (the “2009 Series Certificate”). The Series 5 Bonds are being issued pursuant to the Act and the Bond Resolution, as supplemented by the Series 5 Home Funding Program Supplemental Resolution, adopted on October 18, 2012 (the “Series 5 and Series 2-C Resolution”) and a Series Certificate of Rhode Island Housing delivered pursuant thereto relating to the Series 5 Bonds and the Series 2-C Bonds (the “Series 5 and Series 2-C Certificate”). The Bond Resolution as heretofore supplemented by the Series 1 and 2 Resolution, the 2009 Series Certificate, the Series 5 and Series 2-C Resolution and the Series 5 and Series 2-C Certificate (collectively referred to herein as the “Resolution”). Reference is hereby made to the Bond Resolution, the Series 1 and 2 Resolution, the 2009 Series Certificate, the Series 5 and Series 2-C Resolution and the Series 5 and Series 2-C Series Certificate for a full statement of the authority for, and the terms and provisions of, the Series 2-C and 5 Bonds and the covenants and agreements made for the security of the Series 2-C and 5 Bonds.

The Series 2-C and 5 Bonds except as described herein, will be on a parity with the outstanding Home Funding Bonds and any additional Home Funding Bonds hereafter issued pursuant to the Bond Resolution (collectively, the “Bonds”).

The Series 2-C Bonds represent a portion of Rhode Island Housing’s previously issued \$83,000,000 aggregate principal amount Home Funding Bonds, Series 2 (the “Series 2 Bonds”) which were issued December 23, 2009 as part of the New Issue Bond Program (the “NIBP”) of the United States Department of the Treasury (the “Treasury”). The Series 2 Bonds were delivered to the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation (each, a “GSE” and, collectively, the “GSEs”) under the NIBP. The Series 2-C Bonds currently bear a short-term interest rate equal to the investment

earnings on the proceeds of such Bonds. Upon compliance with various conditions set forth in the agreement with the GSEs and the Series 1 and 2 Resolution, the interest rate applicable to the Series 2-C Bonds may be changed (such change hereinafter referred to as a “Conversion”) as described herein and the proceeds of the Series 2-C Bonds will be released as described herein. See **“NEW ISSUE BOND PROGRAM.”**

The Series 5 Bonds are being offered to investors pursuant to this Official Statement and will be purchased by the Underwriters as described in **“UNDERWRITING”** herein.

The Conversion of the Series 2-C Bonds and issuance of the Series 5 Bonds will be treated as a composite issue under the Internal Revenue Code of 1986, as amended (the “Code”), and, therefore, the requirements of applicable Federal tax law must be satisfied with respect to each Series of the Series 2-C and 5 Bonds in order that interest on the Series 2-C and 5 Bonds not be included in gross income for Federal income tax purposes.

All references herein to the Act, the Bond Resolution, the Bonds and the Series 2-C and 5 Resolution are qualified in their entirety by reference to each such document, copies of which are available from Rhode Island Housing, and all references to and summaries of the Act, the Bond Resolution, the Series 2-C and 5 Resolution and the Bonds in this Official Statement are qualified in their entirety by reference to the definitive forms thereof and the information contained therein. **Capitalized terms not otherwise herein defined are used as defined in the Bond Resolution. (See “APPENDIX F–SUMMARY OF CERTAIN PROVISIONS OF THE BOND RESOLUTION–Certain Definitions” for definitions of certain capitalized terms used herein.)**

## INTRODUCTION

Rhode Island Housing was created for the purpose of stimulating the construction and rehabilitation of residential housing for persons and families of low and moderate income. Under authority granted in the Act, Rhode Island Housing has established a Home Funding Program (the “Program”) pursuant to which it can finance (i) Mortgage Loans, Home Repair Loans and Affordability Loans, as defined herein (collectively, the “Program Loans”) and (ii) obligations representing an undivided interest in a pool of mortgage loans guaranteed by the Government National Mortgage Association, the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation (the “Program Securities”), for the purpose of providing owner-occupied housing for persons and families of low and moderate income as determined by Rhode Island Housing under the standards set forth in the Act. Program Loans and Program Securities are referred to herein collectively as the “Program Obligations.” See **“HOME FUNDING PROGRAM.”** Rhode Island Housing expects most of its Program Loans to be purchased with funds made available from the issuance of the Series 2-C and 5 Bonds to be secured by first lien Mortgages on single family owner-occupied dwelling units. See **“SERIES 2-C AND 5 PROGRAM LOANS.”**

The Bond Resolution authorizes Bonds to be issued to provide funds to Rhode Island Housing to finance Program Obligations, to refund outstanding Bonds and to fund the various Accounts established under the Bond Resolution. Certain requirements with respect to Program Loans (the “Series Program Determinations”) shall be provided for in Supplemental Resolutions with respect to each Series of Bonds. Such Series Program Determinations shall include, in part, whether each Program Loan shall be secured by a first lien, a coordinate first lien, a second lien, a third lien or a combination thereof and the required primary mortgage insurance, if any, and the levels of coverage thereof. See **“HOME FUNDING PROGRAM–General.”**

The Series 2-C and 5 Bonds are subject to redemption at par, at the times, and upon the conditions described herein. See **“DESCRIPTION OF THE SERIES 2-C AND 5 BONDS”** herein.

All Bonds issued and to be issued under the Resolution are special revenue obligations of Rhode Island Housing, payable solely from and secured by a pledge of (i) the Revenues received by or for the account

of Rhode Island Housing from Program Obligations purchased under the Resolution, (ii) moneys and securities held in all Accounts (except the Rebate Account and the Series 2 Escrow Proceeds Account established in connection with the Series 2 Bonds) established under the Resolution, including the investments thereof and the proceeds of such investments, and (iii) all Program Obligations financed by Rhode Island Housing from the proceeds thereof.

THE SERIES 2-C AND 5 BONDS ARE SPECIAL REVENUE OBLIGATIONS OF RHODE ISLAND HOUSING, PAYABLE SOLELY OUT OF THE REVENUES, MONEYS, FUNDS OR PROPERTY OF RHODE ISLAND HOUSING PLEDGED THEREFORE UNDER THE RESOLUTION. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OR OF ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF, OR THE INTEREST ON, THE SERIES 2-C AND 5 BONDS. THE STATE IS NOT LIABLE FOR THE SERIES 2-C AND 5 BONDS, AND THE SERIES 2-C AND 5 BONDS ARE NOT A DEBT OF THE STATE. RHODE ISLAND HOUSING HAS NO TAXING POWER.

## **RHODE ISLAND HOUSING**

### **General**

Rhode Island Housing was created in 1973 as a public corporation and instrumentality and agency of the State, but does not constitute a department of State government. Under the Act, the purpose of Rhode Island Housing is to encourage the investment of private capital and stimulate the construction and rehabilitation of housing for persons and families of low and moderate income, to provide construction and mortgage loans, and to make provision for the purchase of mortgage loans and otherwise as is necessary to accomplish its purposes.

Rhode Island Housing has the authority to create subsidiaries and currently has several such subsidiaries (collectively, the "Subsidiaries"). Generally, the Subsidiaries were formed to invest in or hold title to various residential real estate developments, currently or previously financed by Rhode Island Housing.

### **Commissioners of Rhode Island Housing**

The powers of Rhode Island Housing are vested in seven commissioners, consisting of the Director of the Department of Administration, the General Treasurer, the Director of Business Regulation, or the designees thereof, and four members appointed by the Governor with the advice and consent of the State Senate, who among them are to be experienced in all aspects of housing design, development, finance, management and state and municipal finance. The appointed commissioners serve for terms of four years and until they are reappointed or their respective successors are appointed and qualified. The Chairman is designated by the Governor; the Vice Chairman and Treasurer are elected by the members from among their number. The commissioners do not receive compensation. Meetings are held at the call of the Chairman or whenever two commissioners so request. Four commissioners constitute a quorum, and any action taken by Rhode Island Housing may be authorized by a resolution approved by a majority but not less than three of the commissioners. A vacancy on the Board of Commissioners does not impair the right of a quorum to exercise all the rights and perform all the duties of Rhode Island Housing. The Act provides that if any commissioner of Rhode Island Housing is a director, officer or employee of, or has an ownership interest in any entity interested directly or indirectly in a contract with Rhode Island Housing, such commissioner must disclose such interest to Rhode Island Housing and shall not participate in the authorization of any such contract.

The present commissioners of Rhode Island Housing are:

#### **James V. DeRentis, Chairman.**

Mr. DeRentis was appointed as Chairman of the Board of Commissioners on July 12, 2011. Mr. DeRentis has twenty-five years of experience in the Rhode Island banking,

mortgage finance and real estate industries. Mr. DeRentis currently is a principal in Markham + DeRentis, a real estate brokerage affiliated with Residential Properties, LTD, Providence. Prior to joining Markham + DeRentis, he served as Chief Business Officer for Bank Rhode Island. Mr. DeRentis is a graduate of Bryant University and earned an MBA from Providence College. Mr. DeRentis' term expires on July 1, 2014.

**Denise A. Barge, Vice Chair.**

Ms. Barge was appointed to the Board of Commissioners on April 4, 2001. She is principal of Barge & Associates, LLC, a consulting firm in nonprofit management. Ms. Barge managed and led the Minority Investment Development Corporation ("MIDC") and the Rhode Island Coalition for Minority Investment ("RICMI") as Executive Director from 1999 to 2009. Prior to joining the MIDC and RICMI in April 1999, Ms. Barge was an Assistant Vice President and Community Development Officer for BankBoston. She previously held a number of executive positions in banking with BankBoston Hospital Trust Bank and Fleet Bank. Ms. Barge has served on the boards of the Greater Providence Chamber of Commerce, RI Coalition Against Domestic Violence, and the Rhode Island Commission on Women. She is a graduate of the University of California at Los Angeles. Her term expired on July 1, 2012. Under the Act, she continues to serve until a successor is appointed and qualified.

**Steven M. Costantino.**

Mr. Costantino joined the Board of Commissioners as a representative of the Director of the Department of Administration, at the direction of Governor Chafee. Mr. Costantino was confirmed as the Secretary of the Executive Office of Health and Human Services in early 2011. Prior to his appointment, between 1994 and 2010, he was elected to eight terms to the Rhode Island House of Representatives. He served as Chairman of the House Finance Committee from 2004 to 2010. Mr. Costantino is a graduate of Providence College.

**T. Paul Dimeo.**

Mr. Dimeo was appointed to the Board of Commissioners on July 12, 2011. He has broad experience in management and since 1993 serves as President of Dimeo Properties. Prior to Dimeo Properties, Mr. Dimeo held various positions with Dimeo Construction in the field of engineering, estimating, construction and real estate management development. He is a graduate of New York University with a master's degree in Real Estate and a bachelor's degree from Brown University. His term expires on July 1, 2013.

**Paul McGreevy.**

Mr. McGreevy was appointed to the Board of Commissioners on January 4, 2011. Mr. McGreevy currently serves as the Director of the State Department of Business Regulations. He has over 28 years of experience in strategic planning and technology architecture for federal agencies seeking improved information management. Mr. McGreevy is a graduate of the University of Virginia and has earned advanced degrees from Boston University and the Naval War College. He served thirteen years in the U.S. Navy as a Surface Warfare Officer that included tours in engineering and logistics in a wide variety of sea and shore commands. Following the Navy, Mr. McGreevy enjoyed a long career in management consulting with KPMG, BearingPoint, and, Deloitte Consulting. Most recently, Mr. McGreevy acted as a project manager on the successful Chafee for Governor campaign and subsequently served as the Governor-elect's transition manager.



**Jose V. Monteiro, Jr.**

Mr. Monteiro was appointed to the Board of Commissioners on May 7, 2004. He is Relationship Manager, Commercial Lending at Navigant Credit Union and prior to Navigant, Mr. Monteiro was Senior Vice President of Bank of America's Community Development Banking division. Prior to joining Bank of America's predecessor, Fleet Bank, in 1999, Mr. Monteiro was Vice President of BankBoston Development Co. He is a former Project Director for the Providence Plan's Enterprise Community program and held various executive positions with a number of commercial lending institutions. Mr. Monteiro is a graduate of Rhode Island College. His term expired on July 1, 2011. Under the Act, he continues to serve until a successor is appointed and qualified.

**Gina Raimondo.**

Ms. Raimondo joined the Board on January 2, 2011, upon being sworn in as General Treasurer of the State of Rhode Island. Prior to becoming General Treasurer, she was a partner at Point Judith Capital, an investment firm she co-founded. Ms. Raimondo serves on the boards of Crossroads RI and Women and Infants Hospital. She is a graduate of Harvard University where she was recognized as the top economics student and awarded a Rhodes Scholarship to earn her doctorate at Oxford University. She also was graduated from Yale Law School.

**Staff**

The corporate staff, under the direction of the Executive Director, includes professionals and staff members working in Rhode Island Housing's seven divisions: executive, finance, technology, homeownership opportunity, loan servicing, resident services, and inter-governmental relations.

Senior professional staff members of Rhode Island Housing include the following:

**Richard Godfrey – Executive Director.**

Mr. Godfrey has served as Executive Director of Rhode Island Housing since November 1, 1993. Prior to his appointment, he was a partner in the law firm of Hannoeh Weisman from 1990 to 1993 and the law firm of Hawkins, Delafield & Wood from 1988 to 1990, specializing in financial and urban development matters. Mr. Godfrey served as the Deputy Treasurer and Executive Director of the Department of the Treasury of the State of New Jersey from 1986 to 1988, and held a number of positions at the New Jersey Housing and Mortgage Finance Agency from 1978 through 1986, including Acting Executive Director and Deputy Director. Mr. Godfrey holds a Bachelor of Arts in Architecture and Urban Planning from Princeton University and a Juris Doctor from Seton Hall University.

**Susan Bodington – Deputy Director – Programs.**

Ms. Bodington joined Rhode Island Housing in 1991 and served as the HOME Program Coordinator from 1992 to 1993. She then served as Assistant Director for Housing Policy until her appointment as Director in 1998. She was appointed Deputy Director – Programs in September, 2003. Prior to joining Rhode Island Housing, Ms. Bodington was Community Development Programs Manager for the State of Rhode Island from 1985 to 1991 and previously held planning and community development positions with the Cities of Providence and East Providence. Ms. Bodington holds a Bachelor of Arts degree from Smith College in Economics.

**Robert J. Wickey - Deputy Director-Chief Financial Officer.**

Mr. Wickey joined Rhode Island Housing in November 2012. Prior to joining Rhode Island Housing he served as a consultant and interim chief financial officer for the Mutual Housing Association of Southwestern Connecticut and for the Corporation for Independent Living. From 1996 to 2010 he served as a founding member and managing director of Equinox Investment Partners where he was involved in providing debt and equity financing for small private businesses. From 1981 to 1996 Mr. Wickey was involved in lending and investing private capital on behalf of Kleinwort Benson Limited and John Hancock Mutual Life Insurance. He began his career in 1979 as a commercial banker with Hartford National Bank. Mr. Wickey holds a Bachelor of Arts, magna cum laude, in Mathematics from Saint Anselm College and a Master of Business Administration from the Johnson Graduate School of Management at Cornell University.

**Richard G. Hartley – Treasurer.**

Mr. Hartley joined Rhode Island Housing in November, 1995 as Assistant Treasurer. He was appointed Portfolio Manager in July, 2000 and Treasurer in April, 2005. From 1976 to 1995, Mr. Hartley held positions in the Commercial Lending, Finance and Treasurer's Groups at Old Stone Bank, Providence, Rhode Island. Commencing in 1988, he served as Vice President and Manager of the Bank's Asset/Liability Department. Mr. Hartley received a Master of Business Administration degree and a Bachelor of Arts degree from the University of Rhode Island.

**Carlos Hernandez – Director of Resident Services.**

Mr. Hernandez joined Rhode Island Housing in 1987 as a loan servicer for the Homeownership Division. Mr. Hernandez was appointed Asset Manager in the Asset Management Division in 1990 and Manager of the Housing Choice Program in 1998. Mr. Hernandez was appointed Assistant Director of Loan Servicing in 2006 and Director of Resident Services in January, 2012. Mr. Hernandez holds the designation of Accredited Residential Manager from the Institute of Real Estate Management, Housing Credit Certified Professional with the National Association of Home Builders and is certified as a specialist in housing credit management with the National Affordable Housing Management Association. He is vice-president of the National Leased Housing Association and serves on the boards of the Housing Action Coalition, Opportunities Unlimited and Rhode Island Coalition for the Homeless. He received a Bachelor of Arts degree from Barrington College.

**Kara L. Lachapelle – Director of Finance and Technology.**

Ms. Lachapelle joined the Corporation in October, 2001 and served as Assistant Controller from 2001 to 2007. She was appointed Controller in January, 2007 and appointed Director of Finance and Technology in September 2010. From 1997 to 2001, Ms. Lachapelle held various positions in public accounting at Rooney, Plotkin & Willey, specializing in governmental and non-profit audit clients. Ms. Lachapelle also worked in the Trust Department at Durfee Attleboro Bank. She is a member of the American Institute of Certified Public Accountants and received a Bachelor of Science Degree from Bryant College.

**Leslie McKnight – Director of Loan Servicing.**

Ms. McKnight was appointed Director of Loan Servicing in September, 2003. She joined Rhode Island Housing in June 1995 as the Default Manager. She was appointed Assistant Director of Loan Servicing in July, 2000. Prior to her employment at Rhode Island Housing, Ms. McKnight worked as a Loan Workout Specialist for Plymouth Mortgage Company from 1991 to 1995. Between 1982 and 1991, she held various positions in Retail Banking and Mortgage Lending including

Assistant Branch Manager at Citizens Bank. Ms. McKnight received her Bachelor of Science Degree in Business Administration from Bryant College.

**Michael V. Milito – Deputy Assistant Director for Law.**

Mr. Milito joined Rhode Island Housing in July, 1998 as Corporation Counsel, and was appointed Deputy Assistant Director–Law and Human Resources in July, 2000. Prior to joining Rhode Island Housing, Mr. Milito was a consultant engaged in affordable housing development from 1996 through 1998. From 1994 through 1996, Mr. Milito was the Community Reinvestment Manager for Citizens Bank of Rhode Island, a financial services company in Providence, Rhode Island. From 1989 through 1994, Mr. Milito was engaged in affordable housing development on behalf of nonprofit organizations in Rhode Island. Mr. Milito was a staff attorney in the housing unit with Rhode Island Legal Services from 1982 to 1989. Mr. Milito received a Bachelor of Arts degree from Le Moyne College and a Juris Doctor from Northeastern University School of Law.

**Cathleen A. Paniccia – Director of Homeownership Opportunity Programs.**

Mrs. Paniccia joined Rhode Island Housing in June, 1995 as its Director of Homeownership Opportunity Programs. Prior to her appointment, she was Senior Vice President at Old Stone Bank, Providence, RI, and responsible for Old Stone's Residential Mortgage Department from 1990 to 1995. Between 1986 and 1990, she served as Vice President/Resident Mortgage Production Manager at Old Stone Bank. Between 1976 and 1986 she held various positions with the residential lending areas of Old Stone Bank, Rhode Island Federal Savings and Loan, Rhode Island Hospital Trust National Bank and Mercury Savings and Loan Association. Mrs. Paniccia serves on the Board of the Rhode Island Mortgage Bankers Association and chairs its Educators Committee.

**Nicole R. Turner – Controller.**

Ms. Turner joined Rhode Island Housing as Controller in August, 2011. Prior to joining Rhode Island Housing, Ms. Turner was a Supervisor of the Not-for-Profit Management Team with the accounting firm of Kahn, Litwin, Renza & Co., Ltd., from 2006 to 2011. From 2004 to 2006 Ms. Turner was a Senior Accountant with the accounting firm of Prescott, Chatellier, Fontaine & Wilkinson, LLP. Ms. Turner received her Bachelor of Science Degree in Accounting from Rhode Island College and is a Certified Public Accountant.

**Carol A. Ventura – Director of Development.**

Ms. Ventura was appointed Director of Development in May, 2005. She joined Rhode Island Housing in August of 2001 as the Policy Programs Manager and was appointed Assistant Director of the Policy Division in 2002. Prior to joining Rhode Island Housing, Ms. Ventura worked as the Executive Director of a Community Development organization in northern Rhode Island. Ms. Ventura received a Master of Business Administration from Bryant University and a Bachelor of Science Degree from Bryant College.

**Peter Walsh – Director of Administration, Customer Service & Community Relations.**

Mr. Walsh was appointed Director of Administration, Customer Service and Community Relations in September of 2012. He joined Rhode Island Housing in November of 2010 as Director of External Relations. Prior to joining Rhode Island Housing, Mr. Walsh had a 33 year career with Citizens Bank and Bank Rhode Island. Mr. Walsh received a Bachelor of Science in Accounting from Providence College, and a graduate degree in Banking from the ABA Stonier Graduate School of Banking at Rutgers University. Mr. Walsh serves on various local boards including Amos House, The Capital Good Fund, Neighborhood Health Plan of Rhode Island, and the Providence Revolving Fund.

The address and telephone number of Rhode Island Housing are, respectively, 44 Washington Street, Providence, RI 02903-1721 and (401) 457-1234.

**Assistance to State**

The State, from time to time, has sought financial assistance from Rhode Island Housing to finance State housing programs and for the State's general use. For instance, Rhode Island Housing has provided funds to the State to fund the Rhode Island Rental Assistance Program each year since the inception of such Program in 1989. See "**OTHER PROGRAMS OF RHODE ISLAND HOUSING**" herein. Further, in fiscal year 1996 Rhode Island Housing transferred \$1,500,000 to the State, without consideration, for the State's general use. In fiscal year 2008, Rhode Island Housing was required by the State's budget bill to transfer \$26 million to the State for the State's general use. The amounts transferred were from Rhode Island Housing's operating fund. Most recently, for fiscal year 2012, the State's budget bill directed Rhode Island Housing to provide from its resources a minimum of \$1,500,000 in support of the Neighborhood Opportunities Program, which had previously been funded by the State. The State is not obligated to repay the funds transferred.

**NEW ISSUE BOND PROGRAM**

Rhode Island Housing issued \$75,000,000 aggregate principal amount of Series 1-A and 1-B Bonds under the NIBP in December, 2009. All of the proceeds of the Series 1 Bonds have been applied to the purchase of Mortgage Loans. Rhode Island Housing also issued \$83,000,000 aggregate principal amount of Series 2 Bonds in December, 2009 as taxable, variable interest rate escrow bonds under the NIBP. The Series 2 Bonds were purchased by the GSEs pursuant to the NIBP and proceeds derived from the sale of the Series 2 Bonds in an amount equal to \$83,000,000 were deposited in an escrow account (the "Series 2 Escrow Proceeds Account") established by the Series 1 and 2 Resolution. Under the NIBP, the GSEs exchanged the Series 2 Bonds for securities issued by the GSEs ("GSE Securities") backed by the Series 2 Bonds which were purchased by the Treasury. Such GSE Securities are not part of the security for the Series 2 Bonds. The Series 2 Bonds all initially bore interest at a short term variable rate and the interest rate calculation method applicable to the Series 2 Bonds could be converted in multiple tranches prior to December 31, 2012 (the date of any such conversion, a "Release Date"). The interest rate applicable to all Series 2 Bonds other than the Series 2-C Bonds has previously been converted to fixed interest rates, a first subseries, "Subseries 2-A" in the principal amount of \$30,000,000 and a second subseries, "Subseries 2-B" in the principal amount of \$21,000,000 having previously been re-designated on earlier Release Dates. The Subseries 2-C Bonds will constitute the third and final subseries of the Series 2 Bonds.

The release of the remaining amounts held in the Series 2 Escrow Proceeds Account to become available to purchase Program Loans depends upon compliance with various conditions set forth in the agreement with the GSEs and in the Series 1 and 2 Supplemental Resolution. Upon the satisfaction of the conditions precedent to the release the remaining balance of the funds from the Series 2 Escrow Proceeds Account, Rhode Island Housing expects to release \$32,000,000 from the Series 2 Escrow Proceeds Account (the "Released Series 2-C Proceeds") on the applicable Release Date which is expected to be the delivery date of the Series 5 Bonds. The portion of the Series 2 Bonds corresponding to the Released Series 2-C Proceeds will be re-designated as "Subseries 2-C" Bonds on such Release Date. The ownership of the Series 2-C Bonds will not change by reason of the conversion of the interest rate and the Series 2-C Bonds are not being reoffered.

There can be no assurance that Rhode Island Housing will continue issuing Bonds under the Bond Resolution subsequent to the Conversion of all the Series 2 Bonds and the issuance of the Series 5 Bonds.

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**SOURCES AND USES OF FUNDS**

The proceeds of the Series 2-C and 5 Bonds will be used to make funds available to Rhode Island Housing to purchase Program Loans or to refund Bonds issued to purchase Program Loans. Capital contributions from Rhode Island Housing or other moneys available under the Bond Resolution will be used to pay certain costs of issuing the Series 2-C and 5 Bonds.

The following are the expected sources and uses of funds with respect to the issuance of the Series 2-C and 5 Bonds:

Sources of Funds	
Principal of Series 2-C Bonds	\$ 32,000,000.00
Principal of Series 5 Bonds	39,840,000.00
Original Issue Premium	705,786.30
Rhode Island Housing's Contribution or other moneys available under the Resolution	<u>527,292.79</u>
Total Sources	<u>\$ 73,073,079.09</u>
Uses of Funds	
Deposit to Redemption Account	\$ 40,550,000.00
Deposit to Series 2-C Loan Account	32,000,000.00
Underwriters' Fees	355,579.09
GSEs' Fees and Expenses	7,500.00
Other Costs of Issuance/Conversion	<u>160,000.00</u>
Total Uses	<u>\$ 73,073,079.09</u>

Proceeds of the Series 5 Bonds deposited in the Redemption Account are expected to be applied to redeem the Series 1-B Bonds on or about January 2, 2013.

As a result of the refunding of the Series 1-B Bonds, the Program Loans in the aggregate principal amount of approximately \$40,550,000 originally financed with proceeds of the Series 1-B Bonds (the "Reallocated Series 1-B Program Loans") will be allocated to the Series 5 Bonds. See "**SERIES 2-C AND 5 PROGRAM LOANS.**"

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## DESCRIPTION OF THE SERIES 2-C AND 5 BONDS

### General

**Series 2-C Bonds.** The Series 2-C Bonds will mature on the date and in the amount set forth on the inside cover. Interest on the Series 2-C Bonds will be payable on February 20, 2013 and on each April 1 and October 1 thereafter. The Series 2-C Bonds are available in the denominations set forth on the cover.

The Series 2-C Bonds will bear interest from (i) December 20, 2012 to and including February 20, 2013 at the per annum rate (the "Short Term Rate"), equal to the lesser of (A) the sum of the Four Week T-Bill Rate reported by the Federal Reserve on its website as of the second business day prior to the Release Date applicable to the Series 2-C Bonds plus 75 basis points (0.75%), or (B) the Permanent Rate, and (ii) from February 20, 2013 to their maturity (or prior redemption) at the Permanent Rate (as defined in the Resolution). The Permanent Rate will be calculated in accordance with the Resolution and is not expected to be greater than 2.73%.

**Series 5 Bonds.** The Series 5 Bonds will mature on the dates and bear interest at the rates set forth on the inside cover page hereof. Interest on the Series 5 Bonds will accrue from December 20, 2012 and be payable on each April 1 and October 1, commencing April 1, 2013, and at maturity or earlier redemption. Interest on the Series 5 Bonds will be calculated on the basis of a 360-day year of twelve 30-day months.

**Record Date.** Rhode Island Housing has established a record date for the payment of interest or any redemption of 10 days prior to any interest payment date or the date of any proposed redemption.

### Redemption Provisions

The Series 2-C and 5 Bonds are subject to redemption as described below.

**Optional Redemption of Series 2-C Bonds.** The Series 2-C Bonds are subject to redemption, at the option of Rhode Island Housing, as a whole or in part on the first Business Day of any month in such amounts as Rhode Island Housing shall determine, at a redemption price equal to 100% of the principal amount of such Bonds to be redeemed, plus interest accrued to the date of redemption.

**Optional Redemption of Series 5 Bonds.** The Series 5 Bonds are subject to redemption, at the option of Rhode Island Housing, as a whole or in part on any date on or after April 1, 2022 in such amounts and maturities as Rhode Island Housing shall determine, at a redemption price equal to 100% of the principal amount of such Bonds to be redeemed, plus interest accrued to the date of redemption; provided however, that Series 5 Bonds maturing April 1, 2040 (the "PAC Bonds") so redeemed shall be redeemed at a price equal to 100% of the principal amount thereof plus a premium that maintains the same yield as the original price thereof, plus accrued interest to the date of redemption.

**Special Redemption of Series 2-C and 5 Bonds.** The Series 2-C and 5 Bonds are also subject to redemption, as a whole or in part on any date (first Business Day of the month with respect to the Series 2-C Bonds) at a redemption price equal to 100% of the principal amount of such Bonds to be redeemed, plus accrued interest to the date of redemption, in an amount not exceeding:

- (a) in the case of the Series 2-C Bonds only, unexpended proceeds of the Series 2-C Bonds remaining in the Loan Account.
- (b) any Recoveries of Principal from Program Obligations financed with any Series of Bonds to the extent not otherwise required to pay regularly scheduled principal payments, including Sinking Fund Payments, and interest on the Bonds or otherwise pledged or dedicated to the redemption of a particular Series of Bonds or maturity thereof.

(c) amounts on deposit in the Debt Service Reserve Account in excess of the Debt Service Reserve Account Requirement, and amounts in any Revenue Account in excess of the amount required to meet accrued Debt Service requirements on all Outstanding Bonds.

With respect to the special redemption of Series 2-C Bonds pursuant to clause (a) of the immediately preceding paragraph, such redemption shall occur no later than August 1, 2013 unless such date is extended upon receipt of written confirmation from the Rating Agency that such extension will not adversely impact the then existing rating on the Series 2-C and 5 Bonds. Moneys described in clauses (b) or (c) of the immediately preceding paragraph may be used to redeem the Series 2-C and 5 Bonds or Bonds of other Series issued under the General Resolution to the extent such moneys have not been dedicated to the redemption of Bonds of a particular series and maturity and Rhode Island Housing may direct the maturity or maturities, and amounts of any Series 2-C and 5 Bonds of any maturity to be redeemed.

Proceeds of the voluntary sale of Program Loans which are not in default are considered Recoveries of Principal. However, Recoveries of Principal resulting from the voluntary sale of Program Loans that are (a) not in default, (b) in compliance with Rhode Island Housing’s Program requirements and (c) sold, other than those that are sold in order to meet Rhode Island Housing’s tax covenants may only be used to redeem Series 2-C and 5 Bonds as described herein under “— **Optional Redemption of Series 2-C and 5 Bonds**” above. Proceeds of the sale of defaulted Program Loans recovered in connection with the liquidation of such Program Loans are included within the definition of Recoveries of Principal and will be applied by Rhode Island Housing to the special redemption of Series 2-C and 5 Bonds as described above.

Subject to a *de minimis* exception and to the extent then required by the Internal Revenue Code of 1986, as amended (the “Code”), Recoveries of Principal of Program Obligations allocable to proceeds of the Series 2-C and 5 Bonds received later than 10 years after the Release Date of the Series 2-C Bonds and the original date of issuance of the Bonds refunded by the Series 5 Bonds not otherwise applied to the payment of regularly scheduled principal payments, including Sinking Fund Payments, on the Series 2-C and 5 Bonds or to the redemption of the Subseries 2-C Bonds as provided below under the heading “— **Extraordinary Mandatory Redemption of Series 2-C Bonds**” must be used by Rhode Island Housing not later than the close of the first semi-annual period beginning after the date of receipt of any such repayment or prepayment to redeem Series 2-C and 5 Bonds at a redemption price equal to 100% of the principal amount thereof, plus accrued interest to the redemption date. Such restriction is referred to herein as the “10 Year Rule.”

<b>From Date</b>	<b>To Date</b>	<b>10-Year Percentage</b>
12/20/2012	12/22/2019	0.0%
12/23/2019	12/19/2022	55.9%
12/20/2022	Final Maturity of Bonds	100.0%

**Extraordinary Mandatory Redemption of Series 2-C Bonds.** The Series 2-C Bonds are subject to redemption prior to their maturity, in whole or in part at a Redemption Price of 100% of the principal amount of such Series 2-C Bonds to be redeemed, plus interest accrued to the Redemption Date, from Series 2-C Directed Recoveries of Principal (as defined below). Any such Series 2-C Directed Recoveries of Principal shall be applied to the redemption of Series 2-C Bonds on the first Business Day of any month at least once during each semi-annual period ending on April 1 or October 1, commencing April 1, 2013, to the extent there are at least \$10,000 of Series 2-C Directed Recoveries of Principal received during such semi-annual period. As used herein, “Series 2-C Directed Recoveries of Principal” means 100% of all Recoveries of Principal received from Program Obligations allocable to the Series 2-C Bonds not required to make regularly scheduled principal payments, including Sinking Fund Payments, on the Series 2-C Bonds or any other Bonds outstanding.



***Extraordinary Mandatory Redemption of PAC Bonds.*** The PAC Bonds are subject to mandatory redemption from (i) Series 5 Directed Principal Payments (defined below) and (ii) Series 1-A Residual Principal Payments at least once during each semi-annual period ending on April 1 or October 1, commencing with the period ending April 1, 2013, at a price of 100% of the principal amount of such Series 5 PAC Bonds to be redeemed, plus accrued interest to the date of redemption; provided, however, that no such redemption shall cause the Outstanding principal amount of the Series 5 PAC Bonds to be less than the applicable Series 5 PAC Outstanding Amount.

“*Series 5 Directed Principal Payments*” means, as of the date of computation in relation to any redemption (such date being referred to herein as the “Computation Date”), the positive difference between (i) the amount of all principal repayments and Recoveries of Principal from Program Obligations attributable to the Series 5 Bonds (the “Series 5 Program Obligations”) to the extent actually received and not previously applied, as permitted under the Resolution, as of such Computation Date, less (ii) the accrued portion (accrued from the previous Principal Payment Date) of the next regularly scheduled Principal Installment payments, including Sinking Fund Installments, through and including the Redemption Date, on all Series 5 PAC Bonds and (iii) the accrued portion (accrued from the previous Computation Date) of any mandatory ten year rule redemption under the Code of the Series 5 Bonds through and including the Redemption Date.

“*Series 1-A Residual Principal Payments*” means, as of any Computation Date, the positive difference between (i) the amount of all principal repayments and Recoveries of Principal from Program Obligations attributable to the Series 1-A Bonds (the “Series 1-A Program Obligations”) to the extent actually received and not previously applied, as permitted under the Resolution, as of such Computation Date less the aggregate amount of (ii) the accrued portion (accrued from the previous Principal Payment Date) of the next regularly scheduled Principal Installment payments, including Sinking Fund Installments, through and including the Redemption Date, on all Series 1-A Bonds and (iii) the accrued portion (accrued from the previous Computation Date) of any mandatory ten year rule redemption under the Code of the Series 1-A Bonds through and including the Redemption Date.

Series 5 Directed Principal Payments and Series 1-A Residual Principal Payments are collectively referred to herein as “Series 5/Series 1-A Directed Principal Payments.”

For a description of the redemption provisions applicable to the Series 1-A Bonds, see the Official Statement relating to the Series 1-A Bonds, which can be found on the Electronic Municipal Market Access (“EMMA”) system at <http://emma.msrb.org>.

The Series 5 PAC Outstanding Amount for each relevant period is as follows:

<u>Period Ending</u>	<u>Series 5 PAC Outstanding Amounts</u>
4/1/2013	\$18,590,000
10/1/2013	17,210,000
4/1/2014	15,900,000
10/1/2014	14,645,000
4/1/2015	13,445,000
10/1/2015	12,300,000
4/1/2016	11,220,000
10/1/2016	10,190,000
4/1/2017	9,210,000
10/1/2017	8,295,000
4/1/2018	7,425,000
10/1/2018	6,610,000
4/1/2019	5,850,000
10/1/2019	5,140,000
4/1/2020	4,490,000
10/1/2020	3,885,000
4/1/2021	3,330,000
10/1/2021	2,830,000
4/1/2022	2,375,000
10/1/2022	1,980,000
4/1/2023	1,640,000
10/1/2023	1,350,000
4/1/2024	940,000
10/1/2024	205,000
4/1/2025	30,000
10/1/2025	-

The Series 5 PAC Outstanding Amounts were calculated based on the assumption, among others, that the receipt of repayments and Recoveries of Principal with respect to the Series 1-A Program Obligations and the Series 5-A Program Obligations will occur at a rate equal to 75% of the Securities Industry and Financial Markets Association (formerly The Bond Market Association and the Public Securities Association) standard prepayment model for 30-year mortgage loans (the “SIFMA Prepayment Model”). In the event that the Series 5 PAC Bonds are actually redeemed so that the aggregate principal amount of such Series 5 PAC Bonds Outstanding equals the Series 5 PAC Outstanding Amount on each date shown above, the Weighted Average Life of the Series 5 PAC Bonds will be approximately 5.0 years. In the event that the Series 5 PAC Bonds are not redeemed prior to maturity (other than by Sinking Fund Redemption), the Weighted Average Life of the Series 5 PAC Bonds will be approximately 24.0 years. See “Projected Weighted Average Lives of the PAC Bonds” below for descriptions of the Series 1-A and Series 5 Program Loans, the SIFMA Prepayment Model, and the computation of Weighted Average Life.

***Sinking Fund Redemption of Series 2-C and 5 Bonds.*** The Series 2-C Bonds maturing October 1, 2041 are subject to redemption, in part, by lot, at a redemption price equal to the principal amount thereof and interest accrued thereon, from mandatory Sinking Fund Payments which are required to be made to redeem such Series 2-C Bonds on the respective dates and in the respective principal amounts shown below:

Series 2-C Term Bonds due October 1, 2041

<u>Date</u>	<u>Amount</u>	<u>Date</u>	<u>Amount</u>
April 1, 2013	\$ 20,000	October 1, 2027	\$ 490,000
October 1, 2013	240,000	April 1, 2028	500,000
April 1, 2014	290,000	October 1, 2028	510,000
October 1, 2014	300,000	April 1, 2029	520,000
April 1, 2015	300,000	October 1, 2029	530,000
October 1, 2015	310,000	April 1, 2030	540,000
April 1, 2016	310,000	October 1, 2030	550,000
October 1, 2016	320,000	April 1, 2031	560,000
April 1, 2017	330,000	October 1, 2031	570,000
October 1, 2017	330,000	April 1, 2032	580,000
April 1, 2018	340,000	October 1, 2032	590,000
October 1, 2018	340,000	April 1, 2033	610,000
April 1, 2019	350,000	October 1, 2033	620,000
October 1, 2019	360,000	April 1, 2034	630,000
April 1, 2020	370,000	October 1, 2034	640,000
October 1, 2020	370,000	April 1, 2035	650,000
April 1, 2021	380,000	October 1, 2035	670,000
October 1, 2021	390,000	April 1, 2036	680,000
April 1, 2022	400,000	October 1, 2036	690,000
October 1, 2022	400,000	April 1, 2037	710,000
April 1, 2023	410,000	October 1, 2037	720,000
October 1, 2023	420,000	April 1, 2038	730,000
April 1, 2024	430,000	October 1, 2038	750,000
October 1, 2024	430,000	April 1, 2039	770,000
April 1, 2025	450,000	October 1, 2039	770,000
October 1, 2025	450,000	April 1, 2040	800,000
April 1, 2026	460,000	October 1, 2040	810,000
October 1, 2026	470,000	April 1, 2041	820,000
April 1, 2027	480,000	October 1, 2041 <sup>†</sup>	3,540,000

<sup>†</sup>Final Maturity.

The Series 5 Bonds maturing October 1, 2028, October 1, 2033, April 1, 2035 and April 1, 2040 are subject to redemption, in part, by lot, at a redemption price equal to the principal amount thereof and interest accrued thereon, from mandatory Sinking Fund Payments which are required to be made to redeem such Series 5 Bonds on the respective dates and in the respective principal amounts shown below:

Series 5 Term Bonds due October 1, 2028

<u>Date</u>	<u>Amount</u>
April 1, 2028	\$ 870,000
October 1, 2028 <sup>†</sup>	1,225,000

<sup>†</sup>Final Maturity.

Series 5 Term Bonds due October 1, 2033

<u>Date</u>	<u>Amount</u>	<u>Date</u>	<u>Amount</u>
April 1, 2029	\$1,260,000	October 1, 2031	\$1,435,000
October 1, 2029	1,290,000	April 1, 2032	1,470,000
April 1, 2030	1,325,000	October 1, 2032	1,505,000
October 1, 2030	1,360,000	April 1, 2033	1,545,000
April 1, 2031	1,395,000	October 1, 2033 <sup>†</sup>	1,590,000

<sup>†</sup>Final Maturity.

Series 5 Term Bonds due April 1, 2035

<u>Date</u>	<u>Amount</u>
April 1, 2034	\$1,900,000
October 1, 2034	1,955,000
April 1, 2035 <sup>†</sup>	650,000

<sup>†</sup>Final Maturity.

Series 5 Term Bonds due April 1, 2040

<u>Date</u>	<u>Amount</u>	<u>Date</u>	<u>Amount</u>
April 1, 2035	\$1,120,000	April 1, 2038	\$1,990,000
October 1, 2035	1,760,000	October 1, 2038	2,035,000
April 1, 2036	1,805,000	April 1, 2039	2,075,000
October 1, 2036	1,850,000	October 1, 2039	1,960,000
April 1, 2037	1,900,000	April 1, 2040 <sup>†</sup>	630,000
October 1, 2037	1,940,000		

<sup>†</sup>Final Maturity.

The amounts accumulated for each Sinking Fund Payment or which have been deposited in the Redemption Account may be applied by the Trustee, at the direction of Rhode Island Housing, prior to the forty-fifth day preceding the due date of the related Sinking Fund Payment, or prior to the call for such redemption, to the purchase of the Bonds to be redeemed from such Sinking Fund Payment, at prices (including any brokerage and other charges) not exceeding the applicable redemption price, plus accrued interest to the date of purchase.

**Projected Weighted Average Lives of the PAC Bonds**

The “projected weighted average life” of a security refers to the average amount of time that is projected to elapse from the date of delivery of such security to the date of projected payment to the investor of each dollar paid to reduce the principal of such security (assuming no losses). The projected weighted average life of a security is determined by (a) multiplying each projected reduction, if any, of the outstanding amount of such security by the number of years from the date of delivery of such security to the related redemption date or maturity dated, (b) adding the results and (c) dividing the sum by the initial outstanding amount of such security.

The calculation of the projected weighted average lives of the PAC Bonds requires the making of certain assumptions (collectively, the “Portfolio Assumptions”) with respect, but not limited, to the future financing and prepayment of Program Loans as well as certain assumptions (collectively, the “Rhode Island Housing Option Assumptions”), with respect, but not limited, to the future use by Rhode Island Housing of its options under the Resolution related to: (a) the scheduled principal repayments and Recoveries of Principal on the Series 1-A Program Loans and Reallocated Series 1-B Program Loans and excess revenues related to the Series 5 Bonds to: (i) the redemption of Series 1-A Bonds and Series 5 Bonds, (ii) the financing of additional Program Loans, or (iii) the redemption of other Bonds; (b) the application of Recoveries of Principal and excess revenues related to other Series to the redemption of Series 5 Bonds; and (c) the optional redemption of all or a portion of the Series 5 Bonds on or after April 1, 2022 from any source.

Set forth in the table captioned “Projected Average Lives (in years)” below (the “Table”) are projected weighted average lives for the PAC Bonds under a number of different scenarios, each such scenario representing a unique combination of assumptions, as described below. Both the Portfolio Assumptions and the Rhode Island Housing Option Assumptions are hypothetical in nature and are provided only to give a general sense of how the weighted average lives for each of the PAC Bonds might behave as such assumptions are varied. The actual characteristics and the performance of the Program Loans (including, without limitation, prepayments thereof) will differ from the Portfolio Assumptions utilized in constructing the Table, and the actual use of options under the Resolution by Rhode Island Housing will differ from the Rhode Island Housing Option Assumptions utilized in constructing the Table.

Any difference between such Portfolio Assumptions and the actual characteristics and performance of the Program Loans or between the Rhode Island Housing Option Assumptions and the actual use of such options will cause the actual weighted average lives of the PAC Bonds to differ (which difference could be significant) from the projected weighted average lives in the Table. Accordingly, Rhode Island Housing makes no representation as to the reasonableness of any of such assumptions and makes no representation that the projected average lives set forth in the Table will reflect the actual course of events. The Rhode Island Housing Option Assumptions are not necessarily consistent with the current or historical approach of Rhode Island Housing to recycling and selecting Bonds to be redeemed, and they are not binding upon or necessarily indicative of future actions of Rhode Island Housing with respect to the redemption of the Bonds.

All of the scenarios represented in the Table are based on the assumptions that:

- (i) Series 1–A Program Loans: (a) will consist of approximately \$24.4 million of Program Loans, and (b) will bear a weighted average interest rate to the borrower of approximately 5.19% and will have a weighted average maturity of approximately 322 months.
- (ii) Reallocated Series 1-B Program Loans: (a) will consist of approximately \$40.6 million of Program Loans originally financed by the Series 1–B Bonds, (b) will bear a weighted average interest rate to the borrower of approximately 5.19% and will have a weighted average maturity of approximately 322 months.

All scenarios will consist of Program Loans with assumed interest rates, terms and characteristics and in particular principal amounts, all of which will differ from the actual Program Loans acquired. See **“SERIES 2-C AND 5 PROGRAM LOANS.”**

Each of the scenarios represented in the Table is based on an indicated prepayment assumption, in each case expressed as a percentage of the PSA Prepayment Model. As used in the Table, for example, (a) “0% ” assumes no prepayments of the principal of the applicable Mortgage Loans, (b) “50%” assumes the principal of the applicable Program Loans will prepay at a rate one-half times as fast as the prepayment rates for one hundred percent (100%) of the PSA Prepayment Model, (c) “200%” assumes the principal of the applicable Program Loans will prepay at a rate twice as fast as the prepayment rates for one hundred percent (100%) of the PSA Prepayment Model, and so on.

The computation of the weighted average life of the PAC Bonds under each of the scenarios represented in the Table is based on the assumption that, with respect to the fulfillment by Rhode Island Housing of its obligations pursuant to the redemption provisions described under “—**Extraordinary Mandatory Redemption of PAC Bonds**,” Rhode Island Housing will redeem the PAC Bonds on each Interest Payment Date commencing on April 1, 2013.

The computation of the weighted average life of the PAC Bonds under each of the scenarios represented in the Table is based on one of two sets of indicated assumptions about the exercise of the Optional Redemption provisions under the Resolution:

(a) In the case of scenarios labeled “Optional Call Exercised”, it is assumed that Rhode Island Housing will exercise its right to optionally redeem all then-eligible Outstanding Series 5 Bonds on April 1, 2022.

(b) In the case of scenarios labeled “Optional Call Not Exercised”, it is assumed that Rhode Island Housing will not exercise its right to optionally redeem the Series 5 Bonds.

Investors owning less than all of the PAC Bonds may experience redemption at a rate that varies from the projected weighted average lives shown in the Table.

**Projected Average Lives (in years)**

PSA	Optional Call not Exercised	Optional Call Exercised
0	24.0	9.3
25	16.9	7.8
50	10.1	6.2
75	5.0	4.8
100	5.0	4.8
200	5.0	4.8
300	5.0	4.8
400	5.0	4.8
500	5.3	4.8

**Cross Calling; Recycling**

Recoveries of Principal received with respect to the Program Loans financed with the proceeds of the Series 2-C Bonds will NOT be permitted to be recycled into new mortgage loans and must be applied to the redemption of the Series 2-C Bonds. (See discussion above under the heading “—**Extraordinary Mandatory Redemption of Series 2-C Bonds**.”) Rhode Island Housing may elect to apply Recoveries of Principal received with respect to the Program Loans financed with the proceeds of the Series 5 Bonds not required to be used for the redemption of the Series 5 Bonds (see “—**Extraordinary Mandatory Redemption of PAC Bonds**” herein) to the redemption of Bonds of any Series or recycle such amounts into new Program Loans.

Subject to the terms of the applicable Supplemental Resolution authorizing such Series of Bonds, the Recoveries of Principal allocable to any additional Bonds issued under the Resolution may be recycled into new Program Loans or applied to the redemption of such Series of Bonds or to the redemption of any other Series of Bonds, including the Series 2-C and 5 Bonds.

**Other Provisions Concerning Redemption**

Notice of redemption is to be given not less than 20 days (or such lesser time period as may be permitted by DTC) nor more than 60 days prior to the redemption date with respect to the Series 2-C and 5

Bonds. Such notice shall specify the complete official name, the Series (and subseries, if applicable), the maturities, the interest rate, and the CUSIP numbers of the Bonds to be redeemed, the redemption date and the place or places where amounts due upon such redemption will be payable (including the name, address and telephone number of a contact person at such place(s)) and, if less than all the Bonds of any like maturity are to be redeemed, the letters and numbers or other distinguishing marks of such Bonds to be redeemed and, in the case of fully registered Bonds to be redeemed in part only, such notice shall also specify the respective portions of the principal amounts thereof to be redeemed. Such notice shall further state that on such date there shall become due and payable upon each Bond to be redeemed the redemption price thereof, or the redemption price of the specified portions of the principal thereof in the case of registered Bonds to be redeemed in part only, together with interest accrued to the redemption date, and that from and after such date interest thereon shall cease to accrue and be payable. The Trustee shall also mail a copy of such notice, first class postage prepaid, not later than the last day upon which the redemption notice is to be published, as described above, to the registered owners of any Bonds or portions of Bonds which are to be redeemed, at their last addresses, if any, appearing upon the registry books, but mailing to all holders of Bonds to be redeemed shall not be a condition precedent to such redemption, and failure to mail any such notice to the holder of any particular Bond shall not affect the validity of the proceedings for the redemption of other Bonds. Notices to Bondholders of at least \$1,000,000 of Bonds and national information services shall also be sent by certified mail, return receipt requested. Bondholders of at least \$1,000,000 of Bonds may request that notices also be sent to an additional address. A copy of any notice sent as described above shall be sent by the Trustee to at least two of the national information services that disseminate redemption notices or redemption notice information (so long as two such services exist).

If less than all the Bonds of like subseries and maturity are to be redeemed, the particular Bonds or the respective portions thereof to be redeemed will be selected by lot by the Trustee in such manner as the Trustee in its discretion deems fair and appropriate.

The portion of any Bond of a denomination of larger than the minimum denomination of \$5,000 principal amount may be redeemed in the principal amount of such minimum denomination or a multiple thereof, and for purposes of selection and redemption, any such Bond of a denomination larger than the minimum denomination shall be considered to be that number of separate Bonds of such minimum denomination which is obtained by dividing the principal amount of such Bond by such minimum denomination. If there shall be selected for redemption less than all of a Bond, Rhode Island Housing shall execute and the Trustee shall authenticate and deliver, upon the surrender of such Bond, without charge to the owner thereof, for the unredeemed balance of the principal amount of the Bond so surrendered, Bonds of like subseries, maturity and interest rate in any of the authorized denominations.

If, on the redemption date, moneys for the redemption of Bonds or portions thereof, together with interest to the redemption date, shall be held by the Trustee so as to be available therefor on said date and if notice of redemption shall have been given as aforesaid, then, from and after the redemption date interest on the Bonds or portions thereof so called for redemption shall cease to accrue and become payable.

Any notice of redemption may be conditioned upon the occurrence of certain events on or prior to the redemption date, and, in each such case, such redemption notice shall clearly state that such call for redemption is conditional.

### **Certain Assumptions With Respect to the Series 2-C and 5 Bonds**

The maturities of the Series 2-C and 5 Bonds have been established on the basis of projections as to the scheduled payments of the Program Loans to be acquired with the proceeds of the Series 2-C Bonds and the Reallocated Series 1-B Program Loans and other available revenues expected to be available under the Bond Resolution. The interest rates on the Program Loans acquired with moneys made available upon the issuance of the Series 2-C Bonds will be established, from time to time, so that payments of principal of and interest on the Program Loans outstanding under the Bond Resolution, and moneys on deposit in the various funds and accounts under the Bond Resolution (as well as income derived from investment thereof) are

expected to generate sufficient revenues to pay on a timely basis the principal of and interest on the Bonds, including the Series 2-C and 5 Bonds, and certain other amounts required to be paid under the Bond Resolution. See “**SERIES 2-C AND 5 PROGRAM LOANS.**”

From time to time when projecting available Revenues for various purposes, Rhode Island Housing will make assumptions regarding the range of variation in the generation of Revenues in order to determine the effect of such variation on the sufficiency of Revenues to pay debt service on the Bonds Outstanding under the Bond Resolution. Such projections may be made for a variety of purposes under the Bond Resolution as well as for Rhode Island Housing’s planning purposes, including, but not limited to, in connection with the issuance of Bonds, the establishment of interest rates on Program Loans, the implementation of interest rate adjustment programs for existing Program Loans, the sale of Program Loans, the withdrawal from the Revenue Account of funds determined to be excess, and decisions by Rhode Island Housing whether, and when, to call particular Bonds with Program Loan prepayments or to purchase additional Program Loans with such prepayments.

Rhode Island Housing believes that the assumptions it has used under its existing bond resolution and will use under the Bond Resolution and its procedures for reviewing such assumptions are reasonable, but cannot guarantee that actual results will not vary materially from those projected. In connection with the conversion of the Series 2-C Bonds and the issuance of the Series 5 Bonds, Rhode Island Housing will cause cash flow analyses to be performed reflecting various levels of origination of the Program Loans and various prepayment speeds for such Program Loans. To the extent that (i) the interest rates, servicing expense, insurance premiums or other repayment terms on the Program Loans are different than assumed, (ii) Program Loans purchased by Rhode Island Housing are not paid on a timely basis in accordance with their terms, (iii) the rate of receipt of prepayments is either more rapid or less rapid than that projected, or (iv) actual investment income differs from that estimated by Rhode Island Housing, the moneys available under the Bond Resolution may be insufficient for the payment of debt service on the Bonds and operating expenses of the Program.

In the event that a mortgagor defaults on the payments on a Program Loan and foreclosure proceedings are instituted, there will be certain required time delays which, should they occur with respect to a sufficient number of Program Loans, could disrupt the flow of Revenues available for the payment of principal of and interest on the Bonds. These time delays derive from the procedures applicable to the collection of mortgage insurance or guarantees as well as those required under Rhode Island law for the enforcement of rights of mortgagees. Those procedures and their effect on Rhode Island Housing’s ability to collect on defaulted Program Loans are described in **APPENDIX A**. Rhode Island Housing makes no representation regarding its ability to make full and timely payment of claims on the Program Loans on which Rhode Island Housing may experience losses. Rhode Island Housing may suffer losses on defaults of Program Loans under the mortgage insurance and guaranty programs described in **APPENDIX A**.

Amounts received as a result of prepayment or termination of Series 2-C and 5 Program Loans constitute Recoveries of Principal which will be applied to the redemption of the Series 2-C and 5 Bonds. See “**DESCRIPTION OF THE SERIES 2-C AND 5 BONDS—Series 2-C and 5 Redemption Provisions—*Special Redemption of Series 2-C and 5 Bonds***” and “**—*Extraordinary Mandatory Redemption of Series 2-C Bonds.***” Pending such use, such amounts may be invested in Investment Securities.



## **BOOK-ENTRY ONLY SYSTEM**

### **Description of DTC and Book-Entry Only System**

The information under this heading has been furnished by The Depository Trust Company (“DTC”), New York, New York. Neither Rhode Island Housing nor the Underwriters makes any representation as to the completeness or the accuracy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof.

DTC will act as securities depository for the Series 2-C and 5 Bonds. The Series 2-C and 5 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Offered Bond certificate will be issued for each subseries and maturity of the Series 2-C and 5 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

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

Purchases of the Series 2-C and 5 Bonds under the DTC system must be made by or through Direct Participants which will receive a credit for the Series 2-C and 5 Bonds on DTC’s records. The ownership interest of each actual purchaser of each Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2-C and 5 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 the Series 2-C and 5 Bonds, except in the event that use of the book-entry system for the Series 2-C and 5 Bonds is discontinued.

To facilitate subsequent transfers, all the Series 2-C and 5 Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co or such other name as may be requested by an authorized representative of DTC. The deposit of the Series 2-C and 5 Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2-C and 5 Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Series 2-C and 5 Bonds are

credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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

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

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Series 2-C and 5 Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Rhode Island Housing as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2-C and 5 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Series 2-C and 5 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from Rhode Island Housing or the Trustee on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, or Rhode Island Housing subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Rhode Island Housing or the Trustee, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Series 2-C and 5 Bonds at any time by giving reasonable notice to Rhode Island Housing or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates are required to be printed and delivered.

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

## **SECURITY FOR THE SERIES 2-C AND 5 BONDS**

### **Pledge of the Bond Resolution**

The Series 2-C and 5 Bonds are special revenue obligations of Rhode Island Housing secured on a parity with all Bonds issued or to be issued under the Bond Resolution by a pledge of (a) all proceeds of Bonds deposited to the Loan Account (excluding the proceeds of the Series 2 Bonds deposited to the Series 2 Escrow Proceeds Account) and all investments thereof; (b) all Revenues derived by Rhode Island Housing from Program Obligations financed by Rhode Island Housing from the proceeds of Bonds including, but not limited to, scheduled payments of interest and principal on Program Obligations (but not including Escrow Payments, service charges, commitment fees or financing fees), and all Accounts established under the Resolution (except the Rebate Account and the Series 2 Escrow Proceeds Account), including investments thereof and the proceeds of such investments, in accordance with the terms and provisions of the Resolution; and (c) all

Program Obligations financed by Rhode Island Housing from the proceeds of Bonds. Amounts on deposit in Series 2 Escrow Proceeds Account and investments thereon are pledged solely to secure the Series 2 Bonds prior to the Release Dates relating to such amounts.

Excess earnings received from investments of proceeds of federally tax-exempt Bonds (other than proceeds used to finance Program Obligations) above the yield on such Bonds, with certain adjustments, will be rebated to the United States Government. The Bond Resolution requires such excess earnings to be deposited in the Rebate Account to be used for such purpose. The Rebate Account is not pledged to payment of the Bonds. See “**APPENDIX G—SUMMARY OF CERTAIN PROVISIONS OF THE BOND RESOLUTION.**”

Rhode Island Housing is permitted to direct the transfer of amounts from the Revenue Account after the close of each such Fiscal Year to the Loan Account, Debt Service Reserve Account or Redemption Account or, if the assets to liabilities under the Bond Resolution is greater than 102%, then to Rhode Island Housing free and clear of the lien of the Bond Resolution to be applied to any lawful purpose. While the NIBP Bonds are outstanding, certain additional restrictions on transfers are in effect.

The pledges made in the Bond Resolution for the security of the Bonds may be released upon provision for payment of the Bonds, as further described in “**APPENDIX F—SUMMARY OF CERTAIN PROVISIONS OF THE BOND RESOLUTION—Defeasance.**”

#### **Debt Service Reserve Account**

The Bond Resolution provides that as of any particular date of calculation there shall be on deposit in the Debt Service Reserve Account an amount equal to the greater of (a) the aggregate of all amounts required to be deposited and maintained on deposit in such Account by each Supplemental Resolution authorizing a Series of Bonds, or (b) an amount equal to three percent (3%) of the sum of (i) the outstanding principal balance of all Program Loans (but not Program Securities) plus (ii) the amount on deposit to the credit of the Loan Account which is to be used to finance Program Loans and which has not been designated to provide for Costs of Issuance or capitalized interest (the “Debt Service Reserve Account Requirement”). On the date of issuance of the Series 2-C and 5 Bonds the Debt Service Reserve Account will be fully funded in an amount equal to the Debt Service Reserve Account Requirement.

If Rhode Island Housing fails to make available to the Trustee sufficient funds to meet a required payment of principal or Redemption Price of, or interest on, Bonds when due, the Bond Resolution requires the Trustee, to the extent that amounts on deposit in all other Accounts (except the Rebate Account) are insufficient to make such payment, to apply moneys from the Debt Service Reserve Account to the extent necessary to make the required payments to Bondholders.

If necessary to restore the amount on deposit in the Debt Service Reserve Account to the Debt Service Reserve Account Requirement, the Trustee is required to withdraw moneys annually (to the extent moneys are available) from the Revenue Account for deposit to the credit of the Debt Service Reserve Account. There is no provision that withdrawals from the Debt Service Reserve Account be restored by Rhode Island Housing from its assets not pledged under the Bond Resolution or be replenished by the State. Moneys on deposit in the Debt Service Reserve Account in excess of the Debt Service Reserve Account Requirement shall be transferred by the Trustee, at the direction of an Authorized Officer of Rhode Island Housing, to the Loan Account, the Revenue Account, or the Redemption Account.

Pursuant to the Bond Resolution, Rhode Island Housing may elect, in a Supplemental Resolution authorizing the issuance of Additional Bonds, to fund the Debt Service Reserve Account Requirement with Cash Equivalents.

## **Additional Bonds**

Additional Series of Bonds may be issued as provided in the Bond Resolution on a parity with the Bonds, entitled to the equal benefit, protection and security of the pledge, provisions, covenants and agreements of the Bond Resolution, but no series of Bonds may be issued if the principal amount of all Bonds issued or to be issued will exceed any limitation imposed by law nor if, upon the issuance of such Bonds, the amount credited to the Debt Service Reserve Account will be less than the Debt Service Reserve Account Requirement. The Resolution provides that no additional Bonds may be issued if the rating then assigned to the Bonds would be impaired unless the rating has otherwise been suspended, terminated or discontinued and notice of same shall have been provided to the bondholders. In addition, Rhode Island Housing may issue any obligations which are payable from or secured by a lien on the Revenues and other property pledged under the Bond Resolution so long as such lien and pledge shall be in all respects subordinate to the lien and pledge created by the Bond Resolution. See “**APPENDIX F—SUMMARY OF CERTAIN PROVISIONS OF THE BOND RESOLUTION—Provisions for Issuance of Bonds.**”

## **INVESTMENTS UNDER THE BOND RESOLUTION**

The Series 2-C and 5 Bonds will be entitled to the equal benefit, protection and security provided by the investment of unexpended proceeds of Bonds (other than the proceeds of the non-converted Series 2 Bonds which will be held in the Series 2 Escrow Proceeds Account as security for the non-converted Series 2 Bonds only) issued under the Bond Resolution in various Investment Securities and investment agreements which qualify as Investment Securities as well as other assets under the Bond Resolution, including Mortgage Loans and investments held in the Loan Account, the Debt Service Reserve Account and the Revenue Account. See “**APPENDIX F—SUMMARY OF CERTAIN PROVISIONS OF THE BOND RESOLUTION—Certain Definitions**” for a description of Investment Securities which may be acquired with amounts held under the Bond Resolution.

Funds on deposit in various Funds and Accounts under the Bond Resolution and allocated to the Series 2-C and 5 Bonds are expected to be invested in investments and investment agreements which qualify as Investment Securities under the Bond Resolution. Monthly mortgage receipts will be reinvested until the semi-annual bond payment date or date of earlier redemption of Bonds.

As of June 30, 2012, approximately \$6.5 million on deposit in the Debt Service Reserve Fund was invested in Government National Mortgage Association (“GNMA”) mortgage-backed securities maturing September 20, 2039 and May 20, 2040 and bearing interest at a rate of 4.50% per annum.

## **SERIES 2-C AND 5 PROGRAM LOANS**

The Series 5 and 2-C Certificate will establish certain requirements which are expected to apply to Program Loans to be acquired with moneys made available from the issuance of the Series 2-C Bonds (the “Series 2-C Program Loans”). The Series 5 and 2-C Certificate may be modified by another Series Certificate if Rhode Island Housing determines that such modification will not adversely affect the then current ratings on the Bonds. The Series 2-C Program Loans are expected to be funded in an aggregate principal amount of approximately \$32,000,000. Subject to such above-mentioned modification by a Series Certificate, the Series 5 and Series 2-C Certificate requires, and the Series Certificate relating to the Reallocated Series 1-B Program Loans required, that (a) each residence to which each Series 2-C and 5 Program Loan relates is a principal residence; (b) each Series 2-C and 5 Program Loan must be secured by a valid first lien or coordinate first lien Mortgage or Mortgage Equivalent (as defined herein); (c) each Program Loan relates to a one-to-four unit residential structure or condominium or cooperative unit; and (d) each Program Loan may be for a term not exceeding 30 years or such longer term as may be approved by the Federal Housing Administration (“FHA”), and certain stepped interest rate Mortgage Loans, and graduated payment Mortgage Loans, must provide for approximately equal monthly payments. Although Mortgage Loans generally have a fixed interest

rate to maturity, Rhode Island Housing has allowed certain borrowers to reduce the interest rate as an inducement to avoid a prepayment of their Program Loans. Substantially all of the Mortgage Loans being acquired with Series 2-C Bond proceeds are expected to be, and substantially all of the Reallocated Series 1-B Program Loans being financed with Series 5 Bond proceeds are, loans endorsed for insurance or guaranty by FHA or loans which will be or have been converted to mortgage-backed securities issued by GNMA or a GSE.

The Reallocated Series 1-B Program Loans being allocated to the Series 5 Bonds will consist of approximately \$40,550,000 in mortgages with a weighted average mortgage rate of 5.19% and a weighted average remaining term of 322 months.

### Series 2-C and 5 Mortgage Loans

**General.** Series 2-C Program Loans will be, and the Reallocated Series 1-B Program Loans are, Mortgage Loans secured by first lien Mortgages or Mortgage Equivalents and, except to the extent directly originated by Rhode Island Housing, certified by the Mortgage Lender as a prudent investment for its own account, and must be endorsed for insurance or guaranty by FHA.

Under Rhode Island Housing’s Mortgage Purchase Agreements with its participating Mortgage Lenders, the Mortgage Lenders agree to originate and/or sell and/or service qualified Mortgage Loans which meet the criteria set forth in the Program Guide, the Program Bulletins and the Rules and Regulations of Rhode Island Housing Applicable to Mortgage Finance Programs.

Series 2-C Mortgage Loans purchased must, among other requirements:

(a) be made to finance residential dwellings located in the State, subject to the following purchase price limitations (subject to change by Rhode Island Housing with the issuance of a Program Bulletin):

	<u>Statewide</u>	<u>Targeted Census Tracts</u>
New and Existing single family (or condo)	\$415,000	\$415,000
Existing two-family	\$415,000	\$415,000
New two-family in Targeted Areas	N/A	\$415,000
Existing three or four-family	\$415,000	\$415,000

(b) be made to persons and families whose current gross income from all sources shall not have exceeded the following (subject to change by Rhode Island Housing with the issuance of a Program Bulletin and to higher or no limits in the case of certain mortgage loans made in Targeted Areas):

	<u>Households of three or more individuals</u>	<u>Households of fewer than three individuals</u>
Targeted Very Low Income Mortgagors	\$30,000	\$30,000
Targeted Low Income Mortgagors	\$35,000	\$35,000
Very Low Income Mortgagors	\$40,000	\$40,000
Low Income Mortgagors	\$45,000	\$45,000
All Other Mortgagors	\$102,400	\$87,800
Targeted Areas	\$102,400	\$87,800

Rhode Island Housing establishes the interest rates at which funds will be committed on an ongoing basis as Rhode Island Housing deems necessary and appropriate. Interest rates are determined by reference to conventional mortgage rates, availability of mortgage funding alternatives, historical interest rate patterns and Rhode Island Housing’s cost of funds. Rhode Island Housing may change such terms as it deems necessary.

For example, although Mortgage Loans generally have a fixed interest rate to maturity Rhode Island Housing has allowed certain borrowers to reduce the interest rate as an inducement to avoid a prepayment of their Program Loans. Rhode Island Housing has previously established stepped interest rate programs with respect to Mortgage Loans made to Very Low and Low Income Mortgagors and Targeted Very Low and Targeted Low Income Mortgagors. Under such stepped interest rate programs, the initial interest rate on a Mortgage Loan will be less than the interest rate established for other Mortgage Loans with respect to the applicable Series. The interest rate will increase in one or more “steps” during the first two to eight years subsequent to origination of such Mortgage Loan until the interest rate on such Mortgage Loan is consistent with the interest rate on the other Mortgage Loans originated with respect to the related Series.

Borrowers are permitted to choose Mortgage Loans either with an origination fee or without an origination fee, but with a higher interest rate. For those Mortgage Loans where the Borrower has elected to pay an origination fee, each Mortgage Lender is permitted to charge the borrower an origination fee equal to one percent (1%) of the principal amount of the Series 2-C and 5 Mortgage Loans and such fee shall be retained by the Mortgage Lender. For Mortgage Loans where the borrower has elected to pay a higher interest rate in lieu of an origination fee, the origination fee payable to the Mortgage Lender will be paid through the purchase of such Mortgage Loan by Rhode Island Housing at a one percent (1%) premium. Each Mortgage Lender will also be permitted to charge the borrower other reasonable and customary processing fees and expenses, but will not be allowed any other fees or remuneration in making Series 2-C and 5 Mortgage Loans unless specifically authorized by Rhode Island Housing. Except with respect to Mortgage Loans where the borrower has elected to pay a higher interest rate in lieu of an origination fee which will be purchased at one percent (1%) premium, Rhode Island Housing expects to purchase each Series 2-C and 5 Mortgage Loan at a price equal to the outstanding principal balance of such Mortgage Loan.

**Home Repair Loans.** Rhode Island Housing did not use Series 1 Bond proceeds and does not intend to use Series 2-C Bond proceeds to acquire Home Repair Loans, but may elect to do so with proceeds of any Additional Bonds. Home Repair Loans are made to eligible borrowers for the repair or improvement of residential housing with the objective of making such houses decent, safe and sanitary. Such Home Repair Loans are secured by first, second or third mortgage loans on the subject property which must be the borrower’s principal residence.

Homeowners with incomes of up to \$102,400 (for families of three or more persons) and \$87,800 (for families with fewer than three persons) are eligible for Home Repair Loans. The maximum amount of a Home Repair Loan is \$25,000 per residence or such greater amount as may be permitted by law. The interest rates on Home Repair Loans are established by Rhode Island Housing from time to time. The loan term of Home Repair Loans is from a minimum of one year to a maximum of 20 years.

The home repair program is administered by Rhode Island Housing.

**Affordability Loans; Equity Rebates; EquiSense™ Loans.** Rhode Island Housing has established programs to assist Targeted Low Income Mortgagors, Very Low Income Mortgagors and Low Income Mortgagors in obtaining First Mortgage Loans, including, without limitation, mortgage loans to provide downpayment assistance (“Affordability Loans”), equity rebates and home equity loans. Such Affordability Loans, equity rebates and EquiSense™ Loans, are made in accordance with the guidelines of Rhode Island Housing.

Affordability Loans for downpayment assistance are made with moneys made available from the issuance of Bonds under the Resolution or from available funds of Rhode Island Housing. Rhode Island Housing did not make any Affordability Loans with the proceeds of Series 1 Bonds and does not expect to make any Affordability Loans with the proceeds of Series 2-C and 5 Bonds, but may elect to do so with proceeds of any Additional Bonds.

Affordability Loans for downpayment assistance are available to Targeted Low Income Mortgagors, provided that the principal amount of an Affordability Loan for downpayment assistance may not exceed 10%

of the purchase price of the residence. Principal and accrued interest payments on Affordability Loans for downpayment assistance are not payable on a current basis but are repaid upon the refinancing of the related Mortgage Loan or the sale or transfer of the related property. The amount due with respect to an Affordability Loan for downpayment assistance upon the refinancing of the Mortgage Loan or sale or transfer of the residence is an amount equal to the principal amount of the Affordability Loan plus an amount equal to the greater of (i) interest at the rate borne by such Affordability Loan or (ii) a proportionate share of the appreciation of the property based upon the percentage of the downpayment assistance in relationship to the original purchase price of the residence. Affordability Loans for downpayment assistance are secured by a subordinate lien mortgage on the property.

Equity rebates may be made by Rhode Island Housing to Targeted Very Low Income Mortgagors with a demonstrated need as determined through an asset/needs test. The amount of the equity rebate available is two percent (2%) of the purchase price of the property, to a maximum rebate of \$1,000.

EquiSense™ Loans are home equity loans made available by Rhode Island Housing to homeowners with existing First Mortgage Loans. Such home equity loans are secured by first, second or third mortgages. Substantially all of such loans are made to homeowners who have previously received mortgage loans financed under Rhode Island Housing's single-family mortgage programs. Rhode Island Housing did not make any EquiSense™ Loans with proceeds of the Series 1 Bonds and does not expect to make any EquiSense™ Loans with the proceeds of the Series 2-C and 5 Bonds.

**Closing Cost Assistance Loans.** Loans for closing cost assistance are made available by Rhode Island Housing to homebuyers. Such loans for closing cost assistance may be made in an amount equal to the lesser of (i) \$5,000 or (ii) five percent (5%) of the purchase price of the residence and have terms of between five (5) and fifteen (15) years. The repayment obligation with respect to a loan for closing cost assistance is secured by an unrecorded mortgage on the property.

**Mortgage Lenders.** Generally, Rhode Island Housing makes funds available for the purchase of Mortgage Loans through the issuance of its Bonds and commitments of funds to Mortgage Lenders or by the setting aside of specific pools of funds to be reserved for qualified borrowers or for loans in specially-designated areas in the State. In January, 1998 Rhode Island Housing initiated a program under which it directly originates a portion of its existing mortgage loan portfolio. Since January 1, 2010, approximately 66% of new mortgage loans have been originated by Rhode Island Housing.

Each Mortgage Lender must make loans for single family dwellings in the regular, usual and normal course of business and must either be a Fannie Mae ("Fannie Mae") or Federal Home Loan Mortgage Corporation ("FHLMC") approved seller/servicer, or otherwise approved by Rhode Island Housing as having the capability and experience necessary to originate loans responsibly under the Program. Rhode Island Housing is a qualified Fannie Mae and FHLMC approved seller/servicer. Rhode Island Housing is an FHA approved delegated underwriter and a Ginnie Mae MBS Issuer.

Rhode Island Housing requires that Mortgage Lenders develop and implement mortgage counseling programs satisfactory to Rhode Island Housing, pursuant to which Mortgage Lenders are required to counsel the borrower of the Program Loan (the "Mortgagors") regarding any delinquencies on Mortgage Loans.

The Mortgage Lenders currently participating in the Program are set forth in **APPENDIX B** hereto.

**Mortgage Purchase Agreements.** Each Mortgage Lender must enter into a Mortgage Purchase Agreement with Rhode Island Housing, pursuant to which the Mortgage Lender will agree to deliver to Rhode Island Housing Program Loans meeting the requirements of Rhode Island Housing's Participating Lenders Manual, the Program Bulletins and the Rules.

Pursuant to existing Program requirements, those Mortgage Lenders retaining servicing establish a Mortgage Lender's Reserve Account which Rhode Island Housing has the right to draw upon to cover any

deficiencies resulting from foreclosure on defaulted Mortgage Loans. There can be no assurance, however, that Rhode Island Housing will continue to require such Mortgage Lenders to deposit funds in a Mortgage Lender's Reserve Account.

### **Mortgage Loan Servicing**

Rhode Island Housing permits Mortgage Lenders to elect to service the Mortgage Loans originated by them or to transfer servicing responsibility to Rhode Island Housing. Rhode Island Housing expects to service substantially all of the Mortgage Loans purchased with funds made available from the issuance of the Series 5 Bonds and all other Bonds issued to date.

***Servicing Agreements.*** In addition to servicing mortgage loans itself, Rhode Island Housing also may enter into Servicing Agreements with servicers who have not originated Mortgage Loans, but would otherwise qualify as Mortgage Lenders under the new Home Funding Program. The current servicers participating in the Home Funding Program are noted in **APPENDIX B** hereto. Generally each Mortgage Lender which services Mortgage Loans must enter into a Servicing Agreement in which it shall undertake to service the Mortgage Loans being sold to Rhode Island Housing for a fee payable out of amounts paid as interest on the Mortgage Loans as and when paid by the Mortgagor. Mortgage Lenders are required to remit interest payments on the aggregate outstanding principal balance of Mortgage Loans which they service through foreclosure, notwithstanding any default in such payments by Mortgagors. The services to be provided by the Mortgage Lender, as servicer, include delivery of monthly statements to Rhode Island Housing concerning collection of Mortgage Loan payments, payment of taxes, insurance premiums and other escrow items, and reporting to Rhode Island Housing of any default, damage or other condition affecting the mortgaged premises. The obligations of the Mortgage Lenders under the Servicing Agreements are guaranteed pursuant to a surety bond.

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## MORTGAGE LOAN PORTFOLIO

As of June 30, 2012, Rhode Island Housing had pooled approximately \$78.4 million in principal amount of the Mortgage Loans acquired with proceeds of the Series 1 Bonds and the Series 2-A and 3 Bonds as mortgage-backed securities issued by the GNMA (“GNMA Securities”) bearing interest at rates ranging from 4.00% to 5.00% per annum and having final maturities in 2039 through 2041.

As of June 30, 2012, the aggregate principal balance of Mortgage Loans outstanding under the Program and not converted to GNMA Securities was approximately \$70,812,116. The weighted average principal balance of such Mortgage Loans was approximately \$145,000. The following charts describe the portfolio of such Mortgage Loans under the Program as of June 30, 2012. Totals may not add due to rounding.

Outstanding Balance on June 30, 2012					
Permanent Interest Rate	Less than 30 Year Original Maturity	30 Year Original Maturity	Greater than 30 Year Original Maturity	Total	
0.000 - 4.000%	\$ -	\$ 7,257,869	\$ -	\$ 7,257,869	
4.001 - 4.500	-	33,781,106	-	33,781,106	
4.501 - 5.000	-	15,349,496	-	15,349,496	
5.001 - 5.500	-	12,518,327	-	12,518,327	
5.501 - 6.000	-	1,367,783	-	1,367,783	
6.001 - 6.500	-	459,493	-	459,493	
6.501 - 7.000	-	78,922	-	78,922	
7.001 - 7.500	-	-	-	-	
<b>Total</b>	<b>\$0</b>	<b>\$70,812,997</b>	<b>\$0</b>	<b>\$70,812,997</b>	
<b>Current WAC</b>	4.54%				
<b>Permanent WAC</b>	4.61%				
<b>Remaining Term</b>	28.55 years				

**Notes:**

- 1 “Current WAC” is the average coupon for the portfolio using the current interest rate for each individual loan, weighted by the outstanding balance of the loan.
- 2 “Permanent WAC” is the average coupon for the portfolio using the final interest rate for each Step Rate loan and the current interest rate for all other loans, weighted by the outstanding balance of the loan.
- 3 “Remaining Term” is the average time remaining from the date of the table to the stated maturity date of the loan, weighted by the outstanding balance of the loan.

June 30, 2012		
Loan Type	Outstanding Balance	Percentage
Fixed Rate	\$57,856,145	82%
Step Rate	12,956,852	18%
<b>Total</b>	<b>\$70,812,997</b>	<b>100%</b>

**Notes:**

- 1 “Fixed” refers to loans with interest rates that are fixed for the remaining term of the loan and includes loans that were previously Step Rate loans but have reached their final Step Rate.
- 2 “Step Rate” refers to loans with interest rates that will increase in one or more “steps” during the first two to eight years of the loan and have not yet reached their final Step Rate.

The following table shows the year of origination of the non-securitized Mortgage Loans held as of June 30, 2012:

<b>June 30, 2012</b>		
<b>Year of Origination</b>	<b>Outstanding Balance</b>	<b>Percentage</b>
2008	\$ 308,077	0.44%
2009	15,580,951	22.00%
2010	15,466,506	21.84%
2011	33,817,549	47.76%
2012	5,639,914	7.96%
<b>Total</b>	<b>\$70,812,997</b>	<b>100.00%</b>

As of June 30, 2012 there were 8 delinquent Mortgage Loans (60 days and over) in the portfolio. This is a reflection in part of the recent acquisition of such Mortgage Loans, substantially all of which has been originated in the last three years.

Substantially all of the existing Mortgage Loans held under the Bond Resolution as of June 30, 2012 are insured by FHA.

Rhode Island Housing expects to apply some portion of the net proceeds of the Series 2-C Bonds to the acquisition of FHA-insured Mortgage Loans. Rhode Island Housing may pool a portion of the Mortgage Loans to be acquired with the Series 2-C Bond proceeds as GNMA Securities or as mortgage-backed securities issued by a GSE.

### **Declining Markets**

During the last few years, the residential mortgage loan market has experienced increasing levels of delinquencies, defaults and losses, and Rhode Island Housing cannot give any assurance that this will not continue. In addition, in recent years housing prices and appraisal values in the State have declined or stopped appreciating, after extended periods of significant appreciation. This decline and flattening of values has resulted and may continue to result in additional increases in delinquencies, defaults and losses on residential mortgage loans generally, particularly with respect to residential mortgage loans whose aggregate loan amounts (including any subordinate liens) are close to or greater than the related property values. Upon a default on a Mortgage Loan, a decline in value will affect Rhode Island Housing's risk of loss. Rhode Island Housing can give no assurance that housing prices will not continue to decline or flatten or that such decline or flattening will not have a material adverse effect on delinquencies and losses on Mortgage Loans or on the revenues available to pay debt service on the Bonds when due.

In response to increased delinquencies and losses with respect to mortgage loans, Fannie Mae, Freddie Mac and many other mortgage loan originators have implemented more conservative underwriting criteria for loans, particularly in the subprime, Alt-A and other nonprime sectors. This may result in reduced availability of financing alternatives for mortgagors seeking to refinance their mortgage loans. The reduced availability of refinancing options for a mortgagor may result in higher rates of delinquencies, defaults and losses on the mortgage loans, particularly mortgagors with adjustable rate mortgage loans or interest only mortgage loans that experience significant increases in their monthly payments following the adjustment date or the end of the interest only period, respectively.

The general market conditions discussed above may affect the performance of Rhode Island Housing's single-family loans and may adversely affect the revenues available to pay debt service on the Bonds when due.

## **Loan Modifications**

In the case of delinquencies of Mortgage Loans insured or guaranteed by FHA, VA or Rural Development or by any private insurance companies, Rhode Island Housing modifies the terms of such Mortgage Loans in accordance with the requirements of the mortgage insurer or guarantor. Such modifications may include the deferral of monthly payments of principal and interest, the extension of the maturity dates and re-amortization of the outstanding principal balances of the Mortgage Loans, and, in the case of FHA insured mortgage loans, the payment by FHA of partial insurance claims. In the case of delinquencies of Self-Insured Mortgage Loans, Rhode Island Housing modifies the terms of the Mortgage Loans generally in accordance with the guidelines applicable to FHA insured Mortgage Loans (other than the guidelines for partial insurance claims) or as otherwise determined by Rhode Island Housing to be in its best interests to mitigate any potential losses. FHA has issued its Mortgage Letter 2009-35 which, effective October 23, 2009, will require lenders holding FHA insured mortgage loans in default to modify such mortgage loans by reducing the interest rates to current market rates and by extending the term to a full 30 years from the date of loan modification. Rhode Island Housing has obtained a waiver of such requirements from FHA. In connection with this waiver, Rhode Island Housing advised FHA that it intends to consider, on a case by case basis and as an adjunct to other forbearance options, loan modifications to borrowers under FHA-insured loan programs. Rhode Island Housing further advised FHA that the rate modifications will be temporary, tied to the period of financial hardship experienced by the borrower.

## **Mortgage Insurance**

A portion of the Program Loans financed with the proceeds of Additional Bonds may be insured by private mortgage insurers. Many providers of private mortgage insurance are experiencing financial difficulties and have had their credit ratings downgraded or placed on watch for a future downgrade. Rhode Island Housing makes no representations about the financial condition of any of the private mortgage insurance companies or their ability to make full and timely payment to Rhode Island Housing of claims on the Mortgage Loans on which Rhode Island Housing may experience losses.

## **Geographic Concentration in Rhode Island**

Different geographic regions of the United States from time to time will experience weaker regional economic conditions and housing markets, and, consequently, may experience higher rates of loss and delinquency on mortgage loans generally. Any concentration of the mortgage loans in a region may present risk considerations in addition to those generally present for similar securities without that concentration. If the mortgage loans are concentrated in one or more regions, a downturn in the economy in these regions of the country would more greatly affect the mortgage portfolio than if the mortgage portfolio were more diversified. All of the Mortgage Loans are secured by mortgaged properties in Rhode Island, which has been severely affected by the national economic downturn.

Because of the geographic concentration of the mortgaged properties within Rhode Island, losses on the Mortgage Loans may be higher than would be the case if the mortgaged properties were more geographically diversified. For example, the economy of Rhode Island may be adversely affected to a greater degree than the economies of other areas of the country by certain regional developments. If the residential real estate markets in an area of concentration experience an overall decline in property values after the dates of origination of the respective mortgage loans, then the rates of delinquencies, foreclosures and losses on the mortgage loans may increase and the increase may be substantial.

## **Hardest Hit Fund Rhode Island**

Rhode Island Housing has been awarded approximately \$80,000,000 from the U.S. Treasury under the Housing Finance Agency Innovation Fund for the Hardest Hit Housing Markets (HFA Hardest Hit Fund) initiative pursuant to the Emergency Economic Stabilization Act of 2008 to support foreclosure prevention and housing market stabilization initiatives in Rhode Island. Rhode Island Housing will use these funds in

accordance with the Hardest Hit Fund Rhode Island (HHFRI) Program. Under HHFRI, Rhode Island Housing will provide assistance on behalf of eligible homeowners for the following purposes: (i) to facilitate mortgage modifications; (ii) to assist unemployed homeowners make mortgage payments; (iii) to provide immediate foreclosure prevention assistance to address acute crises; and (iv) to facilitate relocation, short sale or deed-in-lieu of foreclosure where a homeowner can no longer afford to stay in the home. Rhode Island Housing borrowers, including borrowers funded with Bond proceeds, will be eligible for HHFRI assistance, provided that they meet all programmatic requirements. As of June 30, 2012, Rhode Island Housing had expended or committed \$50,326,026 of HFA Hardest Hit Fund.

## **HOME FUNDING PROGRAM**

### **General**

Under authority granted in the Act and the Bond Resolution, Rhode Island Housing has established the Program, pursuant to which it is permitted to finance Program Loans and Program Securities. Program Loans expected to be financed with the proceeds of the Bonds Outstanding under the Bond Resolution will consist of (a) mortgage loans, including qualified acquisition and/or rehabilitation loans (“Mortgage Loans”) made to eligible borrowers to acquire or rehabilitate and refinance owner occupied housing, with respect to certain series of Bonds, (b) home repair loans (“Home Repair Loans”) made to eligible borrowers to make repairs or improvements to their homes, (c) Affordability Loans made to provide downpayment assistance and (d) EquiSense™ Loans. Mortgage Loans are secured by mortgages (“Mortgages”) on owner occupied housing consisting of one to four dwelling units or secured by a mortgage equivalent (“Mortgage Equivalent”) such as a pledge or assignment of a leaseholder share in a cooperative housing corporation or similar entity and a proprietary lease related to the financed premises or a security interest in a modular or mobile housing unit which is permanently affixed to a foundation, with the largest portion of such Mortgage Loans being secured by first lien Mortgages on single family owner-occupied dwelling units. Affordability Loans are made only in conjunction with the origination of a Mortgage Loan and will be secured by subordinate mortgages on the related residences. EquiSense™ Loans are home equity loans secured by first, second or third mortgages. Rhode Island Housing expects that substantially all Program Loans will be Mortgage Loans secured by first mortgages. However, Rhode Island Housing has and expects to continue to acquire some Home Repair Loans, Affordability Loans and EquiSense™ Loans. See “**MORTGAGE LOAN PORTFOLIO**” for information relating to the portfolio of Mortgage Loans currently held by Rhode Island Housing under the Bond Resolution.

No more than one-third of Bond proceeds allocated for Mortgage Loans may be used to finance the acquisition of new one-family dwellings. In addition, no more than twenty-five percent (25%) of all Bond proceeds may be used to finance the purchase of single family residences in condominiums of more than fifty (50) units, and no more than fifty percent (50%) of the units in such condominiums can be financed with funds provided by Rhode Island Housing and, prior to any such financing, fifty percent (50%) of the dwelling units in any such condominium must be subject to agreements of sale or already be sold. There are no such restrictions, however, regarding condominiums of fifty (50) units or less.

### **Requirements of Bond Resolution**

The Bond Resolution authorizes Bonds to be issued to provide funds to Rhode Island Housing to fund Program Obligations and to provide moneys for deposit into the various Accounts established under the Bond Resolution. The Bond Resolution requires that certain matters with respect to Program Loans (the “Series Program Determinations”) be determined (or provisions for determining the Series Program Determinations at certain specified times in the future be set forth) in a Supplemental Resolution with respect to each Series of Bonds which will fund Program Loans. The Series Program Determinations include the following: (i) in the case of Mortgage Loans, the type of Mortgage or Mortgage Equivalent which will secure each Mortgage Loan and whether such Mortgage or Mortgage Equivalent shall be a first lien, a coordinate first lien, a second lien or a combination thereof; (ii) in the case of Home Repair Loans, the type of Mortgage which will secure each

Home Repair Loan and whether such Mortgage shall be a first lien, a coordinate first lien, a second lien, a third lien or a combination thereof; (iii) in the case of Affordability Loans, the type of Mortgage which will secure each Affordability Loan, whether such Mortgage shall be a second lien, a third lien or unrecorded and the eligible recipients of such Affordability Loans; (iv) whether each Program Loan shall have approximately equal monthly payments or graduated payments or have a fixed or variable rate of interest; (v) the maximum term to maturity of each Program Loan; (vi) whether the property to be financed with each Program Loan shall be a principal residence; (vii) required primary mortgage insurance, if any, and the levels of coverage thereof; (viii) limitations, if any, applicable to purchases of Program Loans relating to planned unit developments, condominiums and/or cooperatives, geographic concentration and type of principal and interest characteristics; (ix) provisions relating to Recoveries of Principal, including application thereof for redemption or financing new Program Loans; (x) maximum Costs of Issuance and Program Expenses for such Series of Bonds to be paid for from amounts held under the Resolution; (xi) restrictions, if any, on the applications of the proceeds of the voluntary sale of Program Loans; (xii) the terms of investments of funds held in the Debt Service Reserve Account; and (xiii) any other provision deemed advisable by Rhode Island Housing not in conflict with the Bond Resolution; provided that Rhode Island Housing may permit any of the above determinations to be applied to any portion of the proceeds of a Series to be established by a Certificate of an authorized officer of Rhode Island Housing to be delivered to the Trustee prior to the date that such proceeds are applied to the financing of Program Obligations together with evidence that such determinations do not affect the then current rating on the Bonds. There is no requirement in the Bond Resolution that Program Loans be secured by first lien Mortgages.

#### **Availability of Program Loans for Purchase**

One of the principal factors in originating real estate loans is the availability of funds to make such loans at interest rates and on other terms that the prospective borrowers can afford. There are a number of ways in which mortgage loans could become available at rates competitive with those specified for the Program Loans to be financed with Bond proceeds. For example, prevailing interest rates for conventional mortgage loans and home improvement loans in the State could decrease or other funds to make real estate loans at rates and on other terms equivalent or more favorable than the rates and terms on the Program Loans could be made available by Rhode Island Housing, other governmental entities or other lenders. In the event that, prior to all Program Loans being originated by the Mortgage Lenders, funds to make mortgage loans were to become available in the State at rates and terms competitive with those specified for the Program Loans, the Mortgage Lenders might not be able to originate Program Loans, equal to the total available funds, with the result that there would be certain special or mandatory redemptions at par.

#### **Special Procedures for Compliance with Applicable Federal Tax Law**

Rhode Island Housing has established certain procedures for the purpose of certifying that the Program Loans financed in whole or in part with federally tax-exempt Bond proceeds satisfy the requirements of applicable federal tax law. Rhode Island Housing has covenanted that each Program Loan made for the acquisition of a residence and financed in whole or in part with federally tax-exempt Bonds will satisfy the requirements of the Code set forth below as of the date of purchase thereof. The purchase price and income limits and other requirements set forth below are current requirements and are subject to change and the Program Loans are subject, together with federally tax-exempt Bond proceeds, to requirements existing at the time Program Loans are originated.

(1) Each Mortgagor shall certify that the proceeds of the Program Loan will be used only to acquire a one to four-family residence that will be owned by the Mortgagor and located in the State. Such residence shall include only such property that, under applicable local law, is a fixture to land or land appurtenant to the residence that is reasonably required to maintain its basic livability and that does not provide the Mortgagor with any source of income other than incidentally;

(2) Each Mortgagor shall certify that the proceeds of the Program Loan will not be used to acquire or replace an existing mortgage and that the Mortgagor has not had a previous mortgage

(whether or not paid off) on the residence to be acquired (other than a construction period loan, bridge loan or similar temporary initial financing with a term of 24 months or less);

(3) Each Mortgagor shall certify with respect to the residence to be acquired that, on the date of execution of the Program Loan, the Mortgagor (i) is presently occupying such residence (or, in the case of a two to four-dwelling unit, a unit of such residence) as his principal residence, or intends to occupy such residence (or unit of such residence) as his principal residence within a reasonable time (e.g., 60 days) after the date of execution or assumption of the Program Loan, (ii) shall continue to maintain the residence (or unit of such residence) as his principal residence, and (iii) reasonably expects that such residence (or unit of such residence) will not be used in a trade or business, as an investment property or as a recreational home;

(4) The acquisition cost of each residence must comply with the purchase price limitations described under “**SERIES 2-C AND 5 PROGRAM LOANS—Series 2-C and 5 Mortgage Loans—General**” herein or such other acquisition cost limitations as are allowable under the Code. The determination under the preceding sentences shall be made as of the date on which the commitment to make the Program Loan is made (or, if earlier, the date of purchase of the residence);

(5) Maximum income limits equal to 115% (100% for families of less than three persons) or less of applicable median family income have been established for Mortgagors in connection with Program Loans to be made for residences located in Non-Targeted Areas. No income limits will be imposed on Mortgagors in connection with one-third (1/3) of the Program Loans for residences located in Targeted Areas. For the remaining two-thirds (2/3) of the Program Loans to be made to residences located in Targeted Areas, income limits equal to 140% (120% for families of less than three persons) of applicable median family income will be imposed;

(6) Except in the case of Program Loans for Targeted Area residences and qualified rehabilitation loans or home improvement loans, and to the limited extent provided in paragraph (2) above, each Mortgagor with respect to any Program Loan purchased in whole or in part with the proceeds of the Bonds shall (i) certify that such Mortgagor did not have a present ownership interest in a principal residence of such Mortgagor at any time during the three-year period ending on the date the Program Loan is executed or assumed, and (ii) submit, for each of the preceding three years, copies of such Mortgagor’s federal income tax returns which were filed with the Internal Revenue Service (or for one or more of the years in question Rhode Island Housing shall obtain such returns or a letter from the Internal Revenue Service in accordance with Revenue Procedure 82-16, 1982-9 I.R.B. 29), which returns and/or letter shall indicate that the Mortgagor did not claim deductions for taxes or interest on indebtedness with respect to property constituting the principal residence of such Mortgagor or report capital gains with respect to the sale of such property. In lieu of such tax returns or letter, Rhode Island Housing may review the Mortgagor’s credit report for evidence of prior home ownership or the Mortgagor may provide an affidavit affirming that such Mortgagor was not required to file a federal income tax return during one or all of such years in accordance with Section 6012 of the Code because the Mortgagor did not satisfy the minimum income requirements set forth in such Section;

(7) With respect to any Program Loan, the proceeds of which are to be used to acquire a two to four-unit residence, each Mortgagor shall certify, and Rhode Island Housing shall establish that such residence was first occupied as a residence at least five years before the date the Program Loan is executed or alternatively with respect to the acquisition of a two-unit residence, that such residence is located in a targeted area and the family income of the Mortgagor does not exceed 140% (120% for families of less than 3 persons) of the applicable median family income;

(8) The certifications required under this subheading shall be made in an affidavit executed by the Mortgagor on or before the date the Program Loan is executed and, if made before such date, shall be reaffirmed by the Mortgagor as true on and as of such Program Loan execution date; and

(9) Each Program Loan shall provide that it shall become immediately due and payable if Rhode Island Housing discovers that any certification is not true.

In the case of Program Loans for the rehabilitation of homes already owned by Mortgagors, Rhode Island Housing has also covenanted that such loans will, as of the date of purchase, satisfy all of the requirements set forth above in paragraphs (3), (5), (7) and (9). In the case of Program Loans made for the acquisition and rehabilitation of a residence or for the rehabilitation of a residence already owned by the Mortgagor, a period of at least 20 years must have elapsed between the date on which the residence was first used and the date rehabilitation commences. The expenditures for such rehabilitation must, moreover, equal or exceed 25% of the Mortgagor's adjusted basis in the rehabilitated residence determined as of the date the rehabilitation is completed or, if later, the date the residence is acquired. In the rehabilitation process, (i) at least 50% of the external walls of the residence must be retained in place as such; (ii) at least 75% of the external walls of the building must be retained in place either as external or as internal walls; and (iii) at least 75% of the existing internal structural framework of the building must be retained in place.

Rhode Island Housing shall maintain a staff of personnel experienced or trained in the evaluation of residential financing documentation who shall review the documentation of each Program Loan purchase application and each assuming Mortgagor's certifications to determine whether such documentation reflects compliance with the requirements of the applicable Series Program Determinations. In addition, such staff shall conduct such investigations with respect to Mortgagors and the residences financed by the proceeds of the Program Loans as are necessary to give Rhode Island Housing reasonable assurance that such certifications are true and that such requirements are met with respect to each Program Loan. Rhode Island Housing may enter into underwriting agreements with certain Mortgage Lenders pursuant to which the Mortgage Lenders would determine compliance of Mortgage Loans submitted for purchase with the underwriting criteria of Rhode Island Housing and applicable Federal tax laws and regulations.

In the event Rhode Island Housing discovers that any Mortgagor certifications required as described above were not, at the time they were made, true, or that the Program Loan does not meet all the requirements of the applicable Series Program Determinations, or that any applicable requirement of subsections (c), (d), (e), (f) or (i) of Section 143 of the Code is not met with respect to the Program Loan, Rhode Island Housing shall, within a reasonable time after such failure is first discovered, either (i) sell the Program Loan and deposit in the Loan Account an amount equal to the unpaid principal amount thereof, which amount shall be obtained from (A) the proceeds of sale of the Program Loan and (B) other available funds of Rhode Island Housing, or (ii) declare the Program Loan to be immediately due and payable and take all actions necessary to promptly recover from the Mortgagor all amounts due on the Program Loan.

Rhode Island Housing intends to inform Mortgagors that failure to occupy the residence financed by Program Loans for a period of 12 consecutive months may result in the inability of the Mortgagors to deduct interest payments made during such period of nonoccupancy for purposes of calculating federal taxable income.

Subject to certain exceptions, for at least one year after the date financing is first made available in any Targeted Area, at least 20% of the funds available in the Loan Account to finance Program Loans or 40% of the average annual aggregate principal amount of mortgages executed during the immediately preceding three (3) calendar years for single family owner occupied residences in Targeted Areas, whichever is less, are required under Section 143 of the Code to be set aside to purchase Program Loans in Targeted Areas.

Sections 143(g) and 148 of the Code impose certain arbitrage requirements which must be satisfied to maintain the exclusion from gross income of interest on the Bonds of Rhode Island Housing. First, pursuant to Code Section 143(g), the yield on the Program Loans may not exceed the yield on the related Series of Bonds by more than one and one-eighth percentage points (1.125%). Second, Section 148(f) requires the amount earned on nonmortgage investments with a yield greater than the yield on the Series of Bonds, attributable to such nonmortgage investments, to be paid to the federal government. Pursuant to the Bond Resolution, Rhode Island Housing has established procedures to comply with these requirements.

For Mortgage Loans made after December 31, 1990, the Code requires a payment to the United States from certain mortgagors upon the sale of their homes (the “Recapture Provision”). The Recapture Provision requires that an amount determined to be the subsidy provided by a qualified mortgage be paid to the United States upon disposition of the home (but not in excess of 50% of the gain realized by the mortgagor). The recapture amount increases during the first 5 years of ownership, with full recapture occurring if the home is sold on or before the end of the fifth year. The recapture amount declines ratably to zero with respect to sales occurring in years 6 through 9. The Code excludes from recapture, however, part or all of the subsidy in the case of assisted individuals whose incomes are less than the prescribed amounts at the time of disposition. Rhode Island Housing is unable to predict what effect, if any, such requirements may have on origination or prepayment of Mortgage Loans to which the Recapture Provision will apply.

## **Prepayments**

Program Loans funded by Rhode Island Housing permit partial or complete prepayment without penalty. Such Program Loans may also be terminated prior to their respective final maturities as a result of such events as default, sale, condemnation or casualty loss. Experience indicates that some level of prepayments will occur in a portfolio of mortgage loans such as those to be held by Rhode Island Housing. A number of factors, including general economic conditions, the Recapture Provision, homeowner mobility and mortgage market interest rates, will affect the rate of actual prepayments for a particular portfolio of Program Loans. Because Program Loans under the Program may bear interest rates which are often lower than the then current market interest rates, it is difficult to predict prepayments for Rhode Island Housing portfolio from available data about other pools of mortgage loans. Unless required to be applied to the redemption of Bonds as described under the heading “**DESCRIPTION OF THE SERIES 2-C AND 5 BONDS—Series 2-C and 5 Redemption Provisions—Special Redemption of Series 2-C and 5 Bonds**” or “—*Extraordinary Mandatory Redemption of Series 2-C Bonds*” or otherwise restricted by the related Series Resolution, Rhode Island Housing may elect to apply prepayments to the redemption of Bonds or to the purchase of new Program Loans.

Program Loans, other than Program Loans insured by FHA or guaranteed by VA, purchased with the proceeds of Bonds may not be assumed. Any Program Loan which is assumed must comply with all requirements of the Program at the time such Program Loan is assumed.

## **Changes in Federal or State Law or Regulations**

Legislation or regulations affecting the Series 2-C and 5 Bonds and Mortgage Loans may be considered and enacted by the United States Congress, the Rhode Island State legislature or federal or state regulatory bodies. No assurance can be given that the consideration or enactment of any such legislation will not have an adverse effect on the value of, the timing or amount of revenues available to pay, or the security for the Series 2-C and 5 Bonds or other risks to the Owners.

In particular, over the past year a number of financial institutions and related entities have announced large losses as a result of their mortgage activities and the increasing number of defaults and foreclosures on such mortgages. The United States Congress may pass consumer protection and bankruptcy legislation (including legislation that would allow bankruptcy courts to reduce or “cram down” the principal amounts and/or interest rates on mortgage loans on principal residences) as a result of the adverse effects of the mortgage situation on individuals and families in the United States. Likewise, the Rhode Island State legislature may enact consumer protection legislation relating to mortgage loan origination and servicing. Such legislation, if enacted, could have an adverse effect on the Program, including Rhode Island Housing’s ability to originate new Mortgage Loans, to collect payments under Mortgage Loans and to foreclose on property securing Mortgage Loans which could adversely affect the revenues available to pay debt service on the Bonds when due.

A number of state regulatory authorities have recently taken action against certain loan originators and servicers for alleged violations of state laws. Certain of those actions prohibit those servicers from pursuing



foreclosure actions. In addition, the State or federal regulatory bodies could implement regulatory requirements that impose limitations on the ability of mortgage loan servicers to take actions (such as pursuing foreclosures) that may be essential to service and preserve the value of the single-family loans or otherwise impact mortgage lending. Any such limitations that applied to Rhode Island Housing's single-family loans could adversely affect Rhode Island Housing's ability to collect amounts due on such loans and could impair the value of such loans which could adversely affect the revenues available to pay debt service on the Bonds when due.

## **OTHER PROGRAMS OF RHODE ISLAND HOUSING**

The following information with respect to other programs of Rhode Island Housing authorized by the Act is supplied for background information purposes and obligations issued with respect thereto are not secured by the Bond Resolution, nor are they payable from the assets or revenue sources pledged to the payment of the Bonds.

Rhode Island Housing has one other active program to provide owner-occupied housing for persons and families of low and moderate income. As of June 30, 2012, Rhode Island Housing had owner-occupied mortgage loans outstanding with respect to projects financed with proceeds of bonds issued under and secured by its Homeownership Opportunity Bond Resolution (the "Homeownership Opportunity Bond Resolution"), which mortgage loans have an outstanding aggregate principal amount of \$942,929,923. The mortgage loans financed with the proceeds of bonds issued under the Homeownership Opportunity Bond Resolution are pledged as security only for the bonds issued under such resolution.

Rhode Island Housing has several programs to assist in making multifamily housing and health care facilities available for occupancy by persons and families of low and moderate income. As of June 30, 2012, Rhode Island Housing had multifamily mortgage loans outstanding with respect to multifamily projects financed with proceeds of bonds issued under and secured by other resolutions, which mortgage loans have an outstanding aggregate principal amount of \$392,746,247 (the "Multifamily Loans"). Mortgage Loans financed with the proceeds of bonds issued under a resolution are pledged as security only for the bonds issued under such resolution.

Rhode Island Housing has funded all or a portion of the State's obligations under a state rental assistance program which provides Rental Subsidy Payments to certain entities which acquire, construct or substantially rehabilitate housing developments in the State of Rhode Island affordable by individuals or families of low or moderate income for most years since fiscal 1990. The State's obligation to make Rental Subsidy Payments under the Assistance Program is subject to annual appropriation by the Rhode Island General Assembly. Since fiscal 1994 through fiscal 2012, Rhode Island Housing has made the annual payment on behalf of the State in amounts ranging from approximately \$1.8 million to \$4.2 million. Rental Subsidy Payments are determined pursuant to contracts that extend to 2012. There can be no assurance that the State will appropriate amounts in the future sufficient to meet its obligations as to Rental Subsidy Payments.

In 1998, the State passed legislation that created a Housing Resources Commission (the "Commission") to provide policy direction and funding for housing-related programs and initiatives. One of the program areas assigned to the Commission in such legislation is the rental subsidy program, but to date, the Commission has not received any State funding for this particular program.

## **TRUSTEE**

The Trustee for the Bonds is The Bank of New York Mellon Trust Company, N.A., Providence, Rhode Island, as successor Trustee. The Trustee also serves as bond trustee for other outstanding bonds of Rhode Island Housing. The Trustee also acts as Paying Agent for the Series 2-C and 5 Bonds. Principal,

premium, if any, and interest on the Series 2-C and 5 Bonds will be payable at the Paying Agent's corporate trust office in Dallas, Texas.

Rhode Island Housing indemnifies and holds the Trustee harmless against any liabilities which it may incur in the exercise and performance of its powers and duties under the Resolution, and which are not due to its negligence or willful misconduct. The Trustee may become the owner of Bonds, with the same rights as it would have as if it were not the Trustee. To the extent permitted by law, the Trustee may act as depository for, and permit any of its officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of Bondholders or to effect or aid in any reorganization growing out of the enforcement of the Bonds or the Bond Resolution, whether or not any such committee shall represent the Holders of a majority in principal amount of the Bonds outstanding.

The Bondholders of a certain percentage of the principal amount of the Outstanding Bonds may instruct the Trustee to act as further described in "**APPENDIX F—SUMMARY OF CERTAIN PROVISIONS OF THE BOND RESOLUTION—Remedies.**" The Trustee is not under any obligation or duty to perform any act which would involve it in expense or liability, or to institute or defend any suit in respect of the Resolution, or to advance any of its own moneys, unless properly indemnified.

#### **AGREEMENT OF THE STATE**

Pursuant to the Act, the State has pledged to and agreed with the Holders of any Bonds that the State will not limit or alter the rights vested in Rhode Island Housing to fulfill the terms of any agreements made with them, or in any way impair the right and remedies of such Holders until the Bonds, together with the interest thereon and on any unpaid installments of interest, and all costs and expenses in connection with any action or proceeding by or on behalf of such Holders, are fully met and discharged.

#### **STATE NOT LIABLE ON BONDS**

The Bonds of Rhode Island Housing shall not be in any way a debt or liability of the State or of any political subdivision thereof and shall not create or constitute an indebtedness, liability or obligation of the State or of any political subdivision or be or constitute a pledge of the faith and credit of the State or of any such political subdivision, but such Bonds shall be payable solely from revenues or funds of Rhode Island Housing under the Resolution pledged for their payment.

#### **LEGALITY FOR INVESTMENT**

The Act provides that the Bonds shall be legal investments in which all public officers and public bodies of the State, its political subdivisions, all municipalities and municipal subdivisions, all insurance companies and associations and other persons carrying on an insurance business, all banks, bankers, banking institutions including savings and loan associations, building and loan associations, trust companies, savings banks and savings associations, investment companies and other persons carrying on a banking business, all administrators, guardians, executors, trustees and other fiduciaries, and all other persons whatsoever who are now or may hereafter be authorized to invest in bonds or in other obligations of the State, may properly and legally invest funds, including capital, in their control or belonging to them. The Bonds are securities which may properly and legally be deposited with and received by all public officers and bodies of the State or any agency or political subdivision of the State and all municipalities and public corporations for any purpose for which the deposit of bonds or other obligations of the State is now or may hereafter be authorized by law.

## LITIGATION

Rhode Island Housing is party to certain claims and lawsuits which are being contested. In the opinion of management, the ultimate liability with respect to these actions and claims will not have a material adverse effect on either Rhode Island Housing's financial position or the result of its operations.

## APPROVAL OF LEGALITY

Legal matters incident to the Conversion and Release of the Series 2-C Bonds and to the issuance of the Series 5 Bonds are subject to the approval of Kutak Rock LLP, Atlanta, Georgia, Bond Counsel, whose opinions as to the Series 2-C Bonds and the Series 5 Bonds, in substantially the forms of **APPENDICES D-1 and D-2** hereto, respectively, will be delivered upon the conversion and issuance thereof, respectively.

Certain legal matters in connection with the Series 2-C and 5 Bonds are subject to the approval of Nixon Peabody LLP, Providence, Rhode Island, Special Counsel to Rhode Island Housing and in connection with the Series 5 Bonds to the approval of Hawkins Delafield & Wood LLP, New York, New York, Counsel to the Underwriters.

## RATINGS

Moody's Investors Service ("Moody's") has assigned a rating to the Series 2-C and 5 Bonds at the request of Rhode Island Housing. Such rating is "Aa2" with respect to the Series 2-C and 5 Bonds. Any explanation of the significance of such rating should be obtained directly from Moody's. There is no assurance that a particular rating will pertain for any given period of time or that it will not be lowered or withdrawn entirely, if, in the judgment of Moody's, circumstances so warrant. Any downward revision or withdrawal of any such rating will have an adverse affect on the market price of the Series 2-C and 5 Bonds.

## UNDERWRITING OF SERIES 5 BONDS

Morgan Stanley & Co. LLC, J.P. Morgan Securities LLC, Merrill Lynch, Pierce, Fenner & Smith Inc., Janney Capital Markets, M.R. Beal & Company, Oppenheimer & Co. Inc., RBC Capital Markets LLC, and Roosevelt & Cross, Inc. (the "Underwriters") have jointly and severally agreed, subject to certain conditions, to purchase the Series 5 Bonds from Rhode Island Housing at a purchase price of \$40,545,786.30, representing the principal amount of the Series 5 Bonds, plus original issue premium. The Underwriters will be paid a fee in connection with the sale of the Series 5 Bonds in an amount equal to \$355,579.09. The Underwriters' obligations are subject to certain conditions precedent, and they will be obligated to purchase all the Series 5 Bonds, if any such Series 5 Bonds are purchased. The obligation of the Underwriters to purchase the Series 5 Bonds is not contingent upon the conversion of the Series 2-C Bonds. The Underwriters did not act as placement agents with respect to Series 2-C Bonds.

Morgan Stanley & Co. LLC and Citigroup Global Markets Inc. are providing the following language for inclusion in this Official Statement. Morgan Stanley and Citigroup Inc., the respective parent companies of Morgan Stanley & Co. LLC and Citigroup Global Markets Inc., each an underwriter of the Series 5 Bonds, has entered into a retail brokerage joint venture. As part of the joint venture, Morgan Stanley & Co. LLC and Citigroup Global Markets Inc. will distribute municipal securities to retail investors through the financial advisor network of a new broker-dealer, Morgan Stanley Smith Barney LLC. This distribution arrangement became effective on June 1, 2009. As part of this arrangement, each of Morgan Stanley & Co. LLC and Citigroup Global Markets Inc. will compensate Morgan Stanley Smith Barney LLC for its selling efforts with their respective allocations of the Series 5 Bonds.

J.P. Morgan Securities LLC has provided the following language for inclusion in this Official Statement. J.P. Morgan Securities LLC ("JPMS"), one of the Underwriters of the Series 5 Bonds, has entered

into negotiated dealer agreements (each, a “Dealer Agreement”) with each of UBS Financial Services Inc. (“UBSFS”) and Charles Schwab & Co., Inc. (“CS&Co.”) for the retail distribution of certain securities offerings, at the original issue prices. Pursuant to each Dealer Agreement (if applicable to this transaction), each of UBSFS and CS&Co. will purchase Series 5 Bonds from JPMS at the original issue price less a negotiated portion of the selling concession applicable to any Series 5 Bonds that such firm sells.

M.R. Beal & Company has provided the following language for inclusion in this Official Statement. M.R. Beal & Company has entered into an agreement (the “Distribution Agreement”) with TD Ameritrade, Inc. for the retail distribution of certain municipal securities offerings, at the original issue prices. Pursuant to the Distribution Agreement (as applicable for this transaction), M.R. Beal & Company will share a portion of its underlying compensation with the respect to any transaction with TD Ameritrade, Inc.

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

## **TAX MATTERS**

***Certain Federal Tax Law Requirements.*** Section 143 of the Code provides that interest on obligations of a governmental unit such as Rhode Island Housing issued to finance single family residences is excludable from gross income for federal income tax purposes only if certain requirements are met with respect to the terms, amount and purpose of the obligations, the use of the funds generated by the issuance of the obligations, the nature of the residence and the mortgage to be financed and the eligibility of the borrower executing the mortgage. Section 143 requires that Rhode Island Housing include restrictions in all relevant documents to permit financing only in accordance with such requirements and that Rhode Island Housing establish reasonable procedures to assure compliance. These requirements and procedures are described in the Mortgage Purchase Agreements and Rhode Island Housing’s Program Guide, Program Bulletins and Rules.

An issue of bonds is treated as meeting the mortgage eligibility requirements of Section 143 if (i) the issuer in good faith attempted to meet all of the mortgage eligibility requirements before the mortgages were executed, (ii) any failure to comply with the mortgage eligibility requirements is corrected within a reasonable period after such failure is first discovered and (iii) 95% or more of the proceeds of the issue which were used to make loans were used to finance residences meeting all such requirements at the time the loans were executed. In determining whether 95% of the proceeds have been so used, Section 143 permits Rhode Island Housing to rely on affidavits of the mortgagor and of the seller and on an examination of copies of the mortgagor’s federal income tax returns (or an affidavit that such returns were not required to be filed or a letter from the IRS that forms 1040A or 1040EZ were filed) for the three years preceding the date the mortgage is executed even though the relevant information in such affidavits and returns should ultimately prove to be untrue. Rhode Island Housing may not rely on such affidavits or the income tax returns of the mortgagor if either it or the Mortgage Lenders know or have reason to believe that such information is false. An issue of bonds is treated as meeting the targeting and arbitrage requirements of Section 143 of the Code if (i) the issuer in good faith attempted to meet all of these requirements and (ii) any failure to meet such requirements is due to inadvertent error after taking reasonable steps to comply with these requirements.

Rhode Island Housing has included provisions in the Resolution, the Program Guide, the Mortgage Purchase Agreements, and other relevant documents and has established procedures (including receipt of certain affidavits and representations from Mortgage Lenders and Mortgagors respecting the Program Loan eligibility requirements) in order to assure compliance with the qualified mortgage eligibility requirements and the other requirements which must be met subsequent to the date of issuance. See “**HOME FUNDING PROGRAM—Special Procedures for Compliance with Applicable Federal Tax Law.**” Rhode Island Housing has covenanted in the Resolution that it will not take or refrain from taking or permit any action to be taken on its behalf or cause or permit any circumstances within its control to arise or continue that would adversely affect the exemption from federal income taxation of interest on the Series 2-C and 5 Bonds. To such end, Rhode Island Housing has also agreed to adopt and maintain appropriate procedures for compliance with applicable federal tax law. Rhode Island Housing believes that the procedures and documentation requirements established for the purpose of fulfilling this covenant are sufficient to assure that the proceeds of the Series 2-C and 5 Bonds will be applied in accordance with the requirements of Section 143 of the Code, to the extent applicable, so as to assure that interest on the Series 2-C and 5 Bonds will be exempt from federal income taxation. In the opinion of Bond Counsel, the Program documentation establishes procedures under which, if followed, the requirements of applicable federal tax law can be met.

Section 143 of the Code requires the filing of an annual report on all mortgage loans made in a calendar year from the proceeds of bonds issued after 1984. Rhode Island Housing has established procedures to enable it to meet this reporting requirement.

***Opinions of Bond Counsel.*** On the date of the conversion of the Series 2-C Bonds and the issuance of the Series 5 Bonds, Kutak Rock LLP, Bond Counsel, will deliver its approving opinions to the effect that under then existing statutes and court decisions assuming continuing compliance by Rhode Island Housing with the Resolution and the covenants contained therein concerning federal tax laws described above (i) interest on the Series 2-C and 5 Bonds is not included in the gross income of the owners thereof for federal income tax purposes pursuant to Section 103 of the Code, (ii) interest on the Series 2-C and 5 Bonds is not included as a specific preference item for purposes of the federal alternative minimum tax provisions of the Code applicable to individuals, corporations and other taxpayers, and such interest on the Series 2-C and 5 Bonds is not included in adjusted current earnings of corporations for purposes of the federal alternative minimum tax, and (iii) income on the Series 2-C and Series 5 Bonds (including any profit on the sale thereof) is free from Rhode Island personal income taxes.

Although Bond Counsel has rendered its opinion that interest on the Series 2-C and 5 Bonds is excluded from gross income for federal income tax purposes, the accrual on receipt of interest on such Bonds may otherwise affect the federal income tax liability of the recipient’s particular tax status of other items of income or deduction. Bond Counsel expresses no opinion regarding any such consequences. Purchasers of the Series 2-C and 5 Bonds, particularly purchasers that are subchapter S corporations and foreign corporations operating branches in the United States, property or casualty insurance companies, banks, thrifts or other financial institutions or certain 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 or holding the Series 2-C and 5 Bonds.

***Changes in Federal and State Tax Law.*** From time to time, there are legislative proposals in the Congress and in the states that, if enacted, could alter or amend the federal and state tax matters referred to above or adversely affect the market value of the Series 2-C and 5 Bonds. For example, the President’s fiscal year 2013 budget request to Congress contains a proposal that if enacted would limit the amount of certain exclusions (including tax-exempt interest) and deductions available to high-income taxpayers and as a result could affect the market price or marketability of the Series 2-C and 5 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. In addition, regulatory actions are from time to time announced or proposed and litigation is threatened or commenced which, if implemented or concluded in a particular manner, could adversely affect the market value of the Series 2-C and 5 Bonds. Purchasers of the Series 2-C and 5 Bonds should consult their

tax advisors regarding any pending or proposed legislation, regulatory initiatives or litigation. The opinions expressed by Bond Counsel are based upon existing legislation and regulations as interpreted by relevant judicial authorities as of the date of issuance and delivery of the Series 2-C and 5 Bonds and Bond Counsel has expressed no opinion as of any date subsequent thereto or with respect to any pending legislation, regulatory initiatives or litigation.

**Backup Withholding for Series 2-C and 5 Bonds.** As a result of the enactment of the Tax Increase Prevention and Reconciliation Act of 2005, interest on tax-exempt obligations such as the Series 2-C and 5 Bonds is subject to information reporting in a manner similar to interest paid on taxable obligations. Backup withholding may be imposed on payments made 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. This reporting requirement does not in and of itself affect or alter the excludability of interest on the Series 2-C and 5 Bonds from gross income for federal income tax purposes or any other federal tax consequence of purchasing, holding or selling tax-exempt obligations.

## UNDERTAKING TO PROVIDE ONGOING DISCLOSURE

### Series 5 Bonds

Rhode Island Housing has agreed in the Continuing Disclosure Agreement to be entered into with the Trustee (the “Disclosure Agreements”) for the benefit of the beneficial owners of the Series 5 Bonds pursuant to the requirements of Section (b)(5)(i) of Securities and Exchange Commission Rule 15c2-12 (17 CFR Part 240, §240.15c2-12) (the “Rule”) to provide the following:

(a) To the Municipal Securities Rulemaking Board (the “MSRB”), on or before 180 days following the end of each fiscal year of Rhode Island Housing, commencing with the fiscal year ending on June 30, 2013, financial information and operating data of the type included under the headings “**MORTGAGE LOAN PORTFOLIO,**” “**INVESTMENTS UNDER THE BOND RESOLUTION,**” **APPENDIX E,** (the “Annual Financial Information”) together with the annual financial statements of Rhode Island Housing prepared in accordance with GAAP, except as may be otherwise noted in the financial statements, and audited by an independent firm of certified public accountants (the “Audited Financial Statements”); provided, however, that (i) Rhode Island Housing may modify the basis upon which the financial statements are prepared if required by federal or state law and (ii) Rhode Island Housing may provide unaudited financial statements by such date in the event the Audited Financial Statements are not available, provided that such Audited Financial Statements are provided to the MSRB when they become available; and

(b) To the MSRB and the Trustee, in a timely manner, notice of any of the following events, not in excess of ten (10) business days after the occurrence of such event, with respect to the Series 5 Bonds whether relating to Rhode Island Housing or otherwise: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Series 5 Bonds, or other material events affecting the tax status of the Series 5 Bonds; (7) modifications to rights of the holders of the Series 5 Bonds, if material; (8) bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution or sale of property securing repayment of the securities, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of Rhode Island Housing; (13) the consummation of a merger, consolidation or acquisition involving Rhode Island Housing or the sale of all or substantially all the assets of Rhode Island Housing, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a

definitive agreement relating to any such actions, other than pursuant to its terms if material; and (14) the appointment of a successor or additional trustee, or the change in the name of a trustee, if material.

Filings made in accordance with the Disclosure Agreement will be made by filing with the Electronic Municipal Market Access System (“EMMA”) of the MSRB.

The Annual Financial Information may be provided in one document or multiple documents, and at one time or in part from time to time. In addition, such Annual Financial Information may be provided by specific reference to documents available to the public on EMMA or filed with the SEC.

The Disclosure Agreement may be amended without the consent of the holders of the Series 5 Bonds (except to the extent required under clause (4)(ii) below) if all of the following conditions are satisfied: (1) such amendment is made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law (including rules or regulations) or in interpretations thereof, or a change in the identity, nature or status of Rhode Island Housing or the type of business conducted thereby, (2) such Disclosure Agreement as so amended would have complied with the requirements of the Rule applicable to such Disclosure Agreement, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances, (3) Rhode Island Housing shall have delivered to the Trustee an opinion of nationally recognized counsel expert in federal securities laws (“Securities Counsel”), addressed to Rhode Island Housing and the Trustee, to the same effect as set forth in clause (2) above, (4) either (i) Rhode Island Housing shall have delivered to the Trustee an opinion of Securities Counsel, addressed to Rhode Island Housing and the Trustee, to the effect that, or the Trustee shall have concluded that, the amendment does not materially impair the interests of the holders of the Series 5 Bonds or (ii) the holders of the Series 5 Bonds shall have consented to the amendment to the related Disclosure Agreement pursuant to the same procedures as are required under the Resolution for amendment to the Resolution with consent of the holders of the Bonds and (5) Rhode Island Housing shall have delivered copies of such opinion(s) and amendment to the MSRB.

In addition, Rhode Island Housing and the Trustee may amend the Disclosure Agreement, and any provision of the Disclosure Agreement may be waived, if the Trustee shall have received an opinion of Securities Counsel, addressed to Rhode Island Housing and the Trustee, to the effect that such amendment or waiver would not, in and of itself, cause the undertakings contained in such Disclosure Agreement to violate the Rule, taking into account any subsequent change in or official interpretation of the Rule.

Rhode Island Housing’s obligations under the Disclosure Agreement shall terminate upon a legal defeasance, prior redemption or payment in full of all of the Series 5 Bonds. In addition, the Disclosure Agreement, or any provision thereof, shall be null and void in the event that Rhode Island Housing (1) delivers to the Trustee an opinion of nationally recognized bond counsel or Securities Counsel, addressed to Rhode Island Housing and Trustee, to the effect that those portions of the Rule which require the provisions of such Disclosure Agreement, or any of such provisions, do not or no longer apply to the Series 5 Bonds whether because such portions of the Rule are invalid, have been repealed, or otherwise, as shall be specified in such opinion, and (2) delivers copies of such opinion to the MSRB.

The provisions of the Disclosure Agreement inure solely to the benefit of the Trustee and the holders and beneficial owners from time to time of the Series 5 Bonds.

The obligations of Rhode Island Housing to comply with the provisions of the Disclosure Agreement shall be enforceable (i) in the case of enforcement of obligations to provide financial statements, Annual Financial Information and notices, by any beneficial owner of Outstanding Series 5 Bonds, or by the Trustee on behalf of the holders of Outstanding Series 5 Bonds, or (ii) in the case of challenges to the adequacy of the financial statements or Annual Financial Information so provided, by the Trustee on behalf of the holders of Series 5 Bonds; provided, however, that the Trustee shall not be required to take any enforcement action except at the direction of the holders of not less than 25% in aggregate principal amount of the Series 5 Bonds at the time Outstanding who shall have provided the Trustee with adequate security and indemnity. The

beneficial owners' and Trustee's rights to enforce the provisions of the Disclosure Agreement shall be limited solely to a right, by action in mandamus or for specific performance, to compel performance of Rhode Island Housing's obligations under such Disclosure Agreement and Rhode Island Housing, its directors, officers and employees shall incur no liability under the Disclosure Agreement by reason of any act or failure to act thereunder. Without limiting the generality of the foregoing and except as otherwise provided in the Bond Resolution with respect to the Trustee, neither the commencement nor the successful completion of an action to compel performance under the Disclosure Agreement shall entitle the Trustee or any other person to attorneys' fees, financial damages of any sort or any other relief other than an order or injunction compelling performance.

Any failure by Rhode Island Housing or the Trustee to perform in accordance with the Disclosure Agreement does not constitute a default or an Event of Default under the Resolution, and the rights and remedies provided by the Resolution upon the occurrence of a default or an Event of Default do not apply to any such failure.

Rhode Island Housing has not failed during the previous five years to comply in all material respects with any continuing disclosure undertaking it has entered into prior to the date hereof pursuant to the Rule.

### **Series 2-C Bonds**

Pursuant to the Placement Agreements, Rhode Island Housing agreed to provide to the GSEs the Annual Financial Information and notices of events of the type described above (but relating to the Series 2-C Bonds), as if the Rule applied to the Series 2-C Bonds, and certain other financial information requested by the GSEs.

## **FINANCIAL STATEMENTS OF RHODE ISLAND HOUSING**

The financial statements of Rhode Island Housing as of and for the years ended June 30, 2012 (2012) and 2011 (2011) are included in **APPENDIX C** hereto. The 2012 financial statements have been audited by LGC&D LLP, Providence, Rhode Island, independent certified public accountants, to the extent indicated in their report thereon. The 2011 financial statements have been audited by CCR LLP, Providence, Rhode Island, independent certified public accountants, to the extent indicated in their report thereon. LGC&D LLP has not been engaged to perform, and has not performed, since the date of its report included herein, any procedures on the financial statements addressed in that report, nor has LGC&D LLP audited or reviewed Rhode Island Housing's financial statements subsequent to the completion of the audit of the financial statements as of and for the year ended June 30, 2012. Also, LGC&D LLP has not performed any procedures relating to this official statement.



**MISCELLANEOUS**

The references herein to the Act, the Bond Resolution and the Series 5 and Series 2-C Resolution are brief outlines of certain provisions thereof. Such outlines do not purport to be complete and reference is made to the Act, the Bond Resolution and the Series 5 and Series 2-C Resolution for full and complete statements of provisions. The agreements of Rhode Island Housing with the holders of the Series 2-C and 5 Bonds are fully set forth in the Bond Resolution and the Series 5 and Series 2-C Resolution and this Official Statement is not to be construed as a contract with the purchasers of the Series 2-C and 5 Bonds. So far as any statements are made in this Official Statement involving matters of opinion, whether or not expressly so stated, they are intended merely as such and not as representations of fact.

Copies of the Act, the Bond Resolution and the Series 5 and Series 2-C Resolution are on file at the office of Rhode Island Housing.

The execution and delivery of this Official Statement by the undersigned officer have been duly authorized by Rhode Island Housing.

RHODE ISLAND HOUSING AND MORTGAGE  
FINANCE CORPORATION

\_\_\_\_\_  
/s/ Richard G. Hartley

Treasurer

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## APPENDIX A

### DESCRIPTION OF CERTAIN PRIMARY MORTGAGE INSURANCE, FEDERAL HOUSING PROGRAMS AND RHODE ISLAND MORTGAGE FORECLOSURE PROCEDURES

#### **Private Mortgage Insurance**

Each Mortgage Purchase Agreement requires that any private mortgage insurer of a Program Loan must be qualified to insure mortgages purchased by the Federal Home Loan Mortgage Corporation (“FHLMC”) or Fannie Mae (“Fannie Mae”) and must be authorized to do business in the State. (Primary insurance coverage is not a requirement for mortgages with a loan to value ratio of seventy–eight percent (78%) or less).

In general, FHLMC eligibility requirements for approval of private mortgage insurers presently include certain basic criteria relating to the types of property securing insured mortgages, the risk/surplus ratio in areas of concentration, such as developments, and the geographic distribution of mortgages subject to policies issued by the insurer. The FHLMC has certain minimum financial standards for mortgage insurers, including requirements as to certain surplus and loss reserve accounts, types of assets held by the insurer, and the insurer’s general risk/surplus ratio.

Fannie Mae determines on an individual basis whether a private mortgage insurer is qualified for purposes of purchase of mortgages by Fannie Mae, weighing such general factors as the financial strength, expertise and experience of the insurer, the type of mortgages insured, the total liability of the insurer, and the types of benefits paid under each insurer’s policy. Fannie Mae also requires, before purchasing mortgages, that the insurer be authorized to transact insurance in the state where the property securing the mortgage is located.

Private insurers generally require an insured lender to give notice not later than ten (10) days after a borrower has failed to pay four (4) monthly installments on his loan. Before presenting a claim, the insured mortgagee must acquire title to the property. When a claim (consisting of unpaid principal amount of the loan, accumulated interest through the date of the tender of conveyance of title to the mortgaged premises, real estate taxes, and hazard insurance premiums necessarily advanced by the insured and other necessary expenses including attorneys’ fees not exceeding three percent (3%) of principal and interest due) is presented, the insurer generally has the option of (i) paying a percentage of such claim, ranging from six percent (6%) to twenty percent (20%), depending upon the premium plan and coverage selected when the loan is originated, and allowing the mortgagee to retain title to the property or (ii) upon conveyance of marketable title to the property to the insurer, paying the claim in full.

Private mortgage insurance policies generally require that any physical damage or loss to the property be repaired or restored by the insured lender prior to the payment of a claim under such policy.

#### **Federal Housing Administration Insurance Program**

Mortgages may be insured by the Federal Housing Administration (“FHA”) of the U.S. Department of Housing and Urban Development (“HUD”) pursuant to Section 203(b) of the National Housing Act of 1937, as amended, and the regulations promulgated thereunder at 24 C.F.R. Part 203. Such regulations provide that insurance benefits are payable only upon foreclosure (or other acquisition of possession and title) and conveyance of title to the mortgaged premises to the Secretary of Housing and Urban Development (“Secretary”). Assignment of a defaulted loan to FHA is no longer permitted, other than for those requests

made prior to April 26, 1996. However, recently enacted loss mitigation options allow partial claim as a homeowner retention tool.

Home buyers under the Section 203(b) Program are required to pay an up-front mortgage insurance premium. The National Housing Act also requires that the principal amount of the mortgage loan not be in excess of 96.5% of the appraised value of the residence, plus the amount of the mortgage insurance premium paid at the time the mortgage is insured.

The National Housing Act regulations promulgated thereunder give discretionary authority to the Secretary to settle claims for insurance benefits in cash, in debentures or in a combination of both. The current FHA policy, subject to change at any time, is to make insurance payments in cash unless the mortgagee specifically requests payment in debentures. Debentures issued in satisfaction of an insurance claim have a term of 20 years, and bear interest at the HUD debenture interest rate in effect under the regulations as of the date of issuance of the insurance commitment, or of the initial endorsement of the mortgage note for insurance, whichever rate is higher.

When entitlement to insurance benefits results from foreclosure or other acquisition of possession and conveyance of title to FHA, the insurance payment is computed as of the date of default by the mortgagor, and the mortgagee is compensated for the unpaid principal balance of the loan but generally not for mortgage interest accrued and unpaid prior to that date. The "date of default" is defined as 30 days after the first failure to make a monthly payment which has not been paid subsequently. Since monthly payments are regularly made 30 days in arrears, the mortgagee in collecting insurance benefits can expect to lose sixty days' interest at the mortgage rate. Insurance benefits include interest at the debenture interest rate then in effect covering the period from default to the date of payment; thus, assuming the mortgage interest rate is greater, the mortgagee can also expect to lose the difference between the mortgage interest rate and the debenture interest rate during such period. If insurance benefits are paid in debentures rather than cash, the mortgagee could expect to lose such interest differential over a longer period of time. In addition, in the event the debentures are sold prior to the maturity date thereof, it is likely that the mortgagee could expect to lose a substantial portion of the principal amount thereof. Finally, the mortgagee can expect to lose certain out-of-pocket expenses of securing the property and certain of its foreclosure expenses.

When any property to be conveyed to the Secretary has been damaged by fire, earthquake, flood or tornado, it is required, as a condition to payment of an insurance claim, that such property be repaired prior to such conveyance. Property hazard insurance will be relied upon to protect Rhode Island Housing from such potential loss.

### **United States Department of Agriculture/Rural Development Guaranteed Rural Housing Loan Program**

The Cranston-Gonzalez National Affordable Housing Act of 1990 revised and expanded the interest assistance program of the Farmers Home Administration (currently United States Department of Agriculture/Rural Development "USDA/RD") for guaranteed loans under Section 502 of Title V of the Housing Act of 1949, as amended, by creating the Guaranteed Rural Housing Loan Program. Households with an Annual Income of one hundred and fifteen percent (115%) of the area median income or less qualify.

The Guaranteed Rural Housing Loan Program is limited to certain rural areas of the State. The USDA/RD Program Loans will conform to the same maximum annual income limits and purchase price limits as all other Mortgage Loans purchased with the proceeds of Bonds.

The USDA/RD guaranty covers the lesser of (a) any loss equal to 90% of the original principal amount of the loan or (b) any loss in full up to 35% of the original principal amount of the loan plus any additional loss on the remaining 65% to be shared approximately 85% by USDA/RD and approximately 15% by Rhode Island Housing.

## **VA Guarantee**

The Servicemen's Readjustment Act of 1944, as amended, permits a veteran (or in certain instances the spouse and certain qualifying reservists) to obtain a mortgage loan guarantee from the Department of Veterans' Administration ("VA") covering mortgage financing of the purchase of a one-to-four family dwelling unit at interest rates not in excess of the maximum rates established by VA. The program has no mortgage loan limits, requires no down payment from the purchaser and permits the guarantee of mortgage loans of up to 30 years' duration. The maximum VA mortgage loan guaranty under this program is the lesser of the veteran's available entitlement or the maximum guaranty specified in the Servicemen's Readjustment Act of 1944, as amended based on the type of housing unit and loan amount. The liability on the guarantee is reduced or increased pro rata with any reduction or increase in the amount of indebtedness, but in no event will the amount payable on the guarantee exceed the amount of the original guarantee. Notwithstanding the dollar and percentage limitations of the guarantee, a mortgage holder will ordinarily suffer a monetary loss only when the difference between the unsatisfied indebtedness and the proceeds of a foreclosure sale of a mortgaged premises is greater than the original guarantee as adjusted. VA may, at its option and without regard to the guarantee, make full payment to a mortgage holder of unsatisfied indebtedness on a mortgage upon its assignment to VA. See "**HOME FUNDING PROGRAM**" herein.

## **RHODE ISLAND MORTGAGE FORECLOSURE PROCEDURES**

All Mortgage Lenders originating Program Loans secured by mortgages will use a form of note and mortgage prescribed by Rhode Island Housing. Upon the occurrence of a default and no less than forty-five (45) days prior to initiating a sale of real estate under a power of sale mortgage, as set forth in section 34-27-4 of the General Laws of Rhode Island, 1956 as amended (1995 Reenactment), the servicing Mortgage Lender must mail to the mortgagor written notice of default and the Mortgage Lender's right to foreclose. Additionally, such notice must advise the mortgagor of the availability of HUD-approved mortgage counseling services in Rhode Island.

If the breach is not cured within such period, the Mortgage Lender may invoke the statutory power of sale, which is defined in Section 34-11-22 of the General Laws of Rhode Island, 1956 as amended (1995 Reenactment). Under the statutory power of sale, the Mortgage Lender is authorized to conduct a public sale of the mortgaged property at the time and place stated in a notice of sale if the breach is not cured prior to the date specified in the notice. The notice must be published in a public daily newspaper in the city where the property is located once a week for three (3) successive weeks with the first publication being at least twenty-one (21) days before the sale. In addition, such notice of sale must be delivered to the mortgagor at his or her last known address by certified mail, return receipt requested, no less than thirty (30) days before the date of first publication.

At the sale, the Mortgage Lender may bid on its own account in the same manner as any other person.

Although Rhode Island statutes do not prescribe the terms of sale, the successful bidder in a residential foreclosure is typically required to put between 5 and 10% down at the time of the auction and pay the balance of the purchase price within thirty (30) days. If the successful bidder defaults, the Mortgage Lender could sue for specific performance, however, the Mortgage Lender usually keeps the down payment as proceeds of foreclosure activity to be applied towards satisfaction of the total debt and advertises again for another sale. At the auction, a memorandum setting forth such terms of sale is read prior thereto and signed by the successful bidder.

While it is theoretically possible to complete a foreclosure sale within approximately fourteen (14) weeks after the Mortgage Lender first notifies the borrower of any event of default, a variety of factors will likely cause such time period to be extended. These factors include requirements under applicable mortgage insurance policies, the internal practices and policies of the Mortgage Lender relating to residential foreclosures, any attempts by the borrower to block the foreclosure sale, statutory or constitutionally required

administrative procedures and the time given by the Mortgage Lender to a successful bidder to consummate the foreclosure.

The foregoing description of certain programs is only a brief outline and does not purport to summarize or describe all of the provisions of these programs, reference is made to the provisions of the contracts embodied in the regulations of the FHA and the VA, respectively, and of the regulations, master insurance contracts and other information concerning various private mortgage insurers.

## APPENDIX B

### PARTICIPATING MORTGAGE LENDERS\*

AAA Southern New England  
Bank of America  
Bank Rhode Island  
BankNewport\*\*  
Bristol County Savings Bank  
Citizens Mortgage Corporation  
Coastway Credit Union  
Columbus Credit Union  
Coventry Credit Union  
Domestic Bank  
Eastern Mortgage Corporation  
Greenwood Credit Union  
Home Loan & Investment Bank, FSB  
Homestar Mortgage, Inc.  
MetLife Home Loans  
Milford Federal Savings and Loan Association  
Mortgage Masters, Inc.  
NE Moves Mortgage Corporation  
People's Credit Union  
Providence Postal Credit Union  
Randolph Savings Bank  
Rhode Island State Employees Credit Union\*\*  
Rockland Trust Company  
Salem Five Mortgage Corporation  
Sovereign Bank  
Superior Mortgage Corp.  
The Mortgage Corner  
The Washington Trust Company\*\*  
Union Federal Savings Bank  
Wave Federal Credit Union  
Webster Bank  
Weichert Financial Services  
Wells Fargo Home Mortgage  
Westerly Community Credit Union

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\* Certain mortgage lenders and servicers may use their affiliates to originate or service Program Obligations under the Home Funding Program. Rhode Island Housing may include additional financial institutions as mortgage lenders and servicers under such program. Rhode Island Housing expects to service substantially all of the Mortgage Loans under the Home Funding Program.

\*\* Also acting as a Servicer under the Home Funding Program.

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**APPENDIX C**

**AUDITED FINANCIAL STATEMENTS OF RHODE ISLAND HOUSING  
JUNE 30, 2012 AND 2011**

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**RHODE ISLAND HOUSING AND MORTGAGE  
FINANCE CORPORATION  
(A COMPONENT UNIT OF THE STATE OF RHODE  
ISLAND)**

**Financial Statements and Supplementary Information  
For the Years Ended June 30, 2012 and 2011**



*A Limited Liability Partnership*

10 Weybosset Street, Suite 700, Providence, RI 02903 • (p) 401.421.4800 • 1.800.927.LGCD • (f) 401.421.0643 • [www.lgcd.com](http://www.lgcd.com)

**RHODE ISLAND HOUSING AND MORTGAGE FINANCE CORPORATION**  
**(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)**

**Financial Statements and Supplementary Information**  
**June 30, 2012 and 2011**

	Page
Independent Auditors' Report	1
Management's Discussion and Analysis	3
Financial Statements:	
Combining Balance Sheets	10
Combining Statements of Revenues, Expenses and Changes in Fund Equity	12
Combining Statements of Cash Flows	14
Statements of Fiduciary Net Assets – Private Purpose Trust Component Unit	18
Statements of Changes in Fiduciary Net Assets – Private Purpose Trust Component Unit	19
Notes to Financial Statements	20
Independent Auditors' Report on Supplementary Information	53
Supplementary Schedules:	
Required Supplementary Information - Schedule of Funding Progress (Retiree Health Care Benefit Plan)	54
Combining Balance sheets -- Single-Family Fund	55
Combining Statements of Revenues, Expenses and Changes in Fund Equity - Single-Family Fund	57
Combining Balance Sheets - Multi-Family Funds	59
Combining Statements of Revenues, Expenses and Changes in Fund Equity - Multi-Family Fund	62



**Independent Auditors' Report**

Board of Commissioners  
Rhode Island Housing and Mortgage  
Finance Corporation  
Providence, Rhode Island

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of Rhode Island Housing and Mortgage Finance Corporation (Rhode Island Housing), a component unit of the State of Rhode Island, as of and for the year ended June 30, 2012, which collectively comprise Rhode Island Housing's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Rhode Island Housing's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Rhode Island Housing for the year ended June 30, 2011 were audited by other auditors whose report, dated September 29, 2011, expressed unqualified opinions on those statements.

We conducted our audit in accordance with auditing standards generally accepted in 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of Rhode Island Housing as of June 30, 2012, and the changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States.

*A Limited Liability Partnership*

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**Independent Auditors' Report (Continued)**

Board of Commissioners  
Rhode Island Housing and Mortgage  
Finance Corporation

Accounting principles generally accepted in the United States require that Management's Discussion and Analysis presented on pages 3 through 9 and the Schedule of Funding Progress presented on page 54 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*LJC & E LLP*

September 28, 2012

## Management's Discussion and Analysis

The accompanying basic financial statements include Rhode Island Housing and Mortgage Finance Corporation (the Corporation), a component unit of the State of Rhode Island (the State), and Affordability Housing Trust (the Trust, a component unit of the Corporation), collectively referred to as Rhode Island Housing.

This section of Rhode Island Housing's financial statements presents Rhode Island Housing's management's discussion and analysis of the Corporation's financial position and performance as of June 30, 2012 and 2011 and for the years then ended. This discussion and analysis is intended to serve as an introduction to the Corporation's basic financial statements. The Corporation's basic financial statements, accompanying notes, and supplementary information should be read in conjunction with the following discussion.

### Financial Highlights

The financial highlights (in millions) of the Corporation as of and for the years ended June 30, 2012 and 2011 increased (decreased) from the previous year as follows:

	2012		2011	
	\$	%	\$	%
Mortgage loans, gross	(2.1)	(0.1)	12.2	0.7
Investments	0.8	0.3	19.8	7.9
Cash and cash equivalents	(12.7)	(5.5)	(59.4)	(20.6)
Total assets	(10.3)	(0.5)	(18.0)	(0.8)
Bonds and notes payable	(53.9)	(3.3)	(60.7)	(3.5)
Total fund equity	6.6	2.3	4.7	1.6
Total revenues	(0.5)	(0.5)	(6.4)	(5.7)
Total expenses	(2.4)	(2.3)	(1.5)	(1.5)
Operating income	1.9	39.8	(4.9)	(51.1)

Mortgage loans comprise the largest segment of the Corporation's asset base. Single-family new loan production, which adds to the Corporation's loan portfolio, was lower than historical levels. Multi-family new loan production increased, resulting in an overall decrease to the loan portfolio of \$2.1 million.

Bonds and notes payable, the largest component of liabilities, decreased by approximately \$54 million in 2012. This decrease is directly related to current year maturities and pay-offs of bonds with mortgage prepayments.

### Overview of the Financial Statements

The Corporation engages only in business-type activities that are commercial in nature; that is, activities that are financed in whole or in part by charges to external parties for services, with funding sources that are primarily external to the Corporation. As a result, the Corporation's basic financial statements include the balance sheet, the statement of revenues, expenses and changes in fund equity, the statement of cash flows, and the notes to the financial statements. These basic financial statements are designed to provide readers with a broad overview of the Corporation's finances, in a manner similar to a private-sector business.

The balance sheet presents information on the Corporation's assets, liabilities and fund equity. Over time, increases or decreases in the Corporation's fund equity may serve as an indicator of whether the financial position of the Corporation is improving or deteriorating. Other factors, both internal and external to the Corporation, should be considered when evaluating the Corporation's financial position. The statement of revenues, expenses and changes in fund equity presents information on how the Corporation's fund equity changed during the year.

All assets, liabilities, and changes in fund equity are reported using the accrual basis of accounting for governmental entities and are reported as soon as the underlying event giving rise to the asset or liability and resulting change in fund equity occurs, regardless of the timing of when a corresponding amount of cash is received or paid. Consequently, certain revenues and expenses reported in the statement of revenues, expenses and changes in fund equity will result in cash flows in future periods.

The Affordability Housing Trust is a separate legal entity created pursuant to a trust agreement initiated by the Corporation. The Trust is a private-purpose trust established to assist in activities that involve the creation and preservation of affordable housing in the State. All resources of the Trust, including income on investments and other revenues, are held in trust for the benefit of private and not-for-profit organizations. There is no requirement that any portion of the Trust's resources be preserved as capital. The Trust administers its affairs through its trustees, records its assets in segregated accounts and maintains financial records separate from the Corporation.

### Operating Activity of the Corporation

The following tables summarize the components of operating income, before the adjustment required to record investments at fair value as required by Governmental Accounting Standards Board (GASB) Statement No. 31:

For the Years Ended June 30, 2012 and 2011 (in thousands)			
	2012	2011	% Change
<b>Revenues:</b>			
Interest income on loans	\$ 83,502	\$ 84,825	(1.6)%
Interest on investments	8,727	8,946	(2.4)
Other	8,078	10,183	(20.7)
Total revenues	100,307	103,954	(3.5)
<b>Expenses:</b>			
Interest expense	63,150	65,386	(3.4)
Provision for loan losses	2,431	3,277	(25.8)
REO expenditures	3,211	1,627	97.3
Amortization of deferred bond issuance costs	644	660	(2.4)
Early retirement of debt	966	856	12.9
Operating expenses	19,369	20,949	(7.5)
Other	9,443	8,843	6.8
Total expenses	99,214	101,598	(2.3)
Operating income, before adjusting investments to fair value	\$ 1,093	\$ 2,356	(53.6)%



For the Years Ended June 30, 2011 and 2010 (in thousands)

	2011	2010	% Change
<b>Revenues:</b>			
Interest income on loans	\$ 84,825	\$ 87,650	(3.2)%
Interest on investments	8,946	7,640	17.1
Gain on sale of treasury bonds	-	2,254	(100.0)
Other	10,183	9,960	2.2
Total revenues	<u>103,954</u>	<u>107,504</u>	<u>(3.3)</u>
<b>Expenses:</b>			
Interest expense	65,386	66,865	(2.2)
Provision for loan losses	3,277	4,288	(23.6)
REO expenditures	1,627	1,183	37.5
Amortization of deferred bond issuance costs	660	667	(1.0)
Early retirement of debt	856	417	105.3
Operating expenses	20,949	19,080	9.8
Other	8,843	10,607	(16.6)
Total expenses	<u>101,598</u>	<u>103,107</u>	<u>(1.5)</u>
Operating income, before adjusting investments to fair value	<u>\$ 2,356</u>	<u>\$ 4,397</u>	<u>(46.4)%</u>

Operating income, after adjusting investments to fair value, was \$6.6 million for the year ended June 30, 2012 (2012), \$4.7 million for the year ended June 30, 2011 (2011), and \$9.6 million for the year ended June 30, 2010 (2010). GASB Statement No. 31, which requires investments to be recorded at fair value, caused an increase in operating income of \$5.5 million in 2012 compared to an increase of \$2.3 million in 2011 and an increase of \$5.2 million in 2010. Operating income, excluding the unrealized gains and losses on investments, decreased 53.6% in 2012 to \$1.1 million from \$2.4 million in 2011, which had decreased 46.4% from \$4.4 million in 2010. The fluctuations are primarily due to the increase in program expenses related to the Neighborhood Opportunities Program and the decrease in administrative fees earned by the corporation on the Section 8 Contract Administration Program in 2012.

Other revenue consists of loan-related fees such as origination and late fees, and fees received for the management and disbursement of funds for federal housing programs. Other revenue decreased to \$8.1 million in 2012 from \$10.2 million in 2011, which had increased from \$10.0 million in 2010, primarily due to a reduction in fees received on federal housing programs.

Operating expenses associated with the operation of the Corporation (personnel services, other administrative expenses, and depreciation and amortization of other assets) amounted to \$19.4 million in 2012, a decrease of 7.5% from \$20.9 million in 2011, which had increased 9.8% from \$19.1 million in 2010. The Corporation places a high priority on controlling operating expenses. The decrease in 2012 is a direct result of increased controls on operating costs.

REO expenditures are preservation costs incurred related to REO properties that are deemed to be non-recoverable based on a valuation analysis of the underlying properties. REO expenses increased by 97.3% to \$3.2 million in 2012 from \$1.6 million in 2011, which is a direct result of current market conditions causing an increase in the length of time properties are held by Rhode Island Housing.

Net interest income (interest on loans and investments less interest expense) is the largest component of the Corporation's operating income. Net interest income increased slightly from \$28.4 million in 2011 to \$29.1 million in 2012. Interest income on loans decreased \$1.3 million in 2012 compared to a decrease of \$2.8 million in 2011. Interest income on investments remained consistent in 2012 after an increase of \$1.3 million in 2011. Net interest income as a percentage of average bonds and notes payable was 1.78% in 2012 and 1.68% in 2011, respectively. Interest income on loans as a percentage of total loans decreased from 4.93% in 2011 to 4.84% in 2012, while interest expense on bonds and notes remained consistent at approximately 3.9%, causing a net decrease in the spread margin (i.e., differential between loans and bonds) from 1.06% in 2011 to 0.97% in 2012. This is a result of continued lower borrowing costs during 2012.

The Corporation's revenue recognition policy requires that upon occurrence of any loan's delinquency of ninety days versus its contractual requirement for payment, the accrual of interest income for that loan is ceased and any previous accrued interest income is reversed. The Corporation will commence accruing interest income on such loans once the loans are made current.

The provision for loan losses decreased to \$2.4 million from \$3.3 million based on a review of the Corporation's loan portfolio and an analysis of its current characteristics. The primary economic factors incorporated into the allowance estimates are: (1) recent performance characteristics of the single-family portfolio and (2) net operating cash flows of the developments associated with multi-family loans.

For single-family loans, an estimate of loss reserve is based on the last instance of economic softness and real estate depreciation. For the multi-family portfolios, a specific loan loss reserve analysis is performed for every loan demonstrating signs of financial strain. Cash flow projections are developed from the most recent audited financials for each of the sites which may be experiencing difficulty and which have a mortgage loan. For each of these sites an analysis of value is calculated and compared to the loan balance. This methodology is the same as that used in the formulation of the income approach found in standard real estate appraisals. Beyond the specific reserves derived above, a general reserve is also established. The general reserve is based on a range of reserve percentages applicable to each loan portfolio.

In December 2009, the Corporation issued bonds under two indentures following the announcement by the United States Treasury Department of its intent to purchase bonds from state and local housing finance agencies. This program is part of a federal plan to help stabilize the United States housing market and provide families with access to affordable rental housing and homeownership. The Treasury Department agreed to purchase from the Corporation up to \$128 million of single-family bonds under the Home Funding Bonds indenture, and up to \$65.1 million of rental housing bonds under the Multi-Family Funding Bonds indenture. As of June 30, 2012, approximately \$32 million of single-family bonds are still available to be issued.

## Financial Analysis of the Corporation

The following tables summarize certain financial information regarding the Corporation's financial position:

June 30, 2012 and 2011 (in millions)			
	2012	2011	% Change
Loans receivable, net	\$ 1,694	\$ 1,691	0.2%
Investments	271	270	0.3
Cash and cash equivalents	217	229	(5.5)
Other assets	62	64	(2.9)
Total assets	2,244	2,254	(0.5)
Bonds and notes payable	1,603	1,657	(3.3)
Total liabilities	1,947	1,964	(0.9)
Fund equity:			
Invested in capital assets	9	9	(5.7)
Restricted	236	234	0.7
Unrestricted	52	47	11.9
June 30, 2011 and 2010 (in millions)			
	2011	2010	% Change
Loans receivable, net	\$ 1,691	\$ 1,676	0.9%
Investments	270	250	7.9
Cash and cash equivalents	229	289	(20.6)
Other assets	64	57	11.4
Total assets	2,254	2,272	(0.8)
Bonds and notes payable	1,657	1,717	(3.5)
Total liabilities	1,964	1,987	(1.1)
Fund equity:			
Invested in capital assets	9	9	0.3
Restricted	234	232	1.0
Unrestricted	47	45	5.2

At June 30, 2012, total assets of the Corporation decreased 0.5% from June 30, 2011, as compared to a 0.8% decrease from 2010 to 2011. Net loans receivable increased \$3.4 million, or 0.2%, from the previous year to \$1.694 billion as of June 30, 2012. Bonds and notes payable totaled \$1.603 billion as of June 30, 2012, a decrease of \$54 million, or 3.3%, from June 30, 2011, which had decreased \$60.7 million, or 3.5%, from June 30, 2010. During 2012, \$97.9 million of bonds were issued to fund single-family loans and \$26.1 million of bonds were issued to fund multi-family loans. During the same period, \$134.9 million of bonds were redeemed prior to maturity under provisions in the bond resolutions that allow mortgage prepayments to be used for such purpose. During 2011, \$50 million of bonds were issued to fund single-family loans and \$83.5 million of bonds were issued to fund multi-family loans. During the same period, \$50.4 million of bonds were redeemed prior to maturity under provisions in the bond resolutions that allow mortgage prepayments to be used for such purpose.

As of June 30, 2012 and June 30, 2011, the equity-to-asset ratio was 13.2% and 12.9%, respectively, and the loan-to-asset ratio was 75.5% and 75.0%, respectively. These ratios reflect the application of GASB Statement No. 31.

The Corporation's loan portfolio is primarily composed of single-family mortgage loans. As of June 30, 2012 and 2011, single-family residential mortgages in bond resolutions decreased from \$1.1 billion to \$1.0 billion and multi-family loans in bond resolutions totaled \$392.7 million and \$375.2 million, respectively.

The Corporation invests funds according to an investment policy, the primary goal of which is the preservation of capital and the minimization of risk. Other investment policy objectives include liquidity and maximization of yield. Under its current investment policy, the Corporation invests substantially all funds in United States Government and Agency securities or in guaranteed investment contracts with providers.

The Operating Fund is used to record the receipt of income not directly pledged to the repayment of specific bonds and notes, as well as to record expenses related to the Corporation's administrative functions and the provision for loan losses. The Operating Fund also is used for the purpose of recording funds to be utilized in the administration of various housing programs that are not covered by the Corporation's bond resolutions.

### **External Influences**

With very few exceptions, most states are contending with the negative ramifications of the economic downturn occurring nationally. The most pronounced implication of the downturn is a high level of unemployment across the country. Rhode Island's unemployment rate is presently 10.9% while the national rate is 8.2%. The soft economy and the high level of unemployment produce an adverse effect for any lending institution. Notwithstanding the fact that households historically place a very high priority on making their mortgage payments to their mortgage lenders, there is an unavoidable ripple effect produced in a lending institution's delinquency statistics. High unemployment also negatively affects the resale value and the market equity in houses, since there are fewer households financially able to upgrade their housing burden in an economic downturn. The Corporation's loans (1) do not include sub-prime loans, (2) are conservatively underwritten and (3) represent financing of a borrower's first home; however, the Corporation's delinquency experience is directly impacted by the high unemployment and economic burdens of the State's residents.

In February 2011, the U.S. Department of the Treasury established the Hardest Hit Fund to provide targeted aid to families in states hit hard by the economic and housing market downturn. Rhode Island has been chosen to receive assistance as one of the states struggling with unemployment rates at or above the national average or steep home price declines greater than 20 percent since the housing market downturn. The Corporation is helping our borrowers through the application process, to obtain federal aid available in the Hardest Hit Fund to provide funds for mortgage payment assistance for unemployed or underemployed homeowners, funds for principal reduction and loan modification to help homeowners get into more affordable mortgages and funds for homeowners transitioning out of their homes.

As of October 1, 2011, the U.S. Department of Housing and Urban Development (HUD) has made changes to their Project Based Section 8 Contract Administration Program. Under the new Annual Contributions Contract, HUD has reduced the number of tasks to be performed and has reduced the associated administrative fees earned by the Corporation. The current contract has been extended by HUD through December 31, 2012. At a later date, HUD will issue a Notice of Funding Availability to award the contract on a more long-term basis. The Corporation has taken steps to reduce both operating and programmatic expenses to offset the expected reduction in fees from this program.

### **Requests for Information**

This management's discussion and analysis is designed to provide a general overview of the Corporation's finances. Questions concerning this report may be addressed to the Director of Finance and Technology, Rhode Island Housing and Mortgage Finance Corporation, 44 Washington Street, Providence, Rhode Island, 02903. The Corporation maintains a website at: [www.rhodeislandhousing.org](http://www.rhodeislandhousing.org).

**RHODE ISLAND HOUSING AND MORTGAGE FINANCE CORPORATION**  
**(A Component Unit of the State of Rhode Island)**  
**Combining Balance Sheets**  
**June 30, 2012 and 2011**

	<u>Operating Fund</u>		<u>Single-Family Fund</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
<b>Assets</b>				
Loans receivable	\$ 316,538,938	\$ 281,070,717	\$ 1,013,742,039	\$ 1,068,902,926
Less allowance for loan losses	<u>(18,400,000)</u>	<u>(32,872,334)</u>	<u>(10,200,000)</u>	<u>(1,260,983)</u>
Loans receivable, net	298,138,938	248,198,383	1,003,542,039	1,067,641,943
Investments	102,557,914	105,309,336	111,021,147	110,965,050
Accrued interest-loans	688,758	814,430	3,868,610	3,998,019
Accrued interest-investments	28,151	39,314	468,595	602,533
Cash and cash equivalents	63,323,860	53,209,041	120,571,348	135,477,423
Accounts receivable	12,287,644	12,264,164	-	-
Deferred bond issuance costs, net	29,990	52,483	8,215,811	8,884,429
Other assets, net	14,897,411	17,745,774	18,957,555	17,366,629
Interfund receivable (payable)	<u>(19,869)</u>	<u>(421,690)</u>	<u>19,869</u>	<u>10,997</u>
<b>Total Assets</b>	<b><u>\$ 491,932,797</u></b>	<b><u>\$ 437,211,235</u></b>	<b><u>\$ 1,266,664,974</u></b>	<b><u>\$ 1,344,947,023</u></b>
<b>Liabilities and Fund Equity</b>				
Bonds and notes payable	\$ 98,885,984	\$ 84,610,123	\$ 1,103,136,501	\$ 1,174,864,267
Accrued interest payable on bonds and notes	193,593	138,035	11,098,847	12,495,219
Accounts payable and accrued liabilities	7,666,861	7,559,095	379,958	724,800
Deferred fees	6,554,936	6,167,833	301,986	345,877
Escrow deposits	308,728,247	272,072,493	-	-
<b>Total liabilities</b>	<b><u>422,029,621</u></b>	<b><u>370,547,579</u></b>	<b><u>1,114,917,292</u></b>	<b><u>1,188,430,163</u></b>
<b>Fund Equity</b>				
Invested in capital assets	8,624,214	9,144,237	-	-
Restricted	8,864,847	10,670,494	151,747,682	156,516,860
Unrestricted	52,414,115	46,848,925	-	-
<b>Total fund equity</b>	<b><u>69,903,176</u></b>	<b><u>66,663,656</u></b>	<b><u>151,747,682</u></b>	<b><u>156,516,860</u></b>
<b>Total Liabilities and Fund Equity</b>	<b><u>\$ 491,932,797</u></b>	<b><u>\$ 437,211,235</u></b>	<b><u>\$ 1,266,664,974</u></b>	<b><u>\$ 1,344,947,023</u></b>

(Continued)

**RHODE ISLAND HOUSING AND MORTGAGE FINANCE CORPORATION**  
**(A Component Unit of the State of Rhode Island)**  
**Combining Balance Sheets**  
**June 30, 2012 and 2011**

	<u>Multi-Family Fund</u>		<u>Total</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
<b>Assets</b>				
Loans receivable	\$ 392,746,247	\$ 375,191,254	\$ 1,723,027,224	\$ 1,725,164,897
Less allowance for loan losses	-	-	(28,600,000)	(34,133,317)
Loans receivable, net	<u>392,746,247</u>	<u>375,191,254</u>	<u>1,694,427,224</u>	<u>1,691,031,580</u>
Investments	57,186,663	53,652,659	270,765,724	269,927,045
Accrued interest-loans	1,904,107	1,848,936	6,461,475	6,661,385
Accrued interest-investments	665,442	284,882	1,162,188	926,729
Cash and cash equivalents	32,622,055	40,511,777	216,517,263	229,198,241
Accounts receivable	-	-	12,287,644	12,264,164
Deferred bond issuance costs, net	206,321	187,995	8,452,122	9,124,907
Other assets, net	-	-	33,854,966	35,112,403
Interfund receivable (payable)	-	410,693	-	-
<b>Total Assets</b>	<b><u>\$ 485,330,835</u></b>	<b><u>\$ 472,088,196</u></b>	<b><u>\$ 2,243,928,606</u></b>	<b><u>\$ 2,254,246,454</u></b>
<b>Liabilities and Fund Equity</b>				
Bonds and notes payable	\$ 400,765,801	\$ 397,207,235	\$ 1,602,788,286	\$ 1,656,681,625
Accrued interest payable on bonds and notes	3,462,362	3,400,772	14,754,802	16,034,026
Accounts payable and accrued liabilities	3,434,354	2,534,322	11,481,173	10,818,217
Deferred fees	66,750	67,226	6,923,672	6,580,936
Escrow deposits	2,335,523	1,715,596	311,063,770	273,788,089
<b>Total liabilities</b>	<b><u>410,064,790</u></b>	<b><u>404,925,151</u></b>	<b><u>1,947,011,703</u></b>	<b><u>1,963,902,893</u></b>
<b>Fund Equity</b>				
Invested in capital assets	-	-	8,624,214	9,144,237
Restricted	75,266,045	67,163,045	235,878,574	234,350,399
Unrestricted	-	-	52,414,115	46,848,925
<b>Total fund equity</b>	<b><u>75,266,045</u></b>	<b><u>67,163,045</u></b>	<b><u>296,916,903</u></b>	<b><u>290,343,561</u></b>
<b>Total Liabilities and Fund Equity</b>	<b><u>\$ 485,330,835</u></b>	<b><u>\$ 472,088,196</u></b>	<b><u>\$ 2,243,928,606</u></b>	<b><u>\$ 2,254,246,454</u></b>

**RHODE ISLAND HOUSING AND MORTGAGE FINANCE CORPORATION**  
(A Component Unit of the State of Rhode Island)  
**Combining Statements of Revenues, Expenses and Changes in Fund Equity**  
For the Years Ended June 30, 2012 and 2011

	Operating Fund		Single-Family Fund	
	2012	2011	2012	2011
<b>Operating revenues:</b>				
Interest income on loans	\$ 6,160,573	\$ 6,201,819	\$ 52,255,333	\$ 55,387,664
Interest income attributable to internal servicing activities	2,848,533	2,915,381	-	-
Total interest income on loans	9,009,106	9,117,200	52,255,333	55,387,664
Income on investments:				
Interest on investments	473,956	772,987	5,290,768	5,267,821
Net increase in fair value of investments	71,784	216,268	3,604,595	2,279,848
Fees	7,562,671	9,662,206	-	-
Servicing fee income	515,316	520,876	-	-
<b>Total operating revenues</b>	<b>17,632,833</b>	<b>20,289,537</b>	<b>61,150,696</b>	<b>62,935,333</b>
<b>Operating expenses:</b>				
Interest expense	1,606,163	1,273,828	48,036,417	51,181,410
Personnel services	13,390,335	14,699,270	-	-
Other administrative expenses	3,837,317	4,014,350	222,939	113,875
Housing initiatives	6,290,427	5,465,643	48,723	43,919
Provision for loan losses (recoveries)	(25,420)	212,778	2,455,892	3,064,633
RFO expenditures	2,473,849	1,627,101	737,028	-
Arbitrage rebate	-	-	(261,152)	51,198
Amortization of deferred bond issuance costs	22,493	22,493	580,560	616,839
Early retirement of debt	-	-	966,365	627,666
Depreciation and amortization of other assets	1,275,699	1,410,923	405,278	455,678
State Rental Subsidy Program	1,793,492	2,370,586	-	-
<b>Total operating expenses</b>	<b>30,664,355</b>	<b>31,096,972</b>	<b>53,192,050</b>	<b>56,155,218</b>
<b>Operating income (loss)</b>	<b>(13,031,522)</b>	<b>(10,807,435)</b>	<b>7,958,646</b>	<b>6,780,115</b>
Transfers in (out) of fund equity	16,271,042	18,665,355	(12,727,824)	(2,987,370)
<b>Total change in fund equity</b>	<b>3,239,520</b>	<b>7,857,920</b>	<b>(4,769,178)</b>	<b>3,792,745</b>
Fund equity, beginning of year	66,663,656	58,805,736	156,516,860	152,724,115
Fund equity, end of year	<b>\$ 69,903,176</b>	<b>\$ 66,663,656</b>	<b>\$ 151,747,682</b>	<b>\$156,516,860</b>

(Continued)



**RHODE ISLAND HOUSING AND MORTGAGE FINANCE CORPORATION**  
(A Component Unit of the State of Rhode Island)  
**Combining Statements of Revenues, Expenses and Changes in Fund Equity**  
For the Years Ended June 30, 2012 and 2011

	Multi-Family Fund		Total	
	2012	2011	2012	2011
<b>Operating revenues:</b>				
Interest income on loans	\$ 22,237,516	\$ 20,320,292	\$ 80,653,422	\$ 81,909,775
Interest income attributable to internal servicing activities	-	-	2,848,533	2,915,381
Total interest income on loans	<u>22,237,516</u>	<u>20,320,292</u>	<u>83,501,955</u>	<u>84,825,156</u>
Income on investments:				
Interest on investments	2,962,410	2,904,946	8,727,134	8,945,754
Net increase in fair value of investments	1,803,483	(149,727)	5,479,862	2,346,389
Fees	-	-	7,562,671	9,662,206
Servicing fee income	-	-	515,316	520,876
<b>Total operating revenues</b>	<b><u>27,003,409</u></b>	<b><u>23,075,511</u></b>	<b><u>105,786,938</u></b>	<b><u>106,300,381</u></b>
<b>Operating expenses:</b>				
Interest expense	13,507,343	12,930,604	63,149,923	65,385,842
Personnel services	-	-	13,390,335	14,699,270
Other administrative expenses	237,756	254,446	4,298,012	4,382,671
Housing initiatives	671,402	618,923	7,010,552	6,128,485
Provision for loan losses (recoveries)	-	-	2,430,472	3,277,411
REO expenditures	-	-	3,210,877	1,627,101
Arbitrage rebate	900,033	293,146	638,881	344,344
Amortization of deferred bond issuance costs	40,657	20,388	643,710	659,720
Early retirement of debt	-	228,114	966,365	855,780
Depreciation and amortization of other assets	-	-	1,680,977	1,866,601
State Rental Subsidy Program	-	-	1,793,492	2,370,586
<b>Total operating expenses</b>	<b><u>15,357,191</u></b>	<b><u>14,345,621</u></b>	<b><u>99,213,596</u></b>	<b><u>101,597,811</u></b>
<b>Operating income (loss)</b>	<b>11,646,218</b>	<b>8,729,890</b>	<b>6,573,342</b>	<b>4,702,570</b>
Transfers in (out) of fund equity	<u>(3,543,218)</u>	<u>(15,677,985)</u>	<u>-</u>	<u>-</u>
<b>Total change in fund equity</b>	<b>8,103,000</b>	<b>(6,948,095)</b>	<b>6,573,342</b>	<b>4,702,570</b>
Fund equity, beginning of year	<u>67,163,045</u>	<u>74,111,140</u>	<u>290,343,561</u>	<u>285,640,991</u>
Fund equity, end of year	<b><u>\$ 75,266,045</u></b>	<b><u>\$ 67,163,045</u></b>	<b><u>\$ 296,916,903</u></b>	<b><u>\$ 290,343,561</u></b>

**RHODE ISLAND HOUSING AND MORTGAGE FINANCE CORPORATION**  
**(A Component Unit of the State of Rhode Island)**  
**Combining Statements of Cash Flows**  
**For the Years Ended June 30, 2012 and 2011**

	Operating Fund		Single-Family Fund	
	2012	2011	2012	2011
<b>Cash Flows from Operating Activities</b>				
Interest on loans receivable	\$ 9,134,778	\$ 8,888,040	\$ 52,384,742	\$ 55,436,046
Repayment of loans receivable	32,262,975	72,407,878	107,539,442	102,855,928
Fees collected	8,465,089	10,509,175	(43,892)	(46,967)
Other receipts (disbursements), net	36,655,754	35,979,505	-	(302)
Loans disbursed	(67,731,196)	(105,123,312)	(52,378,555)	(30,075,746)
Accounts receivable, net	(23,480)	(3,903,699)	-	-
Loss on loans receivable	(16,920,763)	(2,073,489)	5,746,097	(5,639,081)
Bond issuance costs	-	-	(878,305)	(399,748)
Personnel services	(13,390,335)	(14,699,269)	-	-
Other administrative expenses	(3,837,317)	(4,014,350)	(222,939)	(113,875)
Housing initiative expenses	(6,290,428)	(5,465,643)	(48,723)	(43,919)
Other assets	1,572,664	(158,782)	(1,996,206)	(5,051,312)
Arbitrage rebate	-	-	261,151	(51,198)
Accounts payable and accrued liabilities	107,767	1,938,580	(344,841)	(349,019)
State Rental Subsidy Program	(1,793,492)	(2,370,586)	-	-
Transfers from (to) other programs	15,869,222	7,182,521	(12,736,696)	(3,047,828)
<b>Net cash provided by (used) for operating activities</b>	<b>(5,918,762)</b>	<b>(903,431)</b>	<b>97,281,275</b>	<b>113,472,979</b>
<b>Cash Flows from Noncapital Financing Activities:</b>				
Proceeds from sale of bonds and notes	275,350,000	294,600,000	98,530,229	50,001,201
Payment of bond and note principal	(261,074,139)	(291,037,700)	(170,257,995)	(112,338,887)
Interest paid on bonds and notes	(1,550,604)	(1,240,426)	(49,432,788)	(51,762,487)
<b>Net cash provided by (used) for noncapital financing activities</b>	<b>12,725,257</b>	<b>2,321,874</b>	<b>(121,160,554)</b>	<b>(114,100,173)</b>
<b>Cash Flows from Investing Activities:</b>				
Redemption of investments	3,177,728	9,656,809	25,032,637	23,089,711
Income on investments	485,118	782,143	5,424,706	5,275,489
Purchase of investments	(354,522)	(7,748,023)	(21,484,139)	(40,653,317)
<b>Net cash provided by (used) for investing activities</b>	<b>3,308,324</b>	<b>2,690,929</b>	<b>8,973,204</b>	<b>(12,288,117)</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>10,114,819</b>	<b>4,109,372</b>	<b>(14,906,075)</b>	<b>(12,915,311)</b>
Cash and Cash Equivalents, beginning of year	53,209,041	49,099,669	135,477,423	148,392,734
Cash and Cash Equivalents, end of year	<u>\$ 63,323,860</u>	<u>\$ 53,209,041</u>	<u>\$ 120,571,348</u>	<u>\$ 135,477,423</u>

(Continued)

**RHODE ISLAND HOUSING AND MORTGAGE FINANCE CORPORATION**  
**(A Component Unit of the State of Rhode Island)**  
**Combining Statements of Cash Flows**  
**For the Years Ended June 30, 2012 and 2011**

	<u>Multi-Family Fund</u>		<u>Total</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
<b>Cash Flows from Operating Activities</b>				
Interest on loans receivable	\$ 22,182,343	\$ 20,069,702	\$ 83,701,863	\$ 84,393,788
Repayment of loans receivable	8,585,521	3,084,565	148,387,938	178,348,371
Fees collected	(476)	476	8,420,721	10,462,684
Other receipts (disbursements), net	619,927	398,267	37,275,681	36,377,470
Loans disbursed	(26,140,514)	(55,331,864)	(146,250,265)	(190,530,922)
Accounts receivable, net	-	-	(23,480)	(3,903,699)
Loss on loans receivable	-	-	(11,174,666)	(7,712,570)
Bond issuance costs	(58,982)	-	(937,287)	(399,748)
Personnel services	-	-	(13,390,335)	(14,699,269)
Other administrative expenses	(237,756)	(254,447)	(4,298,012)	(4,382,672)
Housing initiative expenses	(671,403)	(618,924)	(7,010,554)	(6,128,486)
Other assets	-	-	(423,542)	(5,210,094)
Arbitrage rebate	(900,033)	(293,146)	(638,882)	(344,344)
Accounts payable and accrued liabilities	900,033	(47,270)	662,959	1,542,291
State Rental Subsidy Program	-	-	(1,793,492)	(2,370,586)
Transfers from (to) other programs	(3,132,526)	(4,134,693)	-	-
<b>Net cash provided by (used) for operating activities</b>	<b><u>1,146,134</u></b>	<b><u>(37,127,334)</u></b>	<b><u>92,508,647</u></b>	<b><u>75,442,214</u></b>
<b>Cash Flows from Noncapital Financing Activities:</b>				
Proceeds from sale of bonds and notes	26,151,440	83,576,089	400,031,669	428,177,290
Payment of bond and note principal	(22,592,874)	(85,487,954)	(453,925,008)	(488,864,541)
Interest paid on bonds and notes	(13,445,752)	(12,626,289)	(64,429,144)	(65,629,202)
<b>Net cash provided by (used) for noncapital financing activities</b>	<b><u>(9,887,186)</u></b>	<b><u>(14,538,154)</u></b>	<b><u>(118,322,483)</u></b>	<b><u>(126,316,453)</u></b>
<b>Cash Flows from Investing Activities:</b>				
Redemption of investments	412,205	2,130,892	28,622,570	34,877,412
Income on investments	2,581,851	2,881,611	8,491,675	8,939,243
Purchase of investments	(2,142,726)	(3,894,142)	(23,981,387)	(52,295,482)
<b>Net cash provided by (used) for investing activities</b>	<b><u>851,330</u></b>	<b><u>1,118,361</u></b>	<b><u>13,132,858</u></b>	<b><u>(8,478,827)</u></b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b><u>(7,889,722)</u></b>	<b><u>(50,547,127)</u></b>	<b><u>(12,680,978)</u></b>	<b><u>(59,353,066)</u></b>
Cash and Cash Equivalents, beginning of year	40,511,777	91,058,904	229,198,241	288,551,307
Cash and Cash Equivalents, end of year	<b><u>\$ 32,622,055</u></b>	<b><u>\$ 40,511,777</u></b>	<b><u>\$ 216,517,263</u></b>	<b><u>\$ 229,198,241</u></b>

(Continued)

**RHODE ISLAND HOUSING AND MORTGAGE FINANCE CORPORATION**  
(A Component Unit of the State of Rhode Island)  
**Combining Statements of Cash Flows**  
For the Years Ended June 30, 2012 and 2011

	<u>Operating Fund</u>		<u>Single-Family Fund</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
<b>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:</b>				
<b>Operating income (loss)</b>	<b>\$ (13,031,522)</b>	<b>\$ (10,807,435)</b>	<b>\$ 7,958,646</b>	<b>\$ 6,780,115</b>
Adjustments:				
Income on investments	(485,118)	(782,143)	(5,424,706)	(5,275,489)
Net (increase) decrease in fair value of investments	(71,784)	(216,268)	(3,604,595)	(2,279,848)
Interest paid on bonds and notes	1,550,604	1,240,426	49,432,788	51,762,487
Transfer of investments and/or fund equity	16,271,042	18,665,355	(12,727,824)	(2,987,370)
(Increase) decrease in assets:				
Loans receivable/loss allowance	(49,940,555)	(32,949,043)	64,099,904	70,205,732
Accrued interest-loans	125,672	(229,160)	129,409	48,383
Accrued interest-investments	11,163	9,156	133,938	7,669
Accounts receivable	(23,480)	(3,903,700)	-	-
Deferred bond issuance costs	22,493	22,493	668,618	844,758
Other assets	2,848,363	1,252,142	(1,590,926)	(4,595,635)
Interfund receivable (payable)	(401,821)	(11,482,834)	(8,872)	(60,458)
Increase (decrease) in liabilities:				
Accrued interest-bonds and notes	55,558	33,402	(1,396,372)	(581,076)
Accounts payable/accrued liabilities	107,766	1,938,580	(344,842)	(349,019)
Deferred fees	387,103	326,269	(43,891)	(46,968)
Escrow deposits	36,655,754	35,979,329	-	(302)
<b>Total adjustments</b>	<b><u>7,112,760</u></b>	<b><u>9,904,004</u></b>	<b><u>89,322,629</u></b>	<b><u>106,692,864</u></b>
<b>Net cash provided by (used) for operating activities</b>	<b><u>\$ (5,918,762)</u></b>	<b><u>\$ (903,431)</u></b>	<b><u>\$ 97,281,275</u></b>	<b><u>\$ 113,472,979</u></b>

(Continued)

**RHODE ISLAND HOUSING AND MORTGAGE FINANCE CORPORATION**  
(A Component Unit of the State of Rhode Island)  
**Combining Statements of Cash Flows**  
For the Years Ended June 30, 2012 and 2011

	<u>Multi-Family Fund</u>		<u>Total</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
<b>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:</b>				
<b>Operating income (loss)</b>	<b>\$ 11,646,218</b>	<b>\$ 8,729,890</b>	<b>\$ 6,573,342</b>	<b>\$ 4,702,570</b>
Adjustments:				
Income on investments	(2,581,851)	(2,881,611)	(8,491,675)	(8,939,243)
Net (increase) decrease in fair value of investments	(1,803,483)	149,727	(5,479,862)	(2,346,389)
Interest paid on bonds and notes	13,445,752	12,626,289	64,429,144	65,629,202
Transfer of investments and/or fund equity	(3,543,218)	(15,677,985)	-	-
(Increase) decrease in assets:				
Loans receivable/loss allowance	(17,554,993)	(52,247,299)	(3,395,644)	(14,990,610)
Accrued interest-loans	(55,171)	(250,590)	199,910	(431,367)
Accrued interest-investments	(380,560)	(23,337)	(235,459)	(6,512)
Accounts receivable	-	-	(23,480)	(3,903,700)
Deferred bond issuance costs	(18,326)	248,502	672,785	1,115,753
Other assets	-	-	1,257,437	(3,343,493)
Interfund receivable (payable)	410,693	11,543,292	-	-
Increase (decrease) in liabilities:				
Accrued interest-bonds and notes	61,590	304,315	(1,279,224)	(243,359)
Accounts payable/accrued liabilities	900,032	(47,270)	662,956	1,542,291
Deferred fees	(476)	476	342,736	279,777
Escrow deposits	619,927	398,267	37,275,681	36,377,294
<b>Total adjustments</b>	<b>(10,500,084)</b>	<b>(45,857,224)</b>	<b>85,935,305</b>	<b>70,739,644</b>
<b>Net cash provided by (used) for operating activities</b>	<b>\$ 1,146,134</b>	<b>\$ (37,127,334)</b>	<b>\$ 92,508,647</b>	<b>\$ 75,442,214</b>

**RHODE ISLAND HOUSING AND MORTGAGE FINANCE CORPORATION**  
**(A Component Unit of the State of Rhode Island)**  
**Statements of Fiduciary Net Assets - Private Purpose Trust Component Unit**  
**June 30, 2012 and 2011**

	<b>Affordability Housing Trust</b>	
	<b>2012</b>	<b>2011</b>
<b>Assets</b>		
Loans receivable	\$ 42,505,849	\$ 42,808,374
Less allowance for loan losses	(3,300,000)	(1,320,729)
Loans receivable, net	<u>39,205,849</u>	<u>41,487,645</u>
Investments	5,229,019	5,272,939
Accrued interest-loans	107,267	108,471
Accrued interest-investments	4,601	10,059
Cash and cash equivalents	21,200,671	17,259,576
Accounts receivable	177,795	244,078
Other assets, net	<u>3,104,836</u>	<u>3,541,468</u>
<b>Total Assets</b>	<b><u>\$ 69,030,038</u></b>	<b><u>\$ 67,924,236</u></b>
<b>Liabilities and Net Assets</b>		
Deferred fees	\$ 2,125,538	\$ 2,072,879
<b>Total liabilities</b>	<b><u>2,125,538</u></b>	<b><u>2,072,879</u></b>
<b>Net Assets</b>		
Held in trust	<u>66,904,500</u>	<u>65,851,357</u>
<b>Total Liabilities and Net Assets</b>	<b><u>\$ 69,030,038</u></b>	<b><u>\$ 67,924,236</u></b>

**RHODE ISLAND HOUSING AND MORTGAGE FINANCE CORPORATION**  
**(A Component Unit of the State of Rhode Island)**  
**Statements of Changes in Fiduciary Net Assets - Private Purpose Trust Component Unit**  
**For the Years Ended June 30, 2012 and 2011**

	<b>Affordability Housing Trust</b>	
	<b>2012</b>	<b>2011</b>
<b>Revenues:</b>		
Interest income on loans	\$ 1,693,540	\$ 1,675,122
Income on investments:		
Interest on investments	50,898	29,505
Net increase (decrease) in fair value of investments	(35,306)	15,055
Trust receipts	1,322,601	1,432,763
Fees	-	99,772
<b>Total revenues</b>	<b>3,031,733</b>	<b>3,252,217</b>
<b>Expenses:</b>		
Amortization of other assets	52,659	-
Provision for loan losses	1,925,931	-
<b>Total expenses</b>	<b>1,978,590</b>	<b>-</b>
<b>Total change in net assets</b>	<b>1,053,143</b>	<b>3,252,217</b>
Net assets, beginning of year	65,851,357	62,599,140
Net assets, end of year	<u>\$ 66,904,500</u>	<u>\$ 65,851,357</u>

**Rhode Island Housing and Mortgage Finance Corporation**  
**(A Component Unit of the State of Rhode Island)**  
**Notes to Financial Statements**  
**June 30, 2012 and 2011**

**1. Organization and Summary of Significant Accounting Policies**

**a. Organization and Description of Financial Reporting Entity**

Rhode Island Housing and Mortgage Finance Corporation (the "Corporation") is a public instrumentality established in 1973 by an Act of the Rhode Island General Assembly. The Corporation was created to originate loans and administer other activities in order to expand the supply of housing available to persons of low and moderate income and to stimulate the construction and rehabilitation of housing and health care facilities in the State of Rhode Island (the "State"). It has the power to issue negotiable notes and bonds to achieve its corporate purpose. The notes and bonds do not constitute a debt of the State, and the State is not liable for the repayment of such obligations.

The Corporation is considered a component unit of the State and is included in the State's comprehensive annual financial report.

The Corporation is exempt from federal and state income taxes.

In evaluating the inclusion of other separate and distinct legal entities as component units within its financial reporting structure, the Corporation applies the criteria prescribed by Governmental Accounting Standards Board (GASB) Statement No. 14, as amended by GASB Statement No. 39. Through the application of GASB Statement Nos. 14 and 39, the accompanying financial statements present the Corporation and the Affordability Housing Trust (the "Trust"), a component unit over which the Corporation has control and for which the Corporation has financial accountability. Control over and financial accountability for the Trust is determined on the basis of appointment of a voting majority of the Trust's trustees. The Corporation and the Trust are collectively referred to herein as Rhode Island Housing.

**b. Affordability Housing Trust**

The Affordability Housing Trust is a separate legal entity created pursuant to a trust agreement initiated by the Corporation. The Trust is a private-purpose trust established to assist in activities that involve the creation and preservation of affordable housing in the State. All resources of the Trust, including income on investments and other revenues, are held in trust for the benefit of private and not-for-profit organizations. There is no requirement that any portion of the Trust's resources be preserved as capital. The Trust administers its affairs through its trustees, records its assets in segregated accounts and maintains financial records separate from the Corporation.

**c. Financial Statement Presentation, Measurement Focus and Basis of Accounting**

The Corporation engages only in business-type activities. Business-type activities are activities that are financed in whole or in part by fees charged to external parties. The accompanying balance sheets, statements of revenues, expenses and changes in fund equity, and statements of cash flows (enterprise fund financial statements) present the financial information of the Corporation.



**Rhode Island Housing and Mortgage Finance Corporation**  
**(A Component Unit of the State of Rhode Island)**  
**Notes to Financial Statements**  
**June 30, 2012 and 2011**

The Corporation classifies its business-type activities into funds, reported as separate columns within the enterprise fund financial statements, each representing a fiscal and accounting entity with a self-balancing set of accounts segregated to carry on specific activities in accordance with bond resolutions established under various trust indentures, special regulations, restrictions, or limitations. All interfund activity has been eliminated from the combining totals in the accompanying financial statements.

The Operating Fund accounts for the receipt of income not directly pledged to the repayment of specific bonds and notes, expenses related to the Corporation's administrative functions, and for various housing program activities that are not covered by bond resolutions. The Operating Fund also accounts for the activities of the Corporation's two separate subsidiaries: Rhode Island Housing Equity Corporation and Rhode Island Housing Development Corporation. The Single-Family Fund accounts for activities to finance ownership of single-family housing, ranging from one to four dwelling units, within the State by eligible persons and families. These activities include originating and purchasing from participating originating lenders qualified mortgages, as defined in bond resolutions. The Multi-Family Fund accounts for activities to finance the origination of multi-family loans secured by a lien constituting a first mortgage or to provide for the payment of debt issued for such purpose.

The Trust engages only in fiduciary activities. Separate financial statements are presented for the Trust since fiduciary activities are excluded from presentation in enterprise fund financial statements.

The Corporation and the Trust use the economic resources measurement focus and accrual basis of accounting. Private-sector standards of accounting and financial reporting issued on or before November 30, 1989 generally are followed in the accompanying financial statements to the extent that those standards do not conflict with or contradict guidance of the GASB. The Corporation has the option of following private-sector guidance, issued subsequent to November 30, 1989, subject to this same limitation; however, the Corporation has elected not to follow subsequent private-sector guidance.

The Corporation has presented an unclassified balance sheet in accordance with financial institution industry trade practice. Although contractual terms define the principal amount of loans receivable to be received, and the amount of principal required to be paid on bonds and notes payable, by the Corporation within one year from the balance sheet date, the actual principal amount of loans received and the actual amount of principal repaid on bonds and notes is affected significantly by changes in interest rates, economic conditions, and other factors. Consequently, the principal amount of loans receivable and the required principal repayable for bonds and notes based on contractual terms would not be representative of actual amounts expected to be received or paid, and such amounts are not reliably estimable.

**Rhode Island Housing and Mortgage Finance Corporation**  
**(A Component Unit of the State of Rhode Island)**  
**Notes to Financial Statements**  
**June 30, 2012 and 2011**

The Corporation distinguishes between operating and non-operating revenues and expenses. Operating revenues and expenses generally result from providing services in connection with the Corporation's principal ongoing operations. Operating expenses include the cost of services provided, administrative expenses, and depreciation and amortization expense. All other revenues and expenses are reported as non-operating revenues and expenses.

**d. Loans Receivable and Allowance for Loan Losses**

Loans receivable are reported at their outstanding principal balance adjusted for any charge-offs and the allowance for loan losses.

Interest income from loans is recognized on the accrual basis. A loan is considered delinquent when a payment has not been made according to contractual terms. Accrual of income is suspended when a loan is delinquent for ninety days or more; all interest accrued for nonaccrual status loans is reversed against interest income and subsequently recognized as income when received. Loans are returned to accrual status when all amounts contractually due are brought current or the loans have been restructured and future payments are reasonably assured. Interest on loans which is deferred and payable by borrowers only from available cash flow or other specified sources is recorded as income when received.

Losses on loans are provided for under the allowance method of accounting. The allowance is increased by provisions charged to operating expenses and by recoveries of previously charged-off loans. The allowance is decreased as loans are charged off.

The allowance is an amount that management believes will be adequate for loan losses based on evaluation of collectability and prior loss experience, known and inherent risk in the portfolio, changes in the nature and volume of the loan portfolio, overall portfolio quality, specific problem loans, the estimated value of the underlying collateral, current and anticipated economic conditions that may affect the borrower's ability to pay, and historical loss experience and the types of mortgage insurance or guarantee programs provided by outside parties. Substantially all loans are secured by real estate in Rhode Island; accordingly, the ultimate collectability of substantially all of the loans is susceptible to changes in market conditions in this area. Management believes the allowance for loan losses is adequate. While management uses available information to recognize losses on loans, evaluation assessments made by management are inherently subjective and future adjustments to the allowance may be necessary if future economic conditions differ substantially from the assumptions used in making the evaluation.

**e. Cash and Cash Equivalents**

Cash and cash equivalents represent funds on deposit with various financial institutions and funds held by the trustees of the various bond programs. Deposits held in financial institutions and all highly liquid investments, such as U.S. Treasury Bills and Notes, with original maturities of 90 days or less, are considered cash and cash equivalents.

**Rhode Island Housing and Mortgage Finance Corporation**  
**(A Component Unit of the State of Rhode Island)**  
**Notes to Financial Statements**  
**June 30, 2012 and 2011**

**f. Investments**

Investments held by Rhode Island Housing consist of those permitted by the various bond resolutions and Rhode Island Housing's investment policy. Investments include securities of the U.S. Government and of U.S. Government agencies, securities guaranteed by the U.S. Government and U.S. Government agencies, savings accounts, and guaranteed investment contracts.

In accordance with GASB Statement No. 31, money market investments having a remaining maturity of one year or less at time of purchase are reported at amortized cost provided that the fair value of such investments is not significantly affected by the impairment of the credit standing of the issuer or by other factors. Investments in non-participating interest earning investment contracts, such as non-negotiable and non-transferable guaranteed investment contracts which are redeemable at contract or stated value rather than fair value based on current market rates and certificates of deposit with redemption terms that do not consider market rates, are reported at cost or amortized cost provided that the fair value of such contracts is not significantly affected by the impairment of the credit standing of the issuer or other factors. Investments not reported at cost or amortized cost are reported at fair value in accordance with GASB Statement No. 31. The fair value of securities is provided by an investment trustee as reported by recognized pricing firms. The reported amounts of investments not otherwise reported at fair value approximate their fair value.

All investment income, including changes in the fair value of investments, is reported as revenue in the Corporation's statement of revenues, expenses and changes in fund equity and in the Trust's statement of changes in fiduciary net assets. The Corporation records a liability for the portion of investment income that is rebateable to the United States government under Section 103A of the Internal Revenue Code, as amended, (the Code) for taxable bonds sold after 1981. The Code requires that such excess investment income be remitted to the Internal Revenue Service. Such rebateable investment income is included in accounts payable and accrued liabilities in the accompanying balance sheets and recorded within operating expenses in the statement of revenues, expenses and changes in fund equity.

**g. Bond Issuance Costs, Premiums, Discounts and Early Retirements**

Costs relating to issuing bonds are capitalized and amortized using a method that approximates the interest method over the life of the related bonds or to the date the Corporation has the option to redeem the bonds. In addition, when refinancing debt, the unamortized costs associated with the refinanced bond continue to be amortized over the shorter of the life of the old or new bonds.

Premiums and discounts are capitalized and amortized using a method that approximates the interest method over the life of the related issue or to the date the Corporation has the option to redeem the bonds.

The Corporation periodically retires bonds prior to their redemption date. Unamortized deferred bond issuance costs, along with any premium paid on the call, related to the early retirement of bonds that are not refunded, are reported in the statement of revenues, expenses and changes in fund equity.

**Rhode Island Housing and Mortgage Finance Corporation**  
**(A Component Unit of the State of Rhode Island)**  
**Notes to Financial Statements**  
**June 30, 2012 and 2011**

**h. Other Assets**

Other assets of the Corporation are principally comprised of property and equipment, certain other real estate owned, loan origination and other fees paid to mortgagors, and deferred servicing costs related to service release premiums paid to participating originating lenders for origination of single-family loans. The Corporation amortizes loan origination and other fees over the estimated average life of the related loans on a straight-line basis and depreciates property and equipment on a straight-line basis over the assets' estimated lives, which range from 3-40 years.

The Corporation states its other real estate owned acquired through or in lieu of foreclosure at the lower of cost or fair value at the date of foreclosure. Fair value of such assets is determined based on independent appraisals and other relevant factors. Other real estate owned in the Single-Family Fund are at least partially insured or guaranteed by outside parties and it is anticipated that the Corporation will recover substantially all of the balance of these assets through such insurance and from proceeds from the sale of the underlying properties. The Corporation holds such properties for subsequent sale in a manner that will allow maximization of value. Carrying costs relating to other real estate owned are recorded in the operating fund.

**i. Fund Equity**

Fund equity is classified in the following three components: invested in capital assets, restricted, and unrestricted. Invested in capital assets consists of all capital assets, net of accumulated depreciation. Restricted fund equity consists of fund equity for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws and regulations of other governments, or imposed by law through constitutional provisions or enabling legislation. Unrestricted fund equity consists of fund equity not included in invested in capital assets or restricted fund equity.

The Corporation classifies all fund equity amounts associated with its bond resolutions as restricted fund equity. Under bond indentures, all assets assigned to these programs are pledged for the benefit of the bondholders of each program; consequently, the Corporation classifies all such fund equity amounts, while retained in the bond programs, as restricted. Transfers from the bond programs to the Operating Fund are made when transfers are approved and authorized by the Corporation's management and such amounts are not specifically required to be retained within the bond program. Transfers during the year ended June 30, 2012 include cash transfers for reimbursement of activities in support of the bond programs and a transfer of the allowance for loan losses to better reflect the estimated losses for the bond programs.

At June 30, 2012 and 2011, restricted fund equity in the Operating Fund, comprised of the amount of assets required to be pledged as collateral to a lender in excess of outstanding amounts borrowed, as well as assets restricted for federal programs, totaled \$8,864,847 and \$10,670,494, respectively.

**Rhode Island Housing and Mortgage Finance Corporation**  
**(A Component Unit of the State of Rhode Island)**  
**Notes to Financial Statements**  
**June 30, 2012 and 2011**

**j. Interest Income on Loans**

The Corporation presents two categories of interest income on loans. The first category, "interest income on loans," represents interest income earned net of the component of the mortgagors' payments payable to all mortgage servicing entities (including the Corporation's Operating Fund) as compensation for monthly servicing. The second category, "interest income attributable to internal servicing activities," represents that portion of interest income attributable to compensation for mortgage servicing for those loans serviced by the Corporation. Together, these two components comprise interest income on loans owned by the Corporation.

**k. Use of Estimates**

Management has made a number of estimates and assumptions relating to the reporting of assets and liabilities and revenues and expenses and disclosure of contingent assets and liabilities when preparing the financial statements in conformity with accounting principles generally accepted in the United States. Actual results could differ from those estimates.

**2. Restricted Assets**

The Corporation maintains various trust and escrow accounts required by applicable bond covenants for the benefit of bondholders and others, and all such accounts are considered restricted in this context. Also, restricted assets principally include Mortgage Lenders Reserve Accounts because their use is restricted by agreements between the Corporation and mortgage lenders, escrow funds received from borrowers and advance funds received from the U.S. Department of Housing and Urban Development (HUD) for the use in HUD programs.

At June 30, 2012 and 2011, all assets in the Corporation's Single-Family and Multi-Family Funds; and \$164,414,619 and \$157,186,312, respectively, of investments and cash and cash equivalents and \$180,278,431 and \$136,359,475, respectively, of loans receivable and other assets in the Corporation's Operating Fund are restricted.

**3. Loans Receivable**

The Corporation provides single-family mortgage loans to qualified borrowers in the State of Rhode Island. The mortgage loans are generally required to be insured through the Federal Housing Administration (FHA), guaranteed by the Department of Veterans Administration (VA) or USDA Rural Development, or conventionally financed with traditional primary mortgage insurance. Under the single-family program guidelines, conventionally financed single-family mortgage loans with an initial loan-to-value ratio of greater than 80% are insured by private mortgage insurance carriers. As these loans amortize and the loan-to-value ratio falls below 80%, the private mortgage insurance coverage may be terminated.

**Rhode Island Housing and Mortgage Finance Corporation**  
**(A Component Unit of the State of Rhode Island)**  
**Notes to Financial Statements**  
**June 30, 2012 and 2011**

The single-family mortgage loan balances in the Single Family Fund are insured, subject to maximum insurable limits described below:

	2012	2011
Private Mortgage Insurance	\$ 559,745,903	\$ 601,450,237
FHA Insurance	179,295,092	164,338,911
VA Guaranteed	15,869,905	17,380,059
USDA/RD Guaranteed	12,617,111	6,250,155
Uninsured	246,214,028	279,483,564
Total	\$ 1,013,742,039	\$ 1,068,902,926

The FHA program insures the repayment of the unpaid principal amount of the mortgage upon foreclosure and conveyance of title to the Secretary of HUD. The insurance proceeds are usually paid in cash, but at the discretion of the Secretary may be settled through issuance of twenty-year debentures. The VA mortgage loan guarantee covers from 25% up to 50% of the original principal amount of a loan up to a maximum of \$60,000, depending on the loan amount. Private mortgage insurers must be qualified to insure mortgages purchased by the Federal Home Loan Mortgage Corporation or Fannie Mae and must be authorized to do business in the State. Private mortgage insurance typically covers between 6% and 35% of claims depending upon the premium plan and coverage selected when the loan is originated. The risk exists that if these private mortgage insurance companies are not able to honor claims, these loans would be considered uninsured. To date, all claims have been paid in accordance with contractual terms.

The Corporation has entered into a risk-sharing agreement with HUD whereby HUD will provide partial mortgage insurance on affordable multifamily housing developments financed by the Corporation. The risk of loss to the Corporation varies from 50% to 90% depending on the level of participation by HUD. In the Multi-Family Fund and Operating Fund, loan balances at June 30, 2012, of \$270,650,753 and \$10,927,740, respectively, and at June 30, 2011, of \$221,559,578 and \$11,121,692, respectively, are insured under such agreements subject to maximum participation limits. At June 30, 2012 loan balances of \$7,213,550 in the Affordability Housing Trust are also insured under such agreements.

In May of 2012, Rhode Island Housing entered into an agreement with the Federal National Mortgage Association (FNMA) whereby single-family mortgage loans originated under Rhode Island Housing's program guidelines may be sold directly to FNMA or pooled into a mortgage-backed security that will be guaranteed by FNMA. As of June 30, 2012 no transactions have occurred under this contract.

In both the Single-Family Fund and the Multi-Family Fund, 98% of the loan portfolio is in first lien position for the fiscal years ended June 30, 2012 and 2011. For the years ended June 30, 2012 and 2011, 34% and 35%, respectively, of the Operating Fund's loan portfolio is in first lien position, while 39% of the Affordability Housing Trust Fund's loan portfolio is in first lien position.

**Rhode Island Housing and Mortgage Finance Corporation**  
**(A Component Unit of the State of Rhode Island)**  
**Notes to Financial Statements**  
**June 30, 2012 and 2011**

The payment of interest by borrowers on certain loans recorded in the Corporation's Operating Fund, Single-Family Fund and Multi-Family Fund is deferred and is payable by borrowers only from available cash flow, as defined in the loan agreements, or other specified sources. Interest income on such loans is recorded only when received from the borrower. For the years ended June 30, 2012 and 2011, interest received under such deferred loan arrangements was \$808,888 and \$555,415 in the Operating Fund and \$87,674 and \$83,631 in the Single-Family Fund, respectively. In addition, the Corporation administers certain federal and state loan programs, which are either deferred forgivable loans or non-interest bearing. Loans under these programs totaled \$161,216,778 and \$130,249,905 at June 30, 2012 and 2011, respectively.

At June 30, 2012 and 2011, principal outstanding under such deferred and non-interest bearing loan arrangements is as follows:

	<u>2012</u>	<u>2011</u>
Operating Fund:		
Single-family loans	\$ 50,714,832	\$ 35,510,731
Multi-family loans	173,339,080	153,373,893
Subtotal	<u>224,053,912</u>	<u>188,884,624</u>
Single-Family Fund:		
Single-family loans	<u>9,841,497</u>	<u>9,512,849</u>
Total	<u>\$ 233,895,409</u>	<u>\$ 198,397,473</u>

Certain loans recorded in the Corporation's Operating Fund and Single-Family Fund are on non-accrual status due to delinquency over 90 days. At June 30, 2012 and 2011, principal outstanding under such non-accrual status loans is as follows:

	<u>2012</u>	<u>2011</u>
Operating Fund:		
Single-family loans	\$ 5,354,154	\$ 4,690,687
Multi-family loans	1,117,700	1,076,694
Subtotal	<u>6,471,854</u>	<u>5,767,381</u>
Single-Family Fund:		
Single-family loans	<u>74,834,200</u>	<u>80,963,208</u>
Total	<u>\$ 81,306,054</u>	<u>\$ 86,730,589</u>

**Rhode Island Housing and Mortgage Finance Corporation**  
**(A Component Unit of the State of Rhode Island)**  
**Notes to Financial Statements**  
**June 30, 2012 and 2011**

A summary of the changes in the allowance for loan losses is as follows:

	2012	2011
Balance at beginning of year	\$ 34,133,317	\$ 36,941,375
Loans charged off, net of recoveries	(7,640,724)	(2,824,460)
Write down of REO properties	(323,065)	(3,061,073)
Provisions for loan losses	2,430,472	3,077,475
Balance at end of year	\$ 28,600,000	\$ 34,133,317

In addition to the allowance for loan losses, the Corporation maintains an escrow account funded by certain mortgage lenders (the "Mortgage Lender's Reserve Account"). This Mortgage Lenders Reserve Account equals a percentage of the outstanding principal balance of certain mortgage loans purchased from an applicable mortgage lender and is available to the Corporation in the event the proceeds realized upon the default and foreclosure of any covered mortgage loan is less than the amount due to the Corporation. At June 30, 2012 and 2011, the Mortgage Lenders Reserve Account totaled \$1,001,537 and \$1,134,839, respectively.

**4. Cash and Cash Equivalents and Investments**

**Cash and Cash Equivalents** Rhode Island Housing assumes levels of custodial credit risk for its cash and cash equivalents. Custodial credit risk is the risk that in the event of a financial institution failure, Rhode Island Housing's deposits may not be returned to it. Cash and cash equivalents are exposed to custodial credit risk as follows: A) uninsured and uncollateralized; B) uninsured and collateralized with securities held by the financial institution trust departments in the Corporation's or Trust's name; and C) uninsured and collateralized with securities held by financial institution trust departments or agents which are not held in the Corporation's or Trust's name.

The State requires that certain uninsured deposits of the State and State Agencies be collateralized. Section 35-10.1-7 of the General Laws of the State, dealing with the collateralization of public deposits, requires all time deposits with maturities of greater than 60 days and all deposits in institutions that do not meet its minimum capital standards as required by its Federal regulator be collateralized. Rhode Island Housing does not have any additional policy in regard to custodial credit risk for its deposits.

Principally all cash and cash equivalents are categorized as Category A in the Single-Family Fund and the Multi-Family Fund and as Category C in the Operating Fund.

Cash and cash equivalents include short-term investments of \$32,033,326 and \$67,162,042 as of June 30, 2012 and 2011, respectively. Such amounts consist of open ended mutual funds invested in short-term securities that are issued or guaranteed by the U.S. Government or U.S. Government Agencies. The Corporation's short-term investments are not subject to custodial credit risk disclosures.



**Rhode Island Housing and Mortgage Finance Corporation**  
**(A Component Unit of the State of Rhode Island)**  
**Notes to Financial Statements**  
**June 30, 2012 and 2011**

Cash and cash equivalents of Rhode Island Housing, exclusive of short-term investments, were exposed to custodial credit risk at June 30, 2012 and 2011 as follows:

	June 30, 2012			Total Bank Balance
	Category			
	A	C	Insured	
Operating Fund	\$ 492,712	\$ 44,946,616	\$ 2,120,143	\$ 47,559,471
Single-Family Fund	86,073,218	-	-	86,073,218
Multi-Family Fund	32,573,218	-	-	32,573,218
Trust	6,682,658	14,056,707	250,000	20,989,365
Subtotal	125,821,806	59,003,323	2,370,143	187,195,272
Escrows	54,967,620	703,439	-	55,671,059
Total	<u>\$ 180,789,426</u>	<u>\$ 59,706,762</u>	<u>\$ 2,370,143</u>	<u>\$ 242,866,331</u>
	June 30, 2011			
	Category			
	A	C	Insured	Total Bank Balance
Operating Fund	\$ 577,556	\$ 41,713,811	\$ 1,159,645	\$ 43,451,012
Single-Family Fund	79,942,772	-	-	79,942,772
Multi-Family Fund	26,398,740	-	-	26,398,740
Trust	6,660,158	10,281,111	250,000	17,191,269
Subtotal	113,579,226	51,994,922	1,409,645	166,983,793
Escrows	16,075,661	31,749	-	16,107,410
Total	<u>\$ 129,654,887</u>	<u>\$ 52,026,671</u>	<u>\$ 1,409,655</u>	<u>\$ 183,091,203</u>

**Investments** The primary objective of Rhode Island Housing in implementing its investment program is preservation of capital. All investments are to be made in a manner to minimize any risk which would jeopardize the safety of the principal invested. The second objective is to maintain sufficient liquidity in a manner that matches cash flow requirements. The third objective is to maximize yield after first satisfying the first two objectives. Other major considerations include diversification of risk and maintenance of credit ratings.

**Rhode Island Housing and Mortgage Finance Corporation**  
**(A Component Unit of the State of Rhode Island)**  
**Notes to Financial Statements**  
**June 30, 2012 and 2011**

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment in a debt instrument. As a means of limiting its exposure to fair value losses arising from rising interest rates, the Board of Commissioners' (the Board) approved investment policy for the Corporation's Operating Fund limits the maximum maturities or repricing maturities as follows:

<u>Maturity</u>	<u>Maximum investment</u>
Less than one year	100%
One to five years	25%
Greater than five years	0%

The Operating Fund holds one investment with a maturity of greater than 5 years. This investment is a marketable security that is used for collateral in support of a long-term letter of credit.

While each of the bond resolutions contains investment policies which describe acceptable investments, there are no specific policies for percentage maximum investments with respect to the Single-Family Fund, Multi-Family Fund, and the Trust (collectively referred to as the Other Funds). Nonetheless, Rhode Island Housing attempts to match asset and liability maturities as closely as practicable. The Corporation manages interest rate risk by considering many variables such as mortgage prepayment frequency and expected asset lives and then utilizing interest sensitivity gap (segmented time distribution) and simulation analysis. Although Rhode Island Housing generally will limit maturities to less than five years in all funds, sometimes it is necessary to invest in longer term securities in revenue and debt service accounts to better match the long-term fixed-rate bond liabilities.

**Rhode Island Housing and Mortgage Finance Corporation**  
**(A Component Unit of the State of Rhode Island)**  
**Notes to Financial Statements**  
**June 30, 2012 and 2011**

At June 30, 2012 and 2011, the distribution of investments by remaining or re-pricing maturity is as follows:

	June 30, 2012			
	1 year or less	>1 to 5 Years	>5 Years	Total
<b>Operating Fund:</b>				
U.S. Government Obligations	\$ 14,570,778	\$ -	\$ 2,666,298	\$ 17,237,076
<b>Single-Family Fund:</b>				
U.S. Government Obligations	-	-	100,983,065	100,983,065
U.S. Agency Obligations	-	2,361,986	-	2,361,986
Guaranteed Investment Contracts	4,792,601	-	2,883,495	7,676,096
Total Single-Family Fund	<u>4,792,601</u>	<u>2,361,986</u>	<u>103,866,560</u>	<u>111,021,147</u>
<b>Multi-Family Fund:</b>				
U.S. Government Obligations	-	39,277	40,000	79,277
U.S. Agency Obligations	-	1,674,682	22,389,963	24,064,645
Guaranteed Investment Contracts	-	1,697,083	31,345,658	33,042,741
Total Multi-Family Fund	<u>-</u>	<u>3,411,042</u>	<u>53,775,621</u>	<u>57,186,663</u>
Escrows*	<u>-</u>	<u>85,320,838</u>	<u>-</u>	<u>85,320,838</u>
Subtotal	<u>19,363,379</u>	<u>91,093,866</u>	<u>160,308,479</u>	<u>270,765,724</u>
<b>Trust:</b>				
U.S. Agency Obligations	<u>239,079</u>	<u>4,989,940</u>	<u>-</u>	<u>5,229,019</u>
Total	<u>\$ 19,602,458</u>	<u>\$ 96,083,806</u>	<u>\$ 160,308,479</u>	<u>\$ 275,994,743</u>

**Rhode Island Housing and Mortgage Finance Corporation**  
**(A Component Unit of the State of Rhode Island)**  
**Notes to Financial Statements**  
**June 30, 2012 and 2011**

June 30, 2011

	1 year or less	>1 to 5 Years	>5 Years	Total
<b>Operating Fund:</b>				
U.S. Government Obligations	\$ 16,189,341	\$ -	\$ 2,599,149	\$ 18,788,490
<b>Single-Family Fund:</b>				
U.S. Government Obligations	-	-	89,808,590	89,808,590
U.S. Agency Obligations	-	-	2,304,278	2,304,278
Guaranteed Investment Contracts	-	-	18,852,182	18,852,182
Total Single-Family Fund	<u>-</u>	<u>-</u>	<u>110,965,050</u>	<u>110,965,050</u>
<b>Multi-Family Fund:</b>				
U.S. Government Obligations	-	39,277	40,000	79,277
U.S. Agency Obligations	-	-	22,269,388	22,269,388
Guaranteed Investment Contracts	-	1,736,533	29,567,461	31,303,994
Total Multi-Family Fund	<u>-</u>	<u>1,775,810</u>	<u>51,876,849</u>	<u>53,652,659</u>
Escrows*	<u>86,520,846</u>	<u>-</u>	<u>-</u>	<u>86,520,846</u>
Subtotal	<u>102,710,187</u>	<u>1,775,810</u>	<u>165,441,048</u>	<u>269,927,045</u>
<b>Trust:</b>				
U.S. Agency Obligations	<u>249,904</u>	<u>5,023,035</u>	<u>-</u>	<u>5,272,939</u>
Total	<u>\$ 102,960,091</u>	<u>\$ 6,798,845</u>	<u>\$ 165,441,048</u>	<u>\$ 275,199,984</u>

\* Included in the tables above are escrow funds relating to homeowners and to multi-family developments. Rhode Island Housing is not exposed to interest rate risk relating to escrows since the income and market gains or losses on these investments flow directly into the respective escrow deposit liability accounts.

Included in United States Government Obligations are mortgage-backed securities backed by government-insured single-family mortgage loans originated under Rhode Island Housing's program guidelines. These securities are pass-through securities which require monthly payments by an FHA-approved or Fannie Mae-approved lender and are guaranteed by the Government National Mortgage Association (GNMA). The securities are subject to interest rate risk due to prepayments before maturity and the fair value of the securities which will vary with the change in market interest rates. The Corporation does not expect to realize a loss on the sale of the securities as they are intended to be held to maturity. The securities are held by the Single Family and Operating Funds and are carried at fair value totaling \$103,649,363 and \$92,407,738 at June 30, 2012 and 2011, respectively.

**Rhode Island Housing and Mortgage Finance Corporation**  
**(A Component Unit of the State of Rhode Island)**  
**Notes to Financial Statements**  
**June 30, 2012 and 2011**

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The current Board-approved policy requires all investments in the Operating Fund to be rated at least Single A by a nationally recognized rating agency. Each of the bonded resolutions in the Single-Family Fund and Multi-Family Fund contain policies that generally require investments that do not impair the existing ratings on the related bonds. The Trust has no minimum rating requirements.

At June 30, 2012 and 2011, investments, excluding investments relating to escrow accounts for which the credit risk is that of the party for whom the escrow is held rather than that of Rhode Island Housing, are rated by Standard & Poor's or Moody's Investors Service as follows:

Rating Investment	June 30, 2012	
	AA+/Aaa U.S. Agencies	Unrated GICS
Operating Fund	\$ -	\$ -
Single-Family Fund	2,361,986	7,676,095
Multi-Family Fund	24,064,645	33,042,741
Trust	5,229,019	-

Rating Investment	June 30, 2011	
	AAA/Aaa U.S. Agencies	Unrated GICS
Operating Fund	\$ -	\$ -
Single-Family Fund	2,304,279	18,852,182
Multi-Family Fund	22,269,388	31,303,994
Trust	5,272,939	-

Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer regardless of its credit history. The Board-approved policy for the Operating Fund limits the amount that may be invested with any one issuer as follows:

United States Government Obligations	100% of portfolio
United States Agency Obligations	100% of portfolio
Repurchase Agreements	50% of portfolio
Collective Short-Term Funds	25% of portfolio
All other investments	10% of portfolio

Although there are no specific concentration policies for maximum percentage of investments, Rhode Island Housing attempts to diversify as much as possible given the limited number of issuers of AAA-rated investments.

At June 30, 2012 and 2011, all Operating Fund investments were invested in U.S. Government and Agency securities, with no concentration of more than 5% of total Operating Fund investments in any particular agency for which the investments were not secured by the U.S. Government.

**Rhode Island Housing and Mortgage Finance Corporation**  
**(A Component Unit of the State of Rhode Island)**  
**Notes to Financial Statements**  
**June 30, 2012 and 2011**

At June 30, 2012 and 2011, investment concentrations of 5% or more of each respective fund's total investments, excluding investments relating to escrow accounts for which the concentration of credit risk is that of the party for whom the escrow is held rather than that of Rhode Island Housing, are as follows:

Issuer	June 30, 2012	
	Multi-Family Fund	Trust
Federal Farm Credit Bank	\$ 11,885,319	\$ -
Federal Home Loan Bank	9,948,727	-
HSBC Bank	33,042,741	-
Federal National Mtg. Assoc.		5,064,777

  

Issuer	June 30, 2011	
	Multi-Family Fund	Trust
Federal Farm Credit Bank	\$ 10,996,191	\$ 5,023,035
Federal Home Loan Bank	9,030,195	-
HSBC Bank	31,303,994	-

Custodial credit risk is the risk that, in the event of the failure of the counterparty, Rhode Island Housing will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The policy in the Operating Fund is that all purchases are held in a safekeeping or custodial account at an approved safekeeping agent of the Corporation in the Corporation's name. At June 30, 2012 and 2011, there were no investments in the Operating Fund subject to custodial credit risk.

There are no other specific custodial credit risk policies for the Other Funds. Most of Rhode Island Housing's investments in other funds are either in Guaranteed Investment Contracts (GICs) in bonded resolutions, which are direct investments not subject to custodial credit risk, or in accounts managed by a financial advisory firm with underlying investments restricted to U.S. Government and Agency securities. At June 30, 2012 and 2011, there were no investments in any of the Other Funds subject to custodial credit risk.

As established in the Board-approved investment policy, the Corporation has the ability to enter into interest rate swap agreements and other similar interest rate related derivative instruments to reduce interest rate mismatches between its loan and investment assets and its bond and note liabilities. These types of derivative instruments expose the Corporation to certain risks including credit risk, interest rate risk, and counterparty risk. At June 30, 2012 and 2011 the Corporation was not party to any derivative instruments and has no intention to enter into any such agreements in the near future.

**Rhode Island Housing and Mortgage Finance Corporation**  
**(A Component Unit of the State of Rhode Island)**  
**Notes to Financial Statements**  
**June 30, 2012 and 2011**

**5. Other Assets**

Other assets consisted of the following at June 30:

	2012	2011
Real estate owned	\$ 19,975,864	\$ 17,017,547
Capital assets, net	8,624,214	9,144,237
Deferred origination costs, net	2,957,645	3,260,971
Federal program properties	54,986	3,021,504
Purchased mortgage servicing rights, net	1,845,756	2,271,603
Other assets and control accounts	396,501	396,541
Total	\$ 33,854,966	\$ 35,112,403

Depreciation expense related to capital assets for the years ended June 30, 2012 and 2011 was \$726,096 and \$819,276, respectively.

Amortization expense related to deferred origination costs and purchased mortgage servicing rights for the years ended June 30, 2012 and 2011 was \$954,881 and \$1,021,095, respectively.

**6. Bonds and Notes Payable**

The Corporation issues serial bonds and term bonds under various bond resolutions to provide permanent financing for the origination or purchase from participating originating lenders of single-family loans, to provide permanent financing for qualified housing developments, and to provide financing for other purposes.

The Corporation obtains principally first and second mortgage liens on real property financed. The Corporation assigns such liens to the respective bonds when the mortgage loans are permanently financed using bond proceeds. Bonds and notes are secured by related revenues and assets of the respective programs in which the related bonds and notes payable are reported.

The provisions of the applicable trust indentures require or allow for the redemption of bonds by the Corporation through the use of unexpended bond proceeds and excess funds accumulated primarily through the prepayment of mortgage loans. All outstanding bonds are subject to redemption at the option of the Corporation, in whole or in part at any time after certain dates, as specified in the respective bond series indentures.

Principal on all bonds is payable semi-annually. Interest on all bonds is payable semi-annually, except for compound interest bonds which is payable at maturity. Term bonds require the Corporation to establish a sinking fund in the year preceding any term bond mandatory redemption.

**Rhode Island Housing and Mortgage Finance Corporation**  
**(A Component Unit of the State of Rhode Island)**  
**Notes to Financial Statements**  
**June 30, 2012 and 2011**

The Corporation is required by the Internal Revenue Service as well as its various bond resolutions to comply with certain tax code provisions and bond covenants. The most significant of these include the following: all debt payments must be current, annual reports and budgets must be filed with the trustee, and the Corporation must comply with various restrictions on investment earnings from bond proceeds. The Corporation's management believes it was in compliance with these covenants at year end.

Bonds and notes payable at June 30, 2012 and 2011 are as follows:

	<b>2012</b>	<b>2011</b>
<b>Operating Fund Bonds and Notes:</b>		
Federal Home Loan Bank		
Due 2012, interest from .21% to .30%	\$ 19,000,000	\$ 20,000,000
 General Obligation Bonds Series 2008:		
Mandatory tender bonds, due 2013, interest at 4.625%	5,000,000	5,000,000
Note Payable, due 2027 to 2030, interest from 5.275% to 6.25%	6,885,984	3,610,123
Lines of Credit, payable on demand, interest from 1.29% to 1.70%	68,000,000	56,000,000
<b>Total Operating Fund</b>	<b>98,885,984</b>	<b>84,610,123</b>
 <b>Single-Family Fund:</b>		
<b>Homeownership Opportunity Bonds and Notes:</b>		
Series 10-A:		
Term bonds, due 2022 to 2027, interest at 6.50%	2,000,000	2,000,000
Series 15-A:		
Term bonds, due 2024, interest at 6.85%	2,000,000	2,000,000
Series 25-A:		
Term bonds, due 2016, interest at 4.95%	-	2,760,000
Series 26-B:		
Term bonds, due 2026, interest at 5.40%	7,795,000	8,515,000
Series 27-B:		
Term bonds, due 2012, interest at 5.15%	-	395,000
Series 28-A:		
Serial bonds, due 2012, interest from 4.80% to 4.90%	-	725,000
Term bonds, due 2018, interest at 5.15%	-	1,965,000
	-	2,690,000



**Rhode Island Housing and Mortgage Finance Corporation**  
**(A Component Unit of the State of Rhode Island)**  
**Notes to Financial Statements**  
**June 30, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
Series 29-A:		
Serial bonds, due 2012, interest at 4.75%	-	445,000
Term bonds, due 2015 to 2029, interest from 5.05% to 5.10%	25,815,000	26,265,000
	<u>25,815,000</u>	<u>26,710,000</u>
Series 30-B:		
Term bonds, due 2019, interest at 5.20%	-	2,685,000
Series 34-B:		
Term bonds, due 2020, interest at 5.375%	-	170,000
Series 36-B:		
Term bonds, due 2019, interest at 4.65%	-	3,235,000
Series 37-B:		
Term bonds, due 2021, interest at 4.625%	890,000	1,595,000
Series 38-A:		
Term bonds, due 2027, interest at 5.50%	-	16,720,000
Series 39-A:		
Serial bonds, due 2013, interest at 4.50%	-	45,000
Series 39-B:		
Serial bonds, due 2012 to 2013, interest from 4.65% to 4.75%	-	1,655,000
Term bonds, due 2019 to 2022, interest from 4.50% to 5.25%	-	14,550,000
	<u>-</u>	<u>16,205,000</u>
Series 40-A:		
Serial bonds, due 2012 to 2016, interest from 3.90% to 4.50%	3,935,000	4,705,000
Term bonds, due 2022 to 2033, interest from 4.90% to 5.00%	25,290,000	25,290,000
	<u>29,225,000</u>	<u>29,995,000</u>
Series 41-A:		
Serial bonds, due 2012 to 2013, interest from 4.00% to 4.15%	-	1,065,000
Term bonds, due 2031, interest at 5.15%	-	945,000
	<u>-</u>	<u>2,010,000</u>
Series 41-B:		
Term bonds, due 2022, interest at 5.20%	-	6,855,000
Series 42-A:		
Serial bonds, due 2012 to 2013, interest from 3.55% to 3.65%	-	1,080,000
Term bonds, due 2017 to 2033, interest from 3.50% to 4.90%	-	12,465,000
	<u>-</u>	<u>13,545,000</u>

**Rhode Island Housing and Mortgage Finance Corporation**  
**(A Component Unit of the State of Rhode Island)**  
**Notes to Financial Statements**  
**June 30, 2012 and 2011**

	<b>2012</b>	<b>2011</b>
Series 43-A:		
Serial bonds, due 2012 to 2017, interest from 3.10% to 3.90%	3,385,000	3,885,000
Term bonds, due 2018 to 2033, interest from 3.25% to 4.375%	7,240,000	7,480,000
	10,625,000	11,365,000
Series 44-A:		
Serial bonds, due 2012 to 2013, interest from 3.85% to 4.00%	2,370,000	4,085,000
Term bonds, due 2017 to 2033, interest from 4.45% to 5.05%	11,680,000	11,680,000
	14,050,000	15,765,000
Series 45-A:		
Serial bonds, due 2013 to 2017, interest from 4.00% to 4.60%	7,075,000	8,335,000
Series 45-B:		
Term bonds, due 2020 to 2024, interest from 4.00% to 4.90%	17,335,000	18,560,000
Series 46-A:		
Serial bonds, due 2012 to 2014, interest from 3.55% to 3.85%	2,205,000	3,010,000
Term bonds, due 2019 to 2034, interest from 4.25% to 4.60%	30,205,000	30,340,000
	32,410,000	33,350,000
Series 46-T:		
Term bonds, due 2034, interest at variable rate	15,000,000	15,000,000
Series 47-A:		
Serial bonds, due 2012 to 2015, interest from 3.70% to 4.10%	3,475,000	3,850,000
Term bonds, due 2017, interest at 4.30%	1,670,000	1,670,000
	5,145,000	5,520,000
Series 47-B:		
Term bonds, due 2025 to 2033, interest from 5.00% to 5.15%	29,910,000	30,035,000
Series 48-A:		
Serial bonds, due 2012 to 2017, interest from 3.50% to 4.10%	4,920,000	5,710,000
Series 48-B:		
Term bonds, due 2025 to 2035, interest from 4.70% to 4.85%	19,820,000	19,820,000
Series 48-T:		
Term bonds, due 2034, interest at variable rate	15,000,000	15,000,000
Series 49-A:		
Serial bonds, due 2012 to 2015, interest from 3.70% to 4.10%	6,260,000	6,310,000
Term bonds, due 2017 to 2034, interest from 4.20% to 4.75%	4,105,000	4,105,000
	10,365,000	10,415,000

**Rhode Island Housing and Mortgage Finance Corporation**  
**(A Component Unit of the State of Rhode Island)**  
**Notes to Financial Statements**  
**June 30, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
Series 49-B:		
Serial bonds, due 2012, interest from 4.00% to 4.10%	-	1,740,000
Term bonds, due 2020 to 2035, interest from 4.40% to 4.80%	28,520,000	29,085,000
	<u>28,520,000</u>	<u>30,825,000</u>
Series 50-A:		
Serial bonds, due 2012 to 2014, interest from 3.65% to 3.85%	7,610,000	10,750,000
Term bonds, due 2017 to 2034, interest from 4.00% to 4.65%	17,270,000	17,270,000
	<u>24,880,000</u>	<u>28,020,000</u>
Series 50-B:		
Term bonds, due 2035, interest at 4.60%	38,365,000	38,365,000
Series 51-A:		
Serial bonds, due 2012 to 2017, interest from 3.75% to 4.125%	9,915,000	11,700,000
Term bonds, due 2026 to 2033, interest from 4.65% to 4.85%	29,215,000	29,215,000
	<u>39,130,000</u>	<u>40,915,000</u>
Series 51-B:		
Term bonds, due 2036, interest at 5.00%	4,430,000	4,455,000
Series 52-A:		
Serial bonds, due 2012 to 2018, interest from 3.90% to 4.30%	7,725,000	9,020,000
Term bonds, due 2021 to 2033, interest from 4.50% to 4.80%	11,740,000	11,740,000
	<u>19,465,000</u>	<u>20,760,000</u>
Series 52-B:		
Term bonds, due 2028 to 2036, interest from 4.90% to 5.00%	24,215,000	24,215,000
Series 53-A:		
Serial bonds, due 2012 to 2017, interest from 3.70% to 4.05%	12,940,000	15,570,000
Term bonds, due 2034, interest at 4.60%	3,150,000	3,150,000
	<u>16,090,000</u>	<u>18,720,000</u>
Series 53-B:		
Term bonds, due 2021 to 2046, interest from 4.70% to 5.00%	41,135,000	41,930,000
Series 54:		
Term bonds, due 2026 to 2046, interest from 4.65% to 4.90%	60,675,000	60,675,000
Series 55-A:		
Serial bonds, due 2013 to 2017, interest from 3.70% to 3.95%	8,345,000	8,345,000
Term bonds, due 2034, interest at 4.50%	2,280,000	2,280,000
	<u>10,625,000</u>	<u>10,625,000</u>

**Rhode Island Housing and Mortgage Finance Corporation**  
**(A Component Unit of the State of Rhode Island)**  
**Notes to Financial Statements**  
**June 30, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
Series 55-B:		
Serial bonds, due 2012 to 2017, interest from 4.10% to 4.375%	2,900,000	4,265,000
Term bonds, due 2022 to 2047, interest from 4.55% to 4.85%	57,295,000	58,655,000
	<u>60,195,000</u>	<u>62,920,000</u>
Series 56-A:		
Serial bonds, due 2012 to 2015, interest from 4.40% to 4.65%	3,065,000	3,630,000
Term bonds, due 2017 to 2047, interest from 4.75% to 5.20%	58,175,000	58,820,000
	<u>61,240,000</u>	<u>62,450,000</u>
Series 56-B1-T:		
Term bonds, due 2047, interest at 6.074%	4,655,000	5,765,000
Series 57-A:		
Serial bonds, due 2012 to 2017, interest from 3.85% to 4.25%	8,160,000	9,490,000
Term bonds, due 2034, interest at 5.00%	475,000	475,000
	<u>8,635,000</u>	<u>9,965,000</u>
Series 57-B:		
Term bonds, due 2022 to 2047, interest from 5.15% to 5.45%	43,075,000	55,685,000
Series 58-A:		
Term bonds, due 2023 to 2047, interest from 5.05% to 5.40%	52,845,000	56,230,000
Series 58-T:		
Term bonds, due 2013, interest at 4.98%	2,045,000	8,150,000
Series 59-A:		
Serial bonds, due 2012 to 2017, interest from 3.125% to 4.125%	12,615,000	15,110,000
Term bonds, due 2034, interest at 5.15%	3,215,000	3,215,000
	<u>15,830,000</u>	<u>18,325,000</u>
Series 59-B:		
Term bonds, due 2022, interest at 5.45%	12,050,000	12,980,000
Series 59-C:		
Demand bonds, due 2047, interest at variable rate	25,000,000	25,000,000
Series 60-A1:		
Serial bonds, due 2012 to 2017, interest from 3.50% to 4.30%	8,560,000	10,230,000
Term bonds, due 2034, interest at 5.375%	3,080,000	3,080,000
	<u>11,640,000</u>	<u>13,310,000</u>
Series 60-A2:		
Term bonds, due 2036 to 2038, interest from 5.50% to 5.625%	-	19,345,000

**Rhode Island Housing and Mortgage Finance Corporation**  
**(A Component Unit of the State of Rhode Island)**  
**Notes to Financial Statements**  
**June 30, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
Series 60-B: Serial bonds, due 2017 to 2018, interest from 5.00% to 5.150%	1,840,000	1,840,000
Series 61-A: Serial bonds, due 2013 to 2023, interest from .45% to 3.05%	15,000,000	-
Series 61-B: Term bonds, due 2026 to 2042, interest from 3.45% to 4.15%	10,000,000	-
Series 61-C: Serial bonds, due 2012 to 2020, interest from .60% to 3.00%	28,560,000	-
Term bonds, due 2034, interest at 4.00%	9,340,000	-
	<u>37,900,000</u>	<u>-</u>
Unamortized bond premium	1,400,618	1,215,031
<b>Subtotal</b>	<u>920,260,618</u>	<u>999,690,031</u>
 <b>Home Funding Bonds and Notes:</b>		
Series 1-A: Serial bonds, due 2012 to 2021, interest from 1.45% to 4.125%	13,665,000	15,610,000
Term bonds, due 2024 to 2027, interest from 4.25% to 4.625%	12,005,000	12,675,000
	<u>25,670,000</u>	<u>28,285,000</u>
Series 1-B: Term bonds, due 2039, interest at 3.96%	41,770,000	44,100,000
Series 2: Term bonds, due 2041, interest at variable rate	32,000,000	53,000,000
Series 2, Subseries 2A: Term bonds, due 2041, interest at 3.16%	29,650,000	30,000,000
Series 2, Subseries 2B: Term bonds, due 2041, interest at 2.63%	21,000,000	-
Series 3: Serial bonds, due 2012 to 2020, interest from 1.00% to 3.20%	8,490,000	9,290,000
Term bonds, due 2025 to 2028, interest from 4.00% to 4.10%	10,515,000	10,515,000
	<u>19,005,000</u>	<u>19,805,000</u>

**Rhode Island Housing and Mortgage Finance Corporation**  
**(A Component Unit of the State of Rhode Island)**  
**Notes to Financial Statements**  
**June 30, 2012 and 2011**

	<b>2012</b>	<b>2011</b>
Series 4:		
Serial bonds, due 2012 to 2022, interest from .60% to 3.50%	7,750,000	-
Term bonds, due 2026 to 2028, interest from 4.05% to 4.20%	6,045,000	-
	13,795,000	-
Unamortized bond discount	(14,117)	(15,764)
<b>Subtotal</b>	<b>182,875,883</b>	<b>175,174,236</b>
<b>Total Single-Family Fund</b>	<b>1,103,136,501</b>	<b>1,174,864,267</b>
<b>Multi-Family Fund:</b>		
<b>Multi-Family Housing Bonds:</b>		
1995 Series A:		
Term bonds, due 2017, interest at 6.15%	740,000	840,000
1998 Series A:		
Serial bonds, due 2012, interest at 5.10%	90,000	175,000
Term bonds, due 2018 to 2033, interest from 5.375% to 5.50%	3,550,000	3,550,000
	3,640,000	3,725,000
<b>Subtotal</b>	<b>4,380,000</b>	<b>4,565,000</b>
<b>Housing Bonds:</b>		
2001 Series A:		
Serial bonds, due 2012 to 2013, interest from 5.10% to 5.15%	460,000	670,000
Term bonds, due 2015, interest at 5.30%	1,490,000	1,490,000
	1,950,000	2,160,000
2001 Series B-1B:		
Serial bonds, due 2012 to 2013, interest from 4.45% to 4.55%	2,235,000	3,250,000
Term bonds, due 2022, interest at 5.15%	7,810,000	11,230,000
	10,045,000	14,480,000
2001 Series B-2T:		
Term bonds, due 2031, interest at variable rate	3,715,000	3,790,000
2002 Series A:		
Serial bonds, due 2012, interest at 4.55%	175,000	335,000
Term bonds, due 2016 to 2032, interest from 5.00% to 5.55%	8,620,000	8,620,000
	<b>8,795,000</b>	<b>8,955,000</b>

**Rhode Island Housing and Mortgage Finance Corporation**  
**(A Component Unit of the State of Rhode Island)**  
**Notes to Financial Statements**  
**June 30, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
2003 Series A-1:		
Serial bonds, due 2013, interest at 4.10%	90,000	175,000
Term bonds, due 2018 to 2035, interest from 4.625% to 4.95%	7,455,000	7,455,000
	<u>7,545,000</u>	<u>7,630,000</u>
2003 Series A-2T:		
Term bonds, due 2034, interest at variable rate	21,010,000	21,390,000
2003 Series B-1A:		
Serial bonds, due 2013 to 2016, interest from 4.65% to 4.90%	1,485,000	1,870,000
Term bonds, due 2024 to 2034, interest from 5.375% to 5.50%	9,100,000	9,100,000
	<u>10,585,000</u>	<u>10,970,000</u>
2003 Series B-1B:		
Term bonds, due 2024 to 2034, interest from 5.375% to 5.55%	2,605,000	2,700,000
2003 Series B-2T:		
Term bonds, due 2035, interest at variable rate	8,900,000	8,980,000
2003 Series C-1A:		
Serial bonds, due 2013 to 2014, interest from 4.00% to 4.10%	665,000	965,000
Term bonds, due 2023 to 2034, interest from 4.85% to 5.00%	15,695,000	15,695,000
	<u>16,360,000</u>	<u>16,660,000</u>
2003 Series C-1B:		
Serial bonds, due 2013 to 2014, interest from 4.00% to 4.10%	60,000	80,000
Term bonds, due 2023 to 2035, interest from 4.85% to 5.00%	1,370,000	1,370,000
	<u>1,430,000</u>	<u>1,450,000</u>
2004 Series A-1A:		
Serial bonds, due 2012 to 2016, interest from 4.00% to 4.50%	775,000	920,000
Term bonds, due 2025 to 2033, interest from 5.00% to 5.10%	6,335,000	6,335,000
	<u>7,110,000</u>	<u>7,255,000</u>
2004 Series A-1B:		
Term bonds, due 2016 to 2045, interest from 4.50% to 5.35%	3,145,000	3,170,000
2004 Series B-1A:		
Serial bonds, due 2012 to 2015, interest from 3.35% to 3.70%	50,000	65,000
Term bonds, due 2025 to 2045, interest from 4.55% to 4.85%	1,890,000	1,890,000
	<u>1,940,000</u>	<u>1,955,000</u>
2004 Series B-1B-1:		
Serial bonds, due 2012 to 2015, interest from 3.75% to 4.10%	510,000	620,000
Term bonds, due 2045, interest at 4.90%	12,875,000	12,875,000
	<u>13,385,000</u>	<u>13,495,000</u>

**Rhode Island Housing and Mortgage Finance Corporation**  
**(A Component Unit of the State of Rhode Island)**  
**Notes to Financial Statements**  
**June 30, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
2004 Series B-1B-2:		
Serial bonds, due 2012 to 2015, interest from 3.75% to 4.10%	100,000	120,000
Term bonds, due 2025 to 2035, interest from 4.65% to 4.90%	860,000	860,000
	<u>960,000</u>	<u>980,000</u>
2004 Series B-2T:		
Term bonds, due 2015 to 2030, interest from 4.85% to 5.57%	3,400,000	3,475,000
2005 Series A-1A:		
Serial bonds, due 2012 to 2015, interest from 4.00% to 4.25%	1,585,000	1,930,000
Term bonds, due 2025 to 2035, interest from 4.75% to 4.875%	17,230,000	17,230,000
	<u>18,815,000</u>	<u>19,160,000</u>
2005 Series A-1B:		
Term bonds, due 2035, interest at 4.90%	270,000	270,000
2005 Series A-2T:		
Term bonds, due 2015 to 2018, interest from 5.14% to 5.29%	1,210,000	1,345,000
2006 Series A-1:		
Serial bonds, due 2012 to 2016, interest from 3.85% to 4.05%	1,285,000	1,510,000
Term bonds, due 2022 to 2043, interest from 4.50% to 4.75%	19,680,000	19,680,000
	<u>20,965,000</u>	<u>21,190,000</u>
2007 Series A-1:		
Serial bonds, due 2012 to 2017, interest from 4.00% to 4.35%	1,830,000	2,070,000
Term bonds, due 2027 to 2048, interest from 4.80% to 5.00%	29,680,000	29,680,000
	<u>31,510,000</u>	<u>31,750,000</u>
2007 Series A-2T:		
Term bonds, due 2027, interest at 5.608%	1,270,000	1,335,000
2007 Series B-1A/B:		
Serial bonds, due 2012 to 2017, interest from 4.00% to 4.50%	1,325,000	1,550,000
Term bonds, due 2022 to 2049, interest from 5.00% to 5.50%	24,405,000	24,405,000
	<u>25,730,000</u>	<u>25,955,000</u>
Unamortized bond premium	105,801	107,235
<b>Subtotal</b>	<u>222,755,801</u>	<u>230,607,235</u>
 <b>Multi-Family Funding Bonds:</b>		
2009 Series A:		
Escrow bonds, due 2041, interest at variable rate	-	14,100,000
2009 Series A, Subseries 2009 A-2:		
Term bonds, due 2051, interest at 2.32%	14,100,000	-



**Rhode Island Housing and Mortgage Finance Corporation**  
**(A Component Unit of the State of Rhode Island)**  
**Notes to Financial Statements**  
**June 30, 2012 and 2011**

	<b>2012</b>	<b>2011</b>
2009 Series A, Subseries 2009A-1 Term bonds, due 2051, interest at 3.01%	51,000,000	51,000,000
2010 Series A: Serial bonds, due 2012 to 2021, interest from 1.00% to 4.00% Term bonds, due 2025 to 2035, interest from 4.625% to 5.25%	5,435,000 15,550,000 <hr style="border: 0.5px solid black;"/> 20,985,000	5,760,000 15,550,000 <hr style="border: 0.5px solid black;"/> 21,310,000
2011 Series A: Serial bonds, due 2013 to 2017, interest from .85% to 2.50% Term bonds, due 2021 to 2032, interest from 3.125% to 4.625%	730,000 4,310,000 <hr style="border: 0.5px solid black;"/> 5,040,000	- - <hr style="border: 0.5px solid black;"/> -
<b>Subtotal</b>	<b>91,125,000</b>	<b>86,410,000</b>
<b>Multi-Family Development Bonds:</b>		
2010 Series 1: Serial bonds, due 2012 to 2021, interest from 1.30% to 4.25% Term bonds, due 2025 to 2051, interest from 4.75% to 5.875%	605,000 8,285,000 <hr style="border: 0.5px solid black;"/> 8,890,000	650,000 8,285,000 <hr style="border: 0.5px solid black;"/> 8,935,000
2011 Series 1: Term bonds, due 2013, interest at 1.125%	7,000,000 <hr style="border: 0.5px solid black;"/>	- <hr style="border: 0.5px solid black;"/>
<b>Subtotal</b>	<b>15,890,000</b>	<b>8,935,000</b>
<b>Multi-Family Mortgage Revenue Bonds:</b>		
1998 Series A: Term bonds, due 2028, interest at variable rate	1,965,000	2,040,000
Series 2006 (University Heights Project): Term bonds, due 2039, interest at variable rate	26,700,000	26,700,000
Series 2006 (Sutterfield Project): Term bonds, due 2039, interest at variable rate	7,000,000	7,000,000
Series 2006 (The Groves): Term bonds, due 2040, interest at variable rate	30,950,000 <hr style="border: 0.5px solid black;"/>	30,950,000 <hr style="border: 0.5px solid black;"/>
<b>Subtotal</b>	<b>66,615,000</b>	<b>66,690,000</b>
<b>Total Multi-Family Fund</b>	<b>400,765,801</b>	<b>397,207,235</b>
<b>Total Bonds And Notes Payable</b>	<b>\$ 1,602,788,286</b>	<b>\$ 1,656,681,625</b>

**Rhode Island Housing and Mortgage Finance Corporation**  
**(A Component Unit of the State of Rhode Island)**  
**Notes to Financial Statements**  
**June 30, 2012 and 2011**

On June 6, 2012, the Corporation refunded \$53,215,000 of certain Homeownership Opportunity Bonds with an average interest rate of 5.11% by the issuance of \$62,900,000 Homeownership Opportunity Bonds Series 61A-C dated June 6, 2012 with an average interest rate of 2.99%.

The Corporation refunded the following debt to reduce its total debt service payments over the next twenty-two years by \$9,704,384 and to obtain an economic gain (difference between present values of the debt service payments on the old and new debt) of \$8,305,126.

<u>Homeownership Opportunity Bonds Payable</u>	<u>Date of Issue</u>	<u>Outstanding Principal Balance</u>
Series 25-A:	9/23/1997	\$ 1,060,000
Series 28-A	9/29/1998	1,555,000
Series 30-B	3/30/1999	795,000
Series 36-B	3/29/2001	625,000
Series 38-A	12/20/2001	14,995,000
Series 39-A	3/27/2002	45,000
Series 39-B	3/27/2002	13,625,000
Series 41-A	12/19/2002	1,785,000
Series 41-B	12/19/2002	6,620,000
Series 42-A	04/01/2003	12,110,000
		<u>\$ 53,215,000</u>

The Operating Fund's lines of credit were established with financial institutions primarily to make funds available for the origination, or purchase from participating originating lenders, of single-family loans prior to the time such loans are funded by bond proceeds received by the issuance of bonds under the Single-Family Fund. At June 30, 2012, the Corporation may borrow up to a maximum of \$40,000,000 under one revolving loan agreement expiring November 2012, up to a maximum of \$20,000,000 under another revolving loan agreement expiring May 2013, and up to a maximum of \$15,000,000 under a third revolving loan agreement expiring January 2013. Borrowings under the lines of credit are payable on demand and are unsecured.

**Rhode Island Housing and Mortgage Finance Corporation**  
**(A Component Unit of the State of Rhode Island)**  
**Notes to Financial Statements**  
**June 30, 2012 and 2011**

The schedule below includes amounts required for debt service sinking funds for each fiscal year relating to the respective bonds and notes as of June 30, 2012 (dollars in thousands):

	Operating Fund Bonds/Notes		Single-Family Fund Bonds/Notes		Multi-Family Fund Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 87,095	\$ 1,065	\$ 103,485	\$ 42,267	\$ 12,480	\$ 13,648
2014	5,101	525	30,560	40,559	5,995	13,358
2015	107	403	30,395	39,484	5,795	13,135
2016	114	397	31,290	38,363	6,915	12,877
2017	121	390	30,355	37,188	6,075	12,615
2018-2022	726	1,830	175,455	164,315	35,060	59,018
2023-2027	1,540	1,566	160,610	127,423	41,475	51,189
2028-2032	4,082	933	203,145	89,280	58,135	41,137
2033-2037	-	-	205,940	44,507	49,515	28,515
2038-2042	-	-	106,895	13,353	104,355	19,659
2043-2047	-	-	21,920	3,237	44,100	10,128
2048-2052	-	-	1,700	31	30,760	2,242
2053-2057	-	-	-	-	-	-
	<u>\$ 98,886</u>	<u>\$ 7,109</u>	<u>\$ 1,101,750</u>	<u>\$ 640,007</u>	<u>\$ 400,660</u>	<u>\$ 277,521</u>

Homeownership Opportunity Bonds Series 46-T and 48-T, Housing Bonds 2001 Series B-2T, 2003 Series A-2T and 2003 Series B-2T bear interest at a variable rate established quarterly, which ranges from .70%- .79% at June 30, 2012. The Multi-Family Mortgage Revenue Bonds and the Homeownership Opportunity Bonds Series 59-C bear interest at a variable rate established weekly by the Remarketing Agent. The rates used in the table above were the applicable rates as of June 30, 2012.

Bonds and notes payable activity for the year ended June 30, 2012 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Bonds and notes payable:				
General obligation bonds	\$ 5,000,000	\$ -	\$ -	\$ 5,000,000
Unsecured notes	59,610,123	212,350,000	(197,074,139)	74,885,984
Secured notes	20,000,000	38,000,000	(39,000,000)	19,000,000
Revenue bonds	1,572,071,502	124,354,291	(192,523,490)	1,503,902,303
	<u>\$ 1,656,681,625</u>	<u>\$ 374,704,291</u>	<u>\$(428,597,629)</u>	<u>\$ 1,602,788,287</u>

**Rhode Island Housing and Mortgage Finance Corporation**  
**(A Component Unit of the State of Rhode Island)**  
**Notes to Financial Statements**  
**June 30, 2012 and 2011**

Bonds and notes payable activity for the year ended June 30, 2011 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Bonds and notes payable:				
General obligation bonds	\$ 5,000,000	\$ -	\$ -	\$ 5,000,000
Unsecured notes	53,047,822	246,600,000	(240,037,699)	59,610,123
Secured notes	23,000,000	41,000,000	(44,000,000)	20,000,000
Revenue bonds	1,636,321,053	133,545,000	(197,794,551)	1,572,071,502
	<u>\$ 1,717,368,875</u>	<u>\$ 421,145,000</u>	<u>\$(481,832,250)</u>	<u>\$ 1,656,681,625</u>

## 7. Commitments and Contingencies

The Corporation is party to financial instruments with off-balance-sheet risk in connection with its commitments to provide financing. Such commitments expose the Corporation to credit risk in excess of the amounts recognized in the accompanying balance sheets. The Corporation's exposure to credit loss in the event of nonperformance by the borrowers is represented by the contractual amount of such instruments. The Corporation uses the same credit policies in making commitments as it does for on-balance-sheet instruments.

Total credit exposure as a result of loan commitments at June 30, 2012 is as follows:

<u>Fund</u>	<u>Commitments</u>
Operating Fund	\$ 34,174,658
Single-Family Fund	6,302,945
Multi-Family Fund	6,238
Total	<u>\$ 40,483,841</u>

Commitments to extend credit are agreements to lend to a borrower as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses. The Corporation evaluates each borrower's credit worthiness on a case-by-case basis. Interest rates on approved loan commitments are principally fixed rates.

The Corporation is party to a standby letter of credit agreement whereby the Corporation guarantees payment of principal and interest to bondholders in the event of nonperformance by the borrower. The Corporation's exposure to credit loss is represented by the contractual amount of the letter of credit, up to a maximum of \$2,027,666 at June 30, 2012. The Corporation also entered into a confirming letter of credit agreement with a financial institution whereby the financial institution guarantees payment of principal and interest to bondholders in the event of nonperformance by both the borrower and the Corporation. The Corporation holds a marketable security as collateral to support this confirming letter of credit with a fair value of \$2,666,298 at June 30, 2012.

**Rhode Island Housing and Mortgage Finance Corporation**  
**(A Component Unit of the State of Rhode Island)**  
**Notes to Financial Statements**  
**June 30, 2012 and 2011**

The Corporation is party to certain claims and lawsuits which are being contested, certain of which Rhode Island Housing and respective legal counsel are unable to determine the likelihood of an unfavorable outcome or the amount or range of potential loss. In the opinion of management, the ultimate liability with respect to these actions and claims will not have a material adverse effect on either the financial position or the results of operations of Rhode Island Housing.

Rhode Island Housing is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or acts of God for which Rhode Island Housing carries commercial insurance. Neither Rhode Island Housing nor its insurers have settled any claims which exceeded Rhode Island Housing's insurance coverage in any of the last three fiscal years. There have been no significant reductions in any insurance coverage from amounts in the prior year. Rhode Island Housing also is self-insured for unemployment compensation, and no accrual has been recorded in the accompanying financial statements for claims expected to arise from services rendered on or before June 30, 2012 because Rhode Island Housing officials are of the opinion that, based on prior experience, any claims will not be material.

#### **8. Segment Information**

The Corporation has issued various revenue bonds to finance the activities of its Single-Family Fund and Multi-Family Fund. Investors in each revenue bond rely solely on the revenue stream generated from the activities associated with the specific revenue bonds for repayment. Segment information relating to these identifiable activities is presented in the accompanying balance sheets, statements of revenues, expenses and changes in fund equity and statements of cash flows.

#### **9. Employee Benefits**

##### **Employee Benefit Plan**

The Corporation has adopted an employee retirement plan created in accordance with Internal Revenue Code Section 401(a). The Corporation's 401(a) money Purchase Pension Plan (the Plan) is a defined contribution plan, administered by ICMA Retirement Corporation. Regular full-time employees who meet certain requirements as to length of service are eligible. The Corporation contributes a set percentage of an employee's annual eligible compensation to the Plan. The contribution requirements, and benefit provisions, are established and may be amended by management of the Corporation along with the Board of Commissioners. Contributions to the Plan for the years ended June 30, 2012 and 2011 totaled \$882,798 and \$895,456, respectively. The assets of the Plan were placed under a separate trust agreement for the benefit of the applicable employees, and therefore are neither an asset nor a liability of the Corporation.

**Rhode Island Housing and Mortgage Finance Corporation**  
**(A Component Unit of the State of Rhode Island)**  
**Notes to Financial Statements**  
**June 30, 2012 and 2011**

**Post-employment Healthcare Plan**

The Rhode Island Housing Retiree Healthcare Plan (RIHRHP) is a single-employer defined benefit healthcare plan administered by the Corporation. RIHRHP provides medical insurance benefits to eligible employees who retire from active full-time employment based on years of service and age. As of June 30, 2012, the plan included 10 retirees, 8 of which are receiving benefits, and 170 active employees. RIHRHP does not issue a stand-alone financial report.

The Corporation's annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year. For the years ended June 30, 2012 and 2011, plan members receiving benefits contributed \$5,712 and \$5,895, respectively, as their required contribution.

The annual OPEB cost for the fiscal years ended June 30, 2012 and 2011, are as follows:

	2012	2011
Annual required contribution (ARC)	\$ 353,732	\$ 343,431
Interest on OPEB obligation	124,000	109,316
Adjustments to ARC	(114,888)	(101,280)
Annual OPEB cost	362,844	351,467
Net estimated employer contributions	(27,001)	(25,120)
Increase in net OPEB obligation	335,843	326,347
Net OPEB obligation, beginning of year	2,755,594	2,429,247
Net OPEB obligation, end of year	<u>\$ 3,091,437</u>	<u>2,755,594</u>
Percent of annual OPEB cost contributed	7.4%	7.1%

The Net OPEB obligation is included in accounts payable and accrued liabilities in the accompanying balance sheets. The annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal year ending June 30, 2012 and the preceding two fiscal years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Employer Amount Contributed	Percentage Contributed	Net OPEB Obligation
June 30, 2010	\$ 382,671	\$ 11,310	3.0%	\$ 2,429,247
June 30, 2011	351,467	25,120	7.1%	2,755,594
June 30, 2012	362,844	27,001	7.4%	3,091,437

**Rhode Island Housing and Mortgage Finance Corporation**  
**(A Component Unit of the State of Rhode Island)**  
**Notes to Financial Statements**  
**June 30, 2012 and 2011**

**Funded Status and Funding Progress:**

Under the reporting parameters, the Corporation's retiree healthcare plan is 0% funded with an estimated actuarial accrued liability exceeding actuarial assets by \$2,764,235 as of June 30, 2011, the most recent actuarial valuation date. As of June 30, 2012, the unfunded accrued liability as a percentage of covered payroll of \$8,904,442, was approximately 31%.

**Actuarial Methods and Assumptions**

The actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the ARC are subject to continual revision as actual results are compared with past expectations. The ARC was calculated based on the projected unit credit method, which provides for a systematic recognition of the cost of these anticipated payments. The yearly ARC is computed to cover the cost of benefits being earned by covered members as well as to amortize a portion of the unfunded accrued liability.

Projections of health benefits are based on the plan as understood by the Corporation and include types of benefits in force at the valuation date and the pattern of sharing benefit costs between the Corporation and its employees to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Significant methods and assumptions included a 3.00% inflation rate, an investment rate of return of 4.50%, payroll growth of 3.00% and a 30 year open amortization period. The initial annual healthcare cost trend rate of 8.5%, declining to an ultimate rate of 4.50% after 8 years.

The required schedule of funding progress presented as required supplementary information provides multi-year trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

**10. State Rental Subsidy Program**

The Corporation and the State have entered into a contractual relationship whereby the Corporation assumed the responsibility for the State Rental Subsidy Program for the period July 1, 1994 through June 30, 1997. In addition, the Corporation made \$3,800,000 in advances on behalf of the State for this program in the fiscal year ended June 30, 1994. As provided in the contractual arrangement, the State agreed to repay the \$3,800,000, subject to appropriations, in installments of \$950,000 over a four-year period beginning in the year ended June 30, 1996. To date no payments have been received, nor have any payments for advances totaling \$49,817,138 made during the years ended June 30, 1998 through 2012 been received.

**Rhode Island Housing and Mortgage Finance Corporation**  
**(A Component Unit of the State of Rhode Island)**  
**Notes to Financial Statements**  
**June 30, 2012 and 2011**

**11. Subsequent Events**

The Corporation has instructed its trustee to redeem the following bonds outstanding:

<u>Date of Call</u>	<u>Principal Program</u>	<u>Outstanding</u>
July 11, 2012	Homeownership Opportunity Bonds	\$ 74,350,000
October 1, 2012	Homeownership Opportunity Bonds	14,890,000
October 1, 2012	Home Funding Bonds	2,185,000

On July 3, 2012, the Corporation refunded \$70,615,000 of certain Homeownership Opportunity Bonds with an average interest rate of 4.95% by the issuance of \$85,615,000 Homeownership Opportunity Bonds Series 62A-C dated July 3, 2012 with an average interest rate of 3.89%.

The Corporation refunded the following debt to reduce its total debt service payments over the next twenty one years by \$13,231,966 and to obtain an economic gain (difference between present values of the debt service payments on the old and new debt) of \$6,192,188.

<u>Homeownership Opportunity Bonds Payable</u>	<u>Date of Issue</u>	<u>Outstanding Principal Balance</u>
Series 26-B	3/31/1998	\$ 6,395,000
Series 29-A	12/23/1998	24,590,000
Series 37-B	8/08/2001	145,000
Series 40-A	9/26/2002	29,225,000
Series 43-A	6/26/2003	10,260,000
		<u>\$ 70,615,000</u>

The Corporation's management has evaluated subsequent events through September 28, 2012, which is the date these financial statements were available to be issued.





**Independent Auditors' Report on Accompanying Information**

Board of Commissioners  
Rhode Island Housing and Mortgage  
Finance Corporation  
Providence, Rhode Island

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise Rhode Island Housing and Mortgage Finance Corporation's (Rhode Island Housing), a component unit of the State of Rhode Island, basic financial statements. The combining information on pages 55 through 64 is presented for purposes of additional analysis of the basic financial statements rather than to present the financial position and changes in financial position of the individual programs and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the 2012 basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads "LGCD LLP".

September 28, 2012

*A Limited Liability Partnership*

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**RHODE ISLAND HOUSING AND MORTGAGE FINANCE CORPORATION  
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)**

**Required Supplementary Information  
Retiree Healthcare Benefit Plan  
Schedule of Funding Progress  
Year Ended June 30, 2012**

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Entry Age (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
June 30, 2010	\$ -	\$ 1,882,457	\$ 1,882,457	0%	\$ 9,137,027	20.6%
June 30, 2011	-	2,764,235	2,764,235	0%	9,052,294	30.5%
June 30, 2012	-	2,764,235	2,764,235	0%	8,904,442	31.0%

**RHODE ISLAND HOUSING AND MORTGAGE FINANCE CORPORATION**  
**(A Component Unit of the State of Rhode Island)**  
**Combining Balance Sheets - Single-Family Fund**  
**June 30, 2012 and 2011**

	Homeownership Opportunity Bond Program		Home Funding Bond Program	
	2012	2011	2012	2011
<b>Assets</b>				
Loans receivable	\$ 942,929,923	\$ 1,016,667,047	\$ 70,812,116	\$ 52,235,879
Less allowance for loan losses	(10,200,000)	(1,260,983)	-	-
Loans receivable, net	932,729,923	1,015,406,064	70,812,116	52,235,879
Investments	24,838,875	37,105,876	86,182,272	73,859,174
Accrued interest-loans	3,659,415	3,842,221	209,195	155,798
Accrued interest-investments	180,389	340,470	288,206	262,063
Cash and cash equivalents	80,419,270	76,820,295	40,152,078	58,657,128
Deferred bond issuance costs, net	6,862,217	7,741,537	1,353,594	1,142,892
Other assets, net	18,816,505	17,265,478	141,050	101,151
Interfund receivable (payable)	1,272	(7,600)	18,597	18,597
<b>Total Assets</b>	<b>\$ 1,067,507,866</b>	<b>\$ 1,158,514,341</b>	<b>\$ 199,157,108</b>	<b>\$ 186,432,682</b>
<b>Liabilities and Fund Equity</b>				
Bonds and notes payable	\$ 920,260,618	\$ 999,690,031	\$ 182,875,883	\$ 175,174,236
Accrued interest payable on bonds and notes	9,743,705	11,351,825	1,355,142	1,143,394
Accounts payable and accrued liabilities	379,958	724,800	-	-
Deferred fees	301,986	345,877	-	-
<b>Total liabilities</b>	<b>930,686,267</b>	<b>1,012,112,533</b>	<b>184,231,025</b>	<b>176,317,630</b>
<b>Fund Equity</b>				
Fund equity, restricted	136,821,599	146,401,808	14,926,083	10,115,052
<b>Total Liabilities and Fund Equity</b>	<b>\$ 1,067,507,866</b>	<b>\$ 1,158,514,341</b>	<b>\$ 199,157,108</b>	<b>\$ 186,432,682</b>

(Continued)

**RHODE ISLAND HOUSING AND MORTGAGE FINANCE CORPORATION**  
**(A Component Unit of the State of Rhode Island)**  
**Combining Balance Sheets - Single-Family Fund**  
**June 30, 2012 and 2011**

	<b>Single-Family Fund Totals</b>	
	<u>2012</u>	<u>2011</u>
<b>Assets</b>		
Loans receivable	\$ 1,013,742,039	\$ 1,068,902,926
Less allowance for loan losses	(10,200,000)	(1,260,983)
Loans receivable, net	<u>1,003,542,039</u>	<u>1,067,641,943</u>
Investments	111,021,147	110,965,050
Accrued interest-loans	3,868,610	3,998,019
Accrued interest-investments	468,595	602,533
Cash and cash equivalents	120,571,348	135,477,423
Deferred bond issuance costs, net	8,215,811	8,884,429
Other assets, net	18,957,555	17,366,629
Interfund receivable (payable)	<u>19,869</u>	<u>10,997</u>
<b>Total Assets</b>	<b><u>\$ 1,266,664,974</u></b>	<b><u>\$ 1,344,947,023</u></b>
<b>Liabilities and Fund Equity</b>		
Bonds and notes payable	\$ 1,103,136,501	\$ 1,174,864,267
Accrued interest payable on bonds and notes	11,098,847	12,495,219
Accounts payable and accrued liabilities	379,958	724,800
Deferred fees	<u>301,986</u>	<u>345,877</u>
<b>Total liabilities</b>	<b><u>1,114,917,292</u></b>	<b><u>1,188,430,163</u></b>
<b>Fund Equity</b>		
Fund equity, restricted	<u>151,747,682</u>	<u>156,516,860</u>
<b>Total Liabilities and Fund Equity</b>	<b><u>\$ 1,266,664,974</u></b>	<b><u>\$ 1,344,947,023</u></b>

**RHODE ISLAND HOUSING AND MORTGAGE FINANCE CORPORATION**  
**(A Component Unit of the State of Rhode Island)**  
**Combining Statements of Revenues, Expenses and Changes in Fund Equity - Single-Family Fund**  
**For the Years Ended June 30, 2012 and 2011**

	<b>Homeownership Opportunity Bond Program</b>		<b>Home Funding Bond Program</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
<b>Operating revenues:</b>				
Interest income on loans	\$ 49,333,318	\$ 53,604,253	\$ 2,922,015	\$ 1,783,411
Income on investments:				
Interest on investments	1,883,273	2,244,545	3,407,495	3,023,276
Net increase (decrease) in fair value of investments	296,808	120,709	3,307,787	2,159,139
<b>Total operating revenues</b>	<b>51,513,399</b>	<b>55,969,507</b>	<b>9,637,297</b>	<b>6,965,826</b>
<b>Operating expenses:</b>				
Interest expense	43,035,301	47,370,296	5,001,116	3,811,114
Other administrative expenses	222,939	113,875	-	-
Housing initiatives	48,723	43,919	-	-
Provision for loan losses	2,455,892	3,064,633	-	-
REO expenditures (recoveries)	737,028	-	-	-
Arbitrage rebate	(261,152)	51,198	-	-
Amortization of deferred bond issuance costs	514,705	566,008	65,855	50,831
Early retirement of debt	929,851	550,779	36,514	76,887
Depreciation and amortization of other assets	368,004	352,237	37,274	103,441
<b>Total operating expenses</b>	<b>48,051,291</b>	<b>52,112,945</b>	<b>5,140,759</b>	<b>4,042,273</b>
<b>Operating income (loss)</b>	<b>3,462,108</b>	<b>3,856,562</b>	<b>4,496,538</b>	<b>2,923,553</b>
Transfers in (out) of fund equity	(13,042,317)	(3,450,000)	314,493	462,630
<b>Total change in fund equity</b>	<b>(9,580,209)</b>	<b>406,562</b>	<b>4,811,031</b>	<b>3,386,183</b>
Fund equity, beginning of year	146,401,808	145,995,246	10,115,052	6,728,869
Fund equity, end of year	<b>\$ 136,821,599</b>	<b>\$ 146,401,808</b>	<b>\$ 14,926,083</b>	<b>\$ 10,115,052</b>

(Continued)

**RHODE ISLAND HOUSING AND MORTGAGE FINANCE CORPORATION**

**(A Component Unit of the State of Rhode Island)**

**Combining Statements of Revenues, Expenses and Changes in Fund Equity - Single-Family Fund  
For the Years Ended June 30, 2012 and 2011**

	<u>Single-Family Fund Total</u>	
	<u>2012</u>	<u>2011</u>
<b>Operating revenues:</b>		
Interest income on loans	\$ 52,255,333	\$ 55,387,664
Income on investments:		
Interest on investments	5,290,768	5,267,821
Net increase (decrease) in fair value of investments	3,604,595	2,279,848
<b>Total operating revenues</b>	<b><u>61,150,696</u></b>	<b><u>62,935,333</u></b>
 <b>Operating expenses:</b>		
Interest expense	48,036,417	51,181,410
Other administrative expenses	222,939	113,875
Housing initiatives	48,723	43,919
Provision for loan losses (recoveries)	2,455,892	3,064,633
REO expenditures	737,028	-
Arbitrage rebate	(261,152)	51,198
Amortization of deferred bond issuance costs	580,560	616,839
Early retirement of debt	966,365	627,666
Depreciation and amortization of other assets	405,278	455,678
<b>Total operating expenses</b>	<b><u>53,192,050</u></b>	<b><u>56,155,218</u></b>
 <b>Operating income (loss)</b>	<b>7,958,646</b>	<b>6,780,115</b>
 Transfers in (out) of fund equity	<u>(12,727,824)</u>	<u>(2,987,370)</u>
 <b>Total change in fund equity</b>	<b>(4,769,178)</b>	<b>3,792,745</b>
 Fund equity, beginning of year	<u>156,516,860</u>	<u>152,724,115</u>
 Fund equity, end of year	<u><u>\$ 151,747,682</u></u>	<u><u>\$ 156,516,860</u></u>

**RHODE ISLAND HOUSING AND MORTGAGE FINANCE CORPORATION**  
**(A Component Unit of the State of Rhode Island)**  
**Combining Balance Sheets - Multi-Family Fund**  
**June 30, 2012 and 2011**

	<u>Multi-Family Housing Bond Program</u>		<u>Housing Bond Program</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
<b>Assets</b>				
Loans receivable	\$ 3,867,890	\$ 5,670,034	\$ 215,214,538	\$ 221,678,921
Less allowance for loan losses	-	-	-	-
Loans receivable, net	<u>3,867,890</u>	<u>5,670,034</u>	<u>215,214,538</u>	<u>221,678,921</u>
Investments	31,345,658	29,567,461	25,841,005	24,085,198
Accrued interest-loans	24,819	38,240	1,283,982	1,349,572
Accrued interest-investments	415,442	11,809	250,000	273,073
Cash and cash equivalents	977,379	1,867,584	15,603,991	17,729,187
Accounts receivable	-	-	-	-
Deferred bond issuance costs, net	61,600	68,046	56,912	64,416
Other assets, net	-	-	-	-
Interfund receivable (payable)	-	-	-	-
<b>Total Assets</b>	<b><u>\$ 36,692,788</u></b>	<b><u>\$ 37,223,174</u></b>	<b><u>\$ 258,250,428</u></b>	<b><u>\$ 265,180,367</u></b>
<b>Liabilities and Fund Equity</b>				
Bonds and notes payable	\$ 4,380,000	\$ 4,565,000	\$ 222,755,801	\$ 230,607,235
Accrued interest payable on bonds and notes	122,262	127,484	2,434,547	2,506,999
Accounts payable and accrued liabilities	246,529	188,554	3,187,825	2,345,768
Deferred fees	-	-	-	-
Escrow deposits	-	-	1,247,726	1,247,726
<b>Total liabilities</b>	<b><u>4,748,791</u></b>	<b><u>4,881,038</u></b>	<b><u>229,625,899</u></b>	<b><u>236,707,728</u></b>
<b>Fund Equity</b>				
Fund equity, restricted	<u>31,943,997</u>	<u>32,342,136</u>	<u>28,624,529</u>	<u>28,472,639</u>
<b>Total Liabilities and Fund Equity</b>	<b><u>\$ 36,692,788</u></b>	<b><u>\$ 37,223,174</u></b>	<b><u>\$ 258,250,428</u></b>	<b><u>\$ 265,180,367</u></b>

(Continued)

**RHODE ISLAND HOUSING AND MORTGAGE FINANCE CORPORATION**  
**(A Component Unit of the State of Rhode Island)**  
**Combining Balance Sheets - Multi-Family Fund**  
**June 30, 2012 and 2011**

	<b>Multi-Family Mortgage Revenue Bond Program</b>		<b>Multi-Family Funding Bond Program</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
<b>Assets</b>				
Loans receivable	\$ 66,615,000	\$ 66,690,000	\$ 91,177,767	\$ 72,217,422
Less allowance for loan losses	-	-	-	-
Loans receivable, net	<u>66,615,000</u>	<u>66,690,000</u>	<u>91,177,767</u>	<u>72,217,422</u>
Investments	-	-	-	-
Accrued interest-loans	32,354	27,814	485,345	382,297
Accrued interest-investments	-	-	-	-
Cash and cash equivalents	1,088,068	468,141	6,946,899	19,738,481
Deferred bond issuance costs, net	-	-	53,708	55,533
Interfund receivable (payable)	-	-	-	291,320
<b>Total Assets</b>	<b><u>\$ 67,735,422</u></b>	<b><u>\$ 67,185,955</u></b>	<b><u>\$ 98,663,719</u></b>	<b><u>\$ 92,685,053</u></b>
<b>Liabilities and Fund Equity</b>				
Bonds and notes payable	\$ 66,615,000	\$ 66,690,000	\$ 91,125,000	\$ 86,410,000
Accrued interest payable on bonds and notes	15,096	11,024	749,361	633,734
Accounts payable and accrued liabilities	-	-	-	-
Deferred fees	66,750	67,226	-	-
Escrow deposits	1,087,797	467,870	-	-
<b>Total liabilities</b>	<b><u>67,784,643</u></b>	<b><u>67,236,120</u></b>	<b><u>91,874,361</u></b>	<b><u>87,043,734</u></b>
<b>Fund Equity</b>				
Fund equity, restricted	<u>(49,221)</u>	<u>(50,165)</u>	<u>6,789,358</u>	<u>5,641,319</u>
<b>Total Liabilities and Fund Equity</b>	<b><u>\$ 67,735,422</u></b>	<b><u>\$ 67,185,955</u></b>	<b><u>\$ 98,663,719</u></b>	<b><u>\$ 92,685,053</u></b>

(Continued)



**RHODE ISLAND HOUSING AND MORTGAGE FINANCE CORPORATION**  
**(A Component Unit of the State of Rhode Island)**  
**Combining Balance Sheets - Multi-Family Fund**  
**June 30, 2012 and 2011**

	<u>Multi-Family Development Bonds</u>		<u>Multi-Family Fund Total</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
<b>Assets</b>				
Loans receivable	\$ 15,871,052	\$ 8,934,877	\$ 392,746,247	\$ 375,191,254
Less allowance for loan losses	-	-	-	-
Loans receivable, net	<u>15,871,052</u>	<u>8,934,877</u>	<u>392,746,247</u>	<u>375,191,254</u>
Investments	-	-	57,186,663	53,652,659
Accrued interest-loans	77,607	51,013	1,904,107	1,848,936
Accrued interest-investments	-	-	665,442	284,882
Cash and cash equivalents	8,005,718	708,384	32,622,055	40,511,777
Deferred bond issuance costs, net	34,101	-	206,321	187,995
Interfund receivable (payable)	-	119,373	-	410,693
<b>Total Assets</b>	<b><u>\$ 23,988,478</u></b>	<b><u>9,813,647</u></b>	<b><u>\$ 485,330,835</u></b>	<b><u>\$ 472,088,196</u></b>
<b>Liabilities and Fund Equity</b>				
Bonds and notes payable	\$ 15,890,000	\$ 8,935,000	\$ 400,765,801	\$ 397,207,235
Accrued interest payable on bonds and notes	141,096	121,531	3,462,362	3,400,772
Accounts payable and accrued liabilities	-	-	3,434,354	2,534,322
Deferred fees	-	-	66,750	67,226
Escrow deposits	-	-	2,335,523	1,715,596
<b>Total liabilities</b>	<b><u>16,031,096</u></b>	<b><u>9,056,531</u></b>	<b><u>410,064,790</u></b>	<b><u>404,925,151</u></b>
<b>Fund Equity</b>				
Fund equity, restricted	<u>7,957,382</u>	<u>757,116</u>	<u>75,266,045</u>	<u>67,163,045</u>
<b>Total Liabilities and Fund Equity</b>	<b><u>\$ 23,988,478</u></b>	<b><u>\$ 9,813,647</u></b>	<b><u>\$ 485,330,835</u></b>	<b><u>\$ 472,088,196</u></b>

**RHODE ISLAND HOUSING AND MORTGAGE FINANCE CORPORATION**  
**(A Component Unit of the State of Rhode Island)**  
**Combining Statements of Revenues, Expenses and Changes in Fund Equity - Multi-Family Fund**  
**For the Years Ended June 30, 2012 and 2011**

	<u>Multi-Family Housing Bond Program</u>		<u>Housing Bond Program</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
<b>Operating revenues:</b>				
Interest income on loans	\$ 334,033	\$ 471,380	\$ 15,208,622	\$ 16,455,704
Income on investments:				
Interest on investments	1,879,808	1,742,250	1,078,813	1,134,077
Net increase (decrease) in fair value of investments	-	-	1,803,483	(149,727)
<b>Total operating revenues</b>	<b><u>2,213,841</u></b>	<b><u>2,213,630</u></b>	<b><u>18,090,918</u></b>	<b><u>17,440,054</u></b>
<b>Operating expenses:</b>				
Interest expense	244,525	254,967	9,854,746	11,039,139
Other administrative expenses	3,034	3,221	234,722	251,225
Housing initiatives	13,244	9,768	526,412	594,443
Arbitrage rebate	57,976	341,433	842,057	(48,287)
Amortization of deferred bond issuance costs	6,446	6,809	7,504	8,761
Early retirement of debt	-	-	-	23,396
<b>Total operating expenses</b>	<b><u>325,225</u></b>	<b><u>616,198</u></b>	<b><u>11,465,441</u></b>	<b><u>11,868,677</u></b>
<b>Operating income (loss)</b>	<b>1,888,616</b>	<b>1,597,432</b>	<b>6,625,477</b>	<b>5,571,377</b>
Transfers in (out) of fund equity	<u>(2,286,755)</u>	<u>9,768</u>	<u>(6,473,587)</u>	<u>(20,259,540)</u>
<b>Total change in fund equity</b>	<b>(398,139)</b>	<b>1,607,200</b>	<b>151,890</b>	<b>(14,688,163)</b>
Fund equity, beginning of year	<u>32,342,136</u>	<u>30,734,936</u>	<u>28,472,639</u>	<u>43,160,802</u>
Fund equity, end of year	<b><u>\$ 31,943,997</u></b>	<b><u>\$ 32,342,136</u></b>	<b><u>\$ 28,624,529</u></b>	<b><u>\$ 28,472,639</u></b>

(Continued)

**RHODE ISLAND HOUSING AND MORTGAGE FINANCE CORPORATION**  
**(A Component Unit of the State of Rhode Island)**  
**Combining Statements of Revenues, Expenses and Changes in Fund Equity - Multi-Family Fund**  
**For the Years Ended June 30, 2012 and 2011**

	Multi-Family Mortgage Revenue Bond Program		Multi-Family Funding Bond Program	
	2012	2011	2012	2011
<b>Operating revenues:</b>				
Interest income on loans	\$ 476,601	\$ 536,824	\$ 5,405,678	\$ 2,391,738
Income on investments:				
Interest on investments	-	-	1,827	27,795
Net increase (decrease) in fair value of investments	-	-	-	-
<b>Total operating revenues</b>	<b>476,601</b>	<b>536,824</b>	<b>5,407,505</b>	<b>2,419,533</b>
<b>Operating expenses:</b>				
Interest expense	145,217	203,884	2,733,849	1,174,238
Other administrative expenses	-	-	-	-
Housing initiatives	-	-	112,619	14,522
Arbitrage rebate	-	-	-	-
Amortization of deferred bond issuance costs	-	-	1,826	4,818
Early retirement of debt	-	-	-	204,718
<b>Total operating expenses</b>	<b>145,217</b>	<b>203,884</b>	<b>2,848,294</b>	<b>1,398,296</b>
<b>Operating income (loss)</b>	<b>331,384</b>	<b>332,940</b>	<b>2,559,211</b>	<b>1,021,237</b>
Transfers in (out) of fund equity	(330,440)	(333,437)	(1,411,172)	4,355,012
<b>Total change in fund equity</b>	<b>944</b>	<b>(497)</b>	<b>1,148,039</b>	<b>5,376,249</b>
Fund equity, beginning of year	(50,165)	(49,668)	5,641,319	265,070
Fund equity, end of year	<u>\$ (49,221)</u>	<u>\$ (50,165)</u>	<u>\$ 6,789,358</u>	<u>\$ 5,641,319</u>

(Continued)

**RHODE ISLAND HOUSING AND MORTGAGE FINANCE CORPORATION**  
**(A Component Unit of the State of Rhode Island)**  
**Combining Statements of Revenues, Expenses and Changes in Fund Equity - Multi-Family Fund**  
**For the Years Ended June 30, 2012 and 2011**

	Multi-Family Development		Multi-Family Total	
	2012	2011	2012	2011
<b>Operating revenues:</b>				
Interest income on loans	\$ 812,582	\$ 464,646	\$ 22,237,516	\$ 20,320,292
Income on investments:				
Interest on investments	1,962	824	2,962,410	2,904,946
Net increase (decrease) in fair value of investments	-	-	1,803,483	(149,727)
<b>Total operating revenues</b>	<b>814,544</b>	<b>465,470</b>	<b>27,003,409</b>	<b>23,075,511</b>
<b>Operating expenses:</b>				
Interest expense	529,006	258,376	13,507,343	12,930,604
Other administrative expenses	-	-	237,756	254,446
Housing initiatives	19,127	190	671,402	618,923
Arbitrage rebate	-	-	900,033	293,146
Amortization of deferred bond issuance costs	24,881	-	40,657	20,388
Early retirement of debt	-	-	-	228,114
<b>Total operating expenses</b>	<b>573,014</b>	<b>258,566</b>	<b>15,357,191</b>	<b>14,345,621</b>
<b>Operating income (loss)</b>	<b>241,530</b>	<b>206,904</b>	<b>11,646,218</b>	<b>8,729,890</b>
Transfers in (out) of fund equity	6,958,736	550,212	(3,543,218)	(15,677,985)
<b>Total change in fund equity</b>	<b>7,200,266</b>	<b>757,116</b>	<b>8,103,000</b>	<b>(6,948,095)</b>
Fund equity, beginning of year	757,116	-	67,163,045	74,111,140
Fund equity, end of year	<u>\$ 7,957,382</u>	<u>\$ 757,116</u>	<u>\$ 75,266,045</u>	<u>\$ 67,163,045</u>

**APPENDIX D-1**

**PROPOSED FORM OF OPINION OF BOND COUNSEL WITH  
RESPECT TO THE SERIES 2-C BONDS**

December 20, 2012

Rhode Island Housing and Mortgage  
Finance Corporation  
44 Washington Street  
Providence, RI 02903

Dear Commissioners:

We have examined the Constitution and the laws of the State of Rhode Island and Providence Plantations (the "State") and a record of proceedings relating to the deemed reissuance of a portion of the \$83,000,000 aggregate principal amount of Home Funding Bonds, Series 2 (the "Series 2 Bonds") of the Rhode Island Housing and Mortgage Finance Corporation ("Rhode Island Housing"), a public corporation and instrumentality and agency of the State created by and pursuant to Chapter 55 of Title 42 of the General Laws of Rhode Island, 1956 (2006 Reenactment), as amended (the "Act"), and organized and existing under the Act and the laws of the State.

The Series 2 Bonds were issued pursuant to the Act and a resolution adopted by Rhode Island Housing on November 19, 2009, entitled "General Home Funding Program Bond Resolution" (the "General Resolution") as supplemented by a resolution adopted by Rhode Island Housing on November 19, 2009 entitled "Series 1 Home Funding Program Supplemental Resolution" (the "2009 Supplemental Resolution") and a Series Certificate of Rhode Island Housing delivered pursuant thereto relating to the Series 2 Bonds, as amended (the "2009 Series Certificate").

Proceeds of the Series 2 Bonds have been deposited in the Series 2 Escrow Proceeds Account created by the 2009 Series Certificate and are subject to release therefrom upon satisfaction of the conditions for such release set forth in the 2009 Series Certificate. Pursuant to the General Resolution, the 2009 Supplemental Resolution, the 2009 Series Certificate, a resolution adopted by Rhode Island Housing on October 18, 2012 entitled "Series 5 and Subseries 2-C Home Funding Program Supplemental Resolution" (the "2012 Supplemental Resolution") and a Series Certificate of Rhode Island Housing delivered pursuant thereto (the "2012 Series Certificate" and, together with the General Resolution, the 2009 Supplemental Resolution, the 2009 Series Certificate and the 2012 Supplemental Resolution, the "Resolution") Rhode Island Housing has elected to release \$32,000,000 of proceeds of the Series 2 Bonds from the Series 2 Escrow Proceeds Account. Upon such release and in accordance with the Resolution, a corresponding amount of the Series 2 Bonds will be redesignated as the Home Funding Bonds, Series 2, Subseries 2-C (the "Subseries 2-C Bonds").

The Subseries 2-C Bonds are dated, will mature on the dates and in the respective principal amounts, bear interest, if any, at the rates, are subject to redemption prior to maturity and are otherwise as described in the Resolution.

Proceeds of the Series 2 Bonds are being released for the purpose of providing funds to carry out the Program as described in the Resolution including, among other things, the financing of loans for residential

housing within the State for persons and families of lower and moderate incomes and the payment of certain costs of Rhode Island Housing in connection with the Program. Rhode Island Housing is authorized to issue additional series of bonds (the "Bonds"), upon the terms and conditions as set forth in the General Resolution, and such Bonds, when issued, shall, with the Subseries 2-C Bonds and with all other such Bonds theretofore issued, be entitled to the equal benefit, protection and security of the provisions, covenants and agreements of the General Resolution.

The Internal Revenue Code of 1986, as amended (the "Code"), establishes certain requirements which must be met subsequent to the delivery of the Subseries 2-C Bonds in order that interest on the Subseries 2-C Bonds shall be excluded from gross income for federal income tax purposes under Section 103 of the Code. Rhode Island Housing has covenanted in the Resolution to comply with applicable requirements of the Code and for such purpose, to adopt and maintain appropriate procedures. In rendering this opinion, we have assumed compliance by Rhode Island Housing with and enforcement by Rhode Island Housing of the Resolution.

We are of the opinion that:

1. Under the Constitution and laws of the State, Rhode Island Housing has been duly created and validly exists, and Rhode Island Housing has good, right and lawful authority, among other things, to carry out its Program (as such term is defined in the Resolution), to provide sufficient funds therefor by the adoption of the Resolution and the reissuance and redesignation of the Subseries 2-C Bonds, and to perform its obligations under the terms and conditions of the Resolution.

2. The Resolution has been duly adopted by Rhode Island Housing, is in full force and effect, and is valid and binding upon Rhode Island Housing and enforceable in accordance with its terms.

3. The Subseries 2-C Bonds are valid and legally binding special revenue obligations of Rhode Island Housing payable solely from the revenues, funds or moneys pledged for the payment thereof pursuant to the Resolution, are enforceable in accordance with their terms and the terms of the Resolution, and are entitled to the equal benefit, protection and security of the provisions, covenants and agreements of the Resolution.

4. The Subseries 2-C Bonds are secured by a pledge in the manner and to the extent set forth in the Resolution. The Resolution creates the valid pledge of and lien on the Revenues and all the Accounts established by the Resolution (except the Rebate Account) (as such terms are defined in the Resolution), which the Resolution purports to create, subject only to the provisions of the Resolution permitting the use and application thereof for or to the purposes and on the terms and conditions set forth in the Resolution.

5. The State is not liable on the Subseries 2-C Bonds, and the Subseries 2-C Bonds are not a debt of the State. Neither the faith, credit nor the taxing power of the State or of any political subdivision thereof is pledged to the payment of the principal of, premium, if any, and interest on the Subseries 2-C Bonds.

6. Under existing statutes and court decisions, assuming continuing compliance by Rhode Island Housing with the Resolution and the covenants therein concerning federal tax laws and enforcement by Rhode Island Housing of the Resolution, (i) interest on the Subseries 2-C Bonds is not included in the gross income of the owners thereof for federal income tax purposes pursuant to Section 103 of the Code and (ii) interest on the Subseries 2-C Bonds will not be treated as a preference item for purposes of calculating the alternative minimum tax imposed by the Code on individuals, corporations and other tax payers, and such interest on the Subseries 2-C Bonds will not be included in adjusted current earnings of corporations for purposes of the federal alternative minimum tax. No opinion as to the exclusion from gross income of interest on any of the Subseries 2-C Bonds is expressed subsequent to any date on which action is taken pursuant to the Resolution for which action the Resolution requires a legal opinion to the effect that taking such action will not adversely affect such exclusion, should the undersigned not deliver an opinion as of such date to such effect.

7. Under the Act, income on the Subseries 2-C Bonds (including profit on the sale thereof) is free from Rhode Island personal income taxes.

In rendering this opinion, we are advising you that the enforceability of the Subseries 2-C Bonds and the Resolution may be limited by bankruptcy, moratorium, insolvency or other laws affecting creditors' rights or remedies heretofore or hereafter enacted and is subject to general principal of equity or at law.

We have examined an executed Subseries 2-C Bond, and in our opinion, the forms of such bonds and their execution are regular and proper.

Very truly yours,

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**APPENDIX D-2**

**PROPOSED FORM OF OPINION OF BOND COUNSEL WITH  
RESPECT TO THE ISSUANCE OF THE SERIES 5 BONDS**

December 20, 2012

Rhode Island Housing and Mortgage  
Finance Corporation  
44 Washington Street  
Providence, RI 02903

Dear Commissioners:

We have examined the Constitution and the laws of the State of Rhode Island and Providence Plantations (the "State") and a record of proceedings relating to the issuance of \$39,840,000 aggregate principal amount of Home Funding Bonds, Series 5 (the "Series 5 Bonds") of the Rhode Island Housing and Mortgage Finance Corporation ("Rhode Island Housing"), a public corporation and instrumentality and agency of the State created by and pursuant to Chapter 55 of Title 42 of the General Laws of Rhode Island, 1956 (2006 Reenactment), as amended (the "Act"), and organized and existing under the Act and the laws of the State.

The Series 5 Bonds are issued pursuant to the Act and a resolution adopted by Rhode Island Housing on November 19, 2009, entitled "General Home Funding Program Bond Resolution" (the "General Resolution") as supplemented by a resolution adopted by Rhode Island Housing on October 18, 2012 entitled "Series 5 and Subseries 2-C Home Funding Program Supplemental Resolution" (the "Supplemental Resolution") and a Series Certificate of Rhode Island Housing delivered pursuant thereto relating to the Series 5 Bonds (the "Series Certificate"). The General Resolution, the Supplemental Resolution and the Series Certificate are referred to herein, collectively, as the "Resolution." The Series 5 Bonds and any other bonds or notes which have been or may be issued under the General Resolution are herein called the "Bonds."

The Series 5 Bonds are dated, will mature on the dates and in the respective principal amounts, bear interest, if any, at the rates, are subject to redemption prior to maturity and are otherwise as described in the Resolution.

The Series 5 Bonds are issued for the purpose of providing funds to carry out the Program as described in the Resolution including, among other things, the financing of loans for residential housing within the State for persons and families of lower and moderate incomes and the payment of certain costs of Rhode Island Housing in connection with the Program. Rhode Island Housing is authorized to issue Bonds, in addition to the Series 5 Bonds, upon the terms and conditions as set forth in the General Resolution, and such Bonds, when issued, shall, with the Series 5 Bonds and with all other such Bonds theretofore issued, be entitled to the equal benefit, protection and security of the provisions, covenants and agreements of the General Resolution.

The Internal Revenue Code of 1986, as amended (the "Code"), establishes certain requirements which must be met subsequent to the delivery of the Series 5 Bonds in order that interest on the Series 5 Bonds shall be excluded from gross income for federal income tax purposes under Section 103 of the Code. Rhode Island Housing has covenanted in the Resolution to comply with applicable requirements of the Code and for such

purpose, to adopt and maintain appropriate procedures. In rendering this opinion, we have assumed compliance by Rhode Island Housing with and enforcement by Rhode Island Housing of the Resolution.

We are of the opinion that:

1. Under the Constitution and laws of the State, Rhode Island Housing has been duly created and validly exists, and Rhode Island Housing has good, right and lawful authority, among other things, to carry out its Program (as such term is defined in the Resolution), to provide sufficient funds therefor by the adoption of the Resolution and the issuance and sale of the Series 5 Bonds, and to perform its obligations under the terms and conditions of the Resolution.

2. The Resolution has been duly adopted by Rhode Island Housing, is in full force and effect, and is valid and binding upon Rhode Island Housing and enforceable in accordance with its terms.

3. The Series 5 Bonds are valid and legally binding special revenue obligations of Rhode Island Housing payable solely from the revenues, funds or moneys pledged for the payment thereof pursuant to the Resolution, are enforceable in accordance with their terms and the terms of the Resolution, and are entitled to the equal benefit, protection and security of the provisions, covenants and agreements of the Resolution.

4. The Series 5 Bonds are secured by a pledge in the manner and to the extent set forth in the Resolution. The Resolution creates the valid pledge of and lien on the Revenues and all the Accounts established by the Resolution (except the Rebate Account) (as such terms are defined in the Resolution), which the Resolution purports to create, subject only to the provisions of the Resolution permitting the use and application thereof for or to the purposes and on the terms and conditions set forth in the Resolution.

5. The State is not liable on the Series 5 Bonds, and the Series 5 Bonds are not a debt of the State. Neither the faith, credit nor the taxing power of the State or of any political subdivision thereof is pledged to the payment of the principal of, premium, if any, and interest on the Series 5 Bonds.

6. Under existing statutes and court decisions, assuming continuing compliance by Rhode Island Housing with the Resolution and the covenants therein concerning federal tax laws and enforcement by Rhode Island Housing of the Resolution, (i) interest on the Series 5 Bonds is not included in the gross income of the owners thereof for federal income tax purposes pursuant to Section 103 of the Code and (ii) interest on the Series 5 Bonds will not be treated as a preference item for purposes of calculating the alternative minimum tax imposed by the Code on individuals, corporations and other tax payers, and such interest on the Series 5 Bonds will not be included in adjusted current earnings of corporations for purposes of the federal alternative minimum tax. No opinion as to the exclusion from gross income of interest on any of the Series 5 Bonds is expressed subsequent to any date on which action is taken pursuant to the Resolution for which action the Resolution requires a legal opinion to the effect that taking such action will not adversely affect such exclusion, should the undersigned not deliver an opinion as of such date to such effect.

7. Under the Act, income on the Series 5 Bonds (including profit on the sale thereof) is free from Rhode Island personal income taxes.

In rendering this opinion, we are advising you that the enforceability of the Series 5 Bonds and the Resolution may be limited by bankruptcy, moratorium, insolvency or other laws affecting creditors' rights or remedies heretofore or hereafter enacted and is subject to general principal of equity or at law.

We have examined an executed Series 5 Bond, and in our opinion, the form of such bond and its execution are regular and proper.

Very truly yours,

**APPENDIX E**

**SUMMARY OF OUTSTANDING BOND INDEBTEDNESS  
OF RHODE ISLAND HOUSING**

The following table sets forth the original and outstanding amounts of Rhode Island Housing's bonds as of June 30, 2012:

	<u>Dated</u>	<u>Original Amount</u>	<u>Outstanding Amount</u>
<b>Homeownership Opportunity Bonds</b>			
Series 10-A	09/01/1992	\$ 153,270,000	\$ 2,000,000
Series 15-A	05/01/1994	51,000,000	2,000,000
Series 26-B*	03/01/1998	39,870,000	7,795,000
Series 29-A*	12/01/1998	35,000,000	25,815,000
Series 37-B*	07/15/2001	24,590,000	890,000
Series 40-A*	09/01/2002	30,000,000	29,225,000
Series 43-A*	06/01/2003	20,000,000	10,625,000
Series 44-A**	09/24/2003	35,000,000	14,050,000
Series 45-A**	11/20/2003	17,900,000	7,075,000
Series 45-B**	11/20/2003	27,100,000	17,335,000
Series 46-A	03/18/2004	40,000,000	32,410,000
Series 46-T	03/18/2004	15,000,000	15,000,000
Series 47-A	08/12/2004	9,890,000	5,145,000
Series 47-B	08/12/2004	30,110,000	29,910,000
Series 48-A	12/09/2004	10,000,000	4,920,000
Series 48-B	12/09/2004	20,000,000	19,820,000
Series 48-T	12/09/2004	15,000,000	15,000,000
Series 49-A	03/23/2005	10,415,000	10,365,000
Series 49-B	03/23/2005	44,585,000	28,520,000
Series 50-A	07/28/2005	43,135,000	24,880,000
Series 50-B	07/28/2005	38,365,000	38,365,000
Series 51-A	01/19/2006	47,165,000	39,130,000
Series 51-B	01/19/2006	7,605,000	4,430,000
Series 52-A	06/15/2006	25,000,000	19,465,000
Series 52-B	06/15/2006	25,000,000	24,215,000
Series 53-A	09/13/2006	21,310,000	16,090,000
Series 53-B	09/13/2006	48,690,000	41,135,000
Series 54	11/14/2006	68,085,000	60,675,000
Series 55-A	03/01/2007	10,625,000	10,625,000
Series 55-B	03/01/2007	69,375,000	60,195,000
Series 56-A	06/21/2007	65,000,000	61,240,000
Series 56-B1-T	06/21/2007	11,000,000	4,655,000
Series 57-A	09/13/2007	13,410,000	8,635,000
Series 57-B	09/13/2007	56,590,000	43,075,000
Series 58-A	11/15/2007	62,620,000	52,845,000

\*Series refunded with proceeds of Series 62 Homeownership Opportunity Bonds on July 11, 2012.

\*\*Series refunded with proceeds of Series 63-A, B & C Homeownership Opportunity Bonds on November 15, 2012.

Series 58-T	11/15/2007	\$ 10,000,000	\$ 2,045,000
Series 59-A	03/20/2008	23,285,000	15,830,000
Series 59-B	03/20/2008	24,325,000	12,050,000
Series 59-C*	03/20/2008	25,000,000	25,000,000
Series 60-A1	08/26/2008	16,220,000	11,640,000
Series 60-B	08/26/2008	21,235,000	1,840,000
Series 61-A	06/06/2012	15,000,000	15,000,000
Series 61-B	06/06/2012	10,000,000	10,000,000
Series 61-C	06/06/2012	37,900,000	37,900,000
Unamortized bond premium			1,400,618
		<u>\$ 1,424,670,000</u>	<u>\$ 920,260,618</u>

**Home Funding Bonds and Notes:**

Series 1-A	12/23/2009	\$ 30,000,000	\$ 25,670,000
Series 1-B**	12/21/2009	45,000,000	41,770,000
Series 2	12/21/2009	83,000,000	32,000,000
Series 2, Subseries 2A	12/21/2009	30,000,000	29,650,000
Series 2, Subseries 2B	09/29/2011	21,000,000	21,000,000
Series 3	11/04/2010	20,000,000	19,005,000
Series 4	09/29/2011	14,000,000	13,795,000
Unamortized bond discount, net			(14,117)
		<u>\$ 243,000,000</u>	<u>\$ 182,875,883</u>

**Multi-Family Housing Bonds**

1995 Series A	05/15/1995	\$ 147,535,000	\$ 740,000
1998 Series A	04/01/1998	4,510,000	3,640,000
		<u>\$ 152,045,000</u>	<u>\$ 4,380,000</u>

**Housing Bonds**

2001 Series A	12/01/2000	\$ 3,800,000	\$ 1,950,000
2001 Series B-1B	11/01/2001	30,355,000	10,045,000
2001 Series B-2T	12/13/2001	18,605,000	3,715,000
2002 Series A	05/01/2002	9,900,000	8,795,000
2003 Series A-1	02/01/2003	11,105,000	7,545,000
2003 Series A-2T	03/12/2003	26,660,000	21,010,000
2003 Series B-1A	08/01/2003	13,655,000	10,585,000
2003 Series B-1B	08/01/2003	3,370,000	2,605,000
2003 Series B-2T	08/20/2003	16,435,000	8,900,000
2003 Series C-1A	12/23/2003	18,265,000	16,360,000
2003 Series C-1B	12/23/2003	2,705,000	1,430,000
2004 Series A-1A	06/17/2004	8,070,000	7,110,000
2004 Series A-1B	06/17/2004	3,595,000	3,145,000
2004 Series B-1A	12/29/2004	2,005,000	1,940,000
2004 Series B-1B-1	12/29/2004	22,790,000	13,385,000
2004 Series B-1B-2	12/29/2004	1,090,000	960,000
2004 Series B-2T	12/29/2004	9,215,000	3,400,000

\*Series refunded with proceeds of Series 63-T Homeownership Opportunity Bonds on November 30, 2012.

\*\*Series to be refunded with Series 5 Bonds on or about January 2, 2013.

2005 Series A-1A	10/20/2005	\$ 21,180,000	\$ 18,815,000
2005 Series A-1B	10/20/2005	5,235,000	270,000
2005 Series A-2T	10/20/2005	7,845,000	1,210,000
2006 Series A-1	12/21/2006	26,785,000	20,965,000
2007 Series A-1	05/10/2007	35,775,000	31,510,000
2007 Series A-2T	05/10/2007	7,265,000	1,270,000
2007 Series B-1A/B	12/20/2007	45,560,000	25,730,000
Unamortized bond premium, net			105,801
		<u>\$ 351,265,000</u>	<u>\$ 222,755,801</u>
<b>Multi-Family Funding Bonds</b>			
Series 2009A, Subseries 2009A-1	12/21/2009	\$ 51,000,000	\$ 51,000,000
Series 2009A, Subseries 2009A-2	12/21/2009	65,100,000	14,100,000
Series 2010A	12/16/2010	21,310,000	20,985,000
Series 2011A	12/08/2011	5,040,000	5,040,000
		<u>\$ 142,450,000</u>	<u>\$ 91,125,000</u>
<b>Multi-Family Development Bonds</b>			
2010 Series 1	12/22/2010	11,235,000	8,890,000
2011 Series 1	12/14/2012	7,000,000	7,000,000
		<u>\$ 18,235,000</u>	<u>\$ 15,890,000</u>
<b>Multi-Family Mortgage Revenue Bonds</b>			
1998 Series A	12/18/1998	\$ 2,660,000	\$ 1,965,000
2006 Series (University Heights Project)	03/31/2006	26,700,000	26,700,000
2006 Series (Sutterfield Project)	03/31/2006	7,000,000	7,000,000
2006 Series (The Groves)	09/21/2006	35,000,000	30,950,000
		<u>\$ 71,360,000</u>	<u>\$ 66,615,000</u>
<b>General Obligation Bonds Series 2008</b>			
	10/31/2008	\$ 5,000,000	\$ 5,000,000
<b>Total</b>		<u><b>\$ 2,312,440,000</b></u>	<u><b>\$1,508,902,302</b></u>

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## APPENDIX F

### SUMMARY OF CERTAIN PROVISIONS OF THE BOND RESOLUTION

The Bond Resolution contains various definitions, covenants and security provisions certain of which are summarized below. This summary does not purport to be comprehensive or definitive and is subject to all of the terms and provisions of the Bond Resolution, to which reference is hereby made and copies of which are available from Rhode Island Housing or the Trustee.

#### Certain Definitions

In the Bond Resolution and this Official Statement, unless the context otherwise requires, the following words and terms have the following meanings:

“Account” means one or more, as the case may be, of the special accounts created and established pursuant to the Bond Resolution.

“Accountant” means such reputable and experienced independent certified public accountant or firm of independent certified public accountants as may be selected by Rhode Island Housing and may be the accountant or firm of accountants who regularly audit the books and accounts of Rhode Island Housing.

“Act” means Chapter 55 of Title 42 of the General Laws of Rhode Island, 1956, (2006 Reenactment) as amended.

“Aggregate Debt Service” means, with respect to any particular Fiscal Year and as of any particular date of computation, the sum of the individual amounts of Debt Service of such Fiscal Year with respect to all series.

“Appreciation Bond” means any Bond whose Issuance Amount is less than 97.5% of the Maturity Amount.

“Authorized Officer” means the Chairman, Executive Director, Deputy Director – Finance, Controller, Treasurer and Portfolio Manager of Rhode Island Housing and, in the case of any act to be performed or duty to be discharged, any other member, officer or employee of Rhode Island Housing then authorized to perform such act or discharge such duty.

“Bond” means one of the bonds to be authenticated and delivered pursuant to the Bond Resolution, including any additional or Refunding Bonds issued thereunder.

“Bond Counsel” means an attorney or firm of attorneys of nationally recognized standing in the field of law relating to municipal, state and public agency financing, selected by Rhode Island Housing.

“Bond Depository” means a Bondholder acting as a central securities depository as provided in the Bond Resolution.

“Bondholder” or “holder” or words of similar import, when used with reference to a Bond, means any person who shall be the registered owner of any Outstanding Bond.

“Business Day” means any day of the week other than (i) a Saturday or Sunday or (ii) a day which shall be in the State a legal holiday or a day on which banking institutions in the State are authorized or obligated by law or executive order to close.

“Cash Equivalent” means a letter of credit, insurance policy, surety, guarantee or other security arrangement (as defined and provided for in a Supplemental Resolution), provided by an institution which has received a rating of its claims paying ability from the Rating Agency which would not impair the then existing rating on the Bonds or whose unsecured debt securities are rated by the Rating Agency at least the then existing rating on the Bonds (or the highest rating of short-term obligations if the Cash Equivalent has a term of less than twelve months).

“Certificate” means (i) a signed document either attesting to or acknowledging the circumstances, representations or other matters therein stated or set forth or setting forth matters to be determined pursuant to the Bond Resolution or (ii) the report of an Accountant as to audit or other procedures called for by the Bond Resolution.

“Compounded Amount” means as of any particular date of calculation with reference to any Appreciation Bond, either (i) the applicable Compounded Amount for such date established by Rhode Island Housing in a written schedule of specific Compounded Amounts delivered to the Trustee upon delivery of such Bond pursuant to the Bond Resolution, or (ii) in the event such schedule is not delivered, the Issuance Amount, plus the amount which would have been produced as of such calculation date if the Issue Amount had been invested at the Internal Rate of Return for such Bond on the date of delivery of such Bond pursuant to the Bond Resolution. Any determination of Compounded Amount shall assume straight line amortization during interim periods and be otherwise made in accordance with standard securities calculation methods.

“Costs of Issuance” means all items of expense, directly or indirectly payable or reimbursable by or to Rhode Island Housing and related to the authorization, sale and issuance of Bonds, including but not limited to printing costs, costs of preparation and reproduction of documents, filing and recording fees, initial fees and charges of any Fiduciary, 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 Bonds, costs and expenses of refunding, premiums for the insurance of the payment of Bonds, accrued interest in connection with the financing of any Program Obligation and any other cost, charge or fee in connection with the original issuance of Bonds.

“Counsel’s Opinion” means an opinion signed by an attorney or firm of attorneys selected by Rhode Island Housing and may include an individual in the regular employ of Rhode Island Housing.

“Covenant Default” means a default of the type specified in paragraph (c) under “**SUMMARY OF CERTAIN PROVISIONS OF THE BOND RESOLUTION—Events of Default.**”

“Current Interest Bonds” means Bonds which provide for the payment of interest other than at maturity and which is not an Appreciation Bond.

“Debt Service” means, with respect to any particular Fiscal Year and any particular Series of Bonds, an amount equal to the sum of (i) all interest payable on such Bonds during such Fiscal Year, plus (ii) any Principal Installment of such Bonds during such Fiscal Year.

“Debt Service Reserve Account” means the Debt Service Reserve Account established pursuant to the Bond Resolution.

“Debt Service Reserve Account Requirement” means, as of any date of calculation, the greater of (a) an amount equal to the aggregate of the respective amounts for each Series established in the Supplemental Resolution authorizing such Series, or (b) an amount equal to 3% of the then current balance of all Program Loans (but not Program Securities) plus any other amount on deposit in the Loan Account which has not been designated to provide for Costs of Issuance or capitalized interest provided in Section 4.2. In evaluating compliance with the Debt Service Reserve Account Requirement, there shall be taken into account any amount



provided in a Supplemental Resolution to be deposited in the Debt Service Reserve Account from amounts on deposit in the Loan Account.

“Depository” means any bank or trust company or national banking association selected by Rhode Island Housing or the Trustee as a depository of moneys or securities held under the provisions of the Bond Resolution and may include the Trustee or any Paying Agent.

“Event of Default” means any of the events of default specified in the Bond Resolution and described under “**SUMMARY OF CERTAIN PROVISIONS OF THE BOND RESOLUTION—Events of Default.**”

“Federal Mortgage Agency” means the Government National Mortgage Association, Fannie Mae and the Federal Home Loan Mortgage Corporation.

“Fiduciary” means the Trustee and any Paying Agent, or any or all of them.

“Final Compounding Date” means either the maturity date of an Appreciation Bond or such earlier Interest Payment Date, if any, as may be specified in an Appreciation Bond upon which the Compounded Amount shall be equal to the amount payable on such Bond at maturity, exclusive of interest on such Bond which is payable on a periodic basis.

“Fiscal Year” means a twelve-month period commencing on the first day of July of any year.

“Hedge Agreement” means a payment exchange agreement, swap agreement, forward purchase agreement or any other hedge agreement entered into by Rhode Island Housing providing for payments between the parties based on levels of, or changes in, interest rates or other indices or contracts to exchange cash flows or a series of payments or contracts, including, without limitation, interest rate floors, or caps, options, puts or calls, which allows the Agency to manage or hedge payment, rate, spread or similar risk with respect to all or a portion of any Series of Bonds or any assets pledged under this Resolution.

“Government Obligations” means obligations of the United States of America or obligations the principal of and interest on which are guaranteed by the United States of America (including obligations issued or held in book-entry form on the books of the U.S. Department of the Treasury).

“Internal Rate of Return” when used with respect to an Appreciation Bond, means the yield which, when applied to Issuance Amount as of the date of delivery of a Bond pursuant to the Bond Resolution and compounded semi-annually or as otherwise provided in a Supplemental Resolution results in an amount, as of the Final Compounding Date, equal to the amount payable on such bond at maturity exclusive of interest, if any, on each Interest Payment Date therefor on such Bond which is payable on the Interest Payment Dates therefor.

“Investment Securities” means and includes any of the following obligations, to the extent the same are at the time legal for investment of funds of Rhode Island Housing under the Act, including the amendments thereto hereafter made, or under other applicable law:

(1) either Government Obligations or obligations, rated by the Rating Agency in its highest rating category, of any state of the United States of America or any political subdivision of such a state, payment of which is secured by an irrevocable pledge of such Government Obligations;

(2) (A) bonds, debentures or other obligations issued by a federal agency and backed by the full faith and credit of the United States of America; or (B) bonds, debentures or other obligations issued by any Federal Mortgage Agency (excluding Program Securities which are valued greater than

par on the portion of unpaid principal or Program Securities which represent payments of principal only or interest only with respect to the underlying mortgage loans);

(3) any obligations of an agency controlled or supervised by or acting as an instrumentality of the United States Government pursuant to authority granted by the Congress of the United States;

(4) time deposits, certificates of deposit or any other deposit with a bank, trust company, national banking association, savings bank, federal mutual savings bank, savings and loan association, federal savings and loan association or any other institution chartered or licensed by any state or the U.S. Comptroller of the Currency to accept deposits in such state (as used herein, "deposits" shall mean obligations evidencing deposit liability which rank at least on a parity with the claims of general creditors in liquidation), which are (a) fully secured, to the extent not insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation, by any of the obligations described in (1) above having a market value (exclusive of accrued interest) not less than the uninsured amount of such deposit or (b) (1) unsecured or (2) secured to the extent, if any, required by Rhode Island Housing provided, however, that any deposit or instrument authorized in this paragraph (4) shall be made with an institution whose unsecured debt securities are rated at least the then existing rating on the Bonds (or the highest rating of short-term obligations if the investment is a short-term obligation) by the Rating Agency;

(5) repurchase agreements with any institution whose unsecured debt securities are rated at least the then existing rating on the Bonds (or the highest rating of short-term obligations if the investment is a short-term obligation) by the Rating Agency and (A) backed by or related to obligations described in (1), (2) or (3) above or (B) having a term not exceeding three years and entered into with such party or parties and on such terms and conditions as shall not impair the then existing rating on the Bonds by the Rating Agency;

(6) investment agreements, (A) with any institution whose debt securities are rated at least the then existing rating on the Bonds (or the highest rating of short-term obligations if the investment is a short-term obligation) by the Rating Agency and secured or unsecured as required by Rhode Island Housing, or (B) fully secured by obligations described in (1), (2) or (3) above having a term not exceeding three years and entered into with such party or parties and on such terms and conditions as shall not impair the then existing rating on the Bonds by the Rating Agency;

(7) direct and general obligations of or obligations unconditionally guaranteed by the State, the payment of the principal of and interest on which the full faith and credit of the State is pledged, and certificates of participation in obligations of the State which obligation may be subject to annual appropriations, which obligations are rated at least the then existing rating on the Bonds by the Rating Agency;

(8) direct and general obligations of or obligations guaranteed by any state, municipality or political subdivision or agency thereof, which obligations are rated in either of the two highest rating categories of the Rating Agency;

(9) bonds, debentures, or other obligations issued by any bank, trust company, national banking association, insurance company, corporation, government or governmental entity (foreign or domestic), provided, that such bonds, debentures or other obligations are (a) payable in any coin or currency of the United States of America which at the time of payment will be legal tender for the payment of public and private debts, and (b) rated in either of the two highest rating categories of the Rating Agency;

(10) commercial paper (having original maturities of not more than 365 days) rated in the highest category of the Rating Agency;

(11) money market funds which invest in Government Obligations or federal agency securities and which funds have been rated in either of the two highest rating categories by the Rating Agency; or

(12) any investments authorized in a Supplemental Resolution.

Provided, that it is expressly understood that the definition of Investment Securities shall be, and be deemed to be, expanded, or new definitions and related provisions shall be added to the Bond Resolution by a Supplemental Resolution, thus permitting investments with different characteristics from those permitted which the Board of Commissioners of Rhode Island Housing deems from time to time to be in the interest of Rhode Island Housing to include as Investment Securities if at the time of inclusion such inclusion will not, in and of itself, impair, or cause the Bonds to fail to retain, the then existing rating assigned to them by the Rating Agency.

For purposes of this definition, (i) “institution” means an individual, partnership, corporation, trust or unincorporated organization, or a government or agency, instrumentality, program, account, fund, political subdivision or corporation thereof and (ii) “short term” refers to an obligation having a term of twelve months or less.

“Issuance Amount” means, with respect to any particular Bond, the price, exclusive of accrued interest (if any) payable within the next twelve months, at which such Bond was offered for sale to the public (or the price of such Bond to the initial purchaser if not publicly sold) at the time of issuance of the Series which such Bond is a part of pursuant to the Bond Resolution, which shall be set forth in a Supplemental Resolution or Series Certificate and shall be exclusive of underwriter’s compensation, commissions, placement agent’s fees, concessions, Costs of Issuance or similar costs.

“Loan Account” means the Loan Account established in the Bond Resolution.

“Maturity Amount” means the amount payable on an Appreciation Bond at maturity of such Bond, exclusive of interest, if any, on such Bond which is payable on the Interest Payment Dates therefor.

“Mortgage Revenues” means all payments, proceeds, rents, premiums, penalties, charges and other cash income received by Rhode Island Housing from or on account of any Program Obligation (including scheduled, delinquent and advance payments of, and any net insurance or guaranty proceeds with respect to, principal and interest on any Program Obligation or the net operating income or net proceeds of sale of any property acquired thereunder) but excludes (i) any amount retained by a servicer (other than Rhode Island Housing) of any Program Obligation as compensation for services rendered in connection with such Program Obligation, (ii) any payments for the guaranty or insurance of any Program Obligation, (iii) any payments of taxes, assessments or similar charges or premiums or other charges for fire or other hazard insurance (and any escrow payments in connection therewith) called for by any Program Obligation, (iv) amounts payable with respect to a Program Loan which represent a return on amounts financed by Rhode Island Housing or by other persons pursuant to a participation, forbearance or other arrangement from sources other than proceeds of Bonds or other amounts held under the Bond Resolution and (v) to the extent such items do not exceed the income derived therefrom payments or charges constituting expenses of managing and maintaining property acquired pursuant to a Program Obligation.

“Non-Mortgage Receipts” means all interest earned or gain realized in excess of losses as a result of the investment of the amount in any Account (except the Rebate Account), but does not include Mortgage Revenues.

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

(1) any Bond cancelled by Rhode Island Housing or delivered to Rhode Island Housing for cancellation at or prior to such date;

(2) any Bond (or portion of a Bond) for the payment or redemption of which there have been separately set aside and held in the Redemption Account under the Bond Resolution either:

(a) moneys in an amount sufficient to effect payment of the principal or applicable Redemption Price thereof, together with accrued interest on such Bond to the Redemption Date;

(b) Investment Securities, as specified in the Bond Resolution and described under **“SUMMARY OF CERTAIN PROVISIONS OF THE BOND RESOLUTION—Defeasance,”** in such principal amounts, of such maturities, bearing such interest and otherwise having such terms and qualifications as shall be necessary to provide moneys in an amount sufficient to effect payment of the principal or applicable Redemption Price of such Bond, together with accrued interest on such Bond to the Redemption Date; or

(c) any combination of (a) and (b) above;

(3) any Bond in lieu of or in substitution for which other Bonds shall have been authenticated and delivered pursuant to the Bond Resolution; and

(4) any Bond deemed to have been paid as provided in the Bond Resolution and described under **“SUMMARY OF CERTAIN PROVISIONS OF THE BOND RESOLUTION—Defeasance.”**

“Paying Agent” means any bank or trust company designated as paying agent for the Bonds, and its successor or successors hereafter appointed in the manner provided in the Bond Resolution.

“Permitted Encumbrances” means (i) intervening liens of contractors, subcontractors, suppliers of materials and equipment and laborers as to which, by a bond or letter of credit or other lawful means acceptable to Rhode Island Housing, indemnity has been provided or similar steps to secure the interest of Rhode Island Housing have been taken, (ii) ad valorem property taxes ratably accrued but not yet due and payable, (iii) interests, owned by others, which are of a kind customary with respect to residential housing in the area in which the premises are located and (iv) such other liens, encumbrances, reservations and other clouds on title as Rhode Island Housing shall determine do not impair the use or value of the premises.

“Principal Installment” means, as of any date of calculation, (i) the aggregate principal amount of Outstanding Bonds due on a certain future date, reduced by the aggregate principal amount of such Bonds which would be retired by reason of the payment when due and application in accordance with the Bond Resolution of Sinking Fund Payments payable before such future date plus (ii) the unsatisfied balance, determined as provided in the Bond Resolution, of any Sinking Fund Payments due on such certain future date, together with the aggregate amount of the premiums, if any, applicable on such future date upon the redemption of such Bonds by application of such Sinking Fund Payments in a principal amount equal to said unsatisfied balance.

“Program” means the program for the financing of loans for residential housing (including land or improvements being financed for residential housing purposes generally) established by Rhode Island Housing pursuant to the Act, as the same may be amended from time to time consistent with the Bond Resolution but only to the extent that such program is financed through the issuance of Bonds or from amounts otherwise available out of the moneys and assets held or pledged pursuant to the Bond Resolution.

“Program Expenses” means, except as limited pursuant to a Supplemental Resolution, all of Rhode Island Housing’s expenses in carrying out and administering its corporate purposes under the Act and shall include, without limiting the generality of the foregoing, salaries, supplies, utilities, mailing, labor, materials, office rent, maintenance, furnishings, equipment, machinery and apparatus, telephone, insurance premiums, legal, accounting, management, consulting and banking services and expenses (including remarketing services with respect to the Bonds), fees and expenses of the Fiduciaries, Costs of Issuance not paid from the proceeds of Bonds, travel, payments for pension, retirement, health and hospitalization, life and disability insurance benefits, and payments for insurance against losses on the pool of Program Obligations. Program Expenses may also include amounts for establishing and maintaining a two-month reserve to pay operating costs and a reasonable reserve for losses and expenses estimated to be incurred by Rhode Island Housing and amounts appropriate to reimburse Rhode Island Housing for Program Expenses paid from other sources.

“Program Loan” means a loan for Residential Housing, including a participation interest therein, secured (i) by a first lien, coordinate lien or second lien on real property (including such interests therein as are permitted pursuant to the Bond Resolution); (ii) by a pledge of a leaseholder’s share in a cooperative housing corporation and an assignment of the proprietary lease appurtenant thereto; or (iii) in the case of a loan for home improvements which is insured under Title I of the National Housing Act or under a program of self insurance established by Rhode Island Housing, by a third lien.

“Program Obligation” means any Program Loan or Program Security acquired by Rhode Island Housing by the expenditure of amounts in the Loan Account.

“Program Security” means an obligation, including a participation interest therein, representing an undivided interest in a pool of loans, to the extent the payments to be made on such obligation are guaranteed by a Federal Mortgage Agency.

“Rating Agency” means, any nationally recognized credit rating agency, then maintaining a current rating on the Bonds, at the request of Rhode Island Housing; initially Moody’s Investors Service.

“Rebate Account” means the Rebate Account established pursuant to the Bond Resolution.

“Recoveries of Principal” means all amounts received by Rhode Island Housing as a recovery of the principal amount disbursed by Rhode Island Housing in connection with any Program Loan including any premium or penalty with respect thereto, on account of (i) the advance payment of amounts to become due pursuant to such Program Obligation, (ii) the sale, assignment, endorsement or other disposition thereof including repurchase by the originating lender, (iii) the acceleration of payments due thereunder or other remedial proceedings taken in the event of the default thereon, (iv) proceeds of federal mortgage insurance, (v) the net proceeds of hazard or title insurance or of condemnation of the subject property or (vi) any other payment with respect to a Program Obligation which has been designated as a Recovery of Principal in a Series Certificate.

“Redemption Account” means the Redemption Account which is established and created in the Revenue Account pursuant to the Bond Resolution.

“Redemption Date” means the date upon which Bonds are to be called for redemption pursuant to the Bond Resolution.

“Redemption Price” means, with respect to any Bonds, the principal amount thereof plus the applicable premium, if any, payable upon redemption thereof.

“Refunding Bond” means any Bond authenticated and delivered on original issuance pursuant to the Bond Resolution, the proceeds of which are used to pay Principal Installments and/or the principal portion of

the Redemption Price of Bonds or Bonds thereafter authenticated and delivered in lieu of or in substitution for any such Bond pursuant to the Bond Resolution.

“Residential Housing” means Residential Housing as defined in the Act.

“Revenue Account” means the Revenue Account established pursuant to the Bond Resolution.

“Revenues” means, upon receipt thereof by Rhode Island Housing, all Mortgage Revenues and Non-Mortgage Receipts.

“Rhode Island Housing” means the Rhode Island Housing and Mortgage Finance Corporation, a public corporation and governmental instrumentality created and established under the laws of the State, or any body, agency or instrumentality of the State which shall hereafter succeed to the powers, duties and functions of Rhode Island Housing.

“Security Instrument” means an instrument securing a Program Loan, including, without limitations, a mortgage deed, pledge, security agreement or assignment of real or personal property, including shares of stock or membership certificates in a cooperative or similar entity and proprietary or other leases.

“Series” means all of the Bonds authenticated and delivered on original issuance in a simultaneous transaction, regardless of variations in maturity, interest rate, Sinking Fund Payments or other provisions, and any Bonds thereafter authenticated and delivered in lieu of or in substitution for (but not to refund) such Bonds as provided in the Bond Resolution.

“Series Certificate” means a Certificate relating to the funding or investment of Accounts or any Series Program Determinations in connection with a Series of Bonds and shall include a statement that the matters provided therein have been reviewed with the Rating Agency and will not result in a reduction in the then current rating on the Bonds.

“Series Program Determinations” means determinations by Rhode Island Housing relating to Program Loans and certain other matters in connection with a Series of Bonds under the Program to be set forth (or provision to be determined at certain specified times in the future) in a Supplemental Resolution and shall include the following: (i) the type of Security Instrument which will secure each Program Loan and whether such Security Instrument shall be a first lien, coordinate first lien, second lien or third lien or a combination thereof; (ii) whether each Program Loan shall have approximately equal monthly payments or shall be a graduated payment loan or have a fixed or variable rate of interest; (iii) the maximum term to maturity of each Program Loan; (iv) whether the property to be financed with each Program Loan shall be a principal residence and any limitations with respect to newly constructed residences; (v) required credit standards and other terms of primary mortgage insurance, if any, and the levels of coverage thereof, and applicable loan to value ratios, if appropriate; (vi) limitations, if any, applicable to purchases of Mortgage Loans relating to condominiums and/or cooperatives, geographic concentration, and type of principal and interest characteristics; (vii) provisions relating to Supplemental Mortgage Coverage, if appropriate; (viii) provisions relating to Recoveries of Principal, including application thereof for redemption or financing new Program Loans; (ix) terms of investment, if any, with respect to the Debt Service Reserve Account; (x) maximum Costs of Issuance and Program Expenses for such Series to be paid for from amounts held under the Bond Resolution; (xi) restrictions, if any, on the application of the proceeds of the voluntary sale of Program Loans and (xii) any other provision deemed advisable by Rhode Island Housing not in conflict with the Bond Resolution; provided that Rhode Island Housing may permit any of the above determinations to be applied to any portion of the proceeds of a Series to be established by a Certificate of an Authorized Officer to be delivered to the Trustee prior to the date that such proceeds are applied to the financing of Program Obligations, together with evidence that such determinations do not affect the then current rating on the Bonds.

“Sinking Fund Payment” means, as of any particular date of calculation, the amount required to be paid by Rhode Island Housing on a certain future date for the retirement of Outstanding Bonds which mature after said future date, but does not include any amount payable by Rhode Island Housing by reason of the maturity of a Bond or by call for redemption at the election or direction of Rhode Island Housing.

“State” means the State of Rhode Island and Providence Plantations.

“Supplemental Mortgage Coverage” means the coverage, if any, whether in the form of insurance, Cash Equivalents or additional pledged funds of loss from Mortgage Loan defaults provided in a Series Resolution which supplements any primary mortgage insurance. Rhode Island Housing does not currently require any Supplemental Mortgage Coverage for Mortgage Loans and does not expect to specify any Supplemental Mortgage Coverage requirement for future series of Bonds.

“Supplemental Resolution” means any resolution supplemental to or amendatory of the Bond Resolution, adopted by Rhode Island Housing and effective in accordance with the Bond Resolution, and includes any Series Certificate delivered pursuant thereto.

“Trustee” means The Bank of New York Mellon Trust Company, N.A., and its successor or successors and any other person at any time substituted in its place pursuant to the Bond Resolution.

### **Contract with Bondholders**

The Bond Resolution is a contract among Rhode Island Housing, the Trustee and the holders of the Bonds and its provisions are for the equal benefit, protection and security of the holders of any and all of such Bonds.

### **Provisions for Issuance of Bonds**

The Bond Resolution authorizes Bonds to be issued from time to time in accordance with its terms without limitation as to amount except as provided by law. The Bonds of a Series may be authenticated and delivered only upon receipt by the Trustee of, among other things:

(1) An opinion of Bond Counsel to the effect that the Bonds of such Series upon delivery will 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 Bond Resolution;

(2) The amount of the proceeds of such Series to be deposited in any Account held by the Trustee pursuant to the Bond Resolution;

(3) Except in the case of the Series 2-C and 5 Bonds and any refunding issue, a Certificate of an Authorized Officer stating that the conditions for the issuance of additional obligations have been met; and

(4) Except in the case of an issue consisting entirely of Refunding Bonds, a Certificate stating that Rhode Island Housing’s expectations with respect to the application and use of the proceeds of such Series are consistent with Rhode Island Housing’s covenant regarding the sufficiency of Revenues and other funds to provide for the payment of Debt Service and Program Expenses, as of the date of such delivery, and any information required to be filed with the Trustee upon deposit of amounts in the Loan Account pursuant to the Bond Resolution.

## **Provisions for Refunding Issues**

One or more Series of Refunding Bonds may be issued to refund any Outstanding Bonds. Refunding Bonds may be authenticated only upon receipt by the Trustee of, among other things, irrevocable instructions to give notice of the payment or redemption of all the Bonds to be refunded and the payment or redemption dates, if any, and if the Bonds to be refunded are to be redeemed subsequent to the next succeeding forty-five days, irrevocable instructions to give notice of the call for redemption of such Bonds and either (i) moneys sufficient to effect payment or redemption at the applicable Redemption Price of the Bonds to be refunded, together with interest accrued to the due date or the Redemption Date, or (ii) Investment Securities, the principal of and interest on which when due (without reinvestment thereof), together with the moneys (which may include all or a portion of the proceeds of the Refunding Bonds to be issued), if any, contemporaneously deposited with the Trustee, will be sufficient to pay when due the applicable principal or Redemption Price of the Bonds to be refunded, together with accrued interest. Any such moneys, obligations or certificates are required to be held irrevocably in trust under the Bond Resolution.

## **Application of Bond Proceeds**

As soon as practicable upon the delivery of each Series of Bonds, other than Refunding Bonds, the amounts, if any, necessary to cause the amount on deposit in the Debt Service Reserve Account to equal the Debt Service Reserve Account Requirement, together with such additional amount, if any, as may be specified in the Supplemental Resolution authorizing such Bonds, are required to be deposited in the Debt Service Reserve Account. The balance remaining after such deposits have been made is required to be deposited in the Loan Account.

## **Deposits and Investments**

All amounts held by the Trustee or under its control pursuant to the Bond Resolution may be deposited or invested in Investment Securities. In computing the amount in any Account, obligations purchased as an investment of moneys therein shall be valued at par if purchased at par value or at amortized value if purchased at other than par value. Valuation shall be made semi-annually and at any other time amounts on deposit in any Account are required to be determined under the Bond Resolution and on any particular date shall not include the amount of interest then earned or accrued to such date on any such moneys or investment.

## **Establishment of Accounts**

The Bond Resolution establishes the following Accounts which are to be held by the Trustee:

- (1) Loan Account.
- (2) Revenue Account.
- (3) Redemption Account.
- (4) Debt Service Reserve Account.
- (5) Rebate Account.

## **Loan Account**

Proceeds of a Series of Bonds are required to be deposited in the Loan Account established for such Series. Amounts in the Loan Account may be expended only to pay the cost of financing Program Obligations, to pay Costs of Issuance, to make deposits in the Revenue Account representing capitalized interest, to redeem Bonds, to provide for the payment of accrued interest with respect to Program Obligations



to be financed under the Bond Resolution and to make deposits in the Revenue Account upon delivery to the Trustee of a Certificate of an Authorized Officer.

No amount in the Loan Account shall be expended or applied for the purpose of financing Program Obligations except upon compliance with the provisions of the Bond Resolution.

No Program Security shall be financed unless the Program Security is registered in the name of the Trustee or is registered in the name of Rhode Island Housing and delivered to the Trustee with a written assignment thereof to the Trustee pursuant to the Bond Resolution from and after the date such Program Security is financed under the Bond Resolution. In addition, no Program Security shall be financed unless such Program Security represents a pass through or participation interest in a pool of Program Securities and provides for a guaranty of any payments to be made to Rhode Island Housing thereunder by a Federal Mortgage Agency.

No Program Loan shall be financed unless a promissory note shall have been executed to evidence the Program Loan and a Security Instrument securing such Program Loan shall have been executed and recorded, filed or otherwise perfected in accordance with the requirements of existing laws and (except to the extent that a variance is permitted by Rhode Island Housing or required or permitted by any agency or instrumentality of the United States of America insuring or guaranteeing the payment of a Program Loan):

(1) the Security Instrument shall constitute and create a first lien, coordinate first lien, second lien, or third lien, subject only to Permitted Encumbrances, and such lien shall have the priority provided for in the appropriate Series Program Determination;

(2) the borrower shall have warranted generally the title to the property securing the Program Loan, subject to Permitted Encumbrances, and will execute such further assurances as may be required by Rhode Island Housing;

(3) provision has been made for the benefit of the mortgagee (or its assigns) that there shall be paid or escrowed all taxes, assessments, water rates, sewer rents and municipal and other charges and fees and any prior liens now or hereafter assessed or liens on or levied against the premises or any part thereof, and in the case of default in the payment thereof when the same shall be due and payable, it shall be lawful for the mortgagee (or its assigns) without notice to or demand of the borrower, to pay the same or any of them and that the moneys paid by the mortgagee (or its assigns) in discharge of taxes, assessments, water rates, sewer rents and municipal, other charges and fees and prior liens shall be a lien on the premises added to the amount of the Program Loan secured by the Security Instrument and payable on demand with interest (at the rate applicable under the Program Loan), from the time of payment of the same;

(4) the borrower shall have covenanted and represented that the proceeds of the Program Loan will be used solely to pay the reasonable and necessary costs of the residential housing to be financed by such Program Loan;

(5) the borrower shall have covenanted that it will keep or cause to be kept any building on the premises insured against loss by fire and other hazards as required by Rhode Island Housing to protect its interest with losses payable to Rhode Island Housing as its interest may appear and that the borrower will reimburse the mortgagee (or its assigns) for any insurance premiums paid by the mortgagee (or its assigns) on the borrower's default in so insuring the building or causing the building to be insured;

(6) the borrower shall have covenanted that it will maintain or cause to be maintained the premises in good condition and repair, will not commit or suffer any waste of the premises, and will

comply with, or cause to be complied with, all statutes, ordinances and requirements of any governmental authority relating to the premises;

(7) except as provided in paragraph (7-a) below, the borrower shall have delivered to the mortgagee (or its assigns) a policy of title insurance (in standard American Land Title Association form as then in effect in the State) issued by a title insurance company qualified to do business in the State and acceptable to Rhode Island Housing insuring the mortgagee (or its assigns) that the Security Instrument is valid and enforceable and in an amount at least equal to the outstanding principal balance of the Program Loan, including, when applicable, any increases in the amount thereof;

(7-a) in the case of a loan solely for improvements to or repair of Residential Housing, Rhode Island Housing shall have received assurances regarding the borrower's title to the subject property sufficient, in the judgment of Rhode Island Housing, to protect Rhode Island Housing's interests;

(8) the Program Loan must either:

(a) have been insured or guaranteed by the Federal Housing Administration, the United States Department of Agriculture/Rural Development (successor to the Farmers Home Administration) Farmers Home Administration, the Veteran's Administration, or another agency or instrumentality of the United States or the State to which the powers of any of them have been transferred, or which is exercising similar powers with reference to the insurance or guaranty of Program Loans; or

(b) have a loan-to-value ratio as provided in the appropriate Series Program Determination; or

(c) be a loan for the repair or improvement of Residential Housing which is insured under Title I of the National Housing Act or insured under a program of self insurance established by Rhode Island Housing; or

(d) be made in any amount not exceeding the value, as determined in an appraisal by or acceptable to Rhode Island Housing, or purchase price of the property securing the Program Loan, whichever is less, but only if (i) Rhode Island Housing either (a) has provided for self insurance of the Program Loan in such manner as does not impair the then existing rating on the Bonds by the Rating Agency or (b) is issued a mortgage insurance policy by a private mortgage insurance company, qualified to do business in the State, under which the insurer, upon foreclosure of the property securing the Program Loan, must pay the holder of the Program Loan the unrecovered balance of a claim including unpaid principal, accrued interest, taxes, insurance premiums, and expenses of foreclosure, if any, or in lieu thereof may permit the holder of the Program Loan to retain title and may pay an agreed insured percentage of such claim; and (ii) the insured percentage of the Program Loan equals the amount provided for in the appropriate Series Program Determination; and

(9) such other additional requirements as Rhode Island Housing may determine to be necessary to protect Rhode Island Housing's interest in the security of the Program Loan shall have been met.

In permitting any variance or waiver from the above requirements, Rhode Island Housing shall make a written determination that the mortgagee (or its assigns) of the Program Loan has the benefit of arrangements which provide substantially equivalent protection to the material interests of Rhode Island Housing and the Trustee.

## **Revenue Account**

All Mortgage Revenues and Non–Mortgage Receipts are to be deposited in the Revenue Account. On or before each Interest Payment Date the Trustee is required to pay to the Paying Agents the amounts required for the payment of the Principal Installments, if any, and interest due on the Outstanding Bonds on such date. On or before each Redemption Date or date of purchase, the Trustee is required to pay to the Paying Agents the amounts required for the payment of accrued interest on Outstanding Bonds to be redeemed or purchased for retirement, unless the payment of such accrued interest has been otherwise provided for.

The amount accumulated in the Revenue Account for each Sinking Fund Payment may be applied either (i) to the purchase of Bonds for which such Sinking Fund Payment was established, at prices (including any brokerage and other charges) not exceeding the applicable Redemption Price, plus accrued interest, or (ii) to the redemption of such Bonds, if then redeemable by their terms, at the Redemption Prices referred to above.

Upon the purchase or redemption of Bonds from amounts in the Revenue Account, an amount equal to the principal amount of the Bonds so purchased or redeemed is required to be credited toward the next Sinking Fund Payment thereafter to become due and the amount of any excess of the amounts so credited over the amount of such Sinking Fund Payment is to be credited against future Sinking Fund Payments in direct chronological order.

Rhode Island Housing is permitted to direct the transfer of amounts from the Revenue Account after the close of each Fiscal Year to the Loan Account, Debt Service Reserve Account or Redemption Account or if the assets to liabilities under the Bond Resolution is greater than 102%, then to Rhode Island Housing free and clear of the lien of the Bond Resolution to be applied to any lawful purpose. While the NIBP Bonds are outstanding, certain additional restrictions on transfers are in effect.

The Trustee may at any time, upon the written direction of an Authorized Officer, make transfers from the Revenue Account to the Loan Account, the Debt Service Reserve Account or the Redemption Account for the purposes thereof or make transfers from the Revenue Account or to the general operating funds of Rhode Island Housing for the purpose of paying Program Expenses for the then current Fiscal Year. No such transfer is permitted, however, unless there is on deposit in the Revenue Account after such transfer an amount equal to the principal and interest accrued on all Outstanding Bonds as of the date of such payment and to become due through the next Interest Payment Date.

## **Redemption Account**

There are to be deposited in the Redemption Account any amounts required by the Bond Resolution and any other amounts available therefor and determined by Rhode Island Housing to be deposited therein. Subject to the provisions of the respective Series of Bonds and those of any Supplemental Resolutions authorizing the issuance thereof and authorizing the issuance of Refunding Bonds, the Trustee is required to apply the amounts deposited in the Redemption Account to the payment, purchase or redemption of Bonds at the earliest practicable Redemption Date. Except as otherwise provided in connection with the issuance of Refunding Bonds, at any time prior to the forty–fifth day upon which Bonds are to be paid or redeemed from such amounts, the Trustee may apply amounts in the Redemption Account to the purchase of any of such Bonds, except that Rhode Island Housing may require or prohibit such purchases. The purchase price paid may not exceed the principal amount of such Bonds unless such Bonds may be redeemed within thirteen months after such purchase in which event such price shall not exceed the highest Redemption Price. If the Trustee is able to purchase Bonds at a price less than the applicable Redemption Price, the Trustee is required to deposit in the Revenue Account the difference between such purchase price and such Redemption Price.

Upon the purchase or redemption of Bonds of any Series and maturity for which Sinking Fund Payments have been established from amounts in the Redemption Account, each future Sinking Fund Payment

for such Bonds will be credited by an amount bearing the same ratio to such Sinking Fund Payment as the total principal amount of such Bonds so purchased or redeemed bears to the total amount of all such Sinking Fund Payments, unless a different method for crediting Sinking Fund Payments is otherwise directed by Rhode Island Housing.

### **Debt Service Reserve Account**

There are to be deposited in the Debt Service Reserve Account all amounts required to be deposited therein pursuant to the Bond Resolution and any other amounts received and determined by Rhode Island Housing to be deposited therein.

Amounts on deposit in the Debt Service Reserve Account are to be applied, to the extent other funds are not available therefor, to pay on any Interest Payment Date or Redemption Date the Principal Installments and interest due on the Outstanding Bonds. Whenever the amount in the Debt Service Reserve Account exceeds the Debt Service Reserve Account Requirement, the Trustee, if directed by Rhode Island Housing, is required to withdraw from the Debt Service Reserve Account the amount of such excess and deposit such amount into the Loan Account, Revenue Account or Redemption Account.

Whenever the amount in the Debt Service Reserve Account, together with the amount in the Revenue Account, is sufficient to fully pay all Outstanding Bonds in accordance with their terms (including the Sinking Fund Payments for the retirement thereof), amounts on deposit in the Revenue Account are to be transferred to the Debt Service Reserve Account. Prior to said transfer, all investments held in the Revenue Account are to be liquidated and any Bonds constituting a part of such Account shall be deemed paid and cancelled.

Subject to any limitation in the Act, a Supplemental Resolution may provide that the Debt Service Reserve Account Requirement with respect to the applicable Series of Bonds may be funded through Cash Equivalents. For purposes of determining whether the Debt Service Reserve Account Requirement has been met, the amount in the Debt Service Reserve Account shall be deemed to include any amount payable thereunder on the demand of the Trustee without material conditions.

### **Rebate Account**

There are to be deposited in the Rebate Account all amounts required to be deposited therein pursuant to the Supplemental Resolution authorizing each Series of Bonds and any other amounts received and determined to be deposited therein by Rhode Island Housing. Amounts on deposit in the Rebate Account are to be applied to any lawful purpose of Rhode Island Housing consistent with the tax covenants of Rhode Island Housing.

### **Payment of Bonds**

Rhode Island Housing covenants that it will duly and punctually pay or cause to be paid the principal and Redemption Price of every Bond and the interest thereon, at the dates and places and in the manner stated in the Bonds, according to the true intent and meaning thereof, and shall duly and punctually pay or cause to be paid all Sinking Fund Payments, if any, becoming payable with respect to any Series of Bonds.

### **Tax Covenants**

Rhode Island Housing covenants that it will at all times do and perform all acts and things necessary or desirable in order to assure that interest paid on the Bonds, for purposes of direct federal income taxation, will be excludable from the gross income of the recipients thereof and exempt from such taxation. Notwithstanding the foregoing, Rhode Island Housing may elect to issue obligations the interest on which is not exempt from federal income taxation so long as such election is made prior to the issuance of such

obligations. The covenants contained in this Section shall not apply to Bonds issued pursuant to such an election.

### **The Program**

Rhode Island Housing covenants from time to time, with all practical dispatch and in a sound and economical manner consistent in all respects with the Act, the provisions of the Bond Resolution and sound lending practices and principles, to use and apply the proceeds of the Bonds, to the extent not reasonably or otherwise required for other purposes of the Program, to finance the Program Obligations pursuant to the Act and the Bond Resolution, to do all such acts and things as shall be necessary to receive and collect Mortgage Revenues and Non-Mortgage Receipts (including diligent enforcement of the prompt collection of all arrears on Program Obligations and, if not inconsistent with sound lending practices and principles, consent to modifications of the repayment terms of Program Obligations) sufficient to pay the Debt Service and Program Expenses, and to diligently enforce, and take all steps, actions and proceedings reasonably necessary in the judgment of Rhode Island Housing to protect its rights with respect to or to maintain any insurance on Program Obligations and to enforce all terms, covenants and conditions of the Program Obligations including the collection, custody and prompt application of all escrow payments required by the terms of the Program Obligations for the purposes for which they were made.

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

Rhode Island Housing may at any time sell, assign or otherwise dispose of a Program Obligation (or the premises to which such Program Obligation relates):

- (1) in the event that payment under such Program Obligation is delinquent more than ninety days or, at any time, in order to realize the benefits of insurance with respect to such Program Obligation or property;
- (2) in order to obtain funds to provide for the redemption or purchase of an amount of Bonds having a value corresponding to the value of such Program Obligation; or
- (3) in the event that a Certificate has been filed with the Trustee which gives effect to the proposed sale thereof and states that it complies with conditions set forth in the Bond Resolution.

Rhode Island Housing will not redeem or purchase Bonds from amounts on deposit in any Account under the Bond Resolution (including proceeds of Refunding Bonds held in the Redemption Account) if such redemption or purchase would have a material adverse effect on the ability of Rhode Island Housing to pay Debt Service on the Bonds when due and reasonable and necessary program expenses.

Rhode Island Housing shall apply the proceeds of the Bonds and use or direct the use of Revenues and other amounts held under the Bond Resolution so as to ensure that the Revenues and other funds estimated by Rhode Island Housing to be available at all times under the Bond Resolution will be sufficient to provide for the payment of Debt Service on the Bonds when due and reasonable and necessary Program Expenses.

### **Accounts and Reports**

Rhode Island Housing covenants that it will keep, or cause to be kept, proper books of record and account in which complete and accurate entries shall be made of all its transactions relating to the Program

Obligations and all Accounts established by the Bond Resolution which books of record and account shall at all reasonable times be subject to the inspection of the Trustee and the holders of an aggregate of not less than 5% in principal amount of Bonds then Outstanding or their representatives duly authorized in writing.

Within 90 days after the close of each Fiscal Year, Rhode Island Housing is required to file with the Trustee a copy of an annual report as to the operations and accomplishments of Rhode Island Housing during such Fiscal Year, and financial statements for such Fiscal Year, setting forth in reasonable detail the balance sheet for Rhode Island Housing and its programs, showing the assets and liabilities of the Program at the end of such Fiscal Year, a statement of Rhode Island Housing's revenues and expenses for its operating and program purposes and showing the revenues and expenses of the Program and a statement of changes in financial position.

If at any time during any Fiscal Year there shall have occurred an Event of Default, then Rhode Island Housing shall file with the Trustee, within forty-five days after the close of such Fiscal Year, a special report accompanied by an Accountant's Certificate as to the fair presentation of the financial statements contained therein, setting forth in reasonable detail the individual balances and receipts and disbursements for each Account under the Bond Resolution.

### **Budgets**

Rhode Island Housing must adopt an annual budget covering its fiscal operations for the succeeding Fiscal Year not later than the first day of each such Fiscal Year, and file the same with the Trustee. The annual budget shall set forth for such Fiscal Year the estimated Mortgage Revenues, the Principal Installments and the amount of interest due and payable or estimated to become due and payable during such Fiscal Year and estimated Program Expenses. Rhode Island Housing at any time may adopt and file with the Trustee an amended annual budget for the remainder of the then current Fiscal Year in the manner provided in the Bond Resolution for the adoption of the annual budget. Copies of the annual budget and any amended annual budget must be made available by the Trustee for inspection by any Bondholder.

### **Powers of Amendment**

Any modification or amendment of any provision of the Bond Resolution or of the rights and obligations of Rhode Island Housing and of the holders of the Bonds may be made by a Supplemental Resolution, with the written consent given as provided in the Bond Resolution (a) of the holders of at least two-thirds in principal amount of the Outstanding Bonds, or (b) in case less than all of the several Series of Bonds then Outstanding would be affected by such modification or amendment, of the holders of at least two-thirds in principal amount of the Outstanding Bonds of each Series so affected. If any such modification or amendment will not take effect so long as any Bonds of any specified like Series and maturity remain Outstanding, the consent of the holders of such Bonds shall not be required. No such modification or amendment shall permit a change in the terms of redemption or maturity of the principal of any Outstanding Bond or of any installment of interest 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 or shall reduce the percentage of Bonds, the consent of the holders of which is required to effect any such modification or amendment. While the NIBP Bonds are outstanding, certain modifications or amendments also require the approval of the GSEs.

### **Events of Default**

It is an "Event of Default" if: (a) payment of the principal or Redemption Price of any Bonds is not made when due, whether at maturity or upon call for redemption or otherwise; (b) payment of any installment of interest on any of the Bonds is not made within thirty days after becoming due; or (c) Rhode Island Housing fails or refuses to comply with the provisions of the Bond Resolution, or defaults in the performance or observance of any of the covenants, agreements or conditions contained therein, in any Supplemental

Resolution, or in the Bonds, and such failure, refusal or default continues for a period of ninety days after written notice thereof expressly stating that it is a notice of default, by the Trustee or the holders of not less than 5% in principal amount of the Outstanding Bonds.

### **Remedies**

Upon the happening and continuance of any Event of Default specified in clauses (a) and (b) above, the Trustee will 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 the holders of not less than 25% in principal amount of the Outstanding Bonds (75% with respect to an acceleration of the Bonds pursuant to clause (e) below) must proceed, in its own name, subject to the provisions of the Bond Resolution, to protect and enforce the rights of the Bondholders by such of the following remedies as the Trustee, being advised by counsel, shall deem 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 the Bondholders, including the right to require Rhode Island Housing to receive and collect Mortgage Revenues and Non-Mortgage Receipts and to carry out the covenants and agreements as to the Program Obligations and to require Rhode Island Housing to carry out any other covenant or agreement with Bondholders and to perform its duties under the Act; (b) by bringing suit upon the Bonds; (c) by action or suit in equity, to require Rhode Island Housing to account as if it were the trustee of an express trust for the holders 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 holders of the Bonds; (e) by declaring all Bonds due and payable, and if all defaults shall be cured, then, with the written consent of the holders of not less than 25% in principal amount of the Outstanding Bonds, by annulling such declaration and its consequences and in the event that all Bonds are declared due and payable, by selling such Program Obligations and Investment Securities.

### **Priority of Payments After Default**

In the event that upon the happening and continuance of any Event of Default, the funds held by the Trustee and Paying Agents 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 Bond Resolution, after making provision for the payment of any expenses necessary in the opinion of the Trustee to protect the interests of the holders of the Bonds and for the payment of the charges and expenses and liabilities incurred and advances made by the Trustee or any Paying Agents in the performance of their respective duties under the Bond Resolution, are to be applied as follows:

(1) Unless the principal of all of the Bonds has become or been 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 any Bonds which shall have become due, whether at maturity or by call for redemption, in the order of their due dates and, if the amounts available shall not be 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.

(2) If the principal of all of the Bonds has become or been declared due and payable, 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 principal, or of any installment of interest over any other installment of interest, or of any Bond over any other Bond, ratably, 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.

### **Compensation of Trustee**

Rhode Island Housing is required to pay to each Fiduciary from time to time reasonable compensation for all services rendered under the Bond Resolution, and also all reasonable expenses, charges, counsel fees and other disbursements, including those of their attorneys, agents and employees, incurred in and about the performance of their powers and duties under the Bond Resolution, and each Fiduciary shall have a lien therefor on any and all funds at any time held by them under the Bond Resolution.

If Rhode Island Housing 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 Bond Resolution, then the pledge or assignment 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 by Fiduciaries (through deposit by Rhode Island Housing 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 above paragraph. All Outstanding Bonds of any Series will, prior to 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, Rhode Island Housing has given to the Trustee in form satisfactory to it irrevocable instructions to deliver, as provided in the Bond Resolution, notice of redemption on said date of such Bonds, and (b) there has been deposited with the Trustee either moneys in an amount which are sufficient, or obligations of, or obligations the principal of and interest on which are guaranteed by, the United States of America (including obligations issued or held in book-entry form on the books of the U.S. Department of Treasury), or obligations secured by such obligations through an irrevocable trust, the principal of and 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 any, 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.



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